CLASSICAL ECONOMICS: THE SUBSISTENCE WAGE AND DEMAND-SUPPLY ANALYSIS

Marx and the Iron Law of Wages

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Marx den Laf [argue] sagte: Ce qu’il ya de certain c’est que moi je ne suis pas Marxiste.

Letter from Engels to Bernstein
London 2/3, November 1882

I find few things as discouraging as the persistent attribution of positions to a writer whose works contain repeated, categorical, indeed emotional, denunciations of those views. Marx’s views on wages are a prime example. Both vulgar Marxists and vulgar opponents of Marx have propounded two associated myths: that he believed wages under capitalism are inevitably driven near some physical subsistence level, and that he considered this to constitute robbery of the workers and a major evil of capitalism. Yet Marx and Engels tell us again and again, sometimes in most intemperate language, that these views are the very opposite of theirs. These observations, incidentally, are hardly new discoveries. Thus, for example, Roman Rosdolsky (1977, p. 287 ff.) disposes of the subsistence wage allegation and Robert Tucker (1969, ch. 3), and Allen Wood (1972) cover Marx’s view on the morality of capitalist distribution very effectively.

A. Value of Labor Power and Physical Subsistence

A key statement in Capital does seem to support the subsistence allegation: the value of labor power is “...the labour-time necessary for the production and consequently also the reproduction, of this special article” (Capital, I, p. 189). But almost at once Marx points out that

...the number and extent of [the worker’s] so-called necessary wants, as also the modes of satisfying them, are themselves the product of historical development, and depend therefore to a great extent on the degree of civilization of a country, more particularly on the conditions under which, and consequently on the habits and degree of comfort in which, the class of free labourers has been formed. [Capital, I, p. 190]

This view was, of course, shared by Marx’s predecessors (see, for example, Adam Smith, Wealth, p. 744; Ricardo [Sraffa, I, p. 97]). But it seemed particularly crucial to Marx. For example, he severely criticized the physiocrats (whom he generally admired) for maintaining that wages have a fixed floor (Theories of Surplus Value, I, p. 45). Similarly, in Wages, Price and Profit, to whose

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history I must return, Marx tells us

Besides [the] mere physical element, the value of labour is in every country determined by a traditional standard of life... the satisfaction of certain wants springing from the social conditions in which people are placed and reared up... This historical or social element, entering into the value of labour, may be expanded, or contracted, or altogether extinguished....

[pp. 50–51, Marx’s italics]

Other such quotations are easy to find. There simply can be no doubt about the matter. “The labour-time necessary for the production and... reproduction” of labor power is a flexible magnitude which is not “determined... by nature,” that is, it is neither bare subsistence, nor any other preset amount.

B. Wages and Value of Labor-Power

Wages are, of course, the price of labor power. To most economists the “value of good x” connotes its price. But, to Marx, value clearly meant something else. His extensive discussion in Volume III of Capital of the transformation of values into prices deals with the persistent and systematic deviations between the two, even in equilibrium. Value was defined by Marx to equal a good’s labor content (he repeatedly tells us it is a tautology) (see, for example, A Contribution to the Critique..., 1904, pp. 31–32), while Marx explicitly followed Smith and Ricardo in taking price to equal cost of production, including the normal return on capital (Capital, III, p. 233).

Now, since Marxian price differs from value, the wage rate, the price of labor power, like that of wheat, can and does differ from its value. It must be admitted that this distinction does not occur frequently in Marx’s writings, but it certainly occurs explicitly. It is found, for example, in Capital (III, 1966 ed., p. 235) and in Marginal Notes on Adolph Wagner: “[Wagner claims I say] ... in the determination of the value of labour power, that its value is really paid, which is not in fact the case” (p. 43).

C. Absence of an Equilibrating Mechanism

Even though the Ricardians also did not believe that wages approach a fixed physical subsistence level, their model did have a mechanism driving wages toward the subsistence level currently customary. This mechanism was, of course, the Malthusian population principle which Marx rejected vehemently, for reasons I will discuss.

It has been suggested that the reserve army of the unemployed was substituted by Marx for the population principle. Marx does say that when wages rise, machinery is substituted for labor, and the resulting excess supply of labor limits these increases. But this only means that the slope of the labor demand curve is negative. There is clearly no way one can deduce from such a demand curve that the equilibrium wage must always (or ever) equal subsistence. We will see that Marx emphatically rejected such a conclusion, and why.

D. The Power of Workers over Wages

To understand the main piece of evidence on the degree to which Marx believed wages can be influenced by the workers, some biographical information is pertinent.

In 1865, two years before publication of Volume I of Capital, Marx was hard at work on the manuscript. Just then a member of the Council of the International Working Men’s Association (John Weston, a follower of “Utopian” socialist Robert Owen) argued before the Council that unions can never raise real wages because wage increases must cause proportionate price increases. Marx pronounced this conclusion “theoretically false and practically dangerous” and undertook two lectures in reply to the Council. Marx wrote to Engels (May 20, 1865) that he did so most reluctantly both because it would give away some of Capital’s ideas and would take him away from his writing so that, to save time, his talks would be extemporaneous. It must have been a surprise when the manuscript (written in English) was discovered three decades later among Marx’s papers by his daughter, Eleanor. The issue had evidently been most important to Marx.
In these talks, published as *Value, Price and Profit* (or *Wages, Price and Profit*) Marx was quite unambiguous on our subject:

By comparing the standard wages or values of labour in different countries, and by comparing them in different historical epochs of the same country, you will find that the value of labour itself is not a fixed but a variable magnitude, even supposing the values of all other commodities to remain constant...although we can fix the minimum of wages, we cannot fix their maximum.... It is evident that between the two limits...an immense scale of variations is possible. The fixation of its actual degree is only settled by the continuous struggle between capital and labour, the capitalist constantly tending to reduce wages to their physical minimum, and to extend the working day to its physical maximum, while the working man constantly presses in the opposite direction....

As to the limits of the value of labour, its actual settlement always depends upon supply and demand, I mean the demand for labour on the part of capital, and the supply of labour by the working men. [pp. 51–52]

Thus, Marx clearly believed that “an immense scale of variations” in wages is possible under capitalism and that it is the responsibility of unions to take full advantage of it. He emphatically did not believe that fate condemns workers to subsistence wages which they must accept passively. Note incidentally, that Marx believed unions to have a very valuable role, a piece of information which, one hopes, was some comfort to his daughter who had devoted much of her life to union activity, when she found the manuscript a few months before her suicide (see the superb biography of Eleanor Marx by Yvonne Kapp, 1972, 1976).

E. The Iron Law of Wages

A later manuscript, published as a *Critique of the Gotha Programme* (henceforth “*Gotha*”) can complete my discussion of Marx on wages and subsistence. Written in 1875 (and not intended for publication) it denounced a platform before a German socialist group meeting in the town of Gotha. The platform was an attempted compromise between Marxian principles and the sentimental notions of romantic socialist Ferdinand Lassalle, Marx’s ancient nemesis, then dead eleven years. (*Gotha* is the source of the phrase “from each according to his abilities, to each according to his needs”). Several weeks before Marx wrote *Gotha*, Engels, undoubtedly with Marx’s knowledge, had written to one of the German Marxist leaders a letter that was to serve as an outline for much of *Gotha*. Engels wrote:

...our people have allowed the Lassallean “iron law of wages” to be foisted upon them...namely, that the worker receives on the average only the minimum in wages, and indeed because, according to Malthus’ theory of population, there are always too many workers.... Now Marx has proved in detail in *Capital* that the laws regulating wages...are in no sense iron but on the contrary very elastic.... The Malthusian argument in support of the law...has been refuted in detail by Marx in the section on the ‘Accumulation of Capital.’ Thus by adopting Lassalle’s “iron law” we commit ourselves to a false thesis with a false argument. [*Gotha*, Appendix, pp. 40–41]

Marx, in *Gotha*, denounces the Lassallean slogan: “the abolition of the wage system together with the iron law of wages,” writing:

...Lassalle’s attack on wage labour turns almost solely on this so-called law.... But if I take the law with Lassalle’s stamp on it and, consequently, in his sense, then I must also take it with his substantiation for it. And what is that?...it is the Malthusian theory of population.... But if this theory is correct, then again I cannot abolish the law even if I abolish wage labour a hundred times over, because the law then governs not only the system of wage labour but every social system. Basing themselves directly on this, the economists have been proving...
for fifty years and more that socialism cannot abolish poverty, which has its basis in nature, but can only make it general, can only distribute it simultaneously over the whole surface of society! [Gotha, pp. 22–23]

Later I will show that this crucial passage helps to explain the reasons behind Marx’s views. For now I use it just to confirm his abhorrence of anything like the “iron law” of wages.

II. The Morality of Surplus Value

Marx repeatedly expresses contempt for the view that wages under capitalism are immoral and constitute grounds for revolution. In Capital, where he discusses the value of labor power, he describes as “a very cheap sort of sentimentality” the view that the method by which wages are determined under capitalism is “brutal” (Vol. I, p. 192). Similarly, about three years before he died, in Marginal Notes on Adolph Wagner, perhaps his last piece on economics, Marx remarked

[Adolph Wagner] foists on me the idea that “the surplus-value produced by the labourers alone improperly remains with the capitalist entrepreneurs”…. In fact, I say the direct opposite: namely that at a certain point commodity production necessarily becomes ‘capitalist’ commodity production and that according to the law of value governing the latter, the “surplus-value” is necessarily the capitalist’s and not the labourer’s. [p. 61]

The same views appeared more than twenty years earlier, in the Grundrisse, and again in Engels’ introduction to the first German edition of The Poverty of Philosophy:

According to the laws of bourgeois economics, the greatest part of the product does not belong to the workers who have produced it. If we now say: that is unjust, that ought not to be so, then that has nothing immediately to do with economics. We are merely saying that this economic fact is in contradiction to our moral sentiment. Marx, therefore, never based his communist demands upon this…he says only that surplus value consists of unpaid labour, which is a simple fact. [pp. 10–11]

Marx himself returns to the morality of wages in Capital:

…The circumstance, that on the one hand the daily sustenance of labour-power costs only half a day’s labour, while on the other hand the very same labour-power can work during a whole day…this circumstance is, without doubt, a piece of good luck for the buyer, but by no means an injury to the seller. [Vol. I, p. 216, emphasis added]

III. Accounting for Marx’s Positions

In sum, Marx consistently held views on the level, determination, and morality of wages very different from those attributed to him in popular legend. In his words, his positions are “the direct opposite” of those in the folklore. Why did Marx argue so vehemently that wages are not fixed at physical subsistence, and that the manner in which they are set is not immoral? We have rather clear indications of his own explanations.

First, as we have seen, Marx was anxious to encourage the activity of trade unions both “as centres of resistance against the encroachments of capital [upon wages… and] organized forces…for the final emancipation of the working class, that is to say, the ultimate abolition of the wages system” (Wages, Price and Profit, p. 55).

Second, the “iron law of wages” and the Malthusian model underlying it ascribe poverty not to any feature of capitalism but to human psychological propensities. As we have seen, Marx tells us in Gotha that this concedes everything to the opponents of socialism. For, if valid, it should be equally so in a socialist society which, consequently, could do nothing to eliminate poverty, aside from sharing the wealth or, rather (as Marx notes), sharing the poverty. No wonder Marx rejected the Malthusian model so vehemently, describing it as “a libel on the human race.”
Third, Marx believed as a fundamental matter of philosophy that there is no such thing as an absolute standard of morality. A basic component of historical materialism is the view that no phenomena, and, emphatically, no social phenomena can be understood except in their historical context. Any proposition is robbed of its sense if it is taken as an eternal verity or as a truth independent of historical circumstances. Moral values (including value judgments on distribution) are no exception—a behavior pattern which is considered monstrous today may have to be adjudged ethical and appropriate for another society.

The idea of equality, therefore, both in its bourgeois and in its proletarian form, is itself a historical product, the creation of which required definite historical conditions which in turn themselves presuppose a long previous historical development. It is therefore anything but an eternal truth.

[Engels in collaboration with Marx, *Anti-Dühring,* p. 121]

This was one of the prime grounds on which Marx and Engels rejected the doctrines of the utopian and the romantic socialists. As Engels wrote:

To all these Socialism is the expression of absolute truth, reason and justice, and has only to be discovered to conquer all the world by virtue of its own power. And as absolute truth is independent of time, space, and of the historical development of man, it is a mere accident when and where it is discovered. With all this, absolute truth, reason, and justice are different with the founder of each different school... there is no other ending possible in this conflict of absolute truths than... a kind of eclectic, average Socialism... a mish-mash allowing of the most manifold shades of opinion; a mish-mash of such critical statements, economic theories, pictures of future society by the founders of different sects, as excite a minimum of opposition.

[Socialism: Utopian and Scientific, end of Section 1]

Given Marx’s and Engels' fear of the vulnerability of the socialist movement to seduction by indefensible romantic notions which can undermine both its effectiveness and its purpose, their anxiety to hammer home such philosophical points is entirely understandable.

Finally, Marx was determined to battle the “iron law” and those who considered it a primary indictment of capitalism because it cheapens and trivializes the entire socialist cause.

It is as if, among slaves who have at last got behind the secret of slavery and broken out in rebellion, a slave still in thrall to obsolete notions were to inscribe on the programme of the rebellion: Slavery must be abolished because the feeding of slaves in the system of slavery cannot exceed a certain low maximum! Does not the mere fact that the representatives of our Party were capable of perpetrating such a monstrous attack on the widespread understanding among the mass of our Party prove by itself with what criminal levity and with what lack of conscience they set to work.... [Gotha, p. 24]

REFERENCES


———, *Marginal Notes on Adolph Wagner’s*

—, *The Poverty of Philosophy*, London: Martin Lawrence [1846–1847], N.D.


