Re: How does productivity turn into higher wages?

Source: http://sci.tech−archive.net/Archive/sci.econ/2005−01/1168.html

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From: The Trucker (*mikcob_at_verizon.net*)
Date: 01/18/05

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Date: Tue, 18 Jan 2005 13:28:43 −0800
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zerge@hotmail.com wrote:

>
> wilfred wrote:
>> <zerge@hotmail.com> wrote in message
>> news:1105994298.131535.139850@z14g2000cwz.googlegroups.com...
>> >
>> > r...@telus.net wrote:
>> > > On 17 Jan 2005 08:21:29 −0800, zerge@hotmail.com wrote:
>> > >
>> > > >As productivity increases in an industry or in a country,
> salaries
>> > tend
>> > > >to rise.
>> > > >Can anyone explain the cause−and−effect that leads to this
> dynamic?
>> > And
>> > > >I mean at the decision maker level: what happens in the minds of
> the
>> > > >employers and employees?
>> > >
>> > > It's just that the increased production has to go _somewhere_.
>> > >
>> > > −− Roy L
>> >
>> > Yes, I understand it at THAT level. Supply is demand etc.
>> > I just don't understand the thought processes of the employers and
>> > employees, see? What specific market pressure makes the employers
>> > decide to pay more and/or employees ask for more?
>>
>> Increased production leads to higher profits, should wages remain
> constant,
>> but employees tend to notice that a larger share of the pie goes to
> the top,
>> and negotiate higher wages. Employers may be more willing to grant
> wage
>> increases as they are increasingly able to. I suppose in the very
> long term

>> wages should tend towards the marginal product of labour, but will
> usually
>> be prevented from reaching that level.
>
> Thank you. This is what I suspected, but wasn't sure. Do you know if
> this has been confirmed empirically?

This example is probably incorrect. Employees do not have much control at the required level. They simply cannot demand much of anything.

The increase in productivity will cause unemployment or it will cause increased production. If we suppose that the employer uses the increased production to cut the payroll then there are less people with money to buy the goods. So the demand for the goods will shrink below what it was before. This spiral does not stop and the more people fired the less goods demanded and the less produced. But if the employer (quasi monopolist) uses the increased productivity to increase production at a lower cost and price per unit then demand will increase (more people will buy the goods because they are less costly) and this will have increased _real_ wages. i.e. everyone gets more pie though they never saw a raise on their paycheck. The monopolist (employer) will get both. He may take a slight hit on the income due to reduced pricing, but he will be selling more units and his income will increase greatly. The employees need not get an actual "raise" in salary to get more _real_ income.

The bottom line is that wages do not necessarily increase with productivity increases. If the employer is a Republican then wages will probably fall and so will output.

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"I know no safe depository of the ultimate powers of society but
the people themselves; and if we think them not enlightened enough
to exercise their control with a wholesome discretion, the remedy
is not to take it from them, but to inform their discretion by
education." - Thomas Jefferson.  http://GreaterVoice.org
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