

# Re: How does productivity turn into higher wages?

Source: <http://sci.tech-archive.net/Archive/sci.econ/2005-01/1353.html>

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**From:** Igor ([jjweatherby\\_at\\_houston.rr.com](mailto:jjweatherby_at_houston.rr.com))

**Date:** 01/23/05

Date: Sun, 23 Jan 2005 01:18:26 GMT

Bill wrote:

> <[zerge@hotmail.com](mailto:zerge@hotmail.com)> wrote in message

> news:1106077002.589121.211450@f14g2000cwb.googlegroups.com...

>

>>Bill wrote:

>>

>>>"Igor" <[jjweatherby@houston.rr.com](mailto:jjweatherby@houston.rr.com)> wrote in message

>>>news:dS\_Gd.26183\$Ta2.13935@fe2.texas.rr.com...

>>>

>>>>wilfred wrote:

>>>>

>>>>><[zerge@hotmail.com](mailto: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](mailto:zerge@hotmail.com) wrote:

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>>>>>>>

>>>>>>>>As productivity increases in an industry or in a country,

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>>salaries

>>

>>>>>>tend

>>>>>>

>>>>>>

>>>>>>>>to rise.

>>>>>>>>Can anyone explain the cause-and-effect that leads to this

>>

>>dynamic?

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>>>>It is very simple. As productivity rises firms wish to hire more

>>

>>workers.

>>

sci.econ: Re: How does productivity turn into higher wages?

>>> *That may not be true. For example, if you fully automate a factory*  
>>  
>> *you may*  
>>  
>>> *need less people.*  
>>>  
>>> *Bill*  
>>>  
>>>  
>>  
>> *Less people per unit produced, sure. But not necessarily less people in*  
>> *absolute terms. Productivity and number of workers in absolute terms*  
>> *are independent variables.*  
>>  
>  
>  
> *Could be less and could be more. They are not quite independent. If you do*  
> *nothing nothing you need the same number of people per unit of volume. If you*  
> *do a massive automation it is possible that you may be able to increase your*  
> *production to something far beyond what you could sell with far fewer people.*  
>

They are independent. If prices stay the same and cost of the product drop, unless there is a capacity constraint firms will produce more output. This will cause labor demand to shift out. At each wage they will want to hire more workers than before.

Where the confusion is is that firms will hire more workers if THE WAGE STAYS CONSTANT. Without an increase in the supply of labor this will not happen. Wages will likely rise over time but unless there is a change in supply, firms will hire more workers in the short run. There is just more profit to be made for a good and the increase in production will fuel more workers being hired eventhough it takes fewer workers to produce one unit.

The second part of the confusion is that you are talking about substituting capital for labor. The analysis is short run so capital does not get substituted for labor. Productivity can rise for reasons other than new capital. New process can be implemented, eg. the assembly line. This cuts cost and makes production faster but no new capital is involved. Workers may be trained in new techniques. There are other reasons for productivity gains than new machines.

However, if Wages rise above capital there is a possibility that substitution can happen. In this case the effect is indeterminate.