How is Labor Distinct from Broccoli? Some Unique Characteristics of Labor and Their Importance for Economic Analysis and Policy

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Introduction

A core proposition of mainstream economic theory is that labor is a commodity whose properties are not essentially different from any other. From this formative premise the labor market is represented as just another market, from which it follows that it can be analyzed in the same manner as any other salable commodity -- with a straightforward application of the theory of supply and demand.[1] To the extent that other considerations matter they are thought to be in the domain of “normative economics" which most practicing economists take to be a preanalytic set of attitudes, prejudices, or agendas that are to be excluded from theoretical and scientific analysis.

This state of affairs is somewhat anomalous in light of the fact that labor economics has long held an independent status as a distinct field of scholarship (Kaufman 1993; McNulty 1980). Even today the economics profession features a large contingent of scholars who identify themselves as “labor economists.” Annually, numerous books, academic journals, and conferences are devoted to the study of the labor market. Only agricultural and financial markets have consistently drawn comparable interest from the economics profession over the years.

The following chapter will inquire into some of the unique aspects of labor that generate these conundrums, despite implicit or explicit denials that the labor market has idiosyncratic qualities that can be traced to the specific attributes of the commodity exchanged there. Stated simply, this chapter will examine a few of the qualities that make labor inherently different from other marketable commodities such as broccoli, fresh fruit, or bags of concrete. Everyone recognizes that there is a difference in substance -- labor is human and for this reason different in form and ethical status from a bag of concrete. What is at issue is the proposition that labor, considered as a salable commodity, embodies some qualities or features that fundamentally modify the market process.[2] The specific qualities of labor to be covered include the following: (1) Labor cannot be separated from its providers. (2) Labor cannot be stored. (3) Labor embodies the quality of self-consciousness. (4) Labor is the one "factor of production" that most of us wish, in the end, to see well-compensated. A few concluding remarks will close this chapter.

Labor Cannot be Separated from its Provider

Physically, legally, ethically, and economically labor is a commodity that, by its nature, cannot be readily separated from its provider. In almost every instance, the employee must be present to deliver the contracted-for labor services. This fact alone makes labor unique, and even more so in countries that value human rights. Stated simply, when buying labor the purchaser enters, at least in part, into a caretaker relationship with the purveyor of that labor -- the worker's person. Decisions that firms may, or may not, make with regard to the health and safety of its workforce necessarily have lasting implications for the workers they hire during and well after the conclusion of a particular task or employment contract (Commons and Andrews 1916, 1-34; Commons 1924, 283-312).

It follows from this that individual laborers and, in the event of widespread suffrage, the state, each and severally have a direct and ongoing interest in the conditions under which labor is employed. One can reasonably conclude, as did John Commons, that the state, through contract and labor law, is effectively a third party to every labor contract (Chasse 1986, 767-69). Enlightened employers, who are more inclined to view a healthy, educated, and largely content labor force as a source of enhanced productivity, also have an interest in the protection of this resource. Not surprisingly, regulation of the workplace and the labor contract represent some of the first, and most important, examples of state intervention in the market economy (Commons and Andrews 1916; Millis and Montgomery 1938; Seager 1907, 412-433).

By contrast with labor, consider the circumstances of the vast majority of commodities that are traded in markets. Broccoli, to take one example, can be exchanged between persons with few legal encumbrances pertaining to it. The purchaser of a quantity of broccoli, by establishing a legal claim over it, has what in law is termed a "right of exclusive disposal." She might eat it, let it mold in the refrigerator, or present it as a gift to someone else, without violating the rights of the broccoli in question or those of its original or previous owners.

Thankfully, modern statutes no longer allow such "freedom" when labor is purchased. Labor, but not the laborer, can be purchased for a short period only. The options open to the purchaser of labor are much narrower than in the case of broccoli. The extent of the purchasers' rights over the use to which this labor is put are constrained by moral sanction, the Occupational Health and Safety Administration (OSHA), tort law, numerous state and federal regulations, and even criminal statutes. While the past twenty-five years have seen some erosion in the extent that employers feel constrained with regard to their treatment of their employees, the legal system, and most thinking people, still maintain that a profound difference exists between labor and other marketable commodities.

Labor Cannot be Stored

A second assumption underlying the received theory of the labor market is the idea that everyone will be able to enter into a successful exchange of their labor for some price, however low. Moreover, mainstream theory implicitly posits that the “penalty” exacted for a failure to consummate an exchange is that one is left in the economic condition and circumstance that existed prior to one’s decision to accept or reject a particular contract. Drawing upon this crucial if rarely articulated assumption, economists typically, almost instinctively, conclude that a “free exchange” between consenting adults “must” make everyone better off. From this premise it follows that if market participants decide that they do not wish to accept the current market price for their goods, they have the option to either consume their own goods or "store" them at a very low cost. This is what is implicit behind the “free entry and exit” assumption that is at the cornerstone of the theory of competitive markets promulgated in mainstream economic theory (Prasch 1995).

For labor the situation is not so straight-forward. To begin with, labor cannot be stored by the employee. A day of work missed cannot be readily recovered since the temporal dimension of life means that our past is, well, in the past. By contrast broccoli, while perishable, can be stored for a period of time. The owner even has the option to refrigerate or freeze it and thereby greatly extend its useful qualities as a marketable commodity.

In addition, people have needs that must be met. To grasp the importance of this observation “needs” must be distinguished from “wants” or "desires." In conventional usage, wants have a whimsical quality to them, such as “I want an ice cream cone or a pink Cadillac.” Needs, on the other hand, suggest a sense of urgency. At the most basic level I need food, water, clothing, and shelter if I am to survive. Moreover, in a complex social system such as the United States, our needs are more extensive than merely food, water, clothing, and shelter. If I am to participate in such a society my needs will, in all likelihood, include a minimal level of personal grooming, clothing consistent with the norms of my workplace, and access to certain modes of communication, including literacy, a telephone, and in an increasing number of workplaces, the internet.

Crucially, if the needs specific to retaining my social status and relationships are not met, the penalty is greater than a simple failure to achieve a desired level of happiness or personal fulfillment. There is a good chance that I will be unable to maintain my current capacity for social and economic interaction. Various penalties, including the loss of my job, can be expected to occur if I cannot meet the cultural and consumption norms and standards of a given work or social environment. In short, our needs place us, as social and physical beings, under constraints that are more pressing than is suggested by the term "wants." Economists are simply in error when they insist that virtually all needs can be reduced to the category “wants” and that satisfying our needs necessarily serves to increase “utility.”[3] In the case of needs, we must meet them to remain at our previous level of satisfaction since a failure to do so may lead to a deterioration in our health, well-being, and economic capacity. By contrast, unless we are children, a failure to fulfill our wants leaves us where we were before we considered acquiring the good in question (Frankfurt 1984; Levine 1988, 1-33; Lutz and Lux 1979, 3-75; Prasch 1999b, 2003; Sen 1999, 87-110).

While it is true that employers and owners of companies are also people who have needs, in a world without full employment they have the option of withdrawing from any given labor contract and hiring someone else. Even in the event of a tight labor market, employers have more options. Depending on the specifics of their business, they could relocate their firms or move into a different market. If all else fails, employers always have the option of dissolving their businesses and becoming laborers themselves. It follows that employers are at least two transactions, first selling their wares and then selling their labor, away from experiencing unmet needs. It follows that needy persons without assets will generally do worse when they are bargaining with persons or entities who are trying to satisfy their wants (Pound 1909; Prasch 1995; Hale 1923, 1943).

That workers must exchange their labor for wages in order to meet their needs, and the potential for physical and mental deterioration in the event that such an exchange does not occur, has long been understood by economists. The difference between then and now is that this phenomena was once considered an important element of labor economics. In the words of Sidney and Beatrice Webb, “The mere fact that the man is without occupation, and without income, even if he is not yet actually in want, means in the great majority of cases, that he is suffering degeneration in skill, in health and in character, and that he is running grave risk of demoralisation" (Webb and Webb, 1911, 139).[4] This idea also played a fundamental role in Karl Marx's understanding of the labor market as a locus of exploitation:

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> For the transformation of money into capital, therefore, the owner of money must find the free worker available on the commodity-market; and this worker must be free in the double-sense that as a free individual he can dispose of his labour-power as his own commodity, and that, on the other hand, he has no other commodity for sale, i.e. he is rid of them, he is free of all the objects needed for the realization of his labour-power (Marx 1977, 272-273).

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Karl Polanyi also stressed the institutional and sociological framework behind the establishment of the "modern" labor market:

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> This effect of the establishment of a labor market is conspicuously apparent in colonial regions today. The natives are to be forced to make a living by selling their labor. To this end their traditional institutions must be destroyed, and prevented from re-forming, since, as a rule, the individual in primitive society is not threatened by starvation unless the community as a whole is in a like predicament ... It is the absence of the threat of individual starvation which makes primitive society, in a sense, more human than market economy, and at the same time less economic (Polanyi 1944, 163-164).

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Prior to the "analytic revolution" that swept through the economics profession of post-war America, these issues were more widely understood in this country too. An example is John Bates Clark who observed that, “Hunger-discipline disqualifies the worker for (sic) making a successful bargain, and if the employer were everywhere at liberty to take men for what, under such pressure, they might individually offer to work for, he might get them for very little” (Clark 1913, 292).

If employees could store their labor at zero cost or, in what comes analytically to the same thing, if labor simply had no unmet needs, its bargaining power would be substantially enhanced. The ability to withdraw, if only for a short period, from the market enables employees to refuse an offer that is on the table while negotiating or searching for a better one. Being forced, through unmet needs, to accept a “take-it-or-leave-it” offer implies that a worker has little bargaining power and for that reason a reduced chance of being paid the full value of their labor. As John Bates Clark observed long ago, “Workers have something to sell, and they must be able to withhold it if they are to have an effective voice in fixing the price that they will get” (Clark 1902, 553).[5] Liberals, particularly those whose ideas once influenced the Democratic Party, understood Clark’s point. Take, as an example, the following passage from President Franklin Delano Roosevelt's 1944 "State of the Union" address:

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> We have come to a clearer realization of the fact, however, that true individual freedom cannot exist without economic security and independence. “Necessitous men are not free men.” People who are

> hungry, people who are out of a job are the stuff of which dictatorships are made (Roosevelt, 1944, 87).

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As it is unlikely that labor will ever experience zero storage costs, a reasonable alternative in a market-oriented society is a policy of full employment. Workers will still require a job paying a living wage to ensure that their needs are met, but with full employment the threat to quit a position becomes more credible, thereby increasing the bargaining power of actual and potential employees.[6]

Once the role of the “free entry and exit” assumption so characteristic of orthodox labor economics is understood, it becomes apparent that it is anything but an innocent “simplifying assumption.” Rather it is a substantive assumption, in the sense that much of what passes for “knowledge” about the operation, efficiency, and fairness of contemporary labor markets is based upon it. Without full employment, relative bargaining power becomes a crucial determinant of the market process. It follows that policies derived from an ill-considered presumption of full employment must be rethought and even reconsidered if the facts do not support that assumption. At the most abstract level there is a simple and direct lesson in all of the above. In an economy without full employment it is relative bargaining power, not “skills” or “productivity,” that determines the wage structure. Moreover, supply and demand models that implicitly assume full employment necessarily obscure this fundamental reality and for that reason can lead us to erroneous conclusions and flawed policies.

Labor Embodies the Quality of Self-Consciousness

A third characteristic specific to labor that is often ignored is our capacity for reflection or self-consciousness (Frankfurt 1971). This capacity, when considered at all by mainstream economists, is subsumed in a narrow and highly constrained manner under the “labor-leisure tradeoff” that is thought to determine the labor supply decision. This approach posits that people hold fixed attitudes regarding the relative merits of leisure versus additional income. Moreover, these views are thought to be determined prior to an employee's entry into the labor market, and are limited to a determination of the willingness of each laborer to supply a given quantity of labor at any given real wage. Whatever the merits of this approach when economists are formulating a theory of consumption, when it comes to labor markets, this perspective necessarily sets aside the importance of our capacity for independent assessment and reflection on our experiences in the labor market or at our place of work. This is a crucial, if conventional, oversight.

Despite the wishful and misguided hopes of generations of Taylorist employers, labor is distinctly not a "tool" in the sense of a passive implement that can be utilized or not at the discretion of its purchaser. Experience and introspection suggest that perceived fairness and quality of treatment on the job can be as important as monetary compensation in eliciting employee loyalty and effort. Our capacity for reflection enables each of us to consider, and make judgments, concerning the qualities of a given place of employment. Such judgments have implications for how, and even if, we will continue to work at a particular job or location. By contrast, a capacity for reflection is not commonly associated with broccoli, fruit, bags of concrete, or other marketable commodities. While it would be unwise to suppose that our capacity for reflection is regularly or routinely exercised, we should nevertheless be wary of economic theories that altogether ignore it, especially in the event that widely-held norms of fair play are being openly flaunted.[7]

In general, assuming that individuals maximize across a fixed utility mapping is an overly static foundation for capturing the complex idea of reflection. We know that people do act, even in cases when the facts of a given situation make action costly, dangerous, irresponsible, or unwise. Labor history, to say nothing of military or entrepreneurial history, is full of people making expensive or risky choices simply because it was the “right thing” to do.[8]

Reflection or self-consciousness is unique to the productive input called labor.[9] It is clear that broccoli or a bag of concrete can not have an aesthetic, moral, or any other attitude or response to how it is treated or thinks it is being treated. A bag of concrete will not think it is unfair if it is fully used up before another bag is even opened. Broccoli will not feel violated or cheapened if it is given away to someone else. As the late economist Alfred Eichner so wonderfully stated, "It is a matter of indifference to the barrel of oil that is sold whether it is used to heat a house of God or a house of prostitution" (Eichner 1985, 79; see also Marshall 1920, 471). People, on the other hand, do show up to work with a developed sense of right and wrong in conjunction with a set of experiences, ideas, and expectations concerning the job they have been asked to do. Management must either modify, work with, or confront these norms and expectations. They rarely have the option of ignoring them altogether, as these attitudes will directly affect the quality and quantity of work that they can get from a given labor force. Collectively, the factors considered in this paragraph suggest a partial answer to why management is, and should, be taught in a different department from operations research.

Now, we know that horses, mules and camels also have the quality of consciousness. They even exhibit “learned behavior.” But it would be a stretch to argue that they “reflect” on their surroundings or draw larger meanings from what they have been asked to do. While I am not prepared to present a treatise on the origin and meaning of reflection in juxtaposition to consciousness, I am confident that most understandings of these terms would acknowledge that the idea of reflection, drawing as it does on the ideas of learning, context, and time to make judgments, is somewhat unique to adult human beings (Frankfurt 1971).[10]

In labor markets, and labor relations within a firm, the fact of reflection makes an enormous difference. For example, in the contemporary United States the cultural understanding that we label "common sense" supports the norm of “equal pay for equal work” for all of the employees of any given establishment. Yet it is obvious that a machine or a mule would not object if you paid less for its services than you did for another, identical, machine or mule. People will object to such treatment unless a compelling reason is offered that satisfies their sense of justice. For example seniority is widely considered to be a valid reason to pay one person more than another for the same work.[11]

Drawing upon such considerations John Maynard Keynes and Neo-Institutionalists such as Frank Pierson, Clark Kerr, and John Dunlop, among others, observed that some of the value that workers place on their wage is its level relative to others in the same workplace or industry (Keynes 1936, 4-22; Taylor and Pierson 1957, 3-31; Kaufman 1993, 75-102). These theorists built upon the simple observation that a person's compensation is often deemed satisfactory or unsatisfactory depending upon the structure of the wage bargain and how much comparable workers are paid. Professional arbitrators and other labor relations experts know that within every firm and even industry there is not simply a wage, but a wage hierarchy that guides and reinforces expectations concerning relative wages. John Dunlop developed his idea of "job clusters" and "wage contours" to illustrate some of these dynamics (Dunlop 1957). Smart managers know that they should avoid disturbing these hierarchies without a compelling reason. This is because arbitrary wage adjustments that ignore the social and firm-level values implicit in an established wage structure can lead to a significant drop in morale, a strike, or other disruption in the smooth operation of the production process.

Indeed, the idea that people are beings with a capacity for reflection, and consequently have a concern for their treatment and status at their place of work, points to the role that effective organization can play as a factor in economic production. These ideas, combined with some frustration with mainstream labor economics as a field of research, contributed to the development of Industrial Relations as an independent field of scholarship and professional activity (Kaufman 1993, 75-102). Collectively, these insights have been the basis for several important studies of the role of organization in the development of modern economies (Lazonick 1991; Chandler 1977, 1962).

The Relationship of High Productivity to High Wages

One reason for the popularity and widespread acceptance of the supply and demand theory of price and wage determination is its simplicity. Certainly it has the rhetorical advantage of a “one size fits all” quality to it.

This venerable theory features only two equations, the supply and demand schedules respectively, and two unknowns, the equilibrium real wage and quantity of labor bought. In this theory, labor supply is determined by the “income-leisure tradeoff” implicit in the decision-making of every potential laborer, and is derived from the marginal disutility of labor. Demand is derived from the marginal product of labor.[12]

A fundamental problem with the supply and demand theory, as it is conventionally applied to the labor market, is somewhat elementary. If the marginal product of labor schedule is ***at least partially determined by the wage level*** then the model may no longer be said to feature a unique equilibrium solution. As it happens there are several good reasons to believe that labor’s productivity, and hence marginal productivity, is related to the level of wages. As previously mentioned, the capacity for self-consciousness suggests that people can work at several different levels of effort while on the same job. Couched in the anthropologists' language of “gift exchange,” economists such as George Akerlof have argued that improved wages and workplace conditions can enhance workers' morale, thereby improving performance and lowering the costs associated with turnover (Akerlof 1982). Alternatively, with a higher wage a firm's workforce may enjoy "employment rents" that, in turn, generate an incentive to provide a greater effort while on the job (Bowles 1985; Shapiro and Stiglitz 1984). Finally, higher wages may contribute to greater workplace performance through improved health and physical well-being (Leibenstein 1963).

Despite the important, and widely known, literature surveyed in the previous paragraph, mainstream economists retain their commitment to the marginal product theory of distribution with its corollary that a high level of marginal productivity is the fundamental cause of high wages. Yet, and in part because of the research described above, it is not too difficult to argue that the direction of causation runs both ways.

The causal argument that attributes high wages to high marginal productivity will not be reviewed here as it is familiar to us all -- basically, "highly-skilled" labor earns a scarcity premium. As to the argument being developed here, that high wages contribute to high productivity, there are two basic points to be made. First, as economists as diverse as Adam Smith (1976, 72-97), Harvey Leibenstein (1963), David Gordon (1996), and the several "efficiency-wage" theorists referenced above have argued, there is a causal link that runs from high wages to high productivity. The reasons, again, are that high wages lead to greater effort, greater willingness to learn, improved morale, and lower turnover. Additionally, they can induce greater productivity within the firm by forcing firms to reduce inefficiency within management and the process of production (Altman 2001). I should add that these several arguments were widely understood and accepted by the mainstream of American economists during the Progressive Era (Prasch 1998; 1999a).

Second, goods can be more readily sold in a high wage economy and, of course, high wage jobs with substantial benefits can be offered when a firm operates in a prosperous and growing economy. If the market is large and, as a consequence, the division of labor can be greatly advanced, we can expect the high productivity that facilitates the payment of high wages. But notice the caveat. This can only be the case if the market is large and already features high incomes. A poor country does not have a large market, even if there are a lot of hard-working and resourceful people in residence. The fact is that goods must be in demand if the market is to be large, and demand is a function of both the desire for goods and the incomes of potential consumers. It is for this reason that we find ourselves in a theoretical dilemma that resembles that of the proverbial "chicken and egg." High wages lead to the possibility of a high productivity economy, and high productivity results in high wages.

For this reason, American trade policy is a legitimate public concern since an important consequence of losing well paid manufacturing jobs is the erosion of our high wage economy, and with it, the erosion of our large internal market for consumer products. Now these causal relationships are not immediately apparent to the individuals or firms making everyday decisions in the marketplace. Any given firm's contribution to the purchasing power of the American labor force is rather limited. It follows that firms have an ever-present incentive to reduce their own wage bill, while continuing to sell their goods in the high wage American market. Clearly, if all firms simultaneously pursue this strategy, and the aggregate market shrinks, every firm will experience a decline in revenues. As revenues fall off, the measured rate of productivity growth will also decline or stagnate, independently of the level of "skills" or "work ethic" that we may, or may not, wish to ascribe to a particular nation's workforce (Prasch 1999c; 1996).

When the events described in the previous paragraph transpire we are typically treated to the sight of orthodox economists with life-time job security proclaiming that since productivity growth is declining, labor market "flexibility" is needed to restore the "competitiveness" of the economy. As these economists tell us, it is just "common sense."[13] The problem with this “common sense” vision is that it examines the magnitude of the wage bill from the perspective of the isolated employer -- where wages are viewed exclusively as an element of a firm's costs. It forgets that as income, wages are the most important component of the expenditure stream. Put simply, each firm's wages represent, when spent by employees, the revenue of some other firms. Low or falling wages are a threat to these revenues and the high wage economy that a substantial revenue stream can support.

High Wages are Not a Problem. They are the Objective.

One might have hoped that the idea expressed in this heading would not require an extended argument. Regrettably, contemporary discussions of economic theory and policy, imbued as they are with a "business" or "common sense" perspective, tend to overlook it. To some extent this is because discussions in the business-oriented media are generally, if subconsciously, imbued with a perspective that largely reflects rentier interests. As a result, rising wages and levels of employment are often viewed as an inflationary threat to the economy, to be resisted by restrictive monetary policy (Thurow 1996). Before he embraced the rhetoric of the so-called New Economy, Federal Reserve Chairman Alan Greenspan shared this same bias. To combat the supposed evils associated with a non-zero rate of inflation Greenspan, to the applause of mainstream economists and financiers, adjusted the short-term rate of interest in an effort to trim increases in employee compensation in addition to keeping the overall level of employment close to a mythical "natural rate" (Galbraith 1998, 171-182). Unfortunately, the business press, the Fed, and too many economists, have forgotten the simple point enunciated so long ago by Adam Smith:

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> No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged (Smith, 1776/1976, 88).

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Such sentiments have important implications. Clearly it is a sign of progress in economic affairs if the prices of commodities fall over time. Machinery, better management, innovation and improved techniques are all ostensibly aimed at improving our quality of life through the successive cheapening of commodities. Clearly lower labor-costs per unit of output over time are a sign of progress in commercial affairs. But it should matter to us if this latter result occurs through innovation or from a general reduction in wages, although from the perspective of the firms involved this distinction may appear to be of no importance.

Conclusion

In light of the above, it is reasonable to conclude that labor markets are different from other markets in tangible ways that matter to the social scientific project we call economics. That this proposition, and its implications, have long been understood is evident in the response of Barbara Grimes, a Law Professor at the University of California, to a United States Supreme Court decision overturning minimum wage legislation in 1923:

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> Human labor is not a mere commodity to be bartered and sold. It is the essence of human life itself. And because the conditions relating to the sale of labor, the performance of labor and the mode of payment of labor, have important social results expressed in terms of social well being or ill

> being, the liberty of contract in regard to the sale of labor has been repeatedly interfered with by legislative enactment in the valid exercise of the police power and as such sustained by the highest courts of the land (Grimes 1925, 117-118).

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Despite the theoretical currents of much of the past fifty years, differences between labor and commodities such as broccoli, fruit, or bags of concrete should not be dismissed by economists as “normative" and for that reason irrelevant to economic theorists. Because labor cannot be separated from its providers, cannot be stored by its providers, and embodies the capacity for reflection, it is evident that labor markets are prone to their own unique dynamics. These realities, individually and collectively, provide an important economic explanation for the often contentious evolution of labor law over the past several centuries (Steinfeld 2001). Additionally, we must recall that labor is the one "factor of production" that most of us wish, in the end, to see well-compensated.

Finally, economists risk a great deal of error when they suppose, in the name of "simplicity," or "mathematical elegance," that labor should be theorized along the lines of an abstract, inanimate, commodity. That labor is neither inanimate nor "just another commodity" was once well understood by economists. It follows that what is needed is not a project of discovery, so much as one of recovery. Once this recovery is accomplished, we will find out what we once knew -- that labor has unique features that are of great consequence to the project of theory construction, policy formulation, and the revival of economics as a thoughtful and meaningful social science.

Endnotes

1. While a few economists, such as James K. Galbraith (1997) and Robert Kuttner (1997, 68-109) have presented contrary views, the treatment of labor as "just another commodity" is simply taken for granted by the mainstream of contemporary economists. However the historical record indicates that the commodification of labor was actually the result of a specific historical process. As Karl Polanyi pointed out, "To separate labor from other activities of life and to subject it to the laws of the market was to annihilate all organic forms of existence and to replace them by a different type of organization, an atomistic and individualistic one" (Polanyi 1944, 163). For this reason he considered labor to be one of several "fictitious" commodities that were necessary for capitalism to emerge as a social system (Polanyi 1944, 68-76). For a recent and compelling presentation of the development and economic importance of the fictitious commodities traded in commodities markets see William Cronon, "Pricing the Future: Grain" (Cronon, 1991, 97-147). On the historical evolution of the labor contract

in England and the United States see Robert Steinfeld (2001).

2. I, along with most thinking people, understand that any theory must abstract from the particulars of the existent situation if it is to be of value. The trouble is that this point is often presented as a blanket defense of a specific set of abstractions -- those of the Neoclassical school of economics. What is neglected is that there is an "art" behind the formulation of abstractions. Specifically, to construct a plausible theory, we must not abstract from the essential characteristics of a particular problem or situation and thereby distort, rather than simplify, the phenomena we are investigating.

3. Arguing that the category of "needs" was economically meaningless used to be a cornerstone of economics instruction in the early 1980s (cf. Heyne 1983, 16-32). It is evocative, in light of the World Bank's recent and aggressive initiative to privatize the provision of water in Third World countries, that Paul Heyne used the example of water to illustrate his point. Today's textbooks strongly imply or suggest that needs do not exist, but the language employed is not as confrontational as it was twenty years ago.

4. A detailed and disturbing survey of academic studies of the causal relationship between downward mobility and various social problems such as alcoholism, teen pregnancy, and divorce is presented in David Gordon (1996, ch. 5).

5. Some readers have remarked on the apparent irony of these several quotations from John Bates Clark in light of his being the first to articulate the marginal product theory of distribution. However, reading Clark's theory of distribution in the context of his more policy-oriented essays confirms that he clearly thought that the specific structure of any particular market could modify the generalizability of his theory of distribution (Prasch 2000a, 2002; Clark 1902, 2002). To Clark, unlike the positivists who later adopted and deployed his theory of distribution, the realism of ones initial assumptions mattered on both ethical and policy grounds.

6. For a bold suggestion as to how full employment could be achieved without causing undue government expenditure or inflationary pressures see Philip Harvey (1989) or L. Randall Wray (1998, 122-154). Despite the revenues that business can be assured of when workers are flush with good wages we can expect well-organized and financed objections to such a policy. The reason is that management prerogatives are difficult to impose when

employees have a credible threat to quit (Kalecki 1971, 138-145). Moreover, high levels of employment provide the material foundation for cultural changes that social conservatives object to. For example, sustained periods of high employment and rising wages, such as occurred in the 1940s and 1960s, provided more independence for women, minorities, and teenage children. What followed was an erosion of what are called “traditional” morals. The short of it is that in market societies, people are as free as they can afford to be -- rising employment rates increase people’s sense of freedom, but reduce the prerogatives of those at the top of the social and economic hierarchy. Thus the genuine and heartfelt sense of alarm evinced by cultural conservatives and plutocrats during sustained periods of prosperity.

7. The recent rise of "agency theory" is an effort to retrieve an aspect of this issue. Limited as it is by its "economistic" preconceptions, it nevertheless is an important attempt by mainstream economic theorists to recover some of the understanding that was lost during the drive to transform economic theory into a purely atomistic and analytic field of study in the post-war period.

8. Besides history, psychology and literature, recent work in evolutionary and experimental economics affirms that

people will sacrifice earnings to enforce norms of fairness (cf. Carpenter 2002; Carpenter, Matthews and Ong'ong'a 2003).

9. Given my seemingly chronic mishaps, I do sometimes harbor a suspicion that computers also have a capacity for independent reflection and decision-making.

10. Indeed, it is precisely because children are thought to be lacking a sense of context and a developed capacity for reflection that we do not grant them the legal rights and responsibilities that we conventionally extend to adults.

11. As is well known, for much of American labor history gender or race were widely taken to be valid reasons for discrepancies in opportunity or pay within the same workplace. Happily, these flawed conventions have become less legitimate over the past century (Figart, Mutari, and Power 2002, 16-33).

12. John Maynard Keynes severely, and properly, criticized the proposition that the marginal disutility of labor determined the aggregate labor supply schedule (1936, 4-22). Additionally, this proposition can be challenged on both theoretical and empirical grounds even if we disregard "macro" considerations (Derobert 2001; Prasch

2000b; Sharif 2003). The second assumption, that the demand for labor is dependent upon the marginal product of labor, was undermined by the capital controversies of the 1950s and 1960s (Hunt and Schwartz 1972; Harcourt 1972). While each of these several critiques is interesting, reviewing them here would take us too far afield from the topic of this essay.

13. I will note, since I have checked, that the economists making such pronouncements generally perceive calls for “flexibility” in their own compensation or terms of tenure to be rather vulgar.

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