LABOR

Krugman and Wells devoted mostly to labor as a commodity; i.e., the dullest part of what we have to say about labor issues; unlike all other “commodities,” labor has a personality, and a heartbeat.

Discussion (in text) focuses around:

1. demand, supply and market for labor,

2. very brief mention of unions: pp. 395-96, with next to no discussion of very interesting aspects of unions, and what may be lost with their decline.

3. K and W offer little discussion of labor supply age, race, education, sex, and in particular, changing role of women in the labor force,

4. Mention of human capital very limited.

Discussion in lecture focusing on:

1. Neoclassical theory

2. Women in the Labor Force

3. The Good and the Bad of Unions

4. Aspects of Human Capital if there’s time; read relevant pages in chapter 9 on present value: pp. 239-43.
1. **NEOCLASSICAL THEORY…**

**DEMAND FOR LABOR**

Brief comments on Marginal Productivity theory…stems from Total Product and Marginal Product curve discussion from chapter 12 (pp. 304-309)

![Diagram](image)

Some technical points:

If a firm hires a relatively small number of workers in the total labor market, it takes the market wage as given (just as a producer takes the price as given in a competitive market). Otherwise, the demand for labor (D) will be less for any given wage…that is, with a downward sloping product demand curve, MR < P.

Main points:

1. employment = f( wage, amount of capital, and productivity of labor)

2. theory omits any other factor which might influence labor productivity, e.g., the environment, management relations, impact of unions…
2. SUPPLY, AND BACKWARD BENDING SUPPLY CURVE

Brief discussion, including the notion of the backward bending curve….issues here is the income and substitution effects from a change in wages; see chapter 10, and optional discussion in K and W, pp.305-09.

HOURS OF WORK

The *INCOME EFFECT* from backward bending curve essentially a long-run concept, which is often used to "explain" the decline in hours; that is, a reasonable assumption is that leisure is a “normal good,” and perhaps a “superior” (luxury) good---i.e., the demand increases with increases in income.

⇒ pre 1900; as long a the employer can make the worker work—60 + hours

⇒ 1900-1940's; a decline to 35-40, but new issues arises with Juliet Schor’s *The Overworked American*

*Note: issues of declining hours can be treated as a “worker choice—as it is in neo-classical theory-- or as a “labor struggle”—in reality.*
WOMEN IN THE LABOR FORCE

LFPR = Employed + Unemployed/”Population”

Each of these three terms is somewhat problematic.

- **employed**: working full time (but may be working at less than ability, i.e., underemployed)

- **unemployed**: need to be out of work and looking for a job (precludes those who are out of work, tried to find a job, and gave up, i.e., the discouraged. We do have data on such workers, but they do not appear in the official unemployment statistics)

- **population**: age eligible population; individuals over 16 who are not “institutionalized,” i.e., in prisons, hospitals, school.

In the face of a generalized decline in hours, there has also been a decline in the Labor Force Participation Rate of men across all ages: **NOT SO FOR WOMEN**
How to explain the difference in LFPR of men and women:

TWO THEORIES:

1. Women have **DIFFERENT TASTES** regarding leisure (economists reject explaining things on the basis different tastes---would allow this explanation for any event)

2. Women are the same as men with regard to tastes for leisure, but the environment has changed

**THEORY OF TIME ALLOCATION IN THE HOUSEHOLD:**

Think of the HOME as an economic unit designed to produce goods --comfort, food, etc.) with a production function just like any other productive enterprise, where:

\[ \text{OUTPUT}_h = f(\text{goods}, \text{time}) \ldots \text{market goods, and time cooking etc...} \]

Changes in the home and market environment:

**In the home:** labor saving devices (debated by Schor again), fewer children

**In the market:** higher wages for women, higher education,

And there may also be a change in tastes flowing from the increased education.....(birth rates and education in India as an example)

General conclusion from the data:

1. Women are working more in the market; less in the home,
2. Men working less in the market, more in the home,
3. Men working fewer total hours than women.

*(DATA FROM SHORE HERE)*
3. THE GOOD AND THE BAD OF UNIONS

The BAD MONOPOLY FACE first: flows from standard neo-classical theory of unions:

From a union perspective, it would be good to have an INELASTIC demand curve for labor, thus allowing increases in wages without a large decline in employment:

INFLUENCE OF UNIONS IN THIS REGARD:
1. Buy union made (or today, buy USA)
2. Limits to introduction of technology…
3. Unions efforts to reduce economic efficiency via trade barriers, minimum wage laws, hour’s limitation…

AND AS A RESULT:
4. union wages are higher>>>pushing non-union workers into lower paying jobs
5. productivity lower
6. and results in government interference in the market….causing misallocation of resources

OTHER BAD THINGS
7. increases inequality—with higher wages for union workers, causing unemployment and thus increasing the supply (and reducing wages) in the non-union sector.
8. social legislation—has nothing to do with “social” and everything to do with “me” (the union member interest). Minimum wage as a prime example.
THE OTHER “FACE”

Idea flows from Albert O. Hirschman’s *EXIT, VOICE AND LOYALTY*…..brief discussion of the book

UNION’S PROVIDE THE NECESSARY “VOICE” AND AS A RESULT:

1. more efficiency and productivity among union workers (happy workers),

2. greater equality of wages and income; union rules eliminate arbitrary influence of boss, and reduces impact of discrimination,

3. provides a voice in the political arena for the disadvantaged…minimum wage, welfare, occupation and safety, and provide a necessary antidote to the “inhumane” aspect of free market capitalism (more on this in section on government).

**OVERALL CONCLUSION:** EVIDENCE MIXED, BUT SIMPLE “MONOPOLY FACE”-unions are bad (I.E. THE NEOCLASSICAL THEORY) HIGHLY DISTORTED

We may have a brief discussion of ebb and flow of unionism over the 20th Century in the U.S.

Union membership nil prior to 1930s; rapid increase to about 30-35% of workforce through the 40s and stable into the 70s; steady decline since--with some modest signs of life recently—-to less that 15% of workforce today

**SUPER-PARTIAL EXPLANATION**

1. depression and Roosevelt in the 30s;
2. Reagan, political environment, rise of corporate power over worker power
3. aided at least partly from increased international competition and increased mobility of capital.
4. A FEW (!!!) ASPECTS OF HUMAN CAPITAL

The simplest Becker model, with costs in the initial period, and extended returns after education:

Earnings

<table>
<thead>
<tr>
<th>earning differential</th>
<th>skilled</th>
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<tbody>
<tr>
<td>cost</td>
<td>unskilled</td>
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17 22/30 70 age

1. Concept of PRESENT VALUE (KW pages 239 ff)

2. General conclusions regarding rates of return to education:
   a) higher with education
   b) higher with some education (engineering vs. history) which leads to a discussion of “math ability” and sex differences…more in section on discrimination
   c) education provides both increased productivity and a bit of a “sheep skin” effect