

The Social Cost of Labor and Its Importance for Labor Economics

As Presented to the:
Social Cost Workshop
Wright State University

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April 27, 2012

The “Neoclassical” or “Business” Perspective

- Labor is a Production “Input”
 - Specifically, it is a “Variable Cost”
 - The theory treats it as a “found object”
 - Not unlike the Dada artists Duchamp or Man Ray
- Where Does It Come From?
 - Subsistence is simply presumed
- How Is Labor Maintained?
 - To society, labor is an overhead cost

Substantive vs. Formal Liberty

- “The substance of liberty, as distinct from the mere form, has an economic basis. It depends, in the first instance, on knowledge, especially (in the economic field) knowledge of the market and knowledge of how to produce something with a marketable value and how to dispose of it at a fair market price. A person who does not have a job or any other source of income, and who does not know where to get one and how to go about canvassing the market effectively, does not possess the substance of liberty. That person is in a position to be exploited and to be forced to make contracts which are essentially made under duress” (J. M. Clark, *Social Control of Business*, 1926, p. 91).

The “Classical” and “Institutionalist” Perspectives

- Society is an “Ongoing Enterprise” (J. R. Commons, *Legal Foundations of Capitalism*, 1924)
 - It must be kept running from period to period
 - This is not a matter of idiosyncratic “preference”
- Labor, indeed people in general, must be fed, housed, protected, and educated, etc.
 - This is the Classical Notion of “Subsistence”
 - To Institutionalists, “Social Overhead Costs”

If Wages are Inadequate to Meet the Needs of Laborers, Other Revenues Must be Found

- Options Include:
 - Previous Savings (limited in size for the majority)
 - The Wages and Savings of Other Family Members
 - Private Charity/Transfers
 - Public Charity/Transfers
 - “Vice” or Crime (Prostitution, theft, etc.)
 - Homelessness & Its Costs:
 - Broken Families, Insanity, death from disease or famine
 - The Impact on “Incentives” is Understood, but the Issue Remains

Perspectives on Economic Theory

- The Differences Between the Markets for “Produced Means of Production” and “Labor”
- When the Cost of the Former Falls Below Its Production Cost, it Will Cease to be Made
- Should We Expect the Quantity of Labor to Fall to Zero Under Similar Circumstances?
 - Or would it rise?
 - If the latter, what are the implications for the labor market and our understanding of its dynamics? Could multiple equilibria emerge (Prasch 2000)?

J. M. Clark, (1926, p. 143)

- “Does the competition of laborer with laborer have an elevating or a degrading effect and is it a thing which requires limitations and safeguards? ... One aspect of this we have already seen, namely, the difference between competition which merely lowers prices and competition which increases the physical efficiency of production. It is peculiarly important in the case of labor, because the labor power of a man or a woman is such a variable thing and capable of being developed or stunted to a surprising degree, and also because the principle of the social minimum sets a certain limit on the extent to which labor is allowed to compete by accepting less, rather than making his services worth more to his employer.”

Perspectives on Economic Policy

- Society, and the Families Constituting It, Must be Maintained
- Wages + Transfers Must be Equal to or Greater than Subsistence
 - Basic Needs Must be Assured (Human Capabilities or Percent of Median Earnings)
 - Subsistence is More Than Just the Price of Grains (G. Stigler, *Journal of Farm Economics*, May 1945)
- Minimum Wage & Maximum Hours are Not Simply Good Ethics, They are Good Economics (Prasch and Sheth 1999; Prasch 2000; Prasch 2008, Ch. 5)
 - "He that taketh away the bread gotten by sweat, is like him that killeth his neighbor." (Ecclesiasticus, 34:27).
- An Employer of Last Resort (Other than the U.S. Army)?

A Concluding Thought:

- “In the recent past, social philosophy has become more and more cognizant of the distinctions between the exchange of commodities and the contract for services; and mildew will strike the political economy which denies the validity of the distinction.”

Carroll Wright, (*Some Ethical Phases of the Labor Question*, 1902, p. 65).