VIII. Conceptualizing Work — LERA International Section Meeting II

The Marginalization of Work in Economic Theory

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Introduction

In my training as an economist, I have been taught that the core of my subject is to understand how people's subjective state leads them to consummate a transaction. In the words of William Stanley Jevons, one of the founders of this type of analysis, "the theory presumes to investigate the condition of a mind" (Jevons 1871:86). According to this version of economic theory, the economy is a collection of individual firms and consumers, each of which has an initial endowment of capital or wealth, respectively, which they use to make voluntary exchanges. Transactions occur only when both seller and buyer think they will be better off by completing the exchange.

Accordingly, economists are supposed to ignore what Karl Marx appropriately called "the hidden abode of production" (Marx 1977:279). They might take note of workers entering the factory gates and the finished goods appearing on the shipping deck, but economists' view of what happens inside the factory is limited to the accountant's office, where profits and losses are calculated. There, only the shadow of work exists, in the form of a wage bill. Jevons insisted that this new theory properly excluded considerations of work, workers, or working conditions: "Value always depends upon degree of utility and labour has no connection with the matter, except through utility" (Jevons 1874:485).

Lionel Robbins (1969) published the most influential book ever written on the proper way to do economics—in his words, "to delimit the subject-matter of Economics" (p. 1). In that book, he expressed his contempt for those who might veer off the righteous path of transaction-based economics in the direction of work, workers, and working conditions: "We have all felt, with Professor Schumpeter, a sense of almost shame at the incredible banalities of much of the so-called theory of production—the tedious discussions of various forms of peasant proprietorship, factory, organization, industrial psychology, technical education" (p. 65).

This approach has been very fruitful in allowing economists to develop a very sophisticated theory, backed up by elaborate mathematical analysis, but it severely limits economists' understanding of the real economy. The current financial crisis demonstrates the danger of this particular approach to economics.

By ignoring the process of production, economists interpreted the combined financialization and deindustrialization as a sign of economic health, when they should have been warning about the continual Weakening of the economy.

Jevons's Misstep

Although no mainstream economist has ever directly challenged Robbins's position, those who have wandered off the reservation have been harshly rebuked. Ironically, well before Robbins, Jevons himself broached the subject of work, extending his analysis of mind to the subjective states of workers.

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Jevons may have been more willing to go beyond the traditional limits of economics because he was something of a polymath. Anticipating Taylor's research on scientific management, Jevons experimented with repeated movements in order to develop a scientific measure of the relationship between muscular fatigue and work. Jevons did not publish his results in an economic journal, but in the premier British science publication, *Nature* (Jevons 1870; see also Maas 2005).

Even worse from the standpoint of conventional economists, Jevons was theoretically willing to consider incorporating workers' direct utility or disutility from the job itself. He went so far as to acknowledge that work need not be unpleasant and that under certain circumstances work could actually be a source of gratification (Jevons 1871). For Jevons,

> [l]abour . . . is any painful exertion of mind or body undergone partly or wholly with a view to future good. It is true that labour may be both agreeable at the time and conducive to future good; but it is only agreeable in a limited amount, and most men are compelled by their wants to exert themselves longer and more severely than they would otherwise do. When a labourer is inclined to stop, he clearly feels something that is irksome, and our theory will only involve the point where the exertion has become so painful as to nearly balance all other considerations. Whatever there is that is wholesome or agreeable about labour before it reaches this point may be taken as a net profit of good to the labourer; but it does not enter into the problem (Jevons 1871:189).

Jevons's timing was unfortunate. He began this research on work shortly before the Paris Commune was about to intensify the ideological stakes of economic theory. Economists were to trying to craft an ideological justification of the status based on what they considered to be "scientific" economics, which backed up by sophisticated mathematics.

For that reason, this part of Jevons's research might seem unexpected. After all, Jevons, more than anybody else in the English-speaking world, was responsible for moving the focus of economic theory away from production in favor of consumption. Jevons himself was highly ideological—although I do not think that he saw himself that way. Even so, he was also very interested in practical matters of science and efficiency.

Downplaying labor, while emphasizing transactions, seemed to be an urgent priority for the defenders of the new economic theory. These economists realized that taking account of the labor process would fatally complicate the simple analysis that they were proposing. Besides, their ideology insisted that any efforts at improving economic performance, except through commercial transactions, would be sure to make matters worse. In this climate, considerations of working conditions would seriously muddy the theoretical elegance, while threatening to weaken the ideological force of economics.

In particular, economists treated employment as a more or less voluntarily transaction, but, once an employee is on the job, voluntarism disappears. Instead, work proceeds according to the commands of the employer. Overbearing supervision might turn work that could otherwise be enjoyable into an ordeal. As a result, the social relations between labor and capital will affect how disagreeable work may be. In effect, Jevons's idea suggests that economists should take into account workplace utility, which is not the result of an arms-length transaction, such as the purchase of an object at a store.

Even worse, once economists take the step that Jevons suggested, they would have no way to "scientifically" measure their subject. Economists might be able to finesse the measurement of consumers' utility by presuming that they maximize their utility. Theoretically, prices offer a metric by which consumers might make their decisions, but workplace utility would create a challenge comparable to measuring the utility of a marriage.

Taking matters even further, close attention to working conditions threatens to create sensitivity to the lives of the most downtrodden members of the working class, including the often difficult and stultifying conditions on the job. Economists understand that because working conditions are difficult to quantify, addressing that subject could make economics appear more subjective and consequently seem less scientific.

One other factor may have made Jevons's work objectionable. The German tradition of the science of work influenced Jevons's analysis of labor (see White 2004). Hermann Ludwig Ferdinand von Helmholtz, the great German scientist, was the major figure in this German effort to study the energetics of work.

Helmholtz's concept of labor power also provided a key for the development of Karl Marx's economic theory (Rabinbach 1990).

Not surprisingly, mainstream economists were not particularly appreciative of this part of Jevons's approach, which harkened back to his earlier mention to a possible role for the utility of the labor process. In an 1892 letter, Alfred Marshall wrote, "I think Jevons did great harm by talking of . . . measuring disutility." Marshall mocked Jevons by suggesting that considerations of the utility of labor might be appropriate only in the case of a child snacking berries in the wild, echoing Jevons's earlier association between utility and labor. The youth could continue as long as the benefit would be worth the effort, but for a more modern product, such as "aneroid barometers," Jevons's method would not make any sense.

A group of orthodox economists from Austria launched a more influential attack, denouncing Jevons while dogmatically defending the ideological purity of their existing utility-based economics, which intentionally excluded working conditions. Economists were only supposed to think in terms of consumers' introspection, not workers' production. The demand that considerations of the workplace were unacceptable soon virtually won over the entire community of economists (Spencer 2009).

In short, Jevons's "sin" was not that his analysis was imperfect, which it was. Instead, his offense was that he opened a window on the imperfection of the emerging economic consensus about economic theory.

Minimum Analysis of Minimum Wages

In 1944 Richard Lester published an article questioning whether labor markets actually operated in the manner that mainstream economics suggested. Lester had extensive experience in industry after having recently served as chair of the Southern Textile Commission of the National War Labor Board. Using government data as well as surveys of industry leaders, Lester (1944) found evidence at odds with the assumptions of mainstream economic theory. For example, his results suggested that an increase in the minimum wage would do little or nothing to increase unemployment, a conclusion that infuriated major defenders of the faith.

George Stigler, a leader of the deeply conservative Chicago school of economics and a Nobel laureate, led the attack (see Prasch 2007). Thomas Sowell, an admiring student of Stigler and an important figure in the conservative movement, once likened Stigler's style of debate to a "Demolition Derby" (Sowell 1993:787). This debate provided confirmation of that characterization. As usual, Stigler "made unequivocal claims that lacked any strong empirical evidence, as if such statements were so intuitively obvious as to brook no argument" (Freedman 1995:194).

Symbolic of his combative nature, Stigler captioned a picture of John Stuart Mill, describing him as "perhaps the fairest economist who ever lived: He treated other people's theories at least as respectfully as his own, a mistake no other economist has repeated" (Stigler 1976:99). Stigler and his allies used enough invective to satisfy their colleagues that Lester must be wrong because his data was inconsistent with their theory.

That challenge to orthodoxy was effectively silenced, so much so that looking back at his performance almost three decades later Stigler could write with evident pride, "The idea that minimum wage laws were the expression . . . of the well-informed desires of particular regions and classes of workers was not seriously considered by economists" (Stigler 1975:x). The following year, he proudly boasted, "One evidence of professional integrity of the economist is the fact that it is not possible to enlist good economists to defend minimum wage laws" (Stigler 1976:60).

Yet, in the 1990s Alan Krueger of Princeton (currently Assistant Secretary of the Treasury for Economic Policy) and David Card of the University of California, Berkeley resumed work on the minimum wage, stirring up the hornet's nest (Card and Krueger 1994). As might be expected, they too met with fierce criticism from fellow economists, some sponsored by the fast food industry. Card and Krueger were both distinguished economists. In fact, Card had won the prestigious John Bates Clark award from the American Economic Association, given to the outstanding economist under the age of 40. Moreover, their work stood up well under harsh scrutiny, but that was not enough to satisfy mainstream economists.

For example, two Nobel laureates commented on their work in the editorial page of the *Wall Street Journal*. The milder of the two, Merton Miller (1996), responded that "it sure plays well in the opinion polls. I tremble for my profession." The second, James Buchanan (1996), consoled his readers, "Fortunately, only a handful of economists are willing to throw over the teaching of two centuries; we have not yet become a bevy of camp-following whores." By inference, Card and Krueger did fall into that category.

In the face of such hostility, Card eventually dropped this line of research because of the personal costs of challenging the discipline. He explained:

> I've subsequently stayed away from the minimum wage literature for a number of reasons. First, it cost me a lot of friends. People that I had known for many years, for instance, some of the ones I met at my first job at the University of Chicago, became very angry or disappointed. They thought that in publishing our work we were being traitors to the cause of economics as a whole (Clement 2006).

Nobody need be surprised that Card went on to say that he "thought it was a good idea to move on and let others pursue the work in this area," but any career-minded economists would be well advised not do so (Clement 2006).

It was not because of errors in their work that Krueger and Card failed to convince their fellow economists. Most economists either ignored their results or, worse yet, rejected them out of hand because they conflicted with cherished beliefs. Stigler's colleague Milton Friedman once wrote, "Nothing is harder than for men to face facts that threaten to undermine strongly held beliefs, to change views arrived at over a long period. And there are no such things as unambiguous facts" (Friedman 1968:14, cited in Diesing 1985:61).

For example, another Chicago economist, Sherwin Rosen, was quite open about his refusal to take Card and Krueger's study seriously. In an October 1997 interview with Craig Freedman, an economist working out of Australia, Rosen admitted that

> if someone comes up and tells me now that everything I know is wrong I tend to be defensive. I naturally believe that the claim is probably erroneous. [laughs] Given your lifetime investment. . . . That's right, given my investment, given what I've read over the years. When somebody tells me now that an increase in the minimum wage increases employment, there's just been a study out on that [presumably, the Card and Krueger study], I'm very skeptical of that claim. I don't believe it!. (Freedman 2008)

In fact, the Chicago style of economics is famous for rejecting empirical evidence out of hand. Deirdre McCloskey (1985), a former Chicago faculty member, recounted how people who used data that called the theory into question would "be met by choruses of 'I can't believe it' or 'It doesn't make sense.' Milton Friedman's own Money Workshop at Chicago in the late 1960s and the early 1970s was a case in point" (p. 140). Melvin Reder, another Chicago faculty member, offered further insight in the way that Chicago refuses to give ground in the face of evidence that calls the micro-foundations into question:

> Chicago economists tend strongly to appraise their own research and that of others by a standard that requires [*inter alia*] that the findings of empirical research be consistent with the implications of standard price theory. . . . The major objective is to convert non economists to their way of thinking. . . . However imaginative, answers that violate any maintained hypothesis of the paradigm, are penalized as evincing failure to absorb training (Reder 1982:13, 18, 19).

Charles Kindleberger, a distinguished economist from MIT, observed that in Chicago, "Modifying the theory was the last resort, evaded as long as possible" (Kindleberger 2000:235 n).

Economists frequently regard such stubborn resistance to be good science. Predictably, the troubling questions that Krueger and Card raised had no effect. Economists' beloved micro-foundations and their faith in market efficiency remained invulnerable. No wonder that economists today rarely bother to publish research that might cast doubt on the core of economic theory. In this environment, economists can continue to use their transaction-based theory without the inconvenience of dealing with work, workers, or working conditions; however, by removing these critical aspects of life from their theory, economists blind themselves—and those who defer to their advice—to the kind of inefficiencies that this book shows.

A Twisted Reflection of Working Conditions

Richard Thaler of the University of Chicago is perhaps the world's best-known behavioral economist. Here is how he has explained his own work:

> I am not your usual sort of economist. I practice what has come to be called behavioral economics. We behavioralists differ from our more traditional brethren in the way we characterize agents in the economy. Traditional economics is based on imaginary creatures sometimes referred to as "Homo economicus." . . . Real people have trouble balancing their checkbooks, much less calculating how much they need to save for retirement; they sometimes binge on food, drink or high-definition televisions. . . . Behavioral economics is the study of Humans in markets (Thaler 2009).

Thaler did not begin as a behavioralist. Instead, he was a promising doctoral student at the University of Chicago. In 1974, he published a Ph.D. dissertation at the University of Chicago that found a correlation between wage rates and the probability of dying on the job and then published his results in an article with his advisor, Sherwin Rosen. Based on this correlation, and assuming that higher wages were a reward for accepting the risk of death, Thaler proposed that one could assume that workers were communicating through their transactions on the job market how much they thought their lives were worth. Thaler estimated that workers were demanding $200 a year (in 1967 dollars) for each 1-in-1,000 chance of dying.

This method is seriously biased downward because poor people, especially immigrants, with few alternatives are more likely to accept low-wage, dangerous jobs. For example, a government report on workplace deaths concluded that "during 1992–2006, . . . the death rate for Hispanic workers was consistently higher than the rate for all U.S. workers, and the proportion of deaths among foreign-born Hispanic workers increased over time" (Centers for Disease Control and Prevention 2008).

A different kind of study would arrive at a very different result. If, for example, economists had the capacity to plumb the minds of students who were about to graduate with MBAs from elite universities, they could investigate how much more the students would expect from hypothetical investment banking jobs with an annual 1 percent chance of workplace fatality. If such a study were somehow possible, the value of a "statistical life" would certainly be higher than estimates for a pool of potential applicants for jobs as farmworkers.

Thaler quickly realized the weakness of his results. His friends told him that they would never accept anything less than $1 million in return for increasing their chances of dying by 0.1 percent. Paradoxically, the same friends would not be willing to sacrifice any income to reduce the probability of dying on the job (Lowenstein 2001). This apparent inconsistency soon left Thaler disenchanted with his work, but his recognition that economics' central assumption of rationality was flawed moved him in the direction of behavioral economics.

Although Thaler lost confidence in his work, he was almost alone in this respect. Instead, his work resonated with the objectives of opponents of regulation, including business interests and their armies of lobbyists, who along with a number of conservative think tanks and some conservative economists tirelessly work to weaken regulations. One of the major strategies of the antiregulators is to argue that the benefits of regulations are less than their costs.

To make that point in the case of regulations to protect human lives, antiregulators want to find ways to diminish the importance of any deaths that regulations might prevent. To meet this need, economists constructed an influential literature to measure the value of a "statistical life."

Most people resist putting a monetary value on human life, but Thaler's idea of a "statistical life" had a twofold benefit: it gave a human life a lowball value, while putting scientific gloss on the antiregulators' arguments. Once the idea of assigning a monetary value is accepted, anti-egulators could work to create even lower estimates, further minimizing the consequences of workplace fatalities, as well as deaths from consumer products.

Government agencies embraced this technique (Borenstein 2008). This practice is only one part of a three-pronged strategy, which also includes overestimating the costs of regulation; then the antiregulators finally cap their case, with a flourish, suggesting that money spent on regulation would do far more good in other areas, such as vaccinating children. For example, in pushing this third prong of antiregulatory rhetoric, John D. Graham, a fervent opponent of regulation who became President George W. Bush's head of the Office of Management and Budget's Office of Information and Regulatory Affairs, even went so far as to claim that spending money on regulations instead of vaccinating children is tantamount to "statistical murder" (Graham 1995). Ironically, I know of no case when the antiregulators have come out in support of any program to actually vaccinate children, perhaps preferring to be able to recycle vaccination as a straw man to wield against all regulation.

The example of a statistical life illustrates the opportunistic ways that unscrupulous economists mostly avoid looking into questions regarding work, workers, and working conditions, except where they can cherry-pick some useful results.

Thaler's career is interesting in this regard. Much like David Card, Thaler paid a personal cost for straying from the mainstream fold. His thesis advisor, the same Sherwin Rosen who refused to take Krueger's work seriously, loved the dissertation but expressed deep disappointment that Thaler's later work in behavioral economics wasted his career on trivialities. Another University of Chicago professor, the same Nobel laureate who was so critical of the work of Card and Krueger, Merton Miller, even refused to talk with Thaler.

Ironically, Thaler's behavioralism is now coming into favor in Democratic circles. With co-author Cass Sunstein, Thaler has promoted the idea of "libertarian paternalism" instead of outright regulation (Thaler and Sunstein 2003). For example, the two suggest that business could "nudge" people to increase their rate of personal savings by requiring workers to opt out of 401(k)'s instead of opting in (Thaler and Sunstein 2008). Such suggestions of noncoercive actions are politically attractive because they seem to be doing something positive without inconveniencing business. At the same time, nudging tends to emphasize personal rather than social behavior. The irony was redoubled when President Obama nominated Cass Sunstein to take the job that John Graham had held.

Thaler's experience is doubly relevant to this publication because it suggests that even in those rare cases when well-meaning economists do trespass into questions of work, workers, or working conditions—territory usually proscribed by the discipline—their work is unlikely to be helpful with respect to workers' interests. If such work will help the workers' cause, it will be rejected; however, if it can be wielded to harm labor, economists are likely to embrace it as they did Thaler's dissertation.

In this case, economists used Thaler's work by reducing the benefits of saving a worker's life to undermine efforts to improve workplace safety. If Thaler had come up with numbers that had supported greater workplace protections, he probably would have experienced ostracism earlier in his career.

Conclusion: A Plea to LERA

The Labor and Employment Relations Association might help to rescue economics from itself. By shedding more light on the hidden abode of production, you may be able to help loosen the grip of the dead hand of abstract economic theory.

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