



Extracting a revised labor supply theory from Becker's model of the household

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ABSTRACT

Conflicting assumptions about labor supply behavior lie at the nexus of ideological and theoretical debates regarding the reality of involuntary unemployment, the efficacy of Keynesian macro-policy, and the appropriate nature of welfare policy. This can in part be attributed to the fact that orthodox theory is effectively predicated upon describing the behavior of individuals whose level of affluence enables them to voluntarily withhold their labor from the market. Ironically, a means of resolution appears if we extend Gary Becker's utility producing model of the household to recognize two latent behavioral concerns: (1) the 'need' of households for money income in order to produce utility, and (2) the presence of work activity in the home. The resulting generalized labor supply model extends Becker's analysis to explicitly encompass both the behavior of the affluent, and the behavior of the poor who need to work in order to sustain their existence.

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They breathe profits; they eat the interest on money. If they don't get it, they die the way you die without air, without side-meat. Its a sad thing, but it is so. It is just so". *The Grapes of Wrath*, (Steinbeck [1939] 1986, p. 41).

With this metaphor, the narrator in Steinbeck's epic story of the Great Depression sardonically prods the reader to look beyond the obvious crises of meeting human physiological needs to evoke empathy for the revenue needs of businesses. In contrast, orthodox Neo-Classical economics explicitly delineates the revenue needs of businesses yet seems intentionally void of any conceptualization of household 'needs'. Paradoxically, Becker (1965) effectively inverts Steinbeck by employing the metaphor of the goods producing firm to treat the household as producing utility (Ellerman, 1991, pp. 546, 559). Following the internal logic of Becker's analysis then reveals two latent characteristics of household labor market behavior that drastically alter conventional labor supply theory. The first flows directly from his model, i.e. that households immersed in a market economy need money income in order to produce utility. This leads to the revealed existence of a household 'needs' threshold that parallels the revenue needs of the firm. The second key observation is that 'work' is performed in the household. Explicitly incorporating these two premises into Becker's model of household then produces a more generalized

labor supply theory which explicitly encompasses the behavior of both those living in extreme poverty and as well as those living in a state of affluence. Among a number of useful insights that will be discussed in this paper, one of the most significant is that it provides an intuitive explanations for what is also one of the most ideologically and methodologically divisive conundrums in economics—the existence of involuntary unemployment (Brenner, 1979; Ashenfelter, 1980; Darity and Horn, 1983; Carmichael, 1985; Shapiro and Stiglitz, 1985, p. 1215; DeVroey, 2004, pp. 3, 13–17, 26, 271).

At the foundational level, the disutility of work appears inferentially in the standard literature as the opportunity cost due to the utility associated with household activity/leisure. Absent the explicit recognition of need based behavior for individuals living below the poverty level, it yields both individual and aggregate labor supply curves whose lowest terminus, as defined by the household's reservation wage, is somewhere on the vertical wage rate axis. The theoretical implication of this seemingly incidental conclusion is that 'normal', well-behaved labor markets cannot yield involuntary unemployment. While defenders of orthodoxy concede the presence of numerous 'real world' impediments to the market adjustment process, they nevertheless express faith in the inexorable power of market equilibrium pressures by retaining the labor market equilibrium condition in their models. In contrast, by exploiting Becker's model it can be shown that there exists the possibility for labor to be involuntarily unemployed in the strict formal sense that at the market equilibrium wage rate there are individuals at the bottom end of the labor market who may be willing to

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work at or below the market wage rate who cannot find employment (DeVroey, 2004, pp. 35, 36, 39, 61). The 'need' for money income and presence of work in the household, though perhaps seemingly innocuous assumptions, unavoidably lead down a pathway filled with numerous ideological and methodological pitfalls that have divided eminent scholars doing research in labor economics and related areas. The analysis can perhaps be expedited by first examining some of the most salient of these points of conflict.

1. The ideological and methodological dimensions

In reviewing past debates and discussions one discovers an extensive list of major contributors to the field of economics, both orthodox and heterodox, who have raised similar questions about labor market behavior. Reaching back, for example, to the roots of today's orthodoxy, Smith ([1776] 1979, pp. 75, 79, 83–86, 103) observed that in a developed and stable economy, efficient labor markets would constrain the range of fluctuations so that wages would be prevented from falling so low that workers would be unable to sustain themselves, and from rising so far as to make it impossible for firms to cover their costs. In a less orthodox tone, he further noted that workers' dependency on money income diminished their effective bargaining power *vis à vis* employers (Johnson, 1990; DeVroey, 2004, pp. 36–38). In a similar vein, Clark (1923, pp. 361–370, 377–383) argued in his controversial work, *Studies in the Economics of Overhead Costs*, that recognition of the basic needs of households implied that concern for social efficiency should entail policies fostering institutional arrangements that conceptualize labor as an overhead cost rather than a variable cost. Among modern critics that raise similar issues, Lewin (1996), Kaufman (1999), and Lutz (1980) are particularly helpful.

Exemplifying, in contrast, an orthodox response to the issue of unemployment, Rogerson (1997) observes a generic problem of rhetorical ambiguity in these criticisms, and then offers three criteria for assessing a legitimate model: (a) an explicit description of the economic environment, including economic agents, preferences, technology, etc.; (b) an equilibrium definition; (c) individual optimization, consistent with constrained maximization problems. Not surprisingly, 'involuntary' unemployment does not pass his orthodox litmus test (Rogerson, 1997, pp. 77, 83, 84; DeVroey, 2004, pp. 13, 168–175). Although Rogerson clearly delineates a fundamental methodological divide, some of the differences between the prevailing orthodoxy and its critics emanate from conflicting presuppositions about the fundamental nature of work itself.

The implicit disutility caricature of work is a salient point of controversy, largely because this assumption appears to be in direct opposition to the perspective of much of the substantive research in the behavioral disciplines such as sociology, psychology and management; disciplines which tend to view work as providing individuals with a sense of identity, self-worth, and income. Gill (1999, p. 725), for example, begins her article on the nature of work by noting that, "Economics stands alone in describing the positive aspects of paid work simply as the opportunity to make money. Economics is also unique in emphasizing just one negative, the loss of leisure." Outside of mainstream economics, a significant portion of both the professional and popular literature dealing with these concerns focuses upon effective means of transforming the work environment to make it more satisfying, and also potentially more productive (Rice et al., 1980; Pollard, 1996; Bakke, 2003; May et al., 2004). A similar level of ideological disagreement then arises in terms of the concept of 'need'.

Orthodox economists conflate the assumptions of the subjective nature of individual preferences with the assumption of non-satiety, leading them to conclude that objective analysis is fundamentally inconsistent with the concept of 'needs', and to view the

idea itself as being normative and vacuous (O'Connor, 1961; Cooter and Rappoport, 1984, pp. 508, 514, 527, 528; Pencavel, 1986, pp. 4–7). From a behavioralist perspective, however, Kaufman suggests the term has significant analytical power, noting that, "[n]eeds, by their nature, are fewer in number, of greater intensity, and motivationally antecedent to wants." (Kaufman, 1999, p. 374; Lavoie, 1992, pp. 65–71) Given the well ensconced nature of orthodox methodology, any progressive research in this area would then seem to require a critical examination of the *a priori* assumptions and methodology of the prevailing orthodoxy (Prasch(b), 2007).

2. Deconstructing the standard household optimization model

In the orthodox approach, the foundational level argument concerning labor markets is framed as a trade-off between income (I) and 'leisure', where 'leisure' serves as a synonym for time spent on all in-home activity (T_H). Time spent performing work in the market (T_M) only implicitly appears in the argument as a reduction in T_H that would then reduce household utility (i.e. create disutility) if it were not compensated by additional monetary income (Prasch(a), 2000). Pencavel (1986, pp. 26–31) suggests that Becker's major contribution was to view the household as producing utility through its internal allocation of T_H and market acquired goods. As an aside, Becker offers the prescient conjecture that the contemporaneous appearance of income/utility analysis with the rise in the standard of living above the subsistence level was more than mere coincidence (p. 498, n. 1). It may be equally non-coincidental that Jevons ([1871] 1965), for example, introduces the concept of work as disutility as an analytical construct at a time when the industrial revolution was creating what both market defenders and critics sometimes caricatured as dehumanizing, servile and monotonous work conditions. This becomes an explicit issue only when discussing choice of types of labor, but otherwise serves as shadowy backdrop for framing the conventional labor-leisure choice as it is further explicated by Becker (DeVroey, 2004, p. 61).

By making explicit the time dimension of consumption activity, Becker reveals the added problem households face of the choice between different types of in-home utility producing activities: e.g., time spent watching TV, maintaining one's boat, caring for children, or working on house repairs. Work in the home, however, is functionally indistinguishable from consumption activity as both activities involve combining time and goods to produce utility. Becker retains the 'consumption-leisure' rhetoric to describe household activity, and rejects the significance of the household leisure-work distinction as being necessary to achieve his purpose of analyzing the role of the prices of goods and income in affecting the allocation of household time to market activities (Becker, 1965, p. 504; D'Epinay, 1992; Silver, 1993; Wharton, 2000, pp. 169–170; Haworth and Lewis, 2005). The crucial dichotomy for Becker is between T_H and T_M , and he uses the presence of consumption activities as the line of demarcation, rather than any disutility due to the nature of 'work' itself.

Becker argues that, at a pragmatic level, consumption activities (i.e. production of utility) cannot generally take place simultaneous with time spent working in the market (pp. 495, 504). By excluding consumption activity from work in the market time period, he effectively minimizes the significance of such things as company provided cars, planes, business lunches and corporate junkets: Not infrequently, such 'perks' are justified by the assertion that that they function like capital goods to enhance effective work effort or productivity rather than acting as employee benefits/consumption. For market critics, however, this justification merely obfuscates questions of the equity and efficiency of such arrangements since it is affluent, upper echelon employees who typically have access

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