

**“Economics for Everyone:
How to Cut Through the Jargon**

Later Life Learning, Innis College
Instructor: Dr. Jim Stanford
Fall 2021



1

Session 3

**Work, Workers
and Bosses**

**Readings:
Chapters 5-10**

*Illustrations © by
Tony Biddle*



2

Key Topics Covered

- Work and production
- Work and employment
- Working with tools
- Defining capital
- The ownership of companies
- The logic of profit
- Labour as a commodity
- How labour is different from other commodities
- Labour extraction under capitalism
- Employment and conflict
- Unions and collective bargaining

3

Key Terms Introduced

- work
- production
- value
- value-added
- employment
- paid work
- unpaid work
- labour theory of value
- productivity
- subsistence
- surplus
- tools
- capital
- physical capital
- fixed capital
- technique of production
- technology
- skills

4

Work and Employment

- **Employment is just one form of work.**
 - Work performed for someone else, under their direction, in return for payment.
- **A defining feature of capitalism:**
 - Employment (or “wage labour”) constitutes most of the work performed in the formal economy.
- **Most people are wage labourers:**
 - They must find and keep employment in order to support themselves.

5

Forms of Work Under Capitalism

- **Employment is not the only kind of work under capitalism.**
 - Though it is the most important.
- **Other forms of work co-exist:**
 - Managerial work of company owners / exec's.
 - Work of self-employed small business owners and farmers.
 - Unpaid (“reproductive”) work performed in our families & communities.
- **The vast majority of work in capitalism is paid wage labour, or unpaid reproductive work (needed to get ready for wage labour).**

6

The Economy is Work



- Our capacity to work (brains & brawn) is the only force transforming what we harvest from nature (hopefully sustainably!) into useful goods & services.

7

Remember: WORK is the Engine of the Economy

- Where does "value-added" truly come from?
- All production starts with the gifts of nature.
- All value-added is then created by work:
 - Physical labour (brawn) or mental labour (brains).
 - Direct labour (production) or indirect labour (production of tools).
 - Wage labour or salaried ("professional") labour.
 - Private sector labour or public sector labour.
- Work involves transforming what we find in nature to make it more useful.

8

Meet The Modern Capitalist



- Less than 2% of advanced capitalist population owns enough wealth to not have to work
 - Many do work anyway, but they are not compelled to work for survival
- This small group owns a controlling interest in the private business sector
- Large overlap between this group and top executives of large and medium companies
- "Major owners and top managers" = the modern capitalist class

9

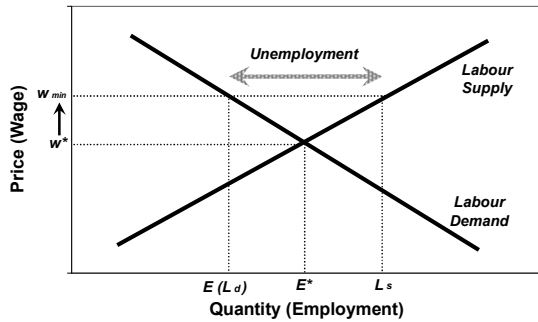
Work and Production



- Conventional economics treats production like a "black box"
 - In goes labour & capital
 - Out comes output
- In reality it's a complicated, conflictual process
- The features of the employment relationship determine many aspects of how capitalism works

10

Standard Neo-Classical Analysis of Labour Market Regulations



11

Key Points of Departure

- Emphasis on the labour process.
- Income distribution reflects power and social relationships, not supply and demand.
 - Hence wage not determined by market-clearing.
- Investment decisions reflect independent agency of business owners.
- Fundamental uncertainty about the future shapes behaviour in unpredictable ways.

12

Problems with the Neoclassical Model

- The labour market does NOT clear!
 - Except in rare, artificial circumstances (WWII)
 - This is true even without minimum wages, unions, etc.
- Price signal doesn't clear the market
 - No predictable relationship between wages and employment
 - Employment determined by aggregate demand, not wages
- Employers (and the governments they influence) WANT unemployment
 - Disciplining effect on wages & work effort
- Income distribution reflects a socially & institutionally mediated struggle
 - Bargaining power is the key determinant
 - "Excess supply" is just one factor (and for different reasons)

13

Why Labour is "Different"

- Wage labour is a commodity (like anything else that's bought & sold for money)
- But it's a unique commodity:
 - Labour is alive. Workers can think (and resist).
 - Labour is not produced in the economy. It is reproduced in our families.
 - Labour is "produced" by "consumers." But the "consumption" of labour (employment) depends on production!
 - The labour market never "clears." And there are many different labour markets.
 - What the purchaser **buys** (labour time) is different from what they **want** (labour effort).

Trying to get maximum effort for minimum cost is the capitalists' "LABOUR EXTRACTION PROBLEM"

14

Workers & Employers

- Employers aim to minimize **unit labour cost** of output (ULC)
- Productivity is as important as wages

$$ULC = \frac{\text{Compensation}}{\text{Productivity}}$$

Bosses want more effort for less money ...
Creating an inherent source of CONFLICT

15



16

Labour Extraction Strategies

- "Carrots and sticks"
 - Positive incentives
 - Negative punishments
- Goal: Get maximum labour effort out of purchased labour time ("intensity")

$Productivity = Intensity * True\ Efficiency$

$ULC = \frac{Compensation}{Intensity * True\ Efficiency}$

Employers want less compensation and more intensity; workers want the opposite.

17



Employers manage workers like a farmer manages a donkey: with "carrots and sticks"!

18

Ways to Reduce Cost of Labour

- Cut wages & salaries.
- Cut pensions & benefits.
- Increase hours of work for "core" workers who get benefits
 - Reduces hourly cost of benefits
- Shift more work to "non-core" workers who don't get benefits
- Use precarious jobs & "gigs" to minimise costs when work is not needed.
- Outsource/offshore work to cheaper suppliers/countries.

19

Ways to Increase Intensity

- Speed up pace of work (e.g. faster assembly line)
- Tie pay to pace of work (piece work)
- More supervision & monitoring
- Reduce breaks (lunch, rest)
- Reduce paid time off
- Require unpaid overtime
- "Lean production"
- Increase **cost of job loss**

20

Ways to Increase "True Efficiency"

- Labour-saving capital equipment
- Ergonomic improvements
- Produce higher-value and more innovative products

...These are the sources of true long-run economic progress, but employers don't always want to.
 ...And these are ways of improving productivity that could be beneficial for workers.

21

The Asymmetry of the Employment Relationship

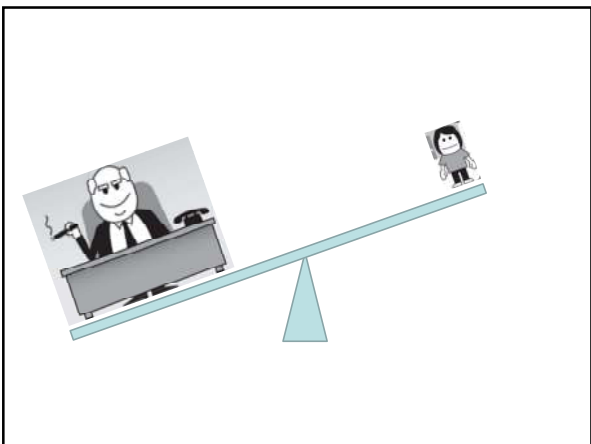
- Workers and bosses need each other, but in different ways
- Individual workers: they face economic compulsion (work or starve)
- Employers do not need any **particular** worker (unless they have a totally unique skill of some kind)
- But employers **DO** need workers in aggregate (otherwise there is no production, and hence no profit)

22

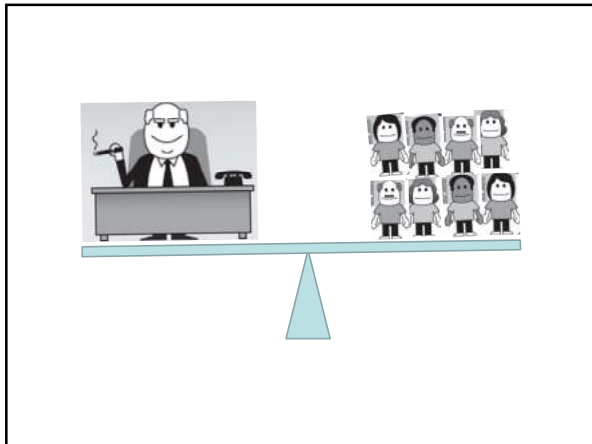
Fixing the Asymmetry

- Workers can speak with one voice:
... COLLECTIVE BARGAINING
- Workers need an ability to impose a cost of disagreement on the employer.
- Workers learned this early in the history of capitalism.
 - Initial efforts to form unions were banned as a "barrier to competition"
- No society has attained mass prosperity without unions & collective bargaining.

23



24



25

Goals of Collective Bargaining

- Increase wages
- Improve other forms of compensation
 - Benefits
 - Superannuation
- Reduce hours of work
- Health and safety / working conditions
- Job security / outsourcing / work ownership
- Union representation
- Equality / non-harassment / equity
- Technological change

26

Determinants of Union Power

- Industrial relations laws
- Worker attitudes (**solidarity**)
- Cost of job loss
- Productivity
- Competition

27

Determinants of Wages

- Determined by the balance of bargaining power
 - Economic, political, social
- Labour market conditions
 - Unemployment
- Unionization
- Labour standards
 - Minimum wages –Social benefits
- Worker attitudes
 - What's "normal" or "legitimate" (living wage)
 - What workers need (consumerism)

28

Recent Canadian Experience

- Bargaining power of workers has eroded
 - Globalization / corporate mobility
 - Monetary policy
 - Weaker labour law, labour standards
 - Culture: resignation to exploitation?
- Consequences
 - Falling labour share of GDP
 - Growing inequality within the labour share
 - Strong profit share
- These trends better explained by changing balance of power than by supply & demand.

29

30

Statistical Introduction to Canada's Labour Market

1. Working age population (2019: 30.7m)
2. Labour force (20.1m)
3. Employment (19.0m)
 - Full-time (15.4m)
 - Part-time (3.6m, 19%)
4. Unemployment (= 2 - 3) 5.7%
5. Unemployment rate (= 4 / 2) 5.7%
 - Youth 11%
6. Participation rate (= 2 / 1) 65.6%
 - Men 70.1%, Women 61.3%
7. Employment rate (= 3 / 1) 62.9%

31

Don't Believe It



Official unemployment:
7.5% in July

'Employed', but didn't work 1 hour

Lost work, not actively seeking

Lost most hours (FTE)

Realistic unemployment:
15% or more

32

Important Labour Market Trends

1. Women's participation harmonizing.
2. Demographic ageing.
3. Better skills than ever (and more needed than ever).
4. Shift to non-standard & precarious work.

33

Thank You!
Let's take 5 minutes...

34
