The Production Process in a Competitive Economy: Reply

By Samuel Bowles*

In my 1985 paper, I argue that the difficulty which employers face in controlling the pace and quality of labor input yields a competitive equilibrium pattern of technical choice, involuntary unemployment, and labor market discrimination which is inefficient in a well-defined sense, and that this inefficiency may be attributed at least in part to the capitalist nature of the institutions governing the economy. I further suggest that the extent of work resistance by workers and the difficulty of employers acquiring information about the workers' level of effort are endogenous in the sense that alternative economic institutions would generate different attitudes towards work and different patterns of information cost.

From Eskander Alvi's concluding remarks in his comment (1986), I gather that he agrees that workers' attitudes towards work are endogenous in the above sense. But Alvi also would like to claim that the costs of unemployment (and, by implication, discrimination and nonoptimal technical change) are not attributable to the class structure but rather "reflect the deadweight loss to society from the informational structure" (p. 1200). My point is precisely that the informational structure is not exogenous, but rather reflects in important measure the forms of work resistance, worker solidarity, and commitment to the job fostered by the structure of ownership and control of the labor process.

Quite apart from the endogeneity of work resistance, however, Alvi's claim that surveillance of the work process (what he calls supervision) "merely improves the allocation of resources" is demonstrably false. Starting from a position defined by the profit-maximizing firm's first-order conditions (my equation (10), p. 24), imagine that the wage is arbitrarily increased by one unit, raising the cost of job loss to the worker and inducing a higher level of work effort. The level of surveillance inputs could then be hypothetically reduced to a level which induces the prior level of work effort. In this new situation the level of output is unchanged and the amount of surveillance input is reduced, all other inputs being unchanged. Thus the profit-maximizing level of surveillance is inefficient; the allocation of resources would be improved by a departure from the firm's profit maximum in favor of a high-wage, low-surveillance labor strategy. The reason is that raising the wage (which is costly to the firm but not resource-using to society) economizes on surveillance inputs which have real opportunity costs.

The cost-minimizing wage is thus suboptimal; or, more pointedly, efficiency wages are inefficient.

Alvi's penultimate paragraph poses the issue of information costs in an especially insightful way—to claim that information costs are endogenous to capitalist institutions, he writes, "one must be able to characterize that social institution which eliminates or reduces ... the burden of incomplete information" (p. 1202) and to show that this institution is incompatible with the class structure of capitalism. Exactly. And to claim, as he appears to do, that these information costs are invariant across institutions or that capitalism minimizes these information costs, Alvi would have to give compelling reasons why such information-superior institutions are not feasible. But, he is not able to take up the challenge he has so neatly posed.

Both common sense and some fragmentary empirical evidence (referred to in my earlier paper) suggest that more egalitarian and participatory institutions—whatever their other characteristics—would be likely to reduce the degree of conflict over the pace of work, to reduce work resistance, to enhance the legitimacy and hence effectiveness of systems of control of labor effort and thus

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reduce information costs associated with the regulation of work.

But the empirical evidence is hardly conclusive—and perhaps my common sense is the next person's dubious reasoning. The way to find out would be to create an economic and political environment in which experimentation and innovation with new organizational forms flourished and in which we could thus learn more about how egalitarian and democratic economic institutions work. But, as long as credit is rationed according to both the asset position of the debtor and the organizational form of the institution seeking the loan (with a strong—and quite rational—preference of the owners and managers of financial institutions to loan to the wealthy and to capitalist organizational forms), the structure of credit markets is likely to act as a barrier to such innovation and learning.

REFERENCES
