

Firms and labor I

MPA 612: Public Management Economics

February 5, 2018

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UNITED STATES
GOVERNMENT CONTRACT
NOTICE TO EMPLOYEES

It is a violation of the Public Contracts Act and the Regulations issued thereunder to fail to post this Notice in a conspicuous place where all employees can read it.



This firm is engaged on a Government contract subject to the provisions of the Walsh-Healey Public Contracts Act* and has agreed to comply with the provisions of the act

An employee who works on this Government contract is subject to the act and

**MUST BE PAID TIME AND ONE-HALF
FOR ALL HOURS OVER**

8 IN ANY DAY OR
40 IN ANY WEEK

Even though the employee did not work all his time during the week on the contract

If a minimum wage is called for by this contract the minimum rate of pay must be paid

The Department of Labor is authorized to recover for employees any sums which are due to them for overtime and for payment of less than the applicable minimum wage. * * * No children (boys under 16 and girls under 18) or convict labor may be employed on this contract. Employment of such children and

of convict labor renders employers liable to the United States in liquidated damages in the sum of \$10 a day for each employee so employed * * * This contract must be performed in Factories, Buildings, or Shops which are safe, sanitary, and not dangerous to the health or safety of employees.

* Public, No. 846, 74th Congress.—An Act to provide conditions for the purchase of supplies and the making of contracts by the United States, and for other purposes. (49 Stat. 2036. U. S. Code, Title 41, secs. 35-45.)



Complaints and inquiries should be addressed to
L. METCALFE WALLING, Administrator
DIVISION OF PUBLIC CONTRACTS
WASHINGTON, D. C.

Current events

Plan for today

Welfare economics

Firms

Owners and managers

Employees

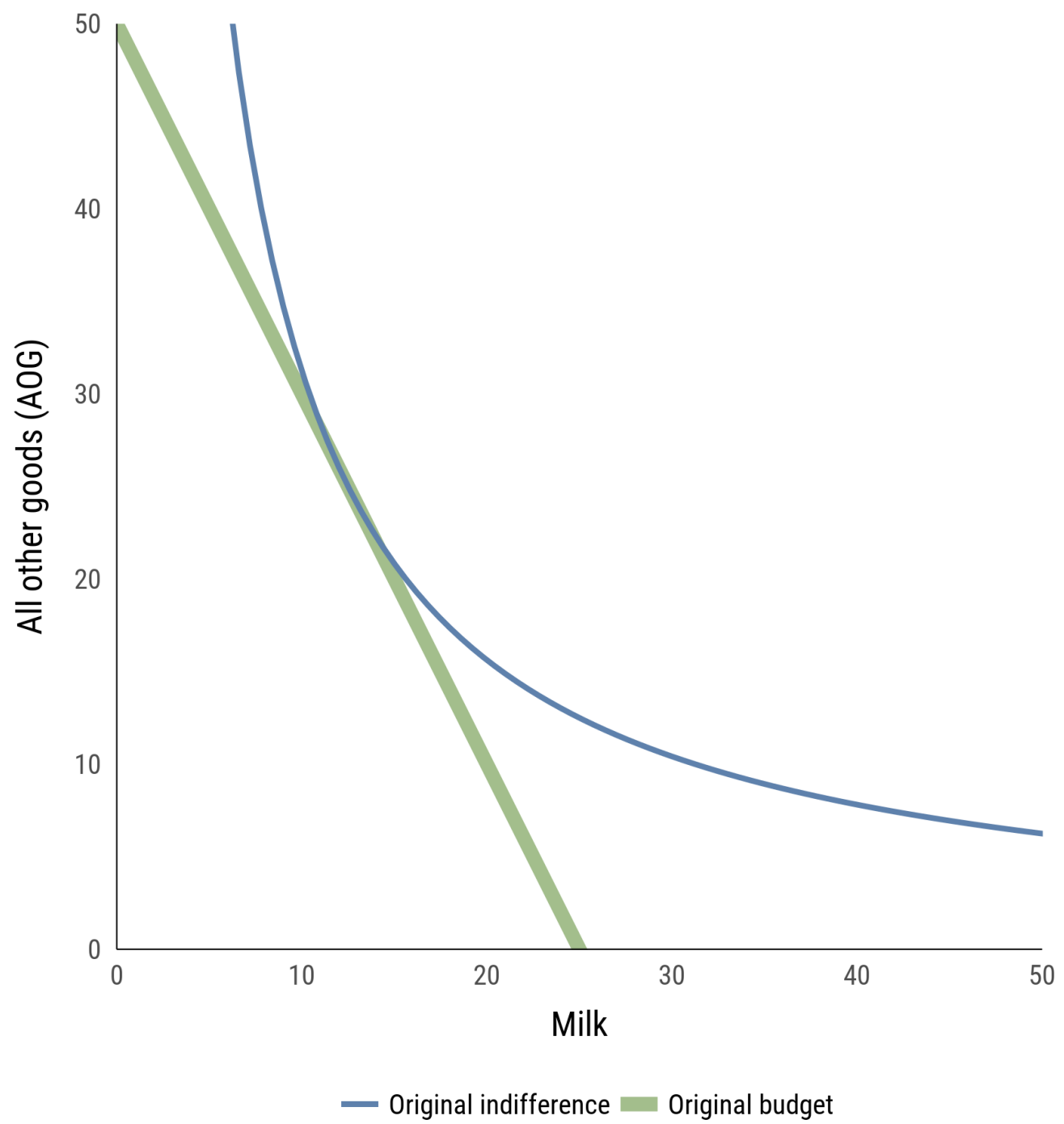
Welfare economics

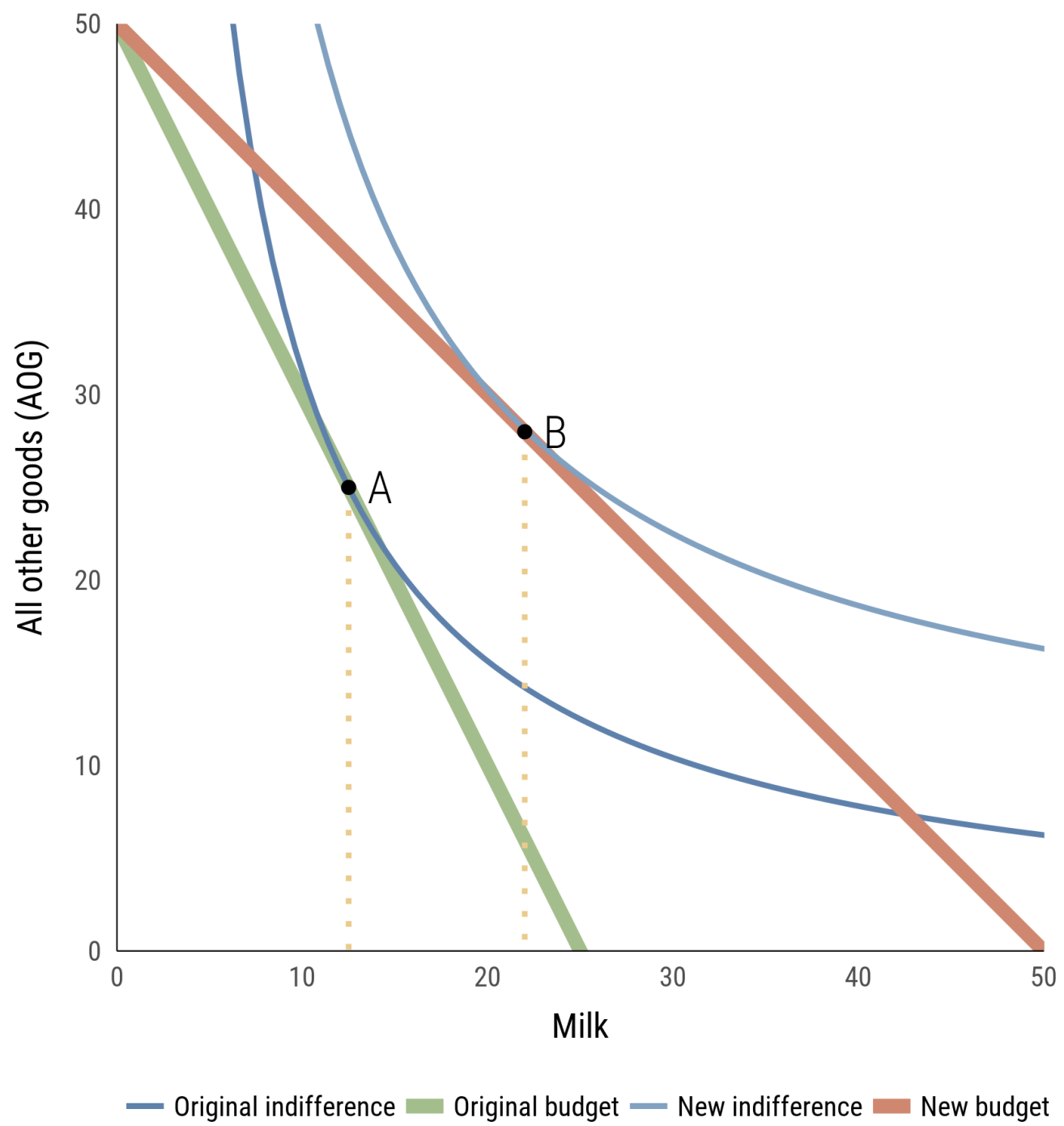
Money makes people happier than stuff.

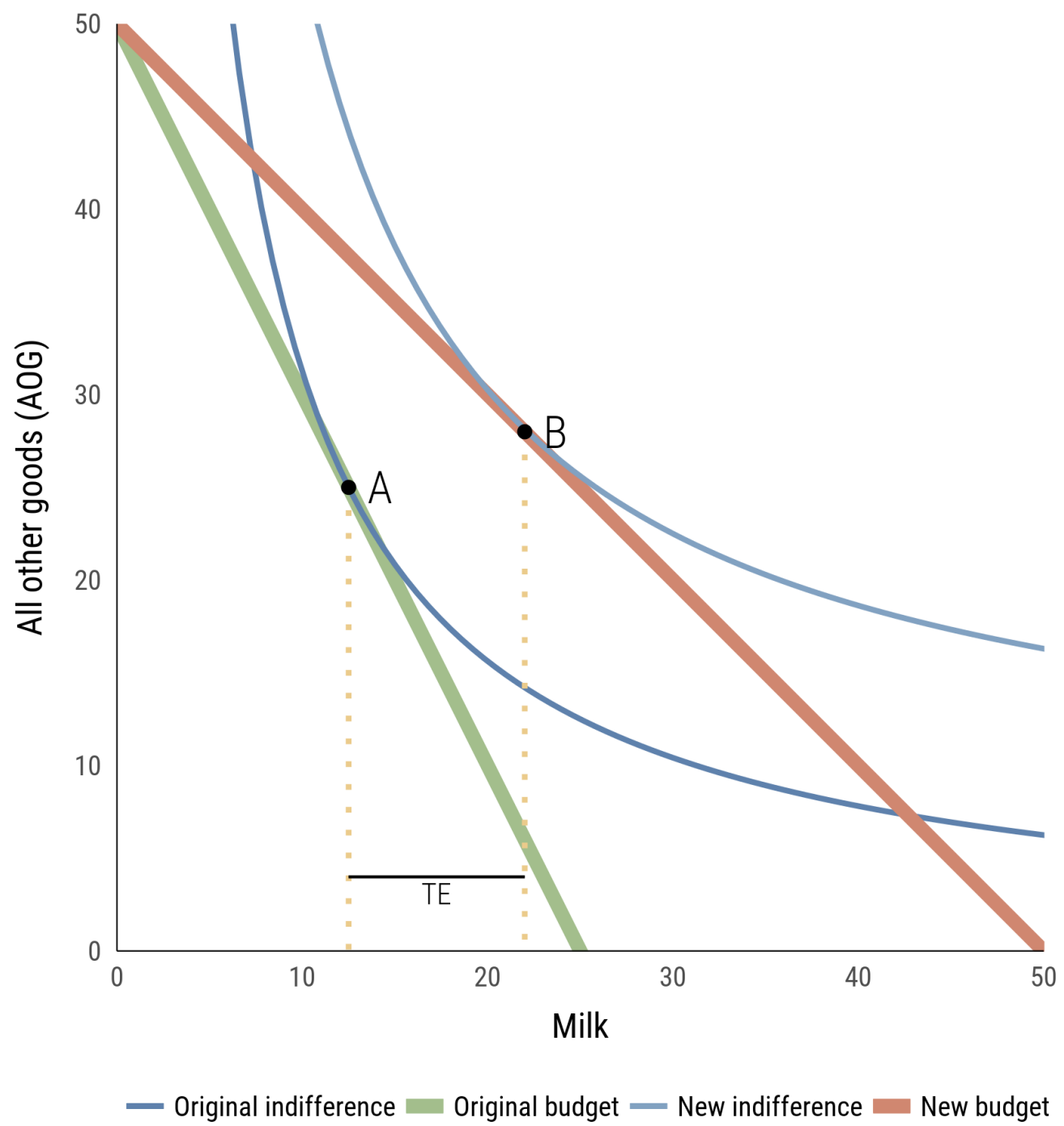


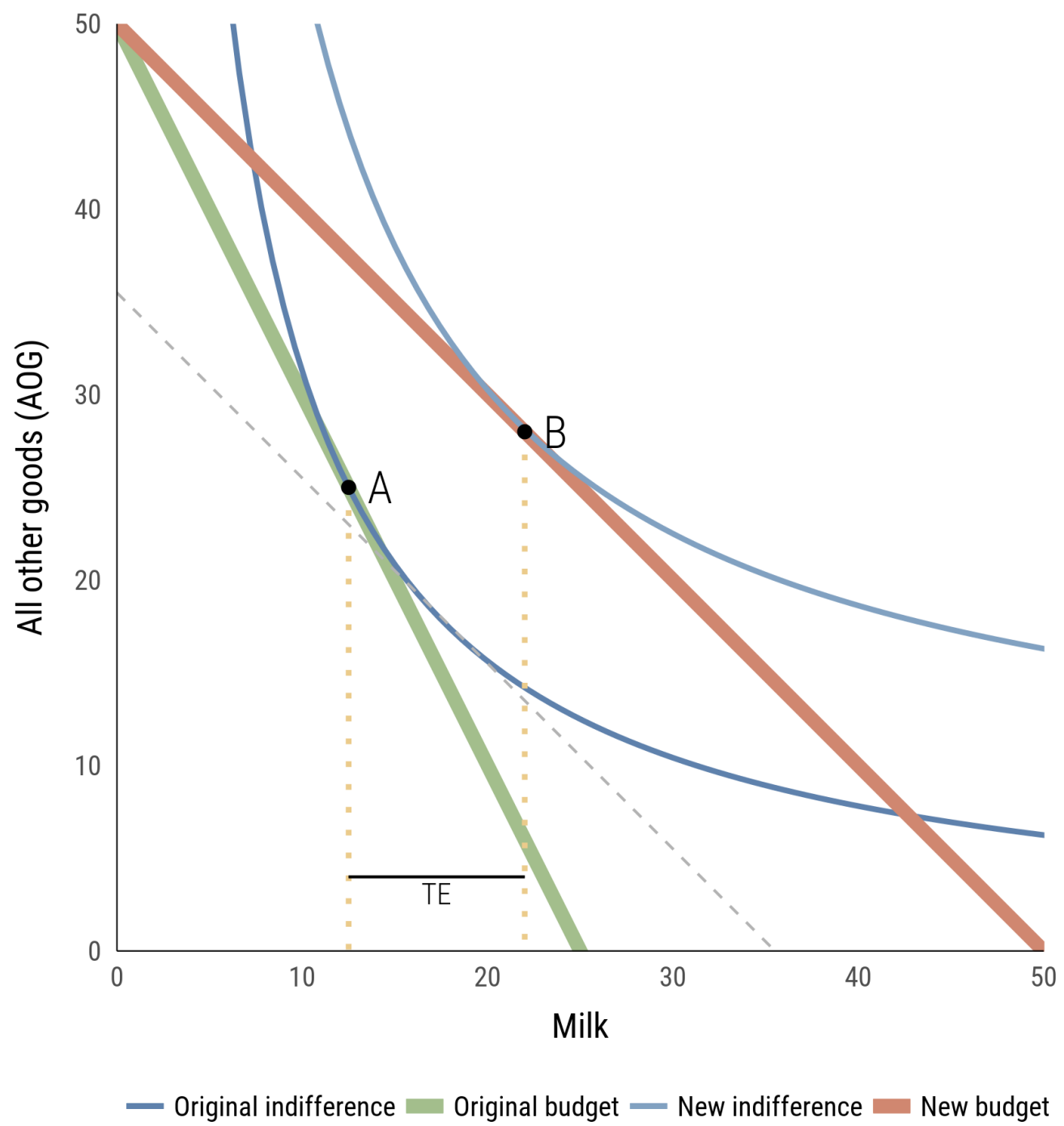
UTAH | WOMEN, INFANTS & CHILDREN

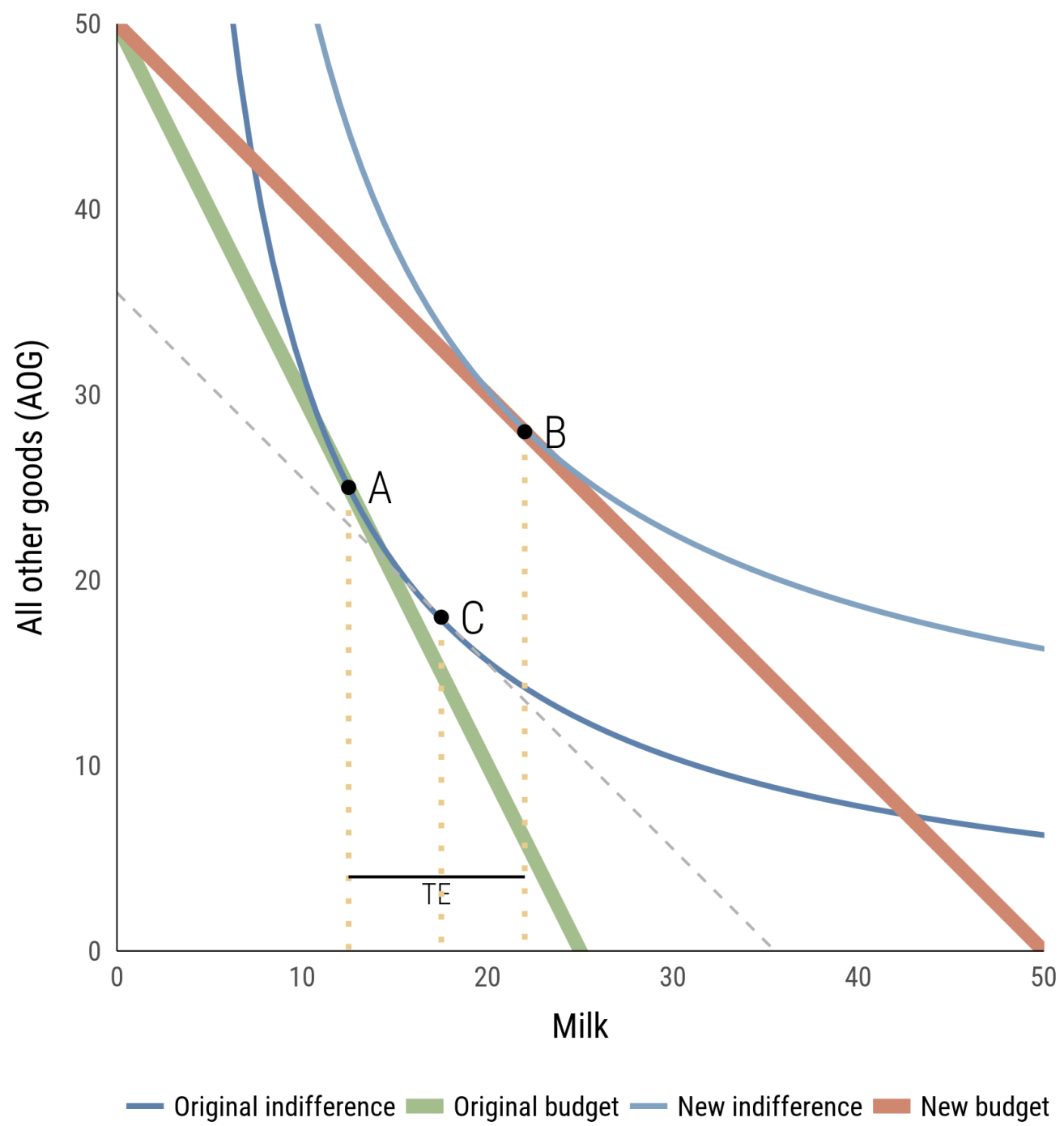


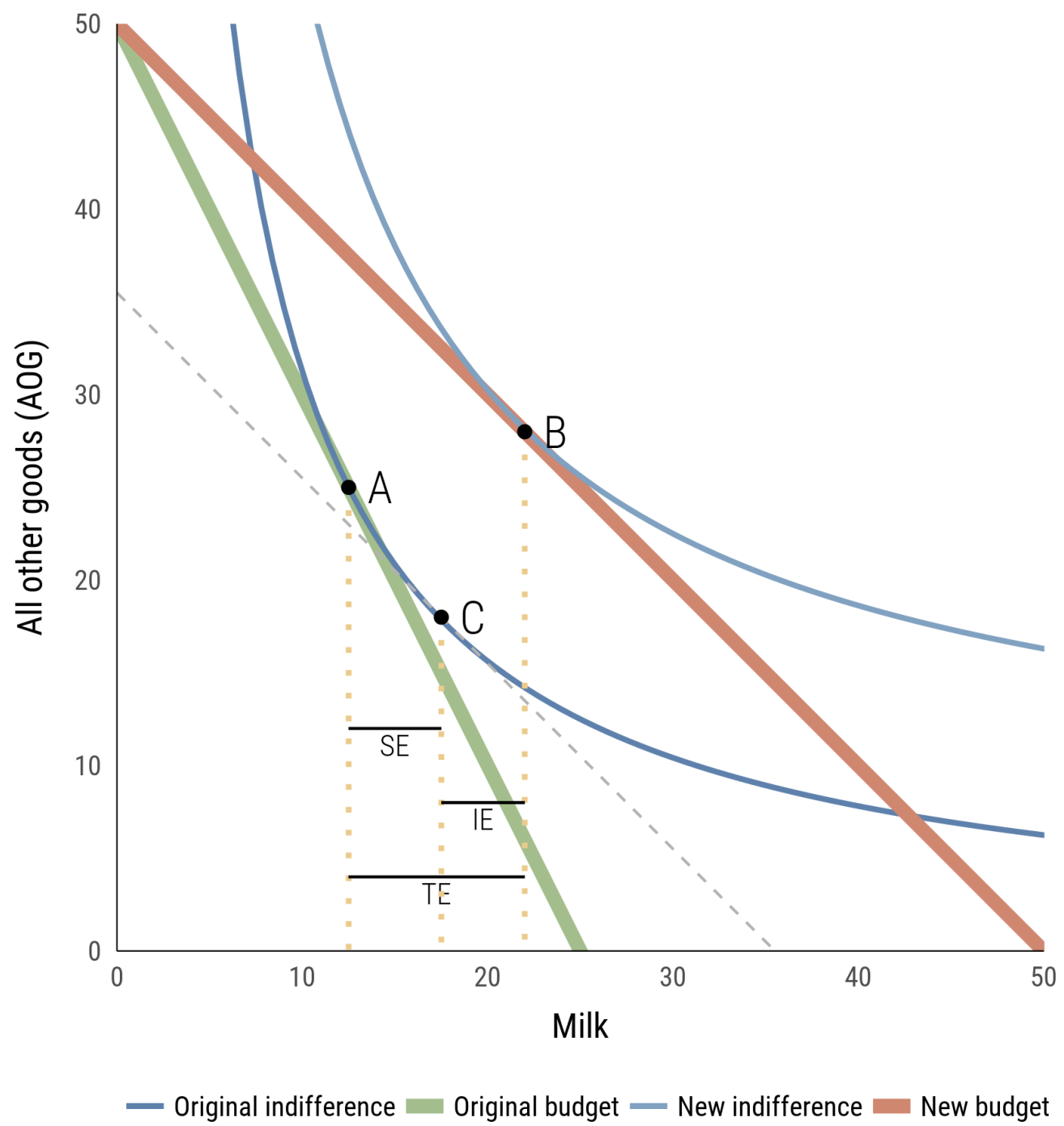


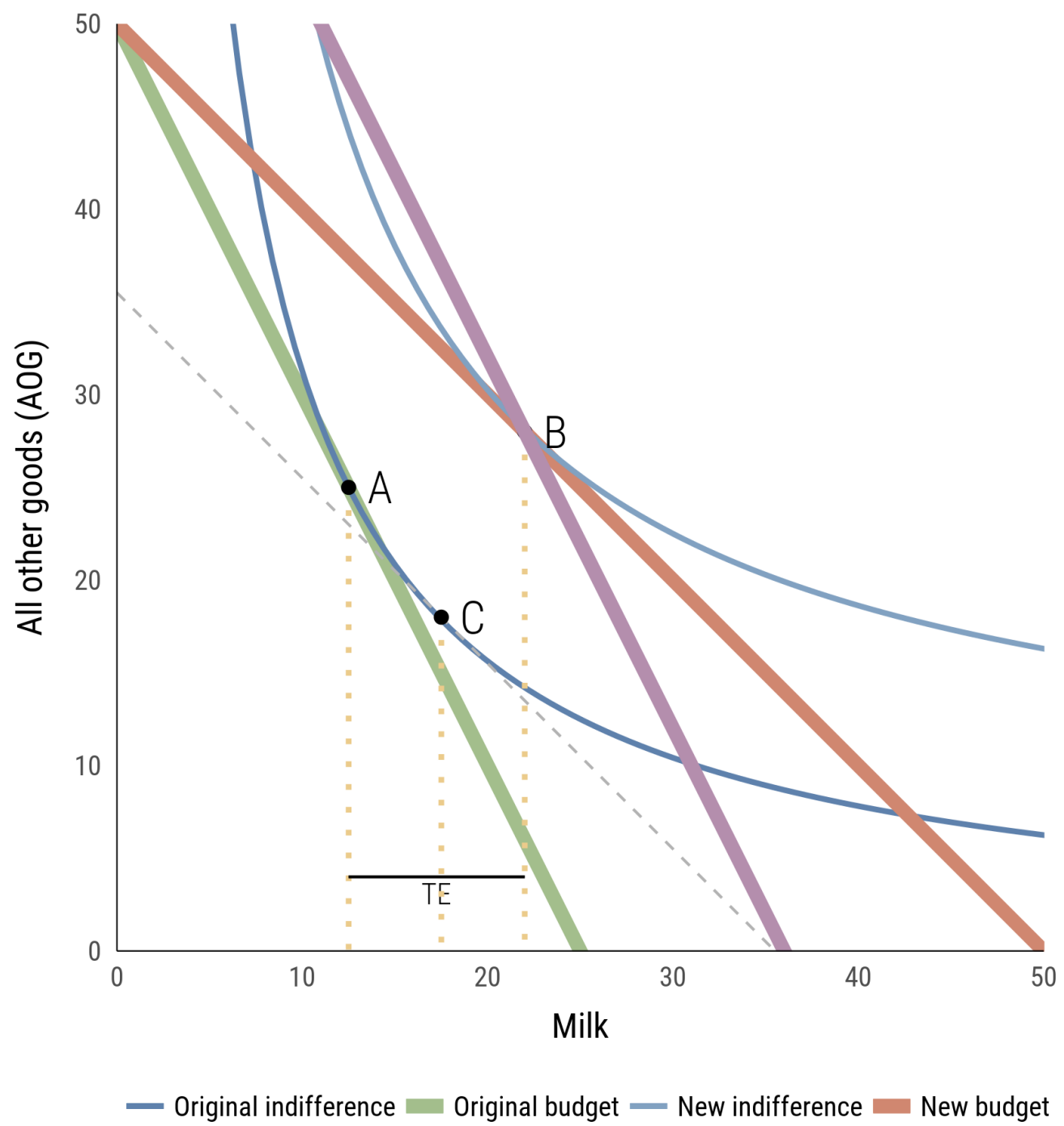


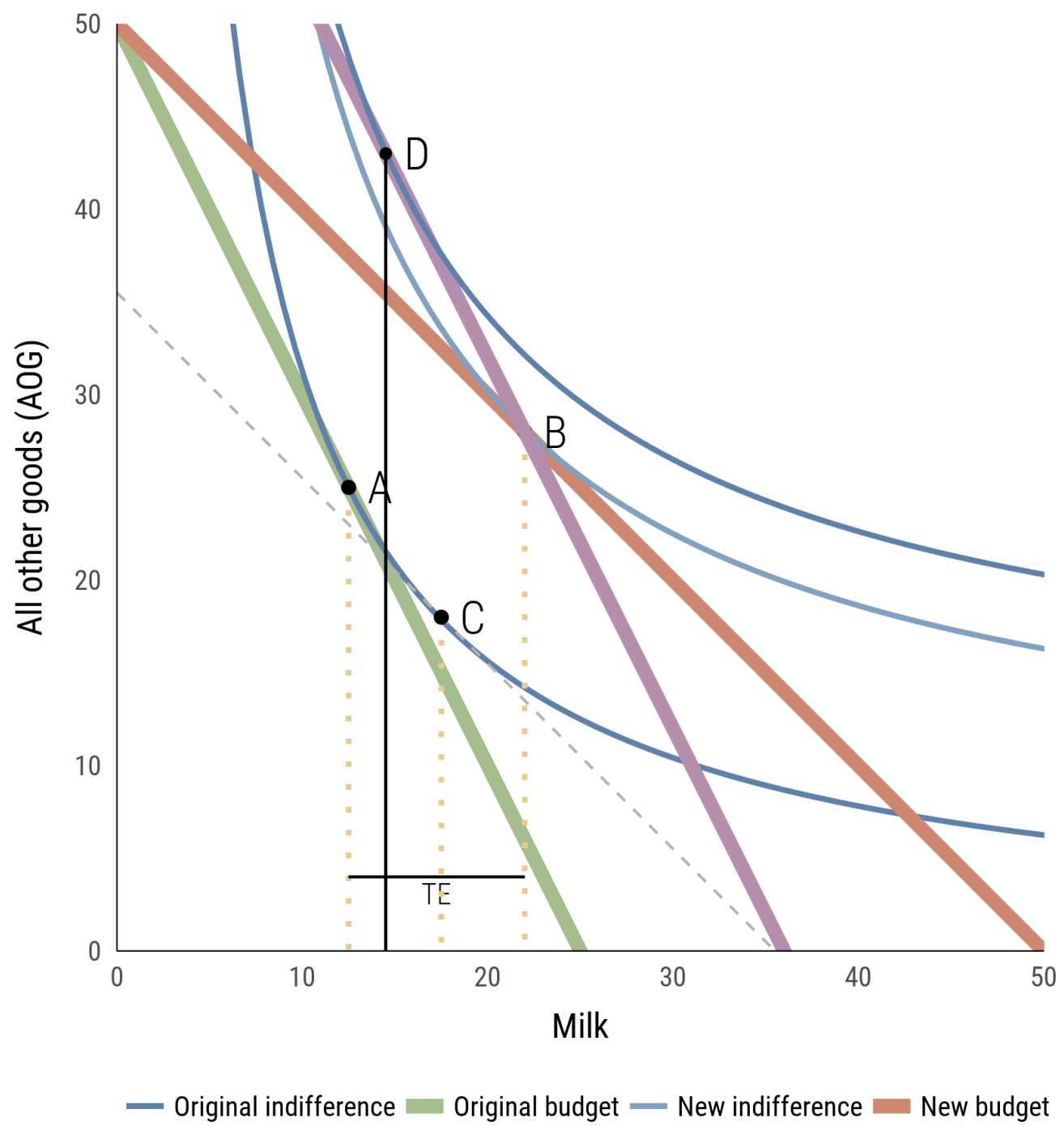












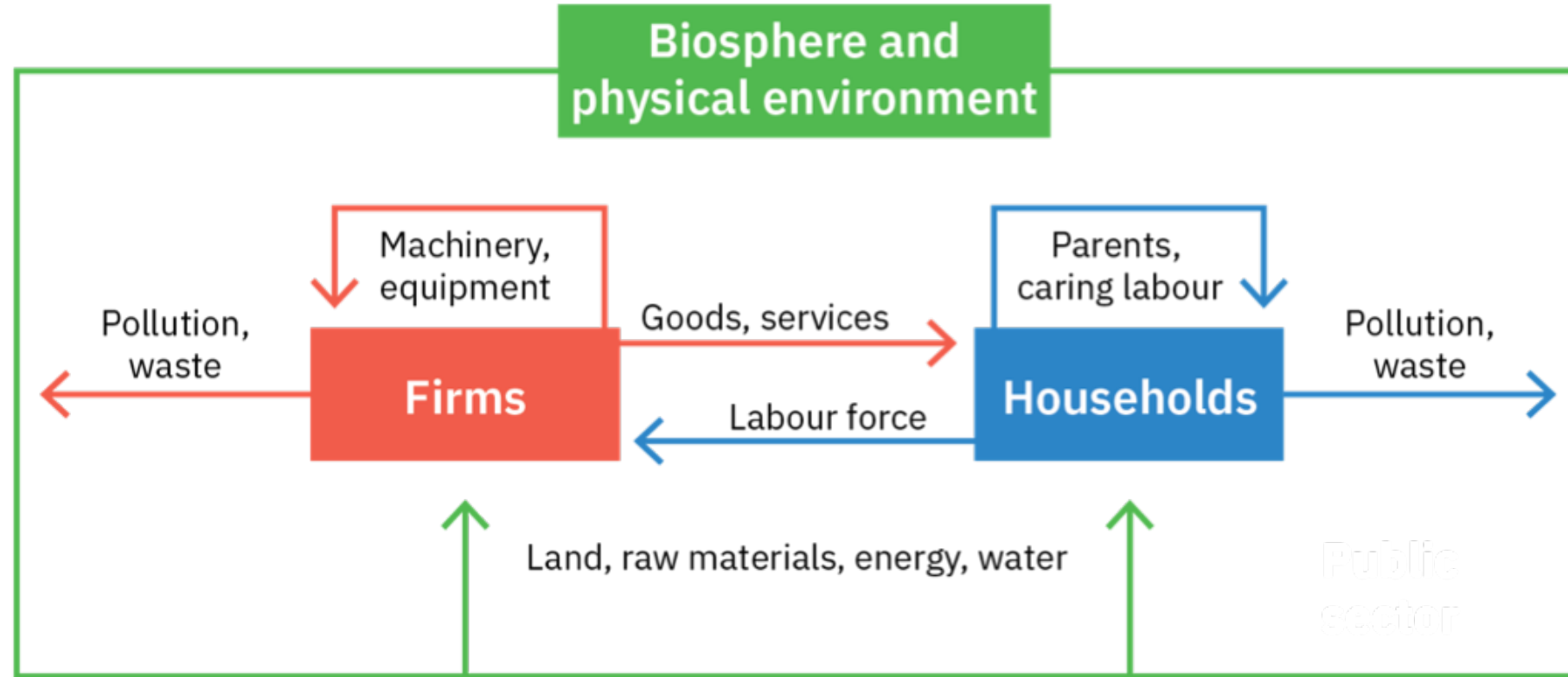
Firms

Where the Chicago School and Marxism meet

Employ people

Purchase inputs to produce goods and services

Set prices higher than cost of production



How are economic decisions made?

In markets

Choices emerge with no centralized planning

"[The market] is in fact a very Eden of the innate rights of man. There alone rule Freedom, Equality, Property."

Karl Marx, *Capital*, chapter 6

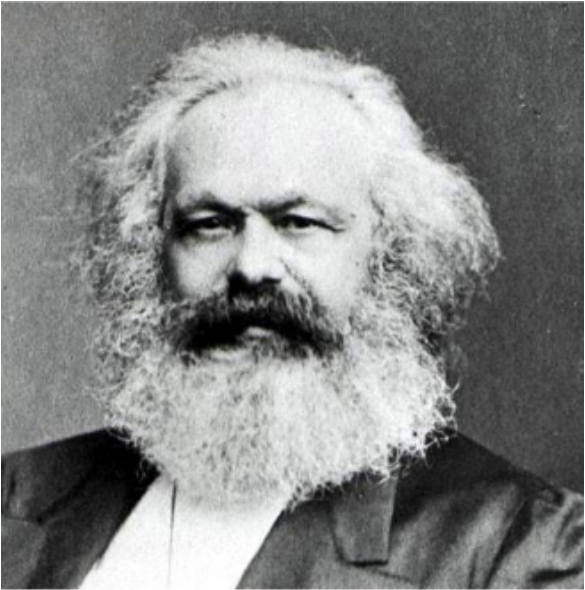
In firms

Decisions are centrally planned

"If a workman moves from department Y to department X, he does not go because of a change in prices but because he is ordered to do so."

Ronald Coase, "The Nature of the Firm"

Consequences of decision-making authority



Karl Marx, *Capital*, chapter 13

“The directing motive, the end and aim of capitalist production, is to extract the greatest possible amount of surplus-value, and consequently to exploit labour-power to the greatest possible extent.”

Consequences of decision-making authority



Costs of transacting in a market lead to the natural emergence of firms to deal with them. Firms make markets more efficient.

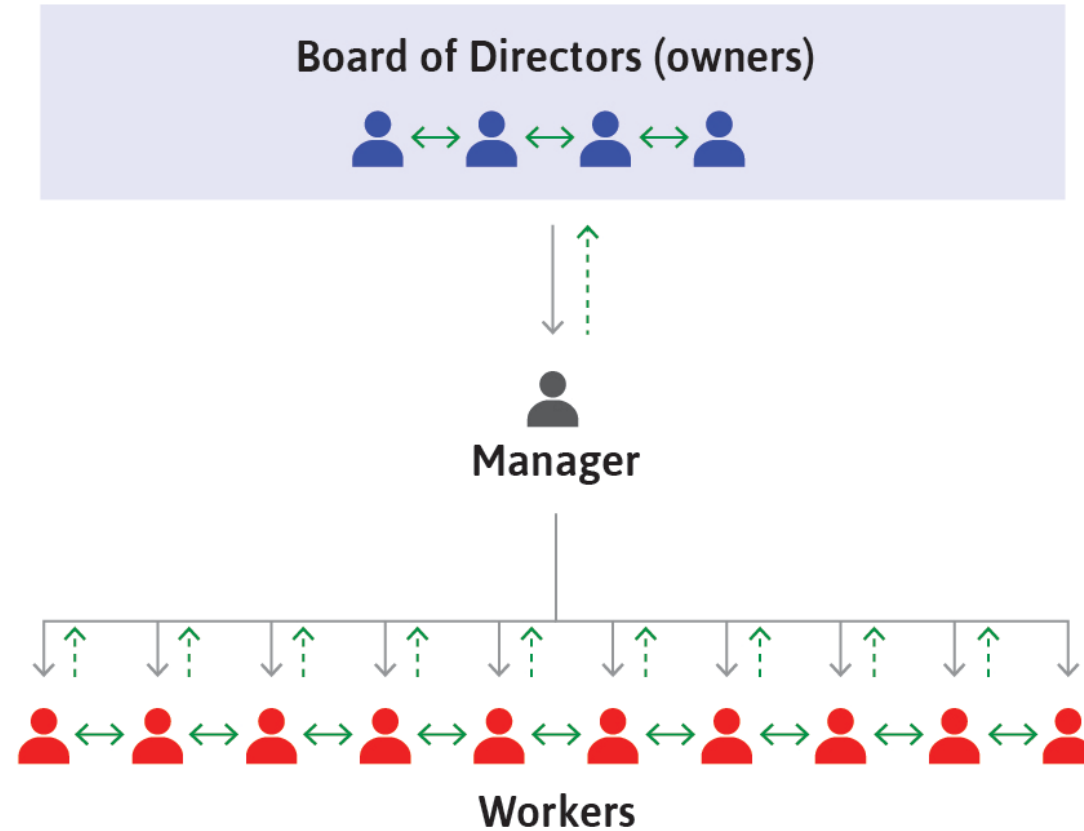
“The firm in a capitalist economy is a miniature, privately owned, centrally planned economy.”

CORE Econ, 6.1

“...islands of conscious power in this ocean of unconscious cooperation”

D. H. Robertson, *The Control of Industry*

Organizational structures



Ownership?

Strategy?

Implementation?

Nonprofits?

Governments?

Organizational structures in nonprofits



Proposal power

Enforcement power

Centralize

Implementation power

Decentralize

Owners and managers

How do workers and owners agree to work together?

Contracts

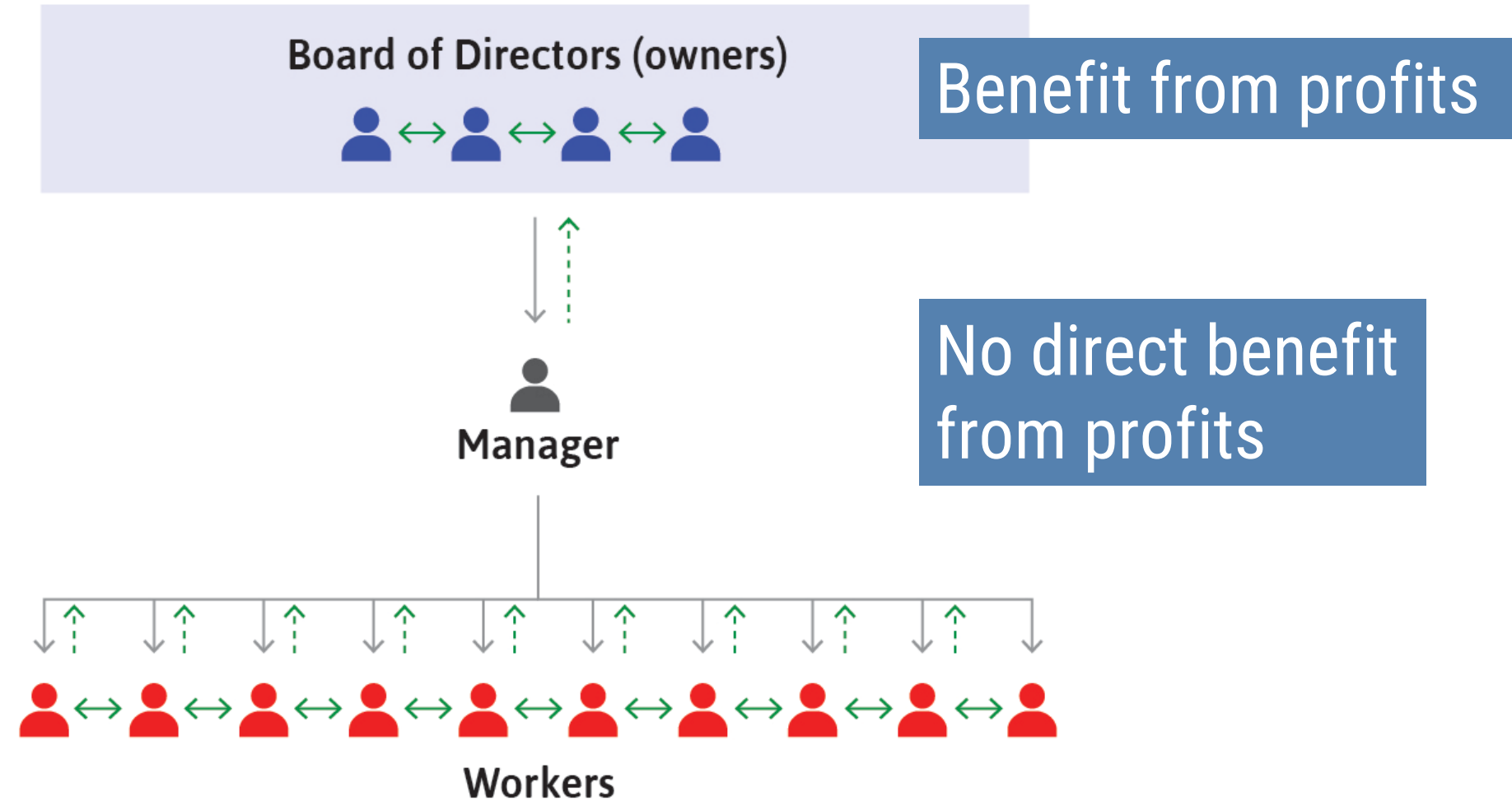
A legal document or understanding that specifies a set of actions that parties to the contract must undertake

Temporary, limited transfer of authority in labor markets

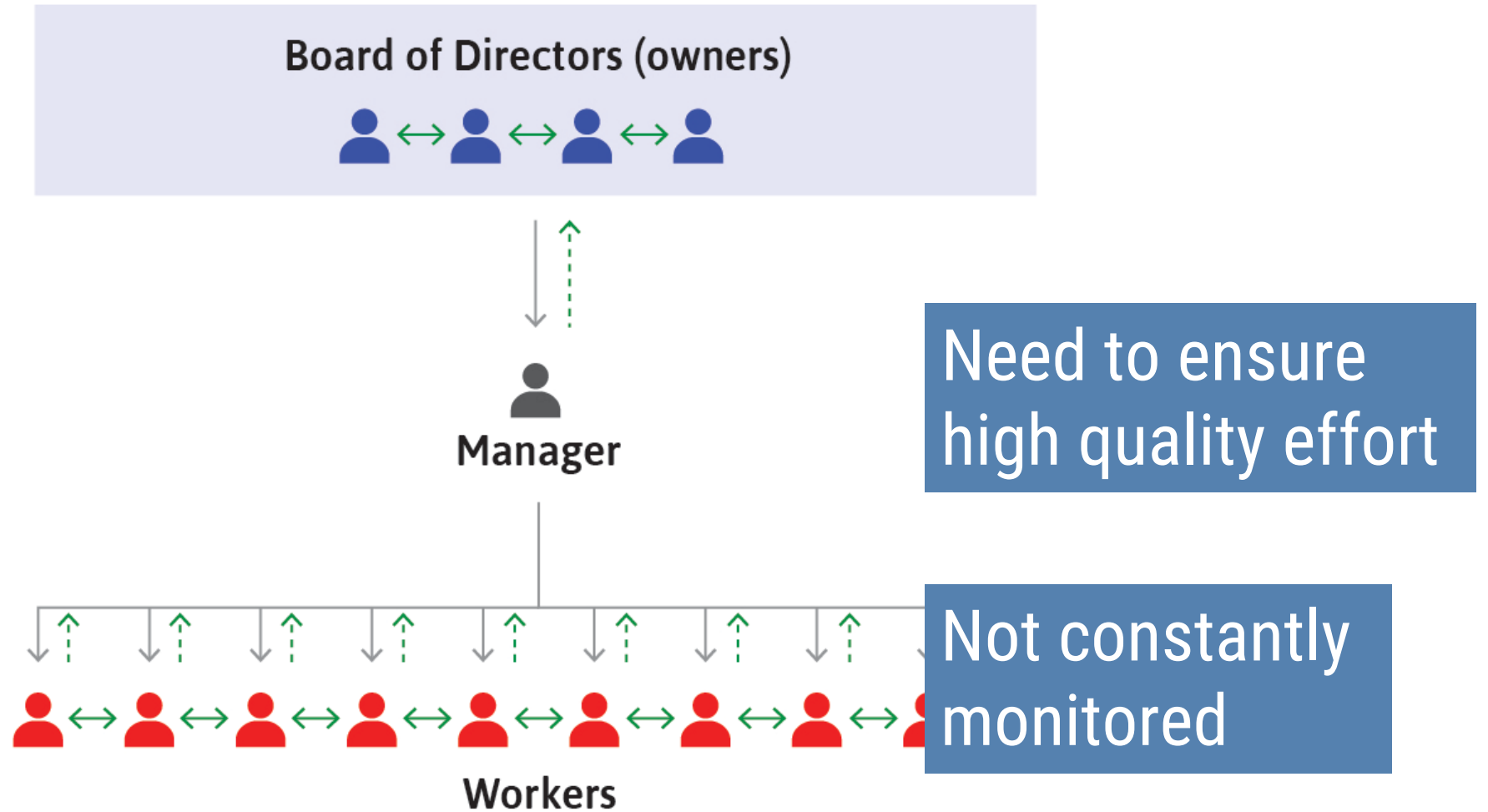
Design a contract

Expert's work effort	Total return from expert's effort	Costs of work effort for expert
1	\$70	\$0
2	\$140	\$20
3	\$210	\$40
4	\$280	\$60
5	\$350	\$90
6	\$420	\$120
7	\$490	\$160
8	\$560	\$200
9	\$630	\$250
10	\$700	\$300

Conflicts of interest



Conflicts of interest



Adverse selection

Hidden
knowledge

Lemons

Insurance

Death spirals

Moral hazard

Hidden
action

Repairs

Crime prevention

Reaching exact incentives

Adverse selection

Fix with
screening

I'm going skydiving next week so I'll
get insurance

Moral hazard

Fix with
monitoring

I have insurance so I'll take up
skydiving

Explanations go both ways



Employees

Asymmetric information and incomplete contracts

Labor contracts are inherently incomplete

Tasks based on unknown future

Tasks difficult to measure

Piece rate pay?

But workers still work! Why?

Norms

Feelings of responsibility

Calling

Public service motivation

Fear of being fired