Eight Lecture

Production

The labour contract
• Length of the working day
• Intensity / effort
• Alienation
• Labour vs. labour power
• Etymology: labour and slavery
• Command
• Supervision
• Piece rate

Conflict
• Unit cost and unit labour cost
• Cost of job loss
• Fallback wage rate
• Livelihood vs. profitability
• Workers vs. capitalist: fighting over two different things
• Labour extraction curve

Forms of control and opposition
• Mechanization, supervision and zapping labour
• Deskilling and labour disunity
• Bureaucracy and the structure of incentives
• Technical change
• “Technical efficiency” vs. “economic efficiency”
• Unions
• Unemployment insurance
• Macro policies
• Capital mobility
• Discrimination
The Good Soldier: Schweik

Unit Labour Cost

\[ \text{unit labour cost} = \frac{\text{wage rate per hour}}{\text{output per hour}} \]

\[ ulc = \frac{w}{q} = \frac{w}{e \times f} \]

\[ $2 = \frac{10}{0.5 \times 10} \]

where:

- \( ulc \) = unit labour cost ($)
- \( w \) = wage rate ($/hour)
- \( q \) = output per hour (units/hour)
- \( f \) = output per worker at “full effort” (units/hour)
- \( e \) = effort coefficient (0 ≤ \( f \) ≤ 1)

Conflict of Interests

<table>
<thead>
<tr>
<th></th>
<th>Interest of capitalists</th>
<th>Interest of workers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wage (w)</strong></td>
<td>LOW</td>
<td>HIGH</td>
</tr>
<tr>
<td><strong>Work intensity (e)</strong></td>
<td>HIGH</td>
<td>LOW</td>
</tr>
<tr>
<td><strong>Labour productivity (f)</strong></td>
<td>HIGH</td>
<td>CONDITIONAL</td>
</tr>
</tbody>
</table>
Cost of Job Loss

\[ c_{jl} = (w - u_i) \times u_d + (w - n_w^*) \times n_{jd}^* \]

\[ = (10 - 8) \times 1,040 + (10 - 7) \times 10,400 \]

\[ = 2,080 + 31,200 \]

\[ = $33,280 \]

where:

\[ c_{jl} = \text{cost of job loss ($)} \]
\[ w = \text{wage rate ($/hour)} \]
\[ u_i = \text{unemployment insurance benefits ($/unemployed hour)} \]
\[ u_d = \text{unemployment duration (employable hours)} \]
\[ n_w^* = \text{expected new wage rate at the new job ($/hour)} \]
\[ n_{jd}^* = \text{expected duration of the new job, after which a job equivalent to the old job is found (employed hours)} \]
**Fallback Wage**

\[
c_{jl} = (w - u_i) \times u_d + (w - n_{w^*}) \times n_{jd^*}
\]

\[
0 = w \times u_d - u_i \times u_d + w \times n_{jd^*} - n_{w^*} \times n_{jd^*}
\]

\[
0 = w \times (u_d + n_{jd^*}) - (u_i \times u_d + n_{w^*} \times n_{jd^*})
\]

\[
w \times (u_d + n_{jd^*}) = (u_i \times u_d + n_{w^*} \times n_{jd^*})
\]

\[
w = \frac{u_i \times u_d + n_{w^*} \times n_{jd^*}}{u_d + n_{jd^*}}
\]

\[
w = \frac{8 \times 1040 + 7 \times 10400}{1040 + 10400}
\]

\[
w = $7.09
\]

**where:**

\(c_{jl}\) = cost of job loss ($)

\(w\) = fallback wage rate ($/hour)

\(u_i\) = unemployment insurance benefits ($/unemployed hour)

\(u_d\) = unemployment duration (employable hours)

\(n_{w^*}\) = expected new wage rate at the new job ($/hour)

\(n_{jd^*}\) = expected duration of the new job, after which a job equivalent to the old job is found (employed hours)
FIGURE 1  Output vs. the Wage Rate

FIGURE 2  Output vs. the Wage Rate
FIGURE 3  Computing Unit Labour Cost

\[
\text{slope} = \frac{\text{"rise"}}{\text{"run"}} = \frac{q}{w}
\]

\[
\frac{1}{\text{slope}} = \frac{w}{q} = ulc
\]

where:
ulc = unit labour cost ($)
w = wage rate ($/hour)
q = output per hour (units/hour)
output = 7.11 x wage

"Optimal Position"
Wage = $9 / hour
Output = 64 units / hour

ulc = wage / output = $0.14

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**FIGURE 4** “Optimal Position”

**FIGURE 5** Labour Extraction Curve and Unit Labour Cost
New "Optimal Position":
Wage = $5 / hour
Output = 55 units / hour
ulc = wage / output = $0.091

Old "Optimal Position":
Wage = $9 / hour
Output = 64 units / hour
ulc = wage / output = $0.141

FIGURE 6 The Stick Method

New "Optimal Position":
Wage = $9 / hour
Output = 238 units / hour
ulc = wage / output = $0.038

Old "Optimal Position":
Wage = $5 / hour
Output = 55 units / hour
ulc = wage / output = $0.091

FIGURE 7 The Carrot Method
Old "Optimal Position":
Wage = $9 / hour
Output = 64 units / hour
\(\frac{ulc}{wage} = \frac{wage}{output} = 0.14\)

New "Optimal Position":
Wage = $10 / hour
Output = 64 units / hour
\(\frac{ulc}{wage} = \frac{wage}{output} = 0.156\)

Old "Optimal Position":
Wage = $9 / hour
Output = 64 units / hour
\(\frac{ulc}{wage} = \frac{wage}{output} = 0.14\)

New "Optimal Position":
Wage = $7 / hour
Output = 56 units / hour
\(\frac{ulc}{wage} = \frac{wage}{output} = 0.125\)