The Labor Market and the Employment Relationship

Before someone enters the world of work they must be hired as an employee. Capitalism is the first economic system based on the employer-employee relationship. Contracts between employer and employee predate capitalism, but before capitalism such contracts were infrequently found and never formed the basis for a distinct economic system.

Three other characteristics in addition to the employer-employee relationship are required for an economics system to be classified as ‘capitalist’ (i.e., production for profit, production of commodities, private ownership of capital goods), but the widespread appearance of the employer-employee relationship is what most distinguishes capitalism from other economic systems.

The Labor Market

Before an employment relationship is established, the employer and the potential employee must find each other. Once an employer finds a person he wants to hire, he offers the job to the potential employee. If the person agrees to take the job, an “employment contract” comes into existence.

Economists use a shorthand expression to refer to the process of employer and potential employee looking for each other: “the labor market.” A market exists when buyers and sellers seek each other out in order to agree to an exchange. When an exchange occurs, the buyer gives to the seller some compensation (money, say) in exchange for the seller giving to the buyer what they seller has brought the market.
Many markets exist within a capitalist economy: the market for apples, the market for autos, the market for rental housing, and so on. For instance, in the apple market buyers of apples seek out sellers of apples and if they agree to an exchange the buyer gives the seller money with the seller gives the buyer an apple.

The labor market is just one of thousands of markets having an on-going existence within a capitalist economy. At any given time a number of employers are looking for employees (people who can perform labor). These employers are considered the buyers in the labor market. At the same time, a number of people are looking for jobs. These job seekers are considered the sellers in the labor market. When the buyer (the employer) and the seller (the person looking for a job) agree to an exchange, the buyer promises the newly hired employee a wage or salary while the newly hired employee promises to show up to work.

**THE LABOR MARKET AND THE WORLD OF CONSUMPTION**

In capitalism, most people depend on jobs to provide them with the income they need to survive. Most people in capitalism, after all, do not have adequate wealth to survive without a job and do not have a significant income independent of employment earnings.

In capitalism, most people enter the labor market (that is, look for a job) and then enter the world of work because they need to gain income in order to participate in the world of consumption in a capitalist economy. If someone is not hired they have not job. If someone doesn’t have a job they might lack the income necessary to buy what they want and need.

It is true, though, that any particular employment relationship in capitalism is voluntary: the employee need not take any particular job and has the right to leave any particular job whenever he likes. Additionally, the employer can offer a job to anyone she or he likes and can, with some limits, discharge any employee at any time.

Although any particular employment relationship is voluntary—no firm can force you to work for it—most people within the United States need to find some employment relationship. Some job must be found; some employer must agree to hire them.

If you fail to be successful in the labor market (you fail to find a job or you find only a poorly paid job), you are denied full participation in the world of consumption.
SPECIAL CHARACTERISTIC OF THE LABOR MARKET I: UNEMPLOYMENT

In the labor market, sellers (the workers) meet buyers (employers). For successful job hunters an exchange occurs: the employer promises a wage or salary (the “price of labor”) to the worker in exchange for the worker agreeing to submit to the control of the employer during work hours.

In later chapters I will discuss in depth the operation of other, nonlabor, markets. For now, however, I will underline how the labor market differs in two fundamental ways from most other markets in capitalism.

MARKET OUTCOMES: SURPLUS, SHORTAGE, OR EQUILIBRIUM

In any market at any one time three situations can exist:

- A surplus,
- A shortage, or
- Equilibrium.

A surplus exists when sellers want to sell more than buyers want to buy. In such a situation, some sellers will be unable to sell all they have to sell: some sellers might leave the market disappointed. One sign of a surplus is a set of unsold goods and services. When a surplus exists, buyers have a good bargaining position: they can pick and choose who they buy from and can perhaps get sellers to make concessions to the buyers.

A shortage exists when sellers have less to sell then buyers want to buy. In such a situation, some buyers will be unable to buy as much as they would like to buy: some buyers might leave the market disappointed. One sign of a shortage are empty store shelves and lines of people queuing up to buy the good before they are all gone. When a shortage exists, sellers have a good bargaining position: they can pick and chose who they sell to and can perhaps get buyers to make concessions to the sellers (such as agreeing to pay a higher price).

Equilibrium exists when the amount that sellers want to sell exactly matches the amount that buyers want to buy. No surplus or shortage exists. In the absence of a shortage or a surplus on one has bargaining power within the market.

At any one time in a capitalist economy, some markets will have a surplus, some markets will have a shortage, and some markets will be in equilibrium. Further, over time when a surplus exists within a particular market it tends to disappear. When a shortage exists within a particular market it also tends to
disappear. When a market is in equilibrium it sometimes stays in equilibrium and sometimes moves to either a surplus or a shortage.

For instance, in the apple market sometimes a surplus exists, sometimes a shortage exists, and sometimes equilibrium exists. In most markets in a capitalist economy the state of the market in capitalism is frequently changing.

LABOR MARKET OUTCOME: CHRONIC UNEMPLOYMENT

One of the most striking differences between labor markets and most other markets in capitalism is the existence of a chronic “surplus” within the labor market. In the labor market there are always more people looking for jobs than there are jobs available. For instance, in a given day in some community perhaps 1,000 people want jobs but only 950 are able to get them. In this case the surplus of workers equals 50: of those desiring to sell their ability do to work, 50 are unable to find jobs.

Those who are unable to find jobs, although they are seriously looking for one, are classified as “unemployed.” Unemployment is the form that a surplus takes in the labor market.

When a surplus exists in a market, buyers have a strong bargaining position. When a surplus exists, buyers can generally count on being able to get what they want. Sellers, however, know that some of them will be unable to sell what they have or to sell as much as they want. This situation allows buyers to often set the terms of the exchange.

The labor market, with its perpetual surplus of workers unable to get jobs, gives perpetual bargaining power to employers (the buyers in the labor market). In labor markets, employers almost always have greater bargaining power than do people looking for jobs. This is one reason that it is employers who generally set wages and salaries and the conditions of work: employers generally offer pay and conditions of work on a “take-it-or-leave-it” basis: someone looking for a job generally must accept the broad framework of wages and working conditions set by the employer.

That the labor market gives employers a perpetual bargaining advantage is quite unusual. More other markets have surpluses are transitory. Surpluses in most (nonlabor) markets disappear quickly and are sometimes replace by temporary shortage. These shortages, in turn, often quickly disappear. The
labor market is one of a very few markets in capitalism that has a perpetual surplus.\footnote{I am ignoring there the relatively uncommon situation in which an employer is unable to find someone with some relatively narrow range of skills that he needs for production.}

A second factor further enhances an employer’s bargaining power over those looking for work. In most cases someone who is looking for work within capitalism has little access of income outside of employment. If someone fails to get a job, they face real problems supporting even a very modest standard of living. Most people who work for a living in capitalism can go perhaps 3 months without a job without facing very difficult problems: how to pay the rent or mortgage, how to pay for medical care, and how to eat.

Employers, however, rarely experience much harm if they fail to hire someone right away. Perhaps they just have their existing employers work a bit harder or longer. Perhaps they just do without the employee and suffer a small decline in production and/or sales. Although an employer likely prefers to fill an open job relatively quickly, little harm comes to most employees who have open positions within the firm.

In the labor market, then, many of those who are looking for jobs know they might fail to find one and they know that they will likely have grave financial problems if they still are unable to find a job after a few months looking. Employers know that they can generally find new employees fairly quickly and that they will generally be able to select an employee from the many job applications they receive. Further, employers generally face only a small loss if they are unable to find the employee they want right away. They can always wait to hire someone later.

Even if it takes a long time to find a suitable employee, the employer is unlikely to go hungry or lose his house during this period. But workers need jobs—and the income they bring—in order to eat and in order to pay their rent or mortgage. This unequal status in the bargaining relationship further enhances the bargaining position of employers within the labor market.

At times unemployment in a capitalist economy is lower than at other times: during recessions unemployment is high while during economic expansions unemployment is lower. As a consequence, employer bargaining power is sometimes less than at other times. But unemployment (a surplus of workers needing jobs but unable to find jobs) \textit{always} exists within a capitalist economy.
Employers always have bargaining power in labor markets although sometimes this power is greater and sometimes this power is smaller.

**SPECIAL CHARACTERISTIC OF THE LABOR MARKET II: LABOR IS NOT EXCHANGED**

In most markets, buyers leave the market possessing what they want. Apple buyers leave the apple market with apples; book buyers leave the book market with books.

Oddly enough, employers do not leave the labor market with what they want. Employers want to buy labor on the labor market. Production requires “labor”—work actually performed—in order to be carried out. Employers want this labor in order to produce the goods that they can then (they hope) sell for a profit.

However, when an employer hires a worker he does not buy a quantity of labor (actual work). Rather, the employer merely gets the agreement of a particular worker to show up at the workplace and to submit to the authority of the employer. That is, the employer buys “labor power”—that ability to do work—rather than labor itself.

It might seem picky to point out the difference between labor (actual work) and labor power (the ability to perform work). But this is not so. The fact that employers hire workers (those able to perform work) rather than labor itself profoundly shapes the nature of jobs within capitalism.

That an employer buys labor power rather than labor need not lead to any interesting issues but for one fact: employers might desire that employees perform more work than some—or most—employees will provide voluntarily.

Therefore, once an employee is hired and enters the workplace then employer must then get the employee to work. More precisely, the employer must get employees to work at a pace and skill-level that exceeds what most employees desire to provide. The employer must, during the workday when employees are under his control, elicit work from employees. He must convince the worker to provide a level of work effort desired by the employer.

This situation differs from the situation faced by, say, the buyer of a soda. Having been bought, the soda does not need to be convinced to provide favor and liquidness. Once the buyer of the soda gains possession of the soda by giving up money, the buyer has what she wants: a soda. But workers—with their free will—must be convinced to work.
Clear limits exist on what an employer can do to elicit work from employees within capitalism. For instance, unlike in slavery a capitalist employer generally cannot use physical punishment to elicit work from employees. And, an employer can’t throw an employee in jail because the employee fails to work hard enough. Capitalist employers, however, are able to elicit work from employees using a wide range of techniques. I describe some of these techniques below.

ARE EMPLOYEES LAZY? DO THEY HAVE A NATURAL DISTASTE FOR WORK?

As just noted, the level of work effort most employees desire to provide to the employer likely falls short of the amount of work effort that the employer demands. Does this imply that employees are lazy and don’t like to work?

No. While it is undoubtedly true that some people are lazy and avoid all work of all kinds, this is not true for a majority of people.

Many people provide great levels of work effort if they believe the work they are doing is meaningful and/or enjoyable. For instance, many public school teachers work long and hard in a very difficult job because they believe education is important, particularly for the disadvantaged. The provision of high levels of work effort in meaningful jobs is often found in many “helping” professions such as social work, nursing, and childcare. The voluntary provision of high levels of work effort is also found among those who identify with their work. They perform this high level of work effort gladly in order to fulfill their own sense of identify.

In addition, many people voluntarily engage in strenuous and skilled activities (what otherwise would be called “hard work” in an employment relationship) outside of the employment relationship. For instance, millions of people each week voluntarily engage in recreational sports although such activities can be very strenuous. More importantly, many more millions of people (parents, relatives, and others) provide unpaid childcare services or unpaid elder care although this work can be as difficult as any other paid work. Still others work long and hard on some hobby, again for the pure enjoyment of what they find is meaningful work.

Further, people provide great levels of work effort if they directly benefit from this effort. For instance, many small businesses are successful because of the extraordinary work effort (in quantity and quality) put in by the owners. These owners, of course, directly benefit from their own efforts.
Finally, people can provide a high level of work effort—even unpleasant work effort that they do not personally benefit from—if someone they work for is believed to have a legitimate right to expect such a high level of work effort.

People, then, are not universally lazy. If the work is enjoyable, meaningful, and/or directly benefits them, people will provide extremely high levels of work effort.

Yet if you put these same people in an employment relationship, many of them will fail to provide much work effort at all. Why?

First, most employees generally do not directly benefit from their work. The employer owns what they produce and increased output generally benefits the employer and not the employee. Moreover, any relationship between hard work and increased wages are not often obvious to many employees. Employees often have little reason to work beyond some minimum level and this level often falls below that desired by the employer. When employees provide work effort that exceeds that necessary to provide revenue adequate to cover the pay they receive, the employer—and not the employee—benefits. In particular, as employees work harder and harder, the surplus going to the employer grows while what goes to the employees stays the same.

Second, many people do not find their jobs with capitalist firms to be enjoyable or meaningful. It simply makes sense that such people would not voluntarily provide as much work effort on the job as their employers demand. Employers are the one who design jobs within the firm and they often give little attention to whether their employees find the work enjoyable or meaningful. Employers are concerned, instead, with organizing work so that it leads to the most profit. Further, employees within firms are often subjected to monitoring and supervision and find themselves within an alienating hierarchical environment. Many employees dislike work for this reason alone and, so, fail to provide any level of work effort beyond the minimum level they can get away with.

Third, and most ironic, as employers find employees fail to provide the level of work effort the employer wants, employers often put more pressure on workers to work harder and redesign the work process so the employer has more control over the pace of work. This added pressure to work harder and the increased lose of control of work can itself reduce the enjoyment of work for employees: leading to even more difficulty in getting employees to work hard and well!
All people, then, are not necessarily lazy. All people do not necessarily dislike work. This is shown by the high levels of “work” they provide when this labor is meaningful, enjoyable, and directly beneficial to them. But when employees perform work within a capitalist firm, they often become less interested in providing high levels of work effort. The problem, however, is not necessarily with the people who are working; the problem often is with the nature of work and jobs in capitalism.

THE EMPLOYMENT RELATIONSHIP

When a job hunter is successful in the labor market they get a job. The job hunter agrees to work for some employer while the employer has agreed to hire the job hunter. An exchange has occurred in the labor market. The employer and employee have now entered into an employment relationship.

In some markets, when an exchange occurs formal contracts are signed by buyer and sellers. For instance, houses when houses change hands formal documents running dozens of pages are frequently signed.

When someone is hired as an employee in the labor market, only rarely does this person sign an actual contract. Most employees just show up to work and do what the employers tells them to do in exchange for the employer paying the employee a certain sum of money at regular intervals.

In the eyes of the law, however, when someone takes a job a contract has been formed between the employer and employee even if no actual paper contract exists. A sizable body of law exists within capitalist economies regulating the employment contract. This law specifies what employers and employees can and cannot do and can or cannot expect within the contracational relationship.

The starting point for the employment relationship in the United States is the “employment-at-will” doctrine. This doctrine permits an employer to fire any worker at any time for any reason. Indeed, if an employee refuses to do work that is clearly hazardous or fails to laugh at a joke told by the employer then the employer can fire this worker without fear of violating any law. In fact, under the employment-at-will doctrine an employer can walk up to an employee and fire the employee for absolutely no reason at all.

A few limitations do exist on the employment-at-will doctrine. For instance, if a worker can show that he/she was fired because of his/her membership in a group that is often discriminated against, the worker might be able to sue the employer in court. Further an employer can voluntarily limit the employment-
at-will doctrine within their workplace either by unilaterally providing an employment handbook or by agreeing to a labor contract with a union that specifies limitations on employment-at-will.

The employment relationship itself is an agreement to enter into authority relationship in which the employer has total control and few limits exist to his/her authority. In this relationship the worker has a status relationship akin to the master-servant relationship. It is not a relationship between equals. One indirect sign of this is that the employee is more likely to use an honorific form of address (e.g., “sir,” “madam,” “Mr.”) when taking to the employer than is the employer likely to use the same honorific form of address when talking to “subordinates.”

Further, certain rights that people expect in other spheres of their life—the freedom to express their opinion, the freedom to chose what to do, the right to be treated as an equal—do not exist within the employment relationship. The employer has the legal right to limit the speech and/or actions of his employees.

In fact, the employment contract has evolved from the law (and traditions) that oversaw the master-servant relationship and the lord-serf relationship. The law has never treated the employment contract as the result of free bargaining and mutual assent. Instead, the employment contract was seen to include implied terms that reserved to the employer the full authority and direction of employees. In capitalism a one-sided streamlining of master-servant law occurred which lessened—perhaps even eliminated—the obligations of employers to his employees and purged the relationship of all bonds that might hinder employers’ behavior seeking to increase profits. At the same time, employment law has evolved so that the employee is still presumed to have an obligation to the employer. The claims of employees on the business became restricted to claims to receive the wages they had by promised by the employer. They have no other claims on the employer.

Some—if not all—employers take advantage of the power the law gives them within the workplace to their own personal benefit. One of the perks of having employees is that you can command them and demand they treat you with the deference you want. However, the power granted to the employer within the workplace is not used simply for the personal aggrandizement of the employer; this power is fundamental for the eliciting of work effort from employees within the firm.
FREEDOM AND WORK WITHIN CAPITALISM

Liberalism often defines “freedom” as the absence of force. In this sense, the employment relationship is based on freedom: no one forces an employee to work for any given employer and the employee cannot be stopped from leaving any job at any time for any reason if the employee desires to do so.

Physical coercion is certainly the most overt threat to freedom and, so, liberalism often pronounces the labor market in capitalism as “free” and gives it moral approval.

Yet liberalism’s approach ignores the ways in which freedom might be infringed upon without the use of force. The classic scenario in which voluntary choice among alternatives fails to guarantee freedom is the so-called Robber Scenario. A man with a gun comes up to you and says, “Give me your money or prepare to die.” Technically you have a choice: hand over your money or accept that you will die. Yet the fact that you have a choice does not imply that your freedom has not been infringed upon. The robber sets up a choice situation in which you really “have no choice.” You hand over the money.

The Robber Scenario has superficial similarity with capitalism. In capitalism the inability of most people to gain access to an acceptable standard of living without entering into an employment relationship “forces” people to enter into the labor market. They could choose to starve. The choice, then, is between working or starving. That most people in capitalism face such a choice does not mean they face complete freedom. The economic system—based on very narrow ownership of the means of production—creates something akin to the Robber Scenario. One can argue that participation in the labor market is not truly based on freedom.

Of course, once they are in the labor market people have the freedom to turn down any job offer and people can quit any job at any time. But, despite this, participation in the labor market is not based on complete freedom.

CONCLUSION

In capitalism most people must get jobs. For most people, the failure to find a job means they are unable to get income necessary to achieve anything beyond the most minimal standard of living. Employers that are unable to hire a particular individual generally face much less of a punishment. By itself, this asymmetry gives the employer greater power in the labor market.

The existence of chronic unemployment in the labor market gives employers even greater power. In a capitalist economy often a sizable percentage of the
population might be unable to find a job. People looking for jobs and employees with jobs must be concerned with the difficulties they face if they do not find a job or lose their current job. Employers rare, if ever, have difficulty finding people to hire.

For all their power, employers are unable to buy what they want in the labor market. They want to buy labor (actual work performed) but they are only able to buy labor power (the ability of employees to perform work). To operate as a business, the employer must get his employees to work. Unfortunately for employers the nature of work within capitalism—often uninteresting and lacking inherent meaning and often subject to the unchecked power of the employer—the level of work effort most employees voluntarily provide falls far short of what is needed for the firm to earn a profit.

Luckily for employers, though, the laws governing the employment relationship within capitalism gives the employer almost complete power within the workplace. Employers are able to design the workplace in a way that takes into account the need to elicit work effort from employees and it able to use his power in a way that permits him (in principle if not in practice) within the workplace to elicit work effort from employees.