

# 1. Samuel Bowles and Herbert Gintis

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For most of the twentieth century, economists schooled in the Walrasian tradition have been content to assume that economic relationships are fully specified by contract. Market exchanges have been characterized as a simple *quid pro quo* in which the parties freely exchange money for consumer goods, money for labor, money now for more money in the future, and so on. Accordingly, in a Walrasian world, people get the things they effectively demand at the going prices, but they do not bargain, monitor, discipline, coerce, evade or resist in the process. As a result, markets are simply allocational devices, and economics is what we were all told in our principles classes: the study of the allocation of scarce resources to competing uses.

We were also all taught that preferences are exogenous, or may safely be assumed so in most important economic situations. Those agents who do not bargain, coerce, and so forth, also are not influenced or changed in any fundamental way by their economic activities.

The late twentieth century has ushered in considerable skepticism concerning these assumptions. Samuel Bowles and Herbert Gintis in particular have challenged this view of the economy. First, they have rejected the notion that contracts fully characterize most important economic interactions: rather, in labor, credit and other important markets, one party cannot get what he/she wants without some means to enforce his/her claims. The labor contract alone cannot ensure the employer that work will be done at the speed and of the type which he/she desires; thus, in Marx's words, labor must be extracted from labor power. Similarly, the banker cannot be sure that the loan will be repaid; the borrower's risk taking must be regulated by noncontractual means. Such exchanges are, in Bowles and Gintis's terms, contested. The result, as will be discussed below, is that markets – as well as many other social institutions, such as schools – are characterized by the pervasive exercise of power. Markets do not just allocate; they also discipline.

Not only do markets come out of this analysis looking quite different from their representation in the Walrasian model; so do the agents. In Bowles and

Gintis's reformulation, their preferences are shaped by daily experience in markets, firms, schools, families and communities. In other words, economic actors are endogenous, both with respect to their individual preferences and with respect to the social norms which they observe.

Bowles and Gintis's joint work has developed over nearly three decades in three stages, around which this chapter is organized. In the first stage, spanning the late 1960s and early 1970s, they explored the relationship between class, schooling and economic opportunity, culminating in their book *Schooling in Capitalist America* (1976). They argued that schools were institutions which facilitated the extraction of labor from labor power by imparting behaviors and attitudes consonant with students' future positions in the work hierarchy. In the second stage, from the mid-1970s to the mid-1980s, Bowles and Gintis turned their attention to broader questions about liberal and Marxian political and economic theory, asserting that neither was adequate to understand the democratic politics which animated most important recent social movements in the US. The major work from this period was *Democracy and Capitalism* (1986). Finally, in their most recent papers, Bowles and Gintis have developed microtheoretic models of several markets in which claims are enforced endogenously, and they have argued that what seemed to constitute the uniqueness of labor markets – the absence of costlessly observable behavior and of costlessly enforceable contracts – actually turns out to characterize a lot of other significant markets, among them credit, some consumer goods, and international financial markets. They have explored the implications of contested exchange for the quality of social institutions and norms – and conclude that a democratically organized economy would do better on both counts. This stage of their work will culminate in two books currently under way, *Property and Power: The Analytical Foundations of a Democratic Economy*, and *Contested Exchange: An Essay on the Microeconomic Foundations of Capitalism*.

## SCHOOLING IN CAPITALIST AMERICA

Bowles and Gintis's work on education evolved in a curious period of intellectual history. Students all over the world were rebelling against repression in the schools, but economists were refining human capital theory, in which both the repression and rebellion were effaced. According to Bowles and Gintis, the problem with human capital theory is that it neglects the unique qualities of labor (the distinction between labor and labor power), thus obscuring the asymmetric relationship between capital and labor, and

eliminating the concept of class from the economist's lexicon (Bowles and Gintis 1975). As a result, neoclassical theory is poorly suited to explaining the wage structure, the valuation of personal characteristics in the labor market, and the social relations of schooling.

The ability of their alternative theory to explain these phenomena hinged on the Marxian distinction between labor and labor power. Labor power is 'the maximum level of performance evincible from [the worker] by the capitalist'; in the employment relation the worker agrees to accept the employer's direction of his/her time, but the 'labor' or actual work done by the individual depends on control mechanisms embedded in the labor market and the social and political structure of the firm (ibid.). In the language of their most recent work, the labor process is a 'contested exchange' (Bowles and Gintis 1994).

Because of the political conflict between workers and owners over the extraction of labor from labor power, employers value ascriptive characteristics of workers, such as race, sex, age, demeanor and credentials. These can divide the workforce and inhibit the development of solidarity between workers. Educational credentials in particular legitimate inequality by 'providing an open, objective, and ostensibly meritocratic mechanism for assigning individuals to unequal occupational positions' (Bowles and Gintis 1975).

Bowles and Gintis further argued that the educational system fundamentally stratifies students according to their future positions in the workplace hierarchy, through the 'correspondence principle'. Schools do not just teach more or less; they teach different things to different people. In working-class schools, students are rewarded for rote learning and following the rules, while in the schools of professional/managerial families, students are rewarded for creativity and independent thought.<sup>1</sup> For most students, these behaviors will be necessary for secure employment in their adult occupational positions. The key political conclusion of the book follows from the correspondence principle: only a democratic transformation of the economy can provide the foundation for significant, sustainable educational reform.

Finally, Bowles and Gintis contended that the economic success associated with higher levels of schooling results not from the acquisition of cognitive skills but from the stratification process. Students do learn in school; but these skills are not scarce in the labor market.<sup>2</sup>

1. Regarding the question of how the classroom experience is different for children from working-class and professional/managerial families, see Chapter 5 of Carnoy and Levin 1985.
2. There has been quite a bit of discussion lately among labor economists concerning whether the return to skill has risen in the last decade or so. It is possible that Bowles and Gintis's argument was stronger in the 1960s, when their data was collected, than it is today. However, the last couple of

Bowles and Gintis have been charged with functionalism, and their book often seemed to suggest that the relations of schooling developed as they did because of the need of the capitalist class to fragment the workforce. However, Bowles and Gintis included three chapters detailing the historical process by which schooling came to be dominated by the capitalist class. In addition, their argument drew heavily on the work of Melvin Kohn and others, which showed that parents usually demand the type of education for their children which will teach behaviors rewarded in the parents' own experience of work (Kohn 1969). Thus professional/managerial parents stress independence and creativity, while more subordinate working-class families feel their children must learn to take orders.<sup>3</sup>

Bowles and Gintis supported their theory with extensive empirical work. First, in a paper in the *Journal of Political Economy*, Bowles disputed many sociological status attainment models and the nascent human capital model, which purported to show that earnings were not significantly related to socioeconomic background when the respondent's schooling was included in the regression equation. These studies typically measured the respondent's social background with father's education and occupation. Bowles argued that the importance of education was systematically overestimated and that of social class was underestimated in these models for two reasons: (1) the improper specification of socioeconomic background, in particular the omission of variables such as mother's education and occupation, parental income, wealth, and position in the work hierarchy; and (2) measurement errors, especially those arising from respondent reporting of father's occupation and education. Including a measure of parental income and deploying an errors-in-variables model, Bowles found that the partial relationship of schooling to income fell by 43 percent compared to the conventional model. He concluded that the contribution of education to income had indeed been overestimated and the intergenerational transmission of class had been underestimated in the conventional formulation (Bowles 1972).

Gintis (1971), Bowles and Nelson (1974), and Bowles, Gintis and Meyer (1975) explored the mechanism by which education affects earnings.<sup>4</sup> They found that the main contribution of schooling to earnings was not through its effect on cognitive achievement, but rather by inculcating personality traits

decades have also witnessed the rapid growth of inequality within schooling and experience groups. (See Levy and Murnane 1992.)

For another re-evaluation of functionalism, see also Bowles and Gintis 1981.

See also Edwards 1976.

necessary for work in a hierarchical environment. For example, Gintis compared pairs of earnings regressions where a measure of cognitive achievement was first excluded, then included in the model. He found that the reduction in the coefficient on schooling in earnings equations when achievement was included was typically well below 20 percent, supporting the view that schooling does not primarily contribute to higher earnings through the cognitive skills which it develops. Bowles and Nelson demonstrated that the distribution of income by education was virtually identical whether or not cognitive achievement was controlled for. Finally, they showed that the effect of socioeconomic background on economic success was very strong even for individuals with equal education and cognitive achievement.

Gintis also found evidence for the alternative interpretation of schooling, that it develops appropriate class-differentiated personality characteristics. For example, students' grade point averages were positively correlated with perseverance, suppression of aggression, and so on, and negatively correlated with independence, initiative, originality, and curiosity.

Another part of Bowles and Gintis's work on schooling was a response to the recently revived idea that class structure is explained by the distribution of heritable cognitive skills. In the early 1970s scholars were becoming aware of the failure of the human capital programs of the War on Poverty, and as at other times when educational reform had failed, there were many voices to attribute this defeat to the genetic deficiencies of the poor. At the time, these voices were led by Richard Herrnstein and Arthur Jensen. Most of the opposition to Herrnstein and Jensen had coalesced around the position that ability is not inherited; Bowles and Gintis's unique contribution was to show that cognitive ability is of much less economic importance than either the defenders or detractors of Herrnstein and Jensen supposed. They found that the distribution of income by socioeconomic background was just about as skewed for persons of equal childhood IQ as it was for persons of all IQ levels (Bowles and Nelson 1974; Bowles and Gintis 1972-73).

Bowles and Gintis's theoretical and empirical work on education demanded profound reconsideration of much of modern welfare economics. The normative basis of educational planning models, rate of return studies, and so on, requires that preferences be invariant to the schooling process. Yet Bowles and Gintis's work showed that the economic productivity of schooling resulted predominantly from its inculcation of the personality attributes needed for stable hierarchical relations at work – subordination to authority and inability to envision alternatives. Preferences, far from being exogenous, were

systematically influenced by the structure of economic institutions: schools, workplaces and families (Gintis 1971, 1974).<sup>5</sup>

Twenty years have passed since the publication of *Schooling in Capitalist America*. The book keeps selling, and it has found a receptive audience in the more heterodox wing of the education and economics professions. Carnoy and Levin drew heavily on Bowles and Gintis's theory in the research included in their book (Carnoy and Levin 1985). Mark Blaug, a central figure in the economics of education, eventually incorporated Bowles and Gintis's views into his treatment of the screening hypothesis (Blaug 1987). Bowles's idea that errors in variables obscure the intergenerational transmission of class has experienced a mini-revival lately, with two important papers making similar arguments in the *American Economic Review* (Solon 1992; Zimmerman 1992). However, a quick perusal of leading labor journals such as the *Journal of Human Resources*, the *Journal of Labor Economics*, the *Industrial and Labor Relations Review*, and the *Economics of Education Review*, will establish the hegemony of human capital theory. The only fairly mainstream labor journal which still seems open to Bowles and Gintis's work on schooling is *Industrial Relations*.

## DEMOCRACY AND CAPITALISM

During the 1960s and 1970s, radical social movements increasingly mobilized around the language of liberal democracy. Southern blacks marched for civil rights, women demanded the right to self-determination and an equal voice in the family, and workers began to articulate the goal of a democratic workplace. A deeply rooted commitment to individual rights and popular sovereignty provided the cultural tools to articulate the goals of these movements.

In *Democracy and Capitalism*, Bowles and Gintis argued that neither liberal nor Marxian social theory (the former including neoclassical economics) had much to say about these social movements, because neither satisfactorily addressed two of their central concerns, domination and identity.<sup>6</sup>

5. Gintis's work on endogenous preferences with respect to schooling suggested a larger problem with neoclassical theory and capitalist organization: society would have a materialist bias, because people could only improve by getting things, not by becoming better people. See Gintis (1972, 1971).

6. In this stage of their work, Bowles and Gintis began to move away from traditional Marxian formulations of economic problems, which they increasingly saw as insensitive to the priorities of modern social movements. Two papers document more of their transitional thinking, which tried to reformulate the labor theory of value to address their growing concerns about Marxism. These are Bowles and Gintis 1977, 1981.

First, both philosophies had highly restrictive views of domination. Liberalism had no conception of domination outside the sphere of physical coercion (predominantly, the state). Individual choice was the foundation of freedom, and found nearly full expression in markets. Indeed, 'democracy' was virtually equated with 'capitalism'. This perception, so clearly at variance with the historical record, was made possible by two partitions of social space. The first was the application of liberalism's basic terms – freedom, equality, democracy – to an arbitrarily demarcated public realm, which excluded families and workplaces. The second was the relegation of large groups of people to a category of learners, who are excluded for various reasons (ranging at times from age and incapacity to gender, race and propertylessness) from the sanctioned exercise of rights and freedoms.

Bowles and Gintis argued that the liberal rejection of popular sovereignty in the economy was inappropriately based on a characterization of the economy as private, that is, involving no socially consequential exercise of power (Bowles and Gintis 1983). They found three types of such power: capitalist control over the labor process, control of investment and disproportionate influence over state economic policy. Each of these was socially consequential in that they did not simply arise as a response to the competitive dictates of the market; a democratic reorganization of decision making concerning the labor process and the allocation of credit was feasible, and such reorganization would produce equivalent or greater output.

While Marxism did not share the propensity of liberal theory to declare the capitalist economy off-limits to democratic decision making, it contributed little else to the understanding of domination. Certainly, one of its great intellectual triumphs was demonstrating that owners may exploit workers in production, despite the absence of direct physical coercion in competitive labor markets. However, by remaining overly preoccupied with the unequal distribution of property, and the unequal distribution of the surplus to which this gave rise, Marxism expounded a one-dimensional view of oppression.<sup>7</sup> Not surprisingly, then, Marxism had little relevance for feminists who were greatly concerned with violence against women and the gender division of labor, and even for trade unionists who challenged the political, rather than just the distributional, dimension of exploitation.

7. This is the basis of Bowles and Gintis's debate with John Roemer. Roemer accepts the Walrasian assumption of clearing competitive markets, and abstracts from issues of agency and incentives, locating the primary source of capitalist power in the ownership of the means of production. See Roemer 1990.

Marxism was further limited in its comprehension of domination because the theory was generally hostile to the concepts of agency and freedom. If liberal theory misunderstood domination through its elevation of choice and freedom to the grand organizing principles of capitalism, Marxism had the same result by marginalizing the role of agency in the transformation of capitalism.

The second major shortcoming of both liberal and Marxist theories was their neglect of the politics of identity. In liberal social theory, the notion of 'identity' reduces to the exogenous interests of individuals. And despite the prominence of solidarity and class in Marxian social theory, Marxism also disregarded the process by which group identity and solidarity developed, trusting that these flowed automatically from membership in a class (and perhaps also race, gender or nationality). Both philosophies viewed institutions as means towards pre-given interests, rather than as profound influences on interests.

Thus, whatever their differences, Marxian and liberal theory shared two fundamental commitments: to a one-dimensional representation of power and to a notion of exogenous interests. Bowles and Gintis proposed that a democratic politics must come to grips with two fundamental realities: first, that oppression takes many forms operating under many different social rules, and second, that politics is as much about who we are to become as it is about what we get.

### The Heterogeneity of Domination

Bowles and Gintis portrayed the immense diversity of forms of domination in their scheme of sites and practices. A site is a distinct set of social rules. Thus one site, the workplace, is structured around rules which (among other things) give the employer the right to decide investment strategies and determine layoffs. Another site, the family, is structured around rules which establish various divisions of labor and distributions of authority and goods among family members. Yet another site, the liberal democratic state, operates according to rules establishing civil liberties, elections, and so on.

Practices are interventions to change some aspect of social reality. They are of four types, distinguished by their objects: appropriative (transforming the physical world), distributive (changing the allocation of some social good), cultural (changing the tools of social discourse), and political (altering the rules of a social interaction). Bowles and Gintis asserted that forms of domination are generally not identified with any one site; rather, for example, gender inequality is reproduced through the interaction of the rules structuring

wage work, families, and the state. Similarly, capitalism is reproduced not just at the workplace, but also in the state and family, much as Bowles and Gintis's earlier analysis of schooling had established. Furthermore, practices are often transported from one site to another as contesting groups seek to expand the range of applicability of practices which favor them.

Society is thus a 'mosaic' of structures and practices, interacting as a reproductive, but also potentially contradictory whole. Bowles and Gintis made extensive use of Marx's insight that social structures may contain the seeds of their own transformation. Certain sites tend to generate the kinds of practices which undermine one or more sites; for example, rapid expansion of the capitalist relations of production proletarianizes women and subjects them to capitalist domination at the same time that it mitigates male domination in the home. But in contrast to some passages of Marx, Bowles and Gintis did not regard the trajectory of fundamental social change as preordained by structure. Historically conjunctural social practices, with all their unpredictable, irreducibly human moments, profoundly influence what kind of institutional change will result from structural contradiction. In particular, the extent and forms of solidarity, which depend critically on how different oppressed groups articulate their priorities, determine the winners and losers of social change. And this depends on the ability of groups to shape communicative tools – such as the words 'freedom', 'right' and 'citizen' – in such a way that gives their diverse membership internal cohesion (Gintis 1980).

Bowles and Gintis analyzed the demise of the Keynesian accord in the 1970s using this framework (Bowles and Gintis 1982).<sup>8</sup> The accord, developed in the first several decades after 1930, set rules which attenuated a recurring clash between rights vested in persons by the liberal democratic state, and rights vested in property by the rules of capitalist production. Each set of rights has been characterized by an expansionary logic and history: capitalism has progressively encroached upon more and more spheres of social activity, while the language of rights has been increasingly transported to sites for which it was never intended by its original proponents. One such example is the 'right' to a safe workplace, which restricts the capitalist's 'right' to direct his/her workers and to invest his/her funds entirely as he/she sees fit.

Such clashes of property and personal rights escalated in the 1960s and 1970s. The labor, civil rights, anti-war, women's, environmental and occupational safety movements, all scored important successes by couching their demands in the culturally familiar and sanctioned language of liberal

8. See also Bowles, Gordon and Weisskopf 1983.

democratic rights, even though it challenged the traditional rights of capital. In the process, these movements increased workers' standard of living, about doubling average real income in a generation. They also gained for their constituents greater control over economic decision making, forcing dominant groups to spend ever more of their resources on enforcing the old but newly vulnerable social rules which buttressed their domination.

This was a structurally stable scenario only as long as the economy grew rapidly, permitting simultaneous growth of profits and workers' incomes, and increased expenditures on enforcing the rules of the game. The success of the Keynesian accord in attenuating conflict depended on the two to three percent growth in productivity which it was able to maintain from about the late 1940s to the late 1960s. However, the successful demand for greater rights by a broad range of groups undermined dominant groups' control, and contributed to the profit squeeze and attendant economic crisis of the late 1960s and 1970s.

#### Endogenous Interests: Learners and Choosers

Bowles and Gintis's work on schooling had shown that preferences are not independent of institutions. In *Democracy and Capitalism*, they argued that social action also changes the actors in economic conflicts. Marxism, they argued, only partially comprehended this phenomenon, because of the common assumption that actors' interests were preconstituted by class position. Liberal theory could not at all accommodate the process of learning through social participation, because learning lies outside the logic of choice. Most significantly, while agents may have a relatively great deal of freedom to choose consumer goods and even in many cases their occupational roles, they have far less liberty to influence the process by which wants are formed in the first place: to choose what kind of persons they want to be.

Thus liberal theory ensured that institutions were exempt from evaluation concerning their contribution to human development, and that hierarchical control was never scrutinized for its detraction from democratic culture. By sanctioning the complete ascendancy of 'exit' over 'voice', the theory rationalized the lack of participation which fosters personal growth. In addition, by identifying choice and freedom with the liberal state and with markets, liberal theory sanctioned the lack of participatory institutions (excepting the capitalist corporation) positioned in between the state and the individual.

## MICROFOUNDATIONS OF POLITICAL ECONOMY

Missing from Bowles and Gintis's work to this point were persuasive answers to some key questions concerning power in the economy. How can capitalists dominate and exploit, when dissatisfied workers can simply walk away from their jobs, because labor markets clear in equilibrium? Why is there not a flourishing sector of democratically controlled firms in advanced capitalist economies if such organization is more efficient? In *Schooling in Capitalist America*, they had stressed that owners exercise power over workers through control over the labor process, and through educational practices which maintained capitalist domination. In *Democracy and Capitalism*, they also grappled further with the question of economic power, particularly in their discussion of why the capitalist economy is not private. In the third phase of their collaboration, they produced several rigorous models of what they called short-side power in the economy: the ability of agents with scarce resources (jobs, credit, and so on) to unilaterally sanction others (workers, democratic firms, and so on) by denying access to these resources.

Marx of course had developed the notion of a reserve army of unemployed labor, which was automatically replenished when profits began to fall. Unemployment reduced workers' bargaining power in the employment relationship and restored the surplus, in part by increasing the extraction of labor from labor power. This was the intuition behind short-side power. The first hint of how Bowles and Gintis would use it appeared in an early paper by Gintis (Gintis 1976). He suggested that the wage might be held above market-clearing levels, creating an excess supply of labor, and putting currently employed workers in the position where they could not walk away from their jobs, and would be motivated to submit to demands for greater work intensity. A decade later, they developed a full microtheoretic model around this idea, showing how an optimizing capitalist who cannot observe his/her workers nor enforce his/her labor contracts costlessly will choose a wage higher than the market-clearing level, in combination with worker surveillance, as a worker discipline device – producing unemployment, even when the labor market is in equilibrium (Bowles 1985; Gintis and Ishikawa 1987; Bowles and Gintis 1990, 1993).

The model works as follows. In order to elicit greater work effort, workers' gain from employment must exceed the value of their next best alternative. Thus, the credibility of the employer's threat of dismissal depends on what Bowles and Gintis call the 'employment rent' (or more broadly, the

'enforcement rent').<sup>9</sup> This is equal to the present value of the worker's earnings (taking into account the probability of dismissal) minus the present value of alternative sources of income. The employer can use some combination of employment rents (by varying the current wage) and costly monitoring to elicit greater work intensity. The worker will evaluate the marginal disutility of additional effort against its effect on the probability of dismissal, producing a 'labor extraction function'. If the magnitude of alternative income sources is exogenous, and the employer knows how workers react to variations in enforcement rents, the employer chooses a wage to maximize actual work done per unit of wages. This yields an equilibrium effort/wage configuration in which the worker is working at greater intensity than he/she would choose without the employment rent, but also receives a wage greater than the value of his/her fallback position. Because enforcement rents are positive, there is by definition involuntary unemployment. The employer has short-side power (the power of 'contingent renewal' of the employment relationship) because in equilibrium he/she supplies fewer jobs than are demanded.

But why do unemployed workers, or workers dissatisfied with the intensity of their labor under the direction of others, not start their own firms? The reason is that the capital market is also contested, much like the labor market (Bowles and Gintis 1992; Gintis 1989). Borrowers have an incentive to pursue high-risk high-expected-rate-of-return strategies because the cost of failure is borne by the lender. The lender in turn cannot collect debt obligations from a defunct borrower, so the lender will seek an enforcement mechanism. Monitoring a borrower's risk-taking behavior is extremely problematic, and the magnitude of the potential loss calls for some strategy in addition to contingent renewal to regulate the borrower's actions. The lender's optimizing strategy is to choose some combination of collateral and enforcement rents (in this case, interest rates below the level which makes the borrower indifferent to securing the loan).

The model of enforcement rents in credit markets works similarly to the model of enforcement rents in labor markets. The borrower's probability of default varies positively with the interest rate, because a higher rate lowers the value of the investment project for which the loan is being obtained, and reduces the magnitude of the enforcement rent. Assuming the lender knows the borrower's probability of default schedule, the lender chooses an optimal interest rate and amount of collateral to maximize his/her expected rate of

<sup>9</sup> It was also called in some papers the cost of job loss. For an attempt to measure the magnitude of employment rents in the US economy, see Bowles and Schor 1987.

return, with several significant results. First, the optimal interest rate will be below the level at which the borrower is indifferent between securing and not securing the loan; that is, there will be positive enforcement rents. Second, because the interest rate is below that threshold, there will be capital-rationed agents, persons who would like to get a loan but cannot. Third, the borrower will choose less risky behavior than he/she would have without the enforcement rents.

The importance of collateral in the endogenous enforcement mechanism in credit markets explains why workers cannot just start their own firms. Because of the collateral requirement, they have to have money in order to borrow money. Thus wealth holders exercise power over more than the goods and services which they can purchase; they exercise power over people in a number of critical ways, including short-side power to deny credit and to withhold jobs.

The importance of wealth in endogenous enforcement situations also provides an answer to an old question raised by Bowles and Gintis's work on schooling: with human capital becoming more important in the advanced capitalist countries, why are the owners of human capital not as powerful as the owners of financial and physical capital? From Bowles and Gintis's analysis of short-side power, the answer is apparent: the transferral of human capital is not exogenously enforceable, and thus is not as attractive to potential lenders as physical capital.

Bowles and Gintis have most recently begun to explore the implications of endogenous enforcement for the evolution of social institutions and norms (Bowles and Gintis 1993). They argue that the evolution of social institutions depends not just on allocative efficiency but also on their relative effectiveness in enforcing claims. For example, exchange capital markets tend to penalize non-hierarchical firms because such organizations have more participants whose actions must be controlled to ensure a favorable outcome for the lender (Gintis 1989).<sup>10</sup> More obviously, the existence of involuntary unemployment and credit-rationed agents indicates substantial inefficiency in the economy.

Furthermore, because contested exchange involves personal, strategic interactions, rather than the anonymity of faceless contractors in the Walrasian model, there is far more opportunity and incentive to try to shape the values of those with whom an employer or lender interacts. The contested exchange economy is more like a series of repeated games, which are replicated over

<sup>10</sup> Another example is that worker ownership of the firm and control over enforcement strategies is more efficient than capitalist ownership and control: such a redistribution permits compensation to former owners while making workers better off. See Bowles and Gintis 1993.

time and across sites. Like any repeated game, there is ample opportunity for cooperation. However, because spot markets privilege 'exit' over 'voice', the potential for cooperation is severely curtailed by the Walrasian ideal of anonymous exchange. The favored modes of dealing with others become indifference, non-cooperation and opportunism, rather than reciprocity and solidarity.

Bowles and Gintis count themselves among a growing number of contemporary 'post-Walrasians' who recognize the importance of imperfect enforceability of contracts or the endogeneity of economic agents. The former include the school of transaction-cost economics (Williamson 1985; Aoki 1984) and efficiency-wage theorists (Shapiro and Stiglitz 1984). The latter include Amartya Sen. A very small number of economists have questioned both exogenous enforcement and exogenous agents, these including Douglass North (1981) and George Akerlof.

However, Bowles and Gintis's treatment of endogenous enforcement differs considerably from that of other post-Walrasians. The transaction-cost and efficiency-wage approaches treat a systematic propensity towards opportunism, and the disutility of labor with its attendant 'shirking', as human nature. Bowles and Gintis see these as the result of the organization of economic life, assisted by the Walrasian mode's representation of the ideal world as one of faceless, anonymous transactions.

The transaction-cost school (as well as Coase, and Alchian and Demsetz) also view the authoritarian structure of the firm as a transaction-cost minimizing, hence 'efficient' solution to these problems of human nature. In contrast, Bowles and Gintis have consistently emphasized the efficiency-enhancing characteristics of the democratic firm. Moreover, the transaction-cost economists tend to see the endogenous enforcement problem as bilateral, which flows from their somewhat different treatment of incomplete contracts. For them, contracts are incomplete in complex transactions governing future behavior because not all possible contingencies can be foreseen and addressed in the contract. Contract termination is costly because both parties have heavy relationship-specific investments. Hence each party is motivated to establish a governance structure to regulate the behavior of the other. In contrast, Bowles and Gintis regard the exercise of power as asymmetric: workers are hurt far more by separation from the firm than are their employers. When employers dismiss a worker, they only lose search and training costs for that one individual, while a worker who walks away from his/her job loses a major portion of his/her livelihood while imposing relatively minor costs on his/her employer.

## CONCLUSION

Bowles and Gintis have done a lot to expand social scientists' views of conflict and power throughout the economy. In the process, they have also expanded social scientists' views of democracy in two ways. First, they have shown that democracy must be thought of as more than the registering of preferences (purchasing and voting); it ought also to concern the formation of preferences. Second, they have shown that the central terms of liberal democracy, freedom and sovereignty, ought not just apply to the state, but also to workplaces, schools, families and other sites.

Lest we be left with just a warm feeling in our hearts towards a couple of utopian idealists, it is important to remember that Bowles and Gintis have also been very outspoken on the need for progressive social movements to defend their projects with the language of technical and social feasibility. Not only is a democratic economy morally just; not only does it do a better job of fostering human development; it is also less wasteful and more rational, and promises greater prosperity for the vast majority of people. Their recent both popular and technical work on productivity-enhancing asset redistributions seeks to provide concreteness to these hopes (Bowles and Gintis 1993 and 1995).

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