

analyses. The collection is quite appropriate for an audience with less-profound knowledge of the issues. For those who are more familiar with the history and the current problems of the EMU, the usefulness of the book is somewhat reduced due to the lack of addressing more specific topics and because of the absence of more innovative approaches and perspectives.

—Antony P. Mueller  
*University of Erlangen-Nuremberg, Germany*  
*Universidade Federal de Santa Catarina, Brazil*

## **Worker Satisfaction and Economic Performance: Microfoundations of Success and Failure**

**Morris Altman**

Armonk, New York: M. E. Sharpe, 2001 (297 pages)

My former supervisor at a small manufacturing plant trusted us to record accurately our work hours instead of punching a time clock. She also bemused us by suggesting that we record the actual hours worked, not the hours that we were physically present at the plant. In *Worker Satisfaction and Economic Performance*, Morris Altman uses this time distinction to challenge a significant portion of dominant, economic theory.

While a gap remains in the author's reasoning, neoclassical theory would improve by including any selection of this collection of fourteen, recently published journal and book articles. His "behavioral" theory, an extension of x-efficiency and efficiency-wage research, seeks to demonstrate how the traditional focus on resource allocation overlooks important causes of living standards. The working poor, however, will skeptically request more information when reading the following simplification of his argument: High-wage, fast-pace shops are preferred to lower-wage, slower-pace shops. Therefore, codify the former in law, and enforce this outcome with additional regulatory personnel, financed by taxing the wage premium.

His precise argument is more interesting, concluding that market competition fails to secure maximum living standards. Combining this competition, however, with legislated wage increases does secure higher and more equal income. He would increase wages through several paths: minimum wage legislation; stricter regulation against wage discrimination, especially gender discrimination; increased union protection; and increasing the global ratio of adult to children laborers. Neoclassical theory recommends more indirect policies for increasing wages, because these statutory increases raise firms' unit costs, resulting in inflation eroding the initial nominal wage increase, unemployment from input substitution, more inequality, and reduced aggregate output.

Altman argues that these latter, negative effects of wage increases do not materialize because firms' unit production costs do not increase. He reasons that higher wages secure more labor and management effort due to more cooperation, trust, better nutrition, and health, and increased sense of fairness. This increased effort, in turn, causes

higher labor productivity or x-efficiency, which compensates for the wage increase, causing unit costs to remain unchanged. Hence, firms' accommodating a wage increase without any profit loss, layoffs, or price hikes results in higher and more equal, real income per capita.

Again, a significant gap in the author's causal sequence makes these alleged benefits unlikely to materialize, especially in the form described. Specifically, the author's causation ends up securing higher income from more working hours, not more pay per working-hour, an important difference for workers' welfare. This labor-intensive, rather than productivity-intensive path, to higher income, unintentionally occurs from an implicit and unique interpretation of productivity.

The author measures productivity as  $Q/L$  and will be referred to here as "behavioral productivity." It contrasts with the more traditional concept of productivity,  $Q/e$ , referred to here as "neoclassical productivity." This distinction needs explaining because Altman would argue that he has discovered additional causes of conventional productivity, not a new concept of productivity.

The numerator in both ratios measures firm output ( $Q$ ). The different denominators lead to distinct concepts, ultimately undermining the hypothesized causality. After defining  $L$  as "labor input," he consistently uses it as the implicitly or explicitly contracted labor time, to distinguish it from actual working time or effort. This makes behavioral productivity output per unit of contracted labor time ( $Q/L$ ).

Altman then convincingly shows that behavioral productivity is a positive function of  $e$ , "the quantity and quality of effort inputted into the process of production" (9, 61, 186, 204). However, with the exception of an insufficiently developed footnote (ftn. 10, 118), the failure to distinguish effort quantity from effort quality causes confusion, for quality of effort is difficult to define without reference to its fruit or productivity—but this makes quality of effort indistinguishable from productivity, making "productivity a cause of productivity."

Perhaps due to this problem, the author consistently treats effort ( $e$ ) as a quantity rather than as a quality, in the numerator of the ratio  $e/L$ , "effort per unit of labor input" (128, 158, 187, 222). In other words, Altman uses ( $e$ ) as the time that workers are acting with the intention of increasing output, as opposed to mere physical presence, or contracted labor time. Most important, this makes neoclassical productivity output per unit of effort,  $Q/e$ , a concept overlooked in the book.

The author proceeds in assuming that labor contracted ( $L$ ) exceeds effort ( $e$ ) (187), which is persuasive because "incomplete contracts" and "monitoring costs" cause slack. The magnitude by which contracted labor time exceeds effort might be called, for the sake of this present critique, "on-site" or "at-work" leisure, manifested in various forms: extended breaks, socializing, personal correspondence on e-mail or telephone, admiring finished output with customers, frequent sweeping of a shop floor for the workers' preference of safety and order over productivity, and other "utility maximizing" departures and distractions from production. Finally, since  $L$  exceeds  $e$  in Altman's model, neoclassical productivity ( $Q/e$ ) exceeds behavioral productivity ( $Q/L$ ).

An example illustrates why the productivity distinction is important for worker welfare and evaluating the hypothesized causation. Assume that persons *A* and *B* both produce forty units of output per day and are contracted to work eight hours per day. Hence, behavioral productivity ( $Q/L$ ) is five for both *A* and *B*. Yet *A* works actively ( $e$ ) for only five hours per day compared to *B*'s ten, making *A*'s neoclassical productivity ( $Q/e$ ) eight, compared to *B*'s four. *A*'s higher neoclassical productivity allows for five more hours of leisure per day, three of which are taken on-site. Alternatively, *B* actively works the full eight hours at the firm and two additional hours at home.

Two lessons derive from this example. First, despite *A* and *B* enjoying equal behavioral productivity, equal income, and equal contractual wage, *A* achieves higher welfare from five additional hours of leisure, caused by higher neoclassical productivity. Second, Altman's proposed policies encourage person *A* to work more like person *B*, with the expected reward of higher income.

Returning to the issue of causality, the traditional factors of capital, technology, human capital, and Altman's innovative, "organizational capital" increase both behavioral and neoclassical productivity. More effort ( $e$ ) also increases behavioral productivity, because contracted labor remains unchanged and output increases from more effort. However, contrary to the author's proposed causality, more effort decreases neoclassical productivity ( $Q/e$ ) because of fatigue, or diminishing returns from additional, fresh, labor-effort crowding a fixed factor. Therefore, even though these productivities, taken together, facilitate a more discriminating, causal analysis, the exclusive use of behavioral productivity conceals the fact that neoclassical productivity declines with more effort.

More important, exclusive use of behavioral productivity also overlooks the foregone leisure from the wage legislation. In particular, Altman successfully argues that unit costs remain constant with higher wages and higher behavioral productivity, but the success arises because the opportunity cost of foregone leisure is omitted from accounting costs. Also, constant unit accounting costs do not imply constant unit economic costs in the ensuing welfare analysis.

This critique is better understood by using the author's aggregate production function. The hypothesized welfare gains from wage legislation appear when inserting behavioral productivity into the production function, but they fail to appear when inserting neoclassical productivity. Income per capita increases using the author's equation of  $Q/p = (Q/L)(L/p)$ , where  $p$  equals population (32, 123, 210). With contracted labor and population remaining constant, income or output per capita increases solely from increasing the first term of behavioral productivity. Yet, omitting increased effort from this equation, and the corresponding decreased leisure residual, allows for the mistaken conclusion that welfare unambiguously increases from wage legislation. A more welfare-accurate equation, using neoclassical productivity, is  $Q/p = (Q/e)(e/p)$ . From this equation, income per capita increases only if the increased effort per unit of population ( $e/p$ ) dominates the decreased neoclassical productivity ( $Q/e$ ). Hence, the

potentially higher income derives from more effort or actual work hours, not from higher productivity.

This overall critique leads to a more modest conclusion relative to the author's: Wage legislation can lead to higher worker income, without reducing profits, on the condition that laborers work a larger proportion of their contracted labor time, and these increased hours of effort dominate their decreased neoclassical productivities. Even more restrictive however, workers' welfare increases only under the allocation condition that the marginal benefit of income exceeds the marginal cost of foregone leisure, whether off-site or on-site.

Combining these conditions, workers must be willing to work "overtime," relative to historical norms for effort, at lower effective wages. Effective wages can be calculated as:  $\text{effective wage} = (\text{statutory wage} \times L) / e$ . Insofar as an increased statutory wage in the numerator causes increased effort in the denominator, as Altman argues, the effective wage, or pay per actual-work-hour, remains constant. Diminishing returns to effort cause it to decline. Therefore, if inflation and unemployment do not dilute a statutory wage increase and, thus, render it partially cosmetic, then effort does.

—Gary Scott  
*St. Mary's University, Texas*

## **The Political Economy of Reform in Post-Communist Poland**

**Janice Bell**

Cheltenham, United Kingdom: Edward Elgar, 2001 (243 pages)

The book presents us with a wide panorama of socioeconomic changes that have occurred in Poland since the 1989 turning point together with a penetrating insight into their causes and what impact they have had on political life. The point of departure for the author is a well-known perception that in the beginning of transformational processes, social gains are obvious: "Liberalization policies put an end to shortages and brought full shelves and inflows of previously scarce consumer goods" (6). It is indeed true to say that in post-Communist countries, especially in Poland, people welcomed the first years of transformations with relief manifested, above all, in shops. Full shelves were a telling sign and they acted as a litmus test for correct political actions taken. The majority of the population, however, was not aware of the whole painstaking transitional process they were to go through; that is, necessary social and political reforms, budgetary cuts, redundancy, and the like. Therefore, when transformations entered their second and third stages, they met with "a pessimistic social mood and a growing sense of opposition to reform" (7).

It is obvious, as the author says, that some people will inevitably lose in the transformational changes, "at least in the short run" (9). The tricky point here is how many are going to lose, who is going to lose, and for how long. In Poland, the initial phase of