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Varieties of Private Economic Power

Economics is often criticized for not having a notion of power. Indeed, numerous authors have suggested that in an economy characterized by voluntary transactions, private power has no scope to operate. I discuss two different notions of bilateral power in economics, market power and short-side power, using examples from the labor market to illustrate. These models of power give employers personal scope for "arbitrary whim", in that they can inflict big costs on the other side of the transaction at only small costs to themselves. They also imply that both business owners and individual workers can suffer large costs due to small movements in market prices for goods and services, implying a further domain of structural domination by impersonal market forces. And because this domination can be used to economically benefit some at the expense of others, it gives support for recent philosophical definitions of exploitation.

A wide range of evidence has documented pervasive imperfect competition (even in markets that look thick in the sense of many agents and no barriers to entry) and widespread asymmetric information, and so imply pervasive scope for private power in the economy. perhaps most obviously the markets for credit and labor. Legal doctrines around "at-will" employment, for example, are predicated on the absence of market power. Wage variation according to job hazards become poor proxies for the social value of protection or regulation. "Exit" being a less credible option makes "voice" more important, but the asymmetries of private power mean that formal channels of voice alone may not suffice.

Inside LPE conversations, these economics-based notions of power offer conditions under which Hale's notion of coercion has bite, and clarifies some ambiguities in "Coercion and Distribution". They point to limits of purely accounting based notions of economic power that leave the realities of prices, wages and working conditions untouched. They suggest that the scope of workplace democracy must include potential workers, not just incumbent workers. And finally, they suggest that "de jure" changes in law must account for (and may be limited by) technological and organizational constraints on enforcement in private economic exchanges. I use examples from unions and labor law.