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Radical political economy (RPE) is a school of thought that has emerged from, and draws on, both Marxian and neoclassical economics. Three fundamental ideas define RPE. First, economics is intrinsically political: key economic processes depend on society's institutional power relationships. Second, institutional change is desirable; existing institutions are less efficient, and/or less just, than some feasible alternatives. Third, existing economic structures are the contingent results of particular historical events, and therefore need not be optimal or efficient.

The RPE perspective has produced an important body of theory and empirical research in labor economics. This article reviews and critiques the RPE contributions in two broad areas: the nature of the firm, technology, and work; and the segmentation of labor markets. An exhaustive bibliography appears in the original article.

THE STRUCTURE OF THE FIRM

The RPE theory of the firm assumes a hierarchical structure, dominated by the owners of capital. The firm uses the threat of dismissal to elicit work effort from employees, in order to maximize profits. This is no different from the independently developed "efficiency wage" models, in which firms monitor work effort and threaten to dismiss those whose work substandard. Both the intensity of supervision and the cost of job loss (the value of the current job relative to alternatives) are positively associated with intensity of work effort.

Empirical estimates confirm that the cost of job loss is positively correlated with productivity. Either increases in wages, or increases in unemployment, can boost the cost of job loss -- and both of these factors are correlated with productivity. Intensity of supervision is more difficult to measure; it appears to be both higher and more rapidly increasing in the U.S. than in other industrial countries.

WORK AND TECHNOLOGY

The hypothesis of "de-skilling" technical change can be traced back at least to Marx, and was forcefully restated by Harry Braverman, in *Labor and Monopoly Capital*, in 1974. Technical change designed to replace skilled labor with machines and unskilled labor, combined with Taylorism in work relations, were said by Braverman to be widespread and successful in breaking the power of early craft unions and allowing a profitable speedup of work. More recent historical studies, while influenced by Braverman, have often failed to support his conclusions. Some have suggested that Taylorism was not always very successful, creating semi-skilled industrial labor that was difficult to motivate or control. Others have found that average skill levels are not declining; in fact, increasing education has facilitated the creation of a labor force with new attitudes and behavior patterns.

Is the choice of technology made by the capitalist firm necessarily efficient? One form of inefficiency emerges from the theory of the firm discussed above: since the same output could be produced with less supervisory inputs, the profit-maximizing production plan is not efficient (see Bowles summary in this section). A broader question concerns the choice of technologies and work organization in general.

The RPE literature claims that capitalist firms are less efficient than democratically run, employee-owned firms, both because incentive problems are minimized by worker ownership and because ownership motivates workers to share their unique knowledge of the production process, allowing valuable innovations.

If employee ownership is more efficient, why is it so rare in the marketplace? There are a variety of answers. The economic environment may make it difficult for isolated worker-owned businesses to survive, perhaps because lending institutions demand traditional forms of collateral, which capitalist firms are more likely to have. The history of technological development has undoubtedly favored hierarchical, control-oriented technologies over participatory, democratic alternatives; skilled craft work may lend itself to worker-managed firms, in contrast to industrial mass production. Finally, even if worker ownership has an advantage in short-run, static efficiency, private ownership may be more dynamically efficient. A hierarchical corporation is both less risk-averse and more able to appropriate the full long-run return on its investment than a workers cooperative; hence the traditional firm is less prone to underinvestment.

The RPE theories discussed here offer important insights, but at the cost of several theoretical oversimplications. Specifically, they ignore management functions other than labor supervision; they leave no room for the intricacy of actual bargaining processes between labor and management; and they rely on a poorly developed psychological treatment of work incentives.

LABOR MARKET SEGMENTATION

Institutionalist and radical economists have pioneered the study of labor market segmentation. There is no clear boundary between radical and mainstream writing on labor market segmentation; however, the RPE literature encompasses historical and institutional topics that are rarely examined by most of the economics profession.

The theory of labor market segmentation argues that even in long-run equilibrium, workers of identical wages will be paid different amounts -- or equivalently, there will be nonmarket rationing of high-wage, desirable ("primary sector") jobs. Segmentation is often said to arise from differences in work incentives. For example, Richard Edwards proposed that there are three fundamental mechanisms of labor control: simple control by supervisors; technical control based on the use of machinery such as assembly lines; and bureaucratic control designed to induce workers to internalize the goals of the enterprise. These correspond, respectively, to the secondary, subordinate primary, and primary sectors of the labor market.

Primary sector jobs exist, in such theories, either because they are difficult to monitor (making it more effective to "discipline" them with high wages, raising the cost of job loss and encouraging enterprise loyalty), or because they are intrinsically unsuited to negative sanctions and require workers to internalize their employers' goals. Less attractive and less stable secondary jobs exist either because they are easier and cheaper to monitor, or because fluctuations in product demand make it costly to provide long-term employment for all.

Firms may have a choice between "high trust" and "close supervision" incentive schemes, with different wages and average job tenure depending on which they choose. The psychological attributes that employees bring to the job must be compatible with the employer's incentive scheme; in a broad view of political economy, worker attitudes can be seen as endogenously shaped by schools, family life, and by work itself.

An important theme in labor market segmentation literature is that women and minorities have limited access to primary jobs. Discrimination by employers would be "rational" (i.e. profitable) if ascriptive characteristics were correlated with unobservable characteristics that are relevant to work performance. Possible unobservable characteristics playing this role include workers' expected job tenure and preferred hours of work. The longer an employee expects to remain in the same job, and the longer the hours that he/she prefers to work, the cheaper it is (the lower the wage premium required) to induce loyalty and identification with the firm. If men, on average, expect longer job tenure and prefer longer weekly hours than women -- due to both childbearing requirements and traditional gender roles in the household -- then there is an "explanation" for primary sector employers' preference for male workers.

The same argument does not directly apply to racial differences. Here the RPE literature offers an alternative hypothesis, the "divide and rule" theory of discrimination. Consistently treating one group of workers better than another reduces worker solidarity and bargaining power, thus lowering the cost of supervising workers and extracting effort from them. However, such models are not consistent with the emphasis on reciprocity and mutual obligation between employers and primary sector workers; nor do they apply to entirely segregated workplaces.

WAGES AND PRODUCTIVITY

As predicted by labor market segmentation theory (but not by conventional microeconomics), there are large, persistent wage differentials correlated with plant size, firm size, and industry. These differentials remain even when one controls for education, other worker characteristics, and job characteristics such as unionization. The relationship of wages to plant size is consistent with one of the explanations of segmentation, namely the difficulty of monitoring primary sector workers. The harder it is to monitor workers, the more employers will rely on higher wages rather than closer supervision. It seems plausible to assume that it is harder to monitor workers in larger establishments; hence their wages will be higher, all else being equal.

Wage differentials associated with firm size or industry may reflect differences in profitability: firm size may be a rough indicator of profitability, and industries have persistent differences in profit rates. In a more profitable enterprise, rent-sharing -- dividing the excess profits between employers and employees -- becomes possible. Norms of fairness may develop, suggesting in general that high-profit firms should pay high wages, or specifying expected, "fair" wages for particular occupations in particular industries or firms. Refusal to share a visible surplus with employees might undermine the sense of loyalty and obligation that primary sector employers strive to create.

Differential wage payments mean that the cost of job loss is substantial for workers in the primary sector, but insignificant in the secondary sector (because other poorly paid secondary jobs are readily available). When unemployment increases, the cost of job loss also rises, which should increase productivity, as discussed above. However, the effect of unemployment on productivity is much greater for workers in the secondary sector than in the primary sector. This somewhat paradoxical finding suggests a limit to the applicability of efficiency wage and monitoring models of the labor process. If primary sector workers have extensive firm-specific human capital, it may be very expensive to replace them, reducing the threat of dismissal. Theories of rent-sharing in profitable firms, and sociological models involving norms of fairness, may therefore be more relevant to wage and employment practices in the primary sector.

Many questions remain to be answered in the RPE framework. For example, broad issues of institutional change and stability have been addressed by some authors in terms of long-lasting, but gradually changing, "social structures of accumulation." This intriguing notion has inspired some interesting research into business cycles, "long waves" of growth, and institutional change; in theoretical terms, however it remains ambiguous and problematical.

> Looking solely at its ability to stimulate provocative and influential research, the intellectual project constituting RPE must be judged a success. Moreover... the RPE conception of economic relationships as political, remedial, and historically contingent has increasingly been incorporated into the mainstream of economic research. Over time, this process is likely to erode much of the distinction between RPE and the rest of the economics profession -- to the benefit of both. (1429-30)