

September 3, 1976

Professor Lester C. Thurow,
Alfred P. Sloan School of Management,
50, Memorial Drive,
Cambridge, Mass. 02139, USA

Dear Professor Thurow,

Thank you for yours of August 20, 1976.

I am going to study the literature you mention.

I had the good luck of receiving simultaneously your chapter in Eckstein's "Parameters and Policies in the U.S. Economy" (1976) and read it very carefully, since I am highly interested in your work. The very least I can say is that, in any case, its imaginative approach appeals to me; as, I take it, it did to many others!

Although you see your theory as distinctly different from what you call the wage competition theory, and probably would subsume "my" theory under the latter category, I agree with almost everything you say - and I don't see the difference so pointedly. In my earlier theoretical model (Selected Papers, 1959, p. 243) I assumed, like you, that wages are determined by the job characteristics only (the s_i in my notation). Today I assume the personality traits (my t_i in that 1959 article) to come in also, but with a negative sign. In your terms - and you express that view also, on p. 47 - that could be interpreted to mean that an individual's training-on-the-job costs are determined by the deviations between the job characteristics and the person's background characteristics. So here we meet, I think. I am coming back to this at the end of this letter.

I must confess that I don't really see the difference between wage competition and job competition - although your description of the process of finding a job and the way the employer selects are clearly superior to other descriptions. I see a similarity with the well-known contrast made between "price competition" and "quality competition" on markets of industrial products. There it means - I guess - that producer B supplies at a price p_2 , a product of quality $q_2 > q_1$ of producer A's product and not an identical product of quality q_1 at a price $p_2' < p_1$, A's price. Now to me it seems that

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the buyer simply compares which combination, (p_1, q_1) or (p_2, q_2) he prefers, or alternatively (p_1, q_1) or (p_2', q_1) . And that to me means that there is no difference between price competition and quality competition in that the usual theory of demand and supply can be tailored to both.

Then, you make the point, on p. 46, that diseconomies or economies of scale invalidate the theory that prices of production factors are equal to their marginal product. My preference is to add in the case of diseconomies the more efficient production units receive a rent (and here some question arises of the sort you mention); in the case of economies of scale free competition is eliminated. Moreover, you correctly state that for the economy as a whole there are hardly diseconomies or economies of scale, as D. Jorgenson does in Harvard Reprint No. 49, "Investment Behavior and the Production Function" (Bell J. of Econ. and Man. Sc. 3 (1972) 220).

I do agree with your views on technology, including (p. 45) that "a conscious effort to alter technological progress might be successful"; but I do consider (for the past) technology to have been the inequality creator.

But is it really true that Break's findings for accountants are generally applicable (p. 15)? German colleagues maintain that taxes do reduce workers' willingness to work longer; Germany even introduced a special tax reduction for this case.

Your Tables 1.12 and 1.13 are a challenge, it seems to me, only as far as the bottom rows of Table 1.12 are concerned. The top row seems to me to behave according to (my) expectations. College-educated workers were scarcer in 1950 than in 1970 and so they were paid relatively higher incomes in 1950 than in 1970. Looking at Table 1.13 one might say: in 1970 college workers were more abundant: small wonder that you find more of them in all percentiles. Grade school workers were relatively scarcer in 1970 than in 1950, so you find less of them all over the place. But in Table 1.12 I have to admit that the higher percentages of grade school workers, in the last three rows, in 1970 than in 1950, is in need of an explanation. My suggestion is (if I want to defend "my" scarcity theory) that not only schooling explains income, but

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several other traits as well. Moreover, due to technological developments demand for grade school workers may have fallen.

Your Table 1.17 is extremely interesting. I don't understand how large its R^2 is, since I don't understand your symbols E09 etc. Quite a few of the negative prices can indeed, it seems to me, be interpreted as psychic income. But what about working in col wheather? Could this be a reflection of an immediate competition with non-whites against whome is discriminated? Or do you have other explanations?

My main line of approach at the moment is to try to "explain", in a regression equation, earnings by two sets of variables, the required degree of various capabilities (or traits) and the degrees available or present in the person, of the same capabilities, It is this symmetry which I try out. We have material from a large enterprise in which for two capabilities only these required vs available capabilities were administered. My expectation about algebraic signs (+ for required and - for available, since they represent "demand" and "supply" factors) was confirmed in this one case. ($R^2 = 0.76$, ca 400 observations). It is this symmetry which I would have liked to find in a table like your Table 1.17.

Thanking you again for your possible reaction, I am,

Yours sincerely

(J. Tinbergen)

cc. Prof. Robert H. Haverman, NIAS, Meyboomlaan 1, Wassenaar
Drs. Joop Hartog, EUR

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