

## A NOTE ON THE SUPPLY OF LABOR

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THERE exists a small economics literature which concerns itself with the notion of a negatively sloped labor supply curve in underdeveloped economies.<sup>1</sup> The standard theoretical explanation of a negatively sloped labor supply curve involves two necessary conditions: (1) the notion of counteracting income and substitution effects as money wage rates change and (2) the notion of an income effect which outweighs the substitution effect.<sup>2</sup> Thus, conventional theory treats the negatively sloped supply curve effectively as a special case. Recently, Josef Hadar has considered the case wherein "a consumer desires to earn some fixed level of income, and . . . adjusts to changes in the wage rate to always maintain his desired level of income."<sup>3</sup> The conclusion which Hadar reaches is that the individual under these conditions will have a rectangular hyperbola (and thus negatively sloped) labor demand curve.<sup>4</sup> The analysis by Hadar is deficient in at least two major respects. First, he provides no analytical reasoning as to why a consumer would strive for a "target" money income, rather than target utility. Second, he does not adequately develop the nature of significance of the hyperbolic labor supply locus; he analyzes neither the factors influencing the supply locus (does not specify the qualitative character of *ceteris paribus*) nor the implications of individual curves of the kind he derives for the *market* labor supply curve.

The purpose of this paper is to provide a framework for labor supply analysis which postulates consumers as having a target utility (welfare) level, rather than a target income level *per se*. After rigorously developing the basic framework, we proceed to the derivation of

<sup>1</sup> See, especially Eliot Berg, "Backward-Sloping Labor Supply Functions in Dual Economies: The African Case," *Quarterly Journal of Economics*, Vol. 75, August 1961, pp. 468-92.

<sup>2</sup> See, for example, Richard A. Bilas, *Microeconomic Theory: A Graphical Analysis*, McGraw-Hill Book Co., New York, 1967, pp. 255-58; Charles E. Ferguson, *Microeconomic Theory*, Homewood, Illinois, Richard D. Irwin, 1966, pp. 315-18; and Charles E. Ferguson and S. Charles Maurice, *Economic Analysis*, Homewood, Illinois: Richard D. Irwin, 1970, pp. 96-7.

<sup>3</sup> Josef Hadar, *Elementary Theory of Economic Behavior*, Palo Alto, Addison-Wesley Publishing Co., California, 1966, pp. 255-56.

<sup>4</sup> *Ibid.*, p. 256.