Lane's Market Experience in the Contemporary Market Economy

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Abstract

Economists are increasingly incorporating psychological insights about human motivations and needs into economic models to better predict the behaviour of market agents. So far, however, economics is still based on the often refuted principles of neoclassical economic theory. This thesis reviews the alternative market theory of a producer economy put forward by Robert E. Lane in his book '*The Market Experience*'. Lane argues that it is not income, but rather human development and satisfaction of life as-a-whole that a market's contribution to human wellbeing should be judged by. In the producer economy, complex and meaningful work is seen as the market's biggest source of human development and implicitly happiness. In response to his theory, this thesis analyses whether i) Lane's producer economy would be a better predictor of the market's contribution to a person's wellbeing, and ii) whether it provides a superior alternative for the current criterion of neoclassical economic theory by which we judge markets. First, I argue that for some work can be a source of stress and anxiety and it is not obvious that work is the market's biggest contributor to happiness. Secondly, the producer theory is not compatible with market forces, as Lane recognizes, and fails to provide us with a theoretically sound alternative economic theory.

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I. Introduction

This bachelor thesis analyses the book of Robert E. Lane '*The Market Experience*' (1991) and aims to answer the question "Why and how does Lane give an alternative vision on the meaning of the market economy on the wellbeing of people?". In his book, Lane argues that he does not reject the market economy *an sich*, but that we should change the criteria by which we judge it. The current criterion, efficiency in producing and distributing goods and services, concerns merely intermediate goods. According to Lane, satisfaction of life as-a-whole and human development are the final goods on which the market economy's meaning for the wellbeing of people should be judged. He therefore proposes a producer economy, in contrast to the current consumer economy, in which work is not regarded as a disutility, but as the major source of human development that implicitly leads to more happiness. His psychological evidence shows that money income on the other hand contributes only little to a sense of well-being, and so it shouldn't be the most important outcome of the producer economy.

Participants in the contemporary market economy are increasingly focussing on whether workplaces reflect purpose and values, and on the social consequences of market economies as a whole (The Economist, 2019). It would be worthwhile to explore how Lane's suggestions of a producer economy could perhaps contribute to this new form of capitalism. Lane's book was written in 1991, but as of today economics is still taught at universities based on the principles of neoclassical economic theory. Hence, the effect of markets on people's well-being is judged based on principles such as utility, rationality, income, and efficiency. However, economists nowadays are (usually) aware of the fact that humans do not always act rational, nor that income is the biggest contributor to human development and happiness. But, when predicting the contributions of the market economy to wellbeing, economists have yet to find more appealing outcomes than wealth or income to judge a market by. With his theory, Lane aims to deviate from the neoclassical economic theory, while remaining within the borders of market principles. It is therefore interesting to analyse i) if Lane's theory of a producer economy would be a better predictor of the market's contribution to a person's wellbeing, and ii) whether it provides a superior alternative for the current criterion of neoclassical economic theory by which we judge markets.

This thesis is structured as follows. First, I present the main definitions of this book as they are discussed by Lane, including the properties of the market economy on which he builds his alternative vision, and the building blocks of the producer economy. Second, I explain why and debate if, as explained in part V and VI of *The Market Experience*, work and intrinsic rewards from work contribute more to wellbeing than leisure and monetary rewards for work. Third, I analyse, based on the last chapters of part V and VI, what happens to the market under these alternative criteria for wellbeing, and why they do not provide a superior alternative to the neoclassical criteria of economic theory. Fourth, I explain Lane's wish for cultural change and argue how institutions could promote such change. Lastly, I conclude that it is not obvious that work is the market's biggest contributor to wellbeing and that Lane's alternative vision does not provide a solid theoretical ground for a superior economic theory. Nevertheless, economics should take into account (and is doing so more and more) the intrinsic motivations and needs of people that Lane puts forward in his book.

II. The Properties of the Market Economy

A. Markets: definition and selected properties

The Market Experience starts from the perspective of neoclassical economic theory in which demand and supply determine goods, outputs and income distributions in markets (Kenton, 2019). Below, Lane's explanation of neoclassical economic theory is presented. By first elaborating on neoclassical economic theory, on which contemporary economic theory and markets are built, it becomes easier to detect its strengths and weaknesses. These can in turn be fruitful for the rest of Lane's analysis of the market. Lane's critique of the market economy is mainly directed at microeconomics, hence, the branch of economics concerning the decision-making behaviour of individuals and firms and their interaction among them regarding the allocation of scarce resources (Bade et al., 2001). He highlights the following key characteristics of the market economy (p. 11-14):

1) The exchange of goods and services is central. The market consists of a network of transactions between individual consumers where who and what shall be produced and bought is determined by relative prices.
2) The market implies an information network in which prices inform and allow customers to calculate their next move. The market requires and facilitates rational calculation.
3) Tastes, goods, people, and services are continuously, without many barriers, substituted for each other in the market. Common substitutions are those between capital and labour, and choosing one goods over another.
4) For individuals, the criterion for success within the market are wealth and lifetime income. For firms the criterion is profits.
5) Investments and decision-making are determined by every owner of wealth and property.
6) Competition is present in the market, for both goods and jobs, because resources are scarce. Competition in goods and services determines prices and distribution of resources.
7) There is no overarching centre of control, hence the market is autocephalic. Consumer demand regulates the market and decision centres (firms) operate based on prices unit gains (marginal profit) in a cybernetic-like process. It is a *system* with characteristic subsystems, sometimes partially autonomous. This autonomy allows for ownership of property and the means of production and the operation for profits. The means of production are not required to be 'owned' by the firm, for example a labourer still owns his or her own body. However, even though Lane does not mention this, market economies are (to different degrees) subject to government intervention in which consumer wellbeing and/or industries are protected through for example competition laws, subsidies and import tariffs. Hence, markets are not completely autonomous.
8) Capitalism is the ideal behind the market economy in which capital accumulation, private property, labour for wage, voluntary exchange, competitive markets and a price system are central characteristics (Gilpin, 2018; Heilbroner, 2008).

Besides these characteristics, the influential market properties that fundamentally shape the character of the market experience are that the market is driven by: i) consumer instead of worker wants; ii) the efficiency norm, pressuring managers to reduce costs and increase output, at the cost of firms focussing on, among other things, work environment considerations, ethical disputes, environmental attention, and income redistribution by governments; iii) exchange, the source and proof of all economic gain; iv) contingency, as there is no exchange possible without a form of effort or sacrifice; and lastly v) allocating rewards and tasks in the same act, hence, workers' tasks being rewarded by wages (p. 13–14). As will be explained later on, many of these features form obstacles to the producer economy.

After having established this framework, Lane introduces his alternative vision of the market by making a statement that is critical of economics: insofar as economics describes human behaviour, it can learn a lot from disciplines that analyse behaviour in all aspects of human life and all its applications. Economic life is inseparable from other aspects of human life, therefore it would be good to study economic behaviour in a more general theory of social systems. He offers a refreshing perspective compared to socialist critics, who still look at the outcome of the market on wellbeing related to income (but then with an egalitarian focus on income distribution). According to him, they still commit the economistic fallacy: *"the belief that an individual's sense of well-being is primarily a function of income and wealth. This causal belief is supported by ethical values, namely that to pursue happiness through material gain is ethically acceptable. To penetrate this well-armoured belief, some chinks in the armour, some contrary beliefs, values, and motives must be found or created"* (p. 604). In contrast, Lane focuses on the processes of production, namely on 'working', instead of the outcomes of the production process.

B. *The maximands of Lane's Producer Economy*

Lane's main thesis is that the market should be judged by its contribution to wellbeing, expressed as happiness and satisfaction with life-as-a-whole. To discover what could be a good market source for this contribution, he looks at how psychological and social principles guide the thinking, feeling, and behaviour of participants in a market economy. First, he declines the humanitarian approach that links happiness to an egalitarian distribution of income, because it will not have the payoff in equality of wellbeing that its proponents believe it has. What should be redistributed according to Lane, is discretionary and challenging work (p. 3, 9-10). The debate Lane puts forward has a dual focus. The first question is 'What is the market's contribution to happiness or satisfaction with life as-a-whole?'. Lane answers this question by judging the market both by what it produces and by the process of production and distribution. The second question is 'What is the market's role in human development?', that shifts the debate to judging the market by a new set of criteria prioritized by philosophers: self-esteem, development of cognitive complexity and self-attribution. But what does Lane mean exactly with happiness, satisfaction with life as-a-whole, and human development?

Lane describes *happiness* as a more or less enduring and comprehensive emotional state; whereas *life satisfaction* is more of a judgment, a 'cognitive appraisal of one's life'. In economic theory, wellbeing is measured by 'utility' which usually refers to short-term gratification and local and transient satisfaction, for example the satisfaction and gratification one receives when purchasing consumer goods. They do not reflect the kind of happiness and life satisfaction Lane refers to. He therefore finds that summing utilities to calculate a person's wellbeing is misleading. Happiness and life satisfaction alone, however, are not good enough as the only outcome of the market experience. Lane therefore proposes human development as the second maximand of the market's contribution to a person's wellbeing. Besides brief acknowledgement from economists such as Marshall and Pigou, human development was in 1991 not yet seriously considered as a market purpose. Lane divides human development as a possible consequence of the market in three parts: i) cognitive complexity, meaning complex thinking, "to abstract common properties and form hierarchic concepts, and to plan ahead and assume the attitude of the mere possible; to think counterfactually", ii) self-attribution "the belief that a person is effective in influencing his or her fate", and iii) self-esteem "having self-respect, the belief that one should be treated decently and with respect" (p. 9-10).

C. *The producer economy*

In order to create the ideal market experience, Lane proposes a shift from a consumer economy to a producer economy where markets should be judged by their ability to maximize happiness and human development - through providing challenging and enjoyable work. The market and its players should prioritize the production process, not the outcome of production. By presenting psychological evidence, Lane argues that intrinsic rewards resulting from challenging and enjoyable work are the market's biggest contributor to human wellbeing instead of the external rewards received from working and used for consumption.

D. *Affluence effects*

A central building block for Lane's theory is the affirmation of the *affluence effect*. Lane's producer economy would only be superior to a consumer economy if the intrinsic rewards from work contribute more to wellbeing than income does. He therefore claims that his theory is especially relevant for affluent societies, in which individual economic welfare, when above a decent minimum, has only a weak relationship to a sense of wellbeing. The affluence effect entails that the market economy has good potential to drive greater societal affluence. This theory recognizes that in achieving wealth, market processes can be damaging to human development (e.g. working many hours, having non-challenging work etc.). However, the greater affluence product is a substantial gain in the sense that the costs are outweighed by increased health, education, cognition and moral reasoning, democratic and tolerant societies. In addition, social affluence has the beneficial result that in general, people are more autonomous, morally sophisticated, democratic, productive, less materialistic and are happier, which is a state that is better than where people have less of these qualities (p. 27-32).

Immediately after the importance of the affluence effect for Lane's theory to hold in reality becomes clear, a crucial question arises. Does the required affirmation of the affluence effect entail that his producer economy would only be compatible with affluent societies? Doesn't this mean that the people most likely to bear the negative effects of the consumer economy (poorer people), wouldn't be able to benefit from a producer economy either? And even with a certain minimum level of affluence, is it realistic to assume that people will prioritize intrinsic rewards over monetary rewards? By analysing two key features of the producer economy, work and intrinsic rewards, the next chapters hope to shed more light on the theoretic and practical feasibility of Lane's producer economy.

III. Work

Work is a central theme in Lane's *Market Experience*. For a market to contribute to wellbeing, its main focus should be on providing meaningful and challenging work to workers, as work is thought to be the main market source behind human development and satisfaction of life as-a-whole (p. 235). What is interesting about this feature of the producer economy, is that in contrast to seeing work as a disutility, work is seen as a utility, conditioned on a basic level of income. In doing so, current economic models would be changed radically. The basic challenge to market doctrine is to make self-esteem a direct criterion for market performance and not an indirect criterion mediated by income. This change is justified by the fact that the market doctrine's implicit belief in income as the main source of self-esteem is usually wrong. However, this chapter shows that market mechanisms are not compatible with an economy that prioritizes producer satisfaction over consumer satisfaction.

Section A summarizes Lane's findings and discusses how work contributes to human development, it tests the degradation thesis of work in the market, and explores who gets what features of development through work activities. Section B provides a critical reflection on work's contribution to human wellbeing. Section C tests the feasibility of the market economy as a producer economy. It elaborates Lane's analysis of the consequences of prioritizing work satisfaction over consumer satisfaction supplemented by some critical notes.

A. *The role of work in a market economy*

A.1. Learning at work

In *The Market Experience,* work is understood as "the effort or activity an individual performs for the purpose of providing goods or services of value to others *or the self* (Hall, 1986; Lane, p. 238, 1991)". The last few decades, through workplace learning, work has been increasingly seen as a source of personal development, not only applied to development beneficial to work but in the social world in general. Workplace learning is defined by Lane as the acquisition of values and insights mostly held prior to work, the stimulation of curiosity about the world outside of the work setting, an increased empathy for colleagues, and the engagement in more challenging leisure activities (p. 237). Lane has summarized several studies that provide evidence for different effects of challenging and non-challenging work on personality and human development (p. 240-250).

According to Inkeles and Smith (1974) norms of modern institutions contribute to workplace learning in an educating manner. For example, workers learn how to keep fixed schedules, adhere to abstract rules, and make judgments of basic objective evidence (p. 244). The other studies (Breer and Locke, 1965 ; Kohn and Schooler, 1983) seem to focus more on the content of the work. They point out that nonself-directive work fails to develop cognitive complexity, self-esteem and self-attribution, but also influences the choice of leisure time and negatively impact moral responsibility, empathy for weaker peers and protections against anxiety. The studies of Kohn and Schooler indicate that this is applicable to a large part of the labour force. On the other hand, if work is self-directive and intellectually challenging, the reverse is true and work teaches people things that cannot be taught in the consumer market (p. 240-241). It can be concluded that the things learned (or not learned) at work influence personality traits that have an impact on workers' lives in general, even on aspects that are outside of direct influence of the market, e.g. in one's choice on how to spend his or her free time (p.249).'

A.2. Does the market degrade work?

Humanist critics argue that work in the market economy is both degrading and alienating: it 1) fails to develop personalities and talents of workers and 2) has lost or not achieved its intrinsic appeal - i.e. work being a pleasant exercise of skill, knowledge, and effort. This argument is reflected in the degradation thesis (p. 260). To find out whether it holds, the thesis is tested below with empirical evidence provided by Lane.

1) *Work degrades purpose: the transcendent value of work gets lost in the dailiness of life and the dominance of materialistic and selfish purposes.*

It is correct that the market gives priority to immanence, i.e. inherent quality of work that gives immediate gratification from wealth and consumption (utility) and intrinsic enjoyment. Consumption is not per se ethically wrong, as it is required for one's survival in the first place. However, transcendence (where things besides wealth and one own's survival are found in work) can be found in the market. Even if consumption resulting from work is useless, work ethic can fill the sense of 'nothingness' and can provide workers with a lifelong purpose (p. 260-264). As Lane argues in his book, depending on the nature of work it can be a great source of happiness and human development.

2) *Work degrades because workers are exploited while they do not receive the value of the products/services they create.*

Exploitation is often defined as receiving unjustifiable low returns to one's labour. Lane rejects this notion of exploitation, because neither marginal productivity nor any other measure can be called a true value of the products and/or services a person creates. Workers could be argued to be both underpaid or overpaid. In the market economy, the productivity trade-off of paying a worker less or more are based on economic motives, not status and power motives (p. 288).

3) *Work degrades because machines turn the human value of workers into machinelike processes*.

This seems to be the case for low-skilled and repetitive tasks. A fifteen-nation study showed (Jez, 1981) that in western societies, automated work is perceived as boring and repetitive. While Soviet countries claim that all aspects of work have improved thanks to technological change, more objective reports claim equally alienating effects from mechanization as in western countries (Frankland, 1983). Lane writes, however, that this is criticism of industrialisation and not of markets, because command economies suffer from the same alienating and degrading effects. But, as can be seen in another one of his arguments, industrialisation and technological advancement are accelerated by the market. Fortunately, there are also substantial positive accelerated effects of technological advancement. As Denison (1974) stated: "The advance in knowledge is the biggest and most basic reason for the persistent long-term growth of output per unit of input." Technologically advanced sectors tend to give higher wages to workers because of the high-skilled labour required and they also provide more opportunities for personal development and cognitive complexity (p. 283).

The driver behind the market's acceleration of technological advancement is competition. Competition drives innovation, because innovation is necessary to stay ahead of competitors. Market power on the other hand can make firms reluctant to innovate, as such firms are less afraid to lose consumers. Competition pressure causes markets to accelerate the pace of technological change faster than any other economy. This has positive effects on jobs that survive the change and the wages in booming sectors, but can have catastrophic effects on those pushed out of the market (p. 275-276, p. 288).

4) *Work degrades because one only uses a certain set of skills when working in a market society and decreases the development of potential skills (deskilling argument).*

The market is neutral in this regard, because it responds to consumer demands (p. 287). It only responds to worker needs when indifference costs are raised, for example, higher productivity resulting in higher profit allows for higher salary and other benefits. In contrast to command economies, supply in market economies is not *dependent* on prior or anticipated demand, meaning that the market does not hold back education, knowledge growth etc. in capitalist societies (Scitovsky, 1986, p. 285). In addition, empirical evidence shows that history has seen both trends of where market practices led to jobs with more skills and vice versa. In fact, from 1900 onwards there seems to be a higher increase in skilled jobs than decrease in unskilled jobs (Form, 1988) (Spenner, 1983). The deskilling argument is thus not so convincing (p. 287).

A.3. Distributing workplace learning

Now that the degrading thesis has been (partly) refuted, it is important to explore who gets to reap the benefits of human development through work activities.

1) *Who will pay for improving workplace enjoyment and learning?*

Market principles are such that firms only invest in workplace enjoyment and learning when it also leads to an increase in productivity. If the economy would be driven by work instead of consumer demands, this would mean that products and services with the highest labour-capital ratios would have priority to minimize unemployment, instead of products that are most useful to society (p. 290). In the case of no productivity compensation for increased costs from increased work satisfaction, economic theory would predict that with flexible wages, wages would decrease. Though, since in the real world wages are sticky, increased labour costs are likely to result in unemployment. Moreover, in the case of market power, costs usually fall on consumers, because firms with market power calculate extra costs on to consumers without losing substantial profits. Another reason why improving learning in workplace is not compatible with market forces is that even though it may increase productivity and cancel out the costs, it does not increase aggregate demand, while increasing wages does. Hence, increasing wages leads to more jobs elsewhere while improving learning at work does not. Improving the workplace is ethically defensible if the workers themselves or consumers pay for increased learning at work, but not if increased labour costs causes unemployment for other people (p. 292-293).

2) *What is the contribution of family, work, technology and the market on the stratification of workplace learning?*

This question is important, because it indicates whether the benefits of any process flow from the rich to the poor. Lane concludes that stratification of workplace learning can mostly be attributed to family and technology, not to the market. In both command and market economies, workplaces with vertical hierarchy lead to social stratification. The difference is, however, that markets could exaggerate stratification by exaggerating differences in pay. In other words, the market is only a modest guardian of meritocracy in commerce and industry. A study of Dalton and Thompson (1971) shows that salaries of engineering managers after 35 keeps increasing while productivity decreases. While markets can exaggerate stratification in pay, it is the force of familial characteristics and technological advancement that influence stratification in workplace learning most. It is not wealth and thus not the market that mostly influence children's occupational status (p. 302). Though, the market's stratification in pay exaggerates the difference in parents' wealth and status which in turn affects the workplace stratification of the children. The market can therefore not be separated from workplace stratification.

3) *Is product competition disadvantageous to workers as shown by assignments within firms (internal markets) of opportunities for workplace learning?*

Yes. Unfortunately, two pillars of the market, competition (costs of increasing worker benefits are too high to remain profitable) and mobility (after training other firms may steal workers from your firm) lower firms' incentive to increase job satisfaction. However, this may even be worse in command economies. Lack of interest in output provides even less incentive to train workers, and the premium on labour supply may even further boost poaching workers from other employers. Therefore, market power in market makes the market more fit for a worker-driven economy, where internal employees are the motor. Though, it's most likely that consumers or the unemployed bear the costs of these worker benefits. This is clear in the automobile, shipbuilding, and steel industry, where market power is challenged by foreign competition (p.304-309). To the contrary, Lane's analysis shows that less competition in the market and the presence of internal rather than external markets (bureaucracy) are favourable to workplace learning. Firms follow market trends, but a firm's partial independence and more market power permits firms to pay/give workers more benefits that differ from the market wage or are higher than the minimum wage. In practice, managers can and do choose to distribute parts of the firm's profits to its workers when the firm is not pressed by interfirm competition. Managers feel responsible for well-being of employees. As Marx noted early on, 'the separation of management from ownership may be the beginning step in reconversion of the benefits of property back to its worker producers' (p. 309).

4) *Should we regret losing household and farmer economies?*

Market forces in combination with technology have contributed to the major shift from agricultural and household work to commercial and industrial work, with the underlying cause being the shift from manorial and traditional household economies to market economies. According to Lane, we should not regret losing household and farmer economies, because as long as the market allows for intellectual flexibility, self-direction and cognitive complexity, the difference in doing household work, working on one's own farm or working for a manager does not seem to matter much. This holds at least in periods of prosperity when plenty of jobs are available. It is the character of the work itself that makes the difference. In households with close supervision from an elderly, the opposite is true, as analogous to workplaces with strict supervision and little room for self-direction: these skills and values are reduced (p.311-312).

B. A critical reflection on work's contribution to human wellbeing

Lane's analysis of work provides fresh insights about how work is a more important and sustainable source of wellbeing. However, I doubt whether, even in affluent societies, it is that obvious that work is a worker's biggest source of wellbeing. Second, prioritizing work over consumption seems to benefit only a selected group and the producer economy is like a consumer economy, inherently inegalitarian.

Just as the consumer experience in neoclassical economic theory is not universal for all consumers, in which utility is mainly derived from income and consumers, Lane's reversed theory does not obviously apply to all people's experiences as workers. Work that is more challenging and/or with high responsibility might be a great source of human development and happiness for some, it can also increase stress and anxiety, and even lead to burnouts for others (Earl, 1992). These symptoms of stress can already appear through increased pressure at school. A study on adolescents in the North of Sweden shows that a large percentage of students experience high pressure and demands at school. This turned out to be significantly correlated with reported health complaints and anxiety, especially for girls (Wiklund et al., 2012). Another study tests the relationship between increased organizational pressure in the healthcare sector and anxiety at work. It shows that increased demands and responsibilities did not give these workers a higher sense of control and status. Instead, the high ideals and expectations of their work made staff question their abilities and become more pessimistic (Glasberg et al., 2007). The anxiety and stress measured in the two studies seems to be the result of a desire to perform well, preferably better than one's peers in the school example. The competitiveness principle inherent to the market economy can intensify these feelings, as there are limited spots for e.g. good jobs and the labour force is becoming increasingly competitive. Similarly, only one firm can be the market leader and competition in a market economy is fierce. In addition, the freedom in neoliberal markets that grants workers responsibility can lead to a negative market experience (i.e. uncertainty of and threat to self-control) if this responsibility is not met (Pyysiäinen et al., 2017). And just as work satisfaction spills over to workers' social spheres, so does anxiety, as Doby's & Caplan's (1995) study on the accountancy sector in the United States shows. This thesis does not deny that meaningful and challenging and work can be someone's greatest source of wellbeing, but it questions the universal applicability of this claim. In addition, there are plenty of workers with important challenging jobs that value their jobs mostly for the income and the resulting freedom income can buy them (McHugh, 2017). *The Market Experience* does not pay much attention to these downsides of work nor the for some superior benefits of income.

A second concern to prioritizing work is that not everybody has an equal chance in getting a job that brings them happiness. And for Lane, it is not income equality but equality of opportunity that is important in the producer economy. Lane recognizes this inequality and presents the reader with an alternative to Maslow's pyramid devised by Weber and Strumpel et al. (1976). This pyramid's ranking is based on work satisfaction and self-expression, with those with attractive jobs (professionals) rather than high income at the peak of the pyramid. But since status and education of parents have a large influence on children's occupation, the pyramid becomes inherently inegalitarian (p.303-304). This makes sense, as similar to resources, good jobs are also scarce and only the best workers can get them. Because low-skilled workers are more likely to have repetitive non-challenging jobs than high-skilled group, the exact same group that is disadvantaged in the consumer economy, is disadvantaged in the producer economy as well. Moreover, Goldin and Katz (2009) have shown that since the 1980s wage inequality in the United

States has increased, because the supply of high-skilled workers cannot keep up with the accelerated technological advancement. So while the contemporary innovative economy creates challenging jobs, it is not obvious that workers can meet the requirements to fill them. Thus, if work is not necessarily every worker's biggest source of wellbeing and the producer economy only helps the more fortunate, it fails in overcoming the key issues of a consumer economy, let alone constitute a superior theory.

C. *Prioritizing work over consumption*

Section C describes the consequences of prioritizing work over consumption in a market economy by combining Lane's analysis with some critical notes. In the market economy a worker's consumer role is more important, even though this does not contribute much to happiness or satisfy their major wants (at least in the case of affluent societies). But, unfortunately, an economy that gives priority to workplace satisfactions and achievements, a producer economy, is incompatible with market forces. To blame is not the exchange norm, but the efficiency norm of the market economy. The efficiency norm is based on maximization of profit instead of the maximization of happiness. Whenever it interferes with optimization of other social goals that benefit happiness and human development more (e.g. increased work satisfaction or intellectual leisure activities substituting hours of work), economic efficiency implies social *in*efficiency. As Marx argued, any costs devoted to improving work life in the competitive part of the economy make a firm vulnerable to reduced sales and profits because of the violation of the efficiency norm (p. 316–332).

On the other hand, when improving work life increases productivity and revenues, the efficiency norm does not need to be violated. For example, a market economy favours specialization (p. 325). Especially *specialization by choice*, is in some degree a market-favoured variety, and has many efficiency advantages if people are good at doing what they like to do. Being able to have a job that you enjoy increases workers' commitment and if challenging enough, increases their learning at work. In addition, firms that have market power are able to, and did, share profits among their employees. Lane argues that the latter results violate neoclassical economic theory (p. 336). Fortunately, contemporary economic disciplines such as behavioural labour economics can predict such outcomes (Dohmen, 2014). Adding a variable in a firm's profit function that deducts profits from the firm after a certain minimum level of profit and divides it over employees can be modelled in economic theory. The same holds for modelling variables that could improve work satisfaction such as pension funds, insurances, and day-care instead of regular income: these costs would merely be subtracted from a firm's profit function and added to a worker's utility function. On the other hand, the producer economy as described by Lane does not yet seem to be able to escape neoclassical economics' hedonistic values (Hodgson, 1992), but his psychological considerations have been beneficial to the accuracy of economic models.

All in all, Lane concludes that for a producer economy to work we would have to live in a world where workers would accept less pay in exchange for better work circumstances. However, the problem of how to get from here is yet to be solved. He proposes that in order for this to work we would not only need to change the criteria by which the market is judged, but change the market institution as a whole. Workers choosing to sacrifice their income for the purpose of worker wellbeing is difficult to achieve in an economy where money is the measure of dignity and success (p. 331). Even more essential, money is also the way of exchange for people to buy their necessary means for survival. In order to get rid of society's importance on money we would need to think of an alternative way for people to get the immaterial and material benefits that they need for a fulfilling life. Since historical evidence shows that command economies do not result in greater societal wellbeing and they also suffer from the economistic fallacy, Lane tries to avoid any form of socialism. Nevertheless, his producer economy seems to hint at least partly to such a setting, where the excessive income of the world's richest that contribute little to individual and societal wellbeing, would be better spend in avoiding poverty while improving the work life of the less fortunate. Unfortunately, he does not address such solutions. The following chapter compares intrinsic rewards to external ones, to see whether the producer's economy's outcomes are indeed superior.

IV. The Economics of the Intrinsic

The economics of the intrinsic assumes that people often not just work for the income they receive. It puts higher importance on the pleasure people might find in their work, and on the sense of personal control challenging work might provide. Whatever their precise motives, people tend to avoid the exchange focus of the market and are *intrinsically* motivated by the internal rewards provided by work itself, which do not depend on the monetary external rewards received from work (p. 337).

In this chapter, section A explores the nature of intrinsic motivation and the different types of intrinsic rewards. It discusses the markets rationale of maximizing pay, hidden costs of external rewards and its limits, and the consequences of intrinsic rewards for society. It turns out that the consequences of prioritizing work over income and leisure contradict the rationale of income as the biggest contributor to human happiness. Section B questions the prioritization of intrinsic rewards on human wellbeing and section C presents Lane's analysis of whether prioritizing intrinsic rewards over external rewards is compatible with a market economy. Just as the previous chapter has shown, it proves to be a difficult task.

A. *Intrinsic Rewards*

A.1. Maximizing pay: costs and consequences

First, let us explore the status quo rationale of the market. Neoclassical economics assumes the pay maximization hypothesis: people are always motivated to seek more pay and income. It does not claim that pay is the only motive to work, but it is a good proxy of all other desires, aspirations, and other affections of human nature relevant to work (p 240). According to Lane, the pay maximization motive fails as a master motive itself, hence, it fails as a motive for personal control of people's immediate environments and self-esteem (Kwant, 1960). On the other hand, while pay seems to make us more materialistic, and focussing on the work itself might make us craftsmen, it does not mean that internal rewards lead us to produce the goods that benefit society as a whole. History has shown that somehow under the maximizing pay hypothesis, total welfare has increased: in terms of income we are now four times better off than our grandparents, and illnesses and other sources of misery have decreased. Though, this historic trend does not mean that such market economies are best for economic growth nor that income is the best measure of happiness. Lane presents how health illustrates this dilemma. For example, Karasek et al's (1987) study on Swedish white collar workers shows that people's job satisfaction, contrary to their income, best predicts their individual health. However, when looking at national health and life expectancy, national income is more closely linked to these measures of health than job satisfaction is (p. 363). Lane therefore advocates a model of rewards that pays both attention to the principles of the market economy (profit matters) and the situation at work.

A.2. Hidden costs of rewards and intrinsic satisfaction

Lane first puts forward a theory of intrinsic motivation that is absent of extrinsic rewards. Both reinforcement (motivation directed by anticipated rewards) and economic theory are in conflict with this theory of intrinsic motivation, as is explained below (p. 371).

The hidden cost argument is one of the main arguments against the importance put on external rewards. Intrinsic rewards include the desire to feel competent and self-determining, physiological and sensory satisfactions, enjoyment of social intercourse, rest and relaxation, loss of conscious purposiveness, and satisfaction in the expression of one's case in judicial proceedings (p.380). The hidden costs theory entails that if work is paid for, it robs a person from feelings of personal control and responsibility for their own work. To prove this theory, Lane provides evidence from random control trials. This evidence, however, is not very convincing. The experiments of linking puzzles and pay are not representative of the reality workers face. A one-time pay for completing a puzzle do not equal pay from income that is necessary for one to sustain one's life / fulfil one's basic needs. Since the pay from the puzzles is not provided on a continuous basis, it is not comparable to a work payment that can substantially raise one's living standards. In addition, receiving a monthly pay might be internalized and insofar that it does not deduct from a person's pleasure at work. Staw, Calder, and Hess (1976) for example, found 'an interaction of norms and payment such that the introduction of an extrinsic reward decreased intrinsic interest in a task *only when there existed a situational norm for no payment'* (p. 392). This does not apply to the contractual relation at work. Thus, salaries in the habitual context lose the contingent connection (on e.g. performance) that lead to hidden costs (p. 395).

Other arguments Lane puts forward opposed to external rewards are the minimax strategy of externally motivated workers (p. 379) and the hidden gains argument (p. 383). The first predicts that workers put in the minimally required effort needed to complete a task in order to receive the corresponding external reward. The latter predicts that when workers receive less pay their work enjoyment increases, because the fact that they get low pay provides the logic for feeling that they must enjoy their work. There are groups who don't mind being paid comparatively less, because they have high work satisfaction (such as artists, teachers, nurses and development workers). However, it seems implausible that if workers are paid less (holding all else equal), they enjoy their work more. For example, a factory worker wouldn't enjoy his/her work more in the case when he or she barely earns enough to sustain his or her family compared to when he/she receives a higher pay. Even for e.g. artists whose work is intrinsically rewarding, the hidden gains argument is weak. The most successful artists wouldn't sell their artwork for less than the market price allows, partly also because the money reflects a high level status that artists strive for. But most importantly, receiving a high pay for their artwork does not mean that these artists enjoy their work less than an artist who is less successful does. Lastly, Lane argues that the need of feeling competent is more universal than human's tendency to be greedy and materialistic (p. 382), and, ignoring the consequences for productivity and efficiency, an economy of the intrinsic would be more beneficial for society too. In addition, working for a person or institution does not per se have the effect Marx and others predicted (loss of sense of control, feeling of alienation, being a commodity, loss of self-determination), because the *content* of the work determines these feelings, not whether one works for a boss or not. With these arguments Lane tries to prove that the economy of self-determination is more attractive than that of the economy of pay.

A.3. The limits of hidden costs in the market

Lane himself recognizes that the presence of hidden costs in the market are limited. Self-perception theory is one example that undermines the hidden cost effect. External monetary rewards are seen as 'evidence of success, thereby as evidence of personal control, reinforcing a person's sense of competence and self-determination' (p. 386). The belief that one has chosen one's own work further increases this feeling of self-determination (p. 390). Second, a market's prices and income to be perceived as controlling versus informative depends as much on a culture of self-reliance and self-attribution as it does on market properties (p. 387-388). What matters is whether one sees the pay for work as informing of competence (preserving intrinsic motivation in the immediate situation) or as controlling and depriving one-self of control and self-determination. The market nevertheless makes sure that with pay certain tasks are executed, so the controlling aspect of pay cannot be avoided, whether this controlling aspect is perceived as something negative by workers remains a question. Only in the case of job scarcity (where unemployment is the only alternative) hidden costs might play a larger role (p. 396). According to Marx, even in an informing situation a person's dignity has become a commodity. Rich people are regarded as more developed than poor people, as their pay informs. On the other hand, it is also implausible for workers to feel overpaid, workers quickly internalize high pay; they feel like they deserve it.

Moreover, the market reinforces a worker's ego (p. 390). 'Money rewards for the intrinsically motivated whose *need for achievement* is expressed in the pursuit of excellence'. A market economy stimulates this and a worker's ego involvement does not undermine self-determination. Also, hidden costs are also undermined by feelings of equity, as pay merely leads people to work harder to overcome feeling guilty over being so well paid. Overall, it can be concluded that hidden costs make up for merely a small part of the market sphere, but they are important in explaining phenomena such as alienation and apathy in the market.

A.4. Intrinsic values: a balance sheet

Sections A.1 to A.3 presented causes of intrinsic motivation and rewards. Now, section A.4 presents consequences of intrinsic values for society, which are both positive and negative. There are various positive consequences to intrinsic work satisfaction, such as better mental and physical health, living longer, spill-over effects of work enjoyment on children (e.g. making them work conscious), greater life satisfaction, increased cognitive complexity, and facilitated learning, creativity and human development in general. These benefits are also much more likely to generalize to other situations compared to the case of extrinsic rewards, except that anticipated higher extrinsic awards may motivate workers to pursue an extra degree to get higher up (p. 397-401). On the other hand, productivity of algorithmic, simple and repetitive tasks is not likely to be increased by higher job satisfaction (Hall, 1986), they are more likely to be increased by external rewards. In the case of tasks that require imagination and creativity, intrinsic motivation improves productivity (p. 398). For the algorithmic tasks, no hidden costs occur as there was no challenge in the task to begin with (p. 402).

There are also some deficiencies to intrinsic rewards that should not be ignored (p. 403-5). First, intrinsic work satisfaction is self-centred: "it is not from the intrinsic motivation of the butcher, the brewer, or the baker, that we expect our dinner" (p. 404). Whereas external (materialistic and monetary) rewards can be shared with others. Second, there are no institutionalized constructs for intrinsic satisfaction. Hidden hand and competition do this for extrinsic rewards, but no such thing exists for intrinsic satisfaction. Government involvement would be required for our self-determination pursuits not to conflict. Third, intrinsic satisfactions may take ugly forms, such as revenge or cruelty. The need for power and need for achievement have the same roots. Fourth, intrinsic motivation relies on a weak theory of attribution: intrinsic motivation is an illusion because the causes are extrinsic to the individual e.g. emancipating humankind from divine control. Fifth, self-determination is sought through wealth. One also wants him/herself and his/her family to be self-determining outside of work-life, and access to such freedom requires a certain amount of money. Thus, intrinsic rewards are not per se a greater source of self-determination than extrinsic rewards.

All in all, Lane explains that there is subtle evidence for a historic trend in favour of the humanist focus on the intrinsic. Looking at how countries developed, their economies first depended on social (communal) support, then on economic gain, and now more and more on intrinsic motivation and rewards.

B. *A critical reflection on intrinsic rewards' contribution to human wellbeing*

The biggest concern of section A is that the debate misses the crucial point that the prioritization of intrinsic rewards usually depends on a basic level of income. Nobody would be against more intrinsic rewards in a job as long as they can sustain a basic level of income. Lane finally advocates a solution that combines external and intrinsic rewards, but highlights that the trade-off between extrinsic and intrinsic rewards is important. But in reality, it is the least fortunate for whom this trade-off is most severe. High-skilled high-paid jobs are usually more enjoyable than low-skilled low-paid jobs, except for low-paid jobs with high work satisfaction, such as artistry and teaching. Nevertheless, teaching still pays more than working in a factory, and the poorest low-skilled workers are disadvantaged most in a producer economy. While Lane recognizes this, most of the chapters focus on the negative effects of external rewards and the positive effects of intrinsic rewards. It would have been more fruitful to focus part of this chapter on the intrinsic rewards (having a satisfying jobs) versus the intrinsic costs (being 'exploited', having less time for leisure) of work and find out what could be done to mitigate these intrinsic costs. Again the question arises whether work really is the main source of wellbeing, and if it plausibly can ever universally the most important source of wellbeing.

Secondly, Lane underestimates the influence of income on wellbeing in affluent societies. For example, a study comparing determinants of happiness (including human development) between 1938 and 2014 of residents in Bolton, UK shows that in both periods, economic security is the only determinant to remain in the top 3. In addition, whilst the ranking of knowledge and religion decreased in 2014, good humour and leisure entered the top 3 (McHugh, 2017). This study agrees with Lane that as populations grow richer, increasing incomes in the long-run do not lead to more happiness, or that income leads to happiness in itself. However, with increasing income inequality in also affluent societies, large parts of the world population have just enough income to make ends meet. Thus, unless the producer economy manages to provide everybody with an economic security, income and wealth still seem to be, if not the most, important sources of wellbeing.

C. *Prioritizing intrinsic rewards over external rewards*

The Market's Experience's chapters of intrinsic rewards ends with an analysis of the feasibility of prioritizing intrinsic rewards over external rewards. Comparing the two is a comparison between working, *doing,* and receiving money for later consumption of services and goods, *having*. Lane argues that the first has a stronger connection with the prime cause of happiness, increasing competences and overcoming life's challenges. In utilitarian hedonistic terms, the human capital gain from work is higher than that of physical capital from money and consumption (p. 420). While intrinsic rewards might lead to more utility, price mechanisms of the market do not per se balance the utility gains from money and work enjoyment.

In his analysis, Lane models the features of the producer economy into a worker's net utility function (p.418). By taking into account intrinsic rewards and the hidden costs to external rewards, his or her net utility function would have the following form:

(1) NU = {Pleasure(work) + Pleasure(pay)} – {Pain(work) + Pain(pay)}

Besides the pleasures from work, there exists another source of intrinsic satisfaction that Lane calls the pleasures of a rewarded conscience. Some cities have service credit programs, whose credits can be earned through voluntary work. Experience with such programmes shows that the altruism gains are not undermined by the service credits gained in return. They are additive. Taking into account all intrinsic and external benefits and costs, the calculus of the intrinsic would have the form of equation (2). This function is more extensive than the simple one presented under the pay-maximization hypothesis.

(2) NU = {Pleasure(work) + Pleasure(pay) + Pleasure(duty)} – {Pain(work) + Pain(pay) + Pain(duty)}

In conclusion, as section B tried to argue, Lane explains that the intrinsic and extrinsic live together in a symbiotic relationship. The number of intrinsically rewarding jobs increases as a result of the production of extrinsically motivated materialists, and because increasing GNP is dependent on the contribution of intrinsically motivated entrepreneurs and scientists (p. 419-421). All in all, the market does not prioritize intrinsic rewards over external rewards, due to the lack of exchange, the market's main feature, in intrinsic rewards. The intrinsic cannot be exchanged (one cannot trade self-determination for example) and so one's intrinsic gains do not per se flow back in the economy. Likewise, improving one's satisfaction from work does not per se lead to increased productivity (there is a lack of efficiency) as we have seen in chapter III. Overall, both intrinsic motivation (CH III) and rewards (CH IV) depend on prioritizing working activities over consumer activities, which is not feasible in the current market economy. The parallel between the two makes sense, since intrinsic rewards contribute largely to work satisfactions. The market offers many opportunities for human development and life satisfaction for life as-a-whole, but they are not the direct result of the market's mechanisms. Lane concludes that for now the indirect results of the affluence effect will do, until better institutions are devised (p. 422). The following chapter will therefore try to explain what transformations are needed for the producer economy to come into being.

V. The Need for Cultural Change

In Lane's concluding chapter '*Can the wheel of history turn again?*', he explains that before the consumer economy can be transformed into a producer economy, cultural change is needed to be able to incorporate these new criteria into mainstream economic theory. According to him, people's preferences wouldn't oppose a producer economy. When jobs that are challenging and relatively unsupervised are available, almost *all* workers prefer these kinds of intrinsically satisfying jobs and will usually give these job characteristics priority. Research shows that blue- and white workers only working for pay do so primarily by default. In addition, few people regard the pursuit of happiness as a zero sum game, because one person gaining a certain amount of happiness does not leave less happiness for someone else. It is fortunate for Lane's theory that happiness is no zero sum game, however the sources of happiness are not. For instance, satisfying and challenging jobs are not unlimited. How would a producer driven economy solve this zero sum game issue? Lane himself also worries how the market could adapt to the changes demanded by the well-being-developmental axial rotation (p. 609). As he admits, it is difficult to switch from an outcome to production focus when competition is inherent to markets, consumer outcomes are the profits and workers cost money. Price should be the measure of value, as it difficult to measure the preferred value of 'contribution to satisfaction with life-as-a-whole'.

And while the current economistic axis provides benefits such as the affluence affect and the enabling of technology acceleration leading to more high skilled jobs etc., the status quo is not the ideal solution, even if the affluence effect triumphs over exchange effect. Lane here is not in favour of Keynes' argument that mankind will likely engage in immoral practices first to reach a minimum level of affluence before affluence can triumph over exchange values. He would prefer a solution where such immoral practices are unnecessary and people could engage in satisfying work no matter their level of affluence.

To find out what type of cultural change is needed to achieve this, Lane presents three types of social illnesses from which the market economy currently suffers. First, there exists ignorance of the causes of social misery. This could be the consequence of isolation from other societies with better institutions or because the second-best solution is successful and seen as the best solution. The second social illness is exploitation. Dysfunctional cultural patterns may be seen to benefit a leading group at the expense of others; those patterns can then be explained on the basis of elite interests in maintaining the pattern and thus serve as examples of exploitation and domination. This, there is the value conflict. The current conflict over the benefits of market societies falls mainly into this category. There are opportunity costs for every chosen value. It is therefore difficult to choose which value should be prioritized. Lane proposes a trade-off between consumer values and producer values. Taking these social illnesses into account above shows that support for the market represents some combination of support for the interests of the better off (type 2), conscious preference for wealth over other values (type 3), and ignorance about alternatives available in a producer economy combined with the simple persistence of tradition (type 1).

To the reader's regret, Lane provides no practical solutions as to how to switch axes, because he wants to avoid committing the economistic fallacy. The more obvious and perhaps less creative solutions such as policy tools supporting welfare states are stuck in the left-right dimension, that only oppose or support the status quo. He argues that both groups fail to see that instead of individual wealth, it is societal wealth that matters most for wellbeing. He once more urges the reader to focus on the processes of production instead of income, because the experience of these processes contribute the most to human wellbeing. For him, the focus of economic equality of the left is mistaken, as subjective wellbeing is more equally distributed than income. A certain minimum income will not change this subjective wellbeing pattern. He therefore prefers the right's form of equality (i.e. equality of opportunity), which is beneficial to human development, democratic orientations and avoids the type of hatefulness equality of income arouses. But, as this thesis has shown, the producer economy certainly requires a certain basic level of (individual and societal) economic security for it to significantly contribute to the wellbeing of its participants. Subsequently, it would therefore have been insightful if Lane had spent more time to the policy implications of a producer economy. For example, governments and labour unions that ensure decent minimum wages while attracting enough investments to their economy to keep unemployment low (e.g. like in Western European countries), might provide more appealing conditions for the producer economy. Still, Lane tries to avoid this debate by arguing that promoting economic equality and state interference in the market would him make guilty of the economistic fallacy. Another difficulty of the producer economy is that even in affluent societies, human's sometimes greedy nature makes it a challenging task to change people's values so as to benefit the developmental axis. Educational reforms by the government and private schools could play a role in this. Fortunately, such reforms are increasingly common. Take for example America's most prestigious business schools. They are now reinventing their MBA programmes so that new generations of students will favour the public good over profit (The Economist, 2019). The future might be heading towards Lane's desired Market Experience after all.

VI. Conclusion

In conclusion, this bachelor thesis finds that Lane's alternative vision provides appealing ideals, but that it offers no strong theoretical ground for an alternative economic theory. First, it is not obvious that more complex and meaningful work increases happiness (Earl, 1992). Second, even if this assumption would hold, his producer economy that gives priority to workplace satisfaction and achievement, as Lane himself too admits, is incompatible with market forces. He refrains from exploring how institutions such as the government, labour unions, and schools could help transform the market economy into a producer economy and wants to avoid socialism. Third, as Hodgson (1992) argues, Lane is still entrapped by the individualistic and hedonistic philosophy that is at the root of neoclassical theory, and thus fails to provide a superior alternative to neoclassical economic theory. Nevertheless, the suggestions in his book have proven very insightful for contemporary economic disciplines. Behavioural labour economics for example uses psychological evidence to better predict human preferences and economic decision making in the labour market and has become increasingly influential in tackling microeconomic labour issues (Dohmen, 2014).

VII. References

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