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Self-control and the rise and fall of factory discipline*

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Abstract

We propose a dynamic general equilibrium model that accounts for the historical pattern of the rise and fall of factory discipline in the course of economic development. Firms have two alternative means to increase work effort: discipline and control *vs.* monetary incentives. A key ingredient of our model lies in the fact that workers suffer from present-bias. We show that this lack of self-control makes discipline relatively cheap when workers' outside option is low even in the absence of moral hazard. Then, as one economy develops, it endogenously goes through three stages where firms successively use low-powered monetary incentives, factory discipline and then high-powered monetary incentives. When moral hazard is introduced, multiple development paths may emerge.

Keywords: Economic Development, Time-inconsistency, Organizational Changes, Monetary Incentives, Factory Discipline.

JEL Classification: D90, L22, O11

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