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Neoclassical, Keynesian, and Heterodox Employment Policies

As regards "policies," no matter how much we stay within the area of economic policy, that is, no matter how much we keep within the queen of the social sciences, it seems impossible to avoid straying onto ideological or normative terrain. On the other hand, as for theory, many believe it is possible to remain within the domain of the purely positive, remote from any contamination with value judgments and enveloped in a shroud of absolute asepsis. That explains why media discussions of policy are more frequent on the terrain of "policies" inasmuch as they articulate the debate in terms of a comparison or contrast, say, between *liberal* or *neoliberal* policies, which are identified as *conservative*,* and *social democratic* policies, considered generally as being of the left or progressive, a terminology which is not usual in the polemics of the specialized economic literature.

This article, while not avoiding these skirmishes on the battlefield of political ideology, addresses the different basic positions that square off on the terrain of economic theory—specifically in the analysis of the phenomenon of unemployment. I distinguish within each of these positions, first, their respective scientific diagnoses of the problem, followed by the solution—the set of recipes that each position offers as the best way to reduce the scope, or the dimensions, of unemployment.

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*Readers should keep in mind that "liberal" is used here in the sense of being liberated from outside (especially government) interference in the lives of the individual or in the workings of a private institution. In this way, a "liberal" policy can be identified as "conservative" in the West European or American political context.—Ed.

I wish to approach this two-pronged review, or comparison, at a level simple enough for every type of reader to understand, although my immediate aim is to ensure that any student can follow the train of thought, at least in its essential points, especially because it is unusual to find in the economic textbooks currently in use discussions of the heterodox position defended in this article.

The neoclassical approach to unemployment

The dominant position in economics is, and has been for more than a century, neoclassical economics. We shall forego any attempt to probe into the finer details and nuances of this major current of thought and instead shall present what is strictly necessary to present each position—beginning with the neoclassical—as a discretely defined, basic position, since the goal is to compare it with the other major alternative positions.

The diagnosis

The neoclassical theory of unemployment is a product of the application of what is called the theory of *market equilibrium,* and in particular what is called the *labor market*. I use the expression "what is called" to make clear at the very outset that the heterodox approach, although seemingly similar to the neoclassical approach, is in reality quite different. In any concrete market, if we pursue the path usually followed in teaching the model of *partial equilibrium,* it is assumed that a situation of equilibrium will prevail in the short term owing to the free workings of market forces. When demand is decreasing and supply is increasing, the point of intersection determines at one and the same time the equilibrium quantity and price that will void this market. If we take as a point of departure a specific point of equilibrium, the market mechanism will rapidly swing into action to return the market to its situation of equilibrium for reasons that, although understood well by everyone, would be worthwhile to run through again briefly here.

If the price is above the equilibrium price, the excess supply that results would stoke competition between the suppliers, which would drive prices down to the level at which the cause of this downward trajectory (i.e., excess supply) would ultimately disappear, and this level is clearly nothing other than the level of short term equilibrium (the famous letter *E* on microeconomic curves). In the symmetrically opposite case, if our point of departure is a price below the equilibrium price, it will be potential buyers who, in their drive not to be left empty-handed, will drive the price up to the equilibrium level where again supply and demand cancel one another out so that ultimately the respective quantities will coincide.

However, on the labor market, according to neoclassical analysis (see Figure 1), excesses of supply do not behave like excesses of supply in other markets because the labor market has a special property which is present on only a few markets, namely the labor market is *rigid*.[1] This rigidity is explained as an effect of

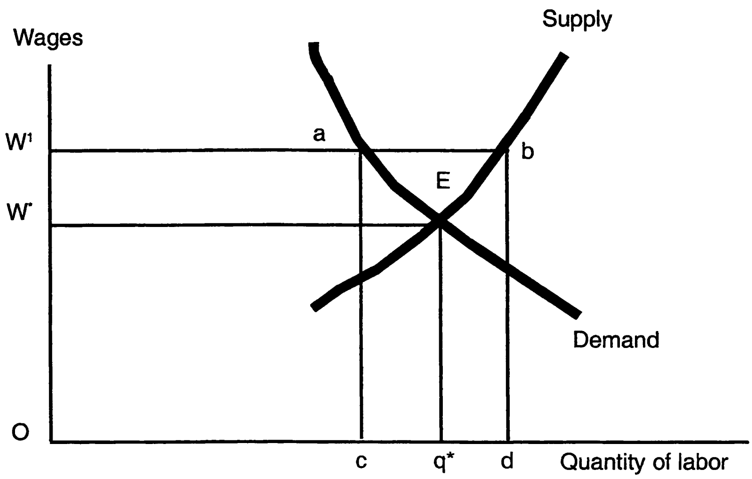

Figure 1 The Neoclassical Labor Market

the presence of extraneous, external, or spurious elements in the functioning of the labor market, which makes it very different from what a free market should be (i.e., a market where only market forces are operative). These superfluous and harmful elements are explained in very different ways depending on the author, or depending on the time and place in which they are required to be explained, but they can be summed up essentially in terms of two major sets of causes, which for neoclassical economists are accursed: namely the state and trade unions. They are the ultimate cause of the abnormal behavior of the labor market and hence, as we shall see, have major bearing on the kinds of solutions neoclassical economists offer to the problem of unemployment.

According to neoclassical economics, the state is an interventionist and distorting force with its regulations and laws—always excessive in the opinion of the these authors—because it prevents a genuine free price from forming on the labor market.[2] By imposing minimum wages, subsidies, and other protective measures against unemployment; by attempting to regulate the labor market, the right to strike, the right to dismiss, collective contracts, and other factors through its interventions; and in sum by acting like a *welfare state* (the favorite expression of the Keynesians) and not as a simple *liberal state*,[3] the state in reality contributes to raising prices artificially on the labor market (i.e., the wage rate) beyond a level that would correspond to the intrinsic foundations of the economy (i.e., the free and flexible functioning of this market). Thus in Figure 1, for example, the result would be a wage w' in place of the equilibrium wage corresponding to market forces, which would be w^*.

The trade unions in turn do the same in imposing their monopoly power on the supply side of the labor market. Instead of leaving to the worker the decision to reach a free agreement with the employer wherein both would be guided exclusively by what their respective individual rational behavior would require—which basically is the same in the two cases, since according to the neoclassical economists both groups are engaged in the systematic quest to maximize their respective utility functions—trade unions[4] create an effective monopoly on the labor market, which gives rise to all the deleterious effects that conventional economic theory associates with monopoly as one of the typical *flaws of the market* (i.e., obtaining higher prices at smaller quantities than would ensue if the circumstances were equivalent to a situation of free competition[5] ($w' > w^*$, $c < q^*$ in Figure 1).

Actually, most the neoclassical economists think that the two factors that produce unemployment exert their negative effects separately, but do all their damage when they mutually reinforce each other's baleful influence through their complementarity and interdependence within the welfare state—the institution that shelters them under the cover of this special kind of division of labor. Hence, neoclassical economists direct their attacks on the welfare state not only because according to them it is the cause of many other ills (in reality, almost all, from the public deficit to excessive fiscal burden), but first and foremost because it is the factor ultimately responsible for unemployment being much higher where this welfare state exists, where it has grown stronger or where it has grown at the most rapid rate over the past decades. Thus, if in Figure 1 we interpret things in neoclassical terms, then taking the unemployment rate as represented by the length of segment *ab* which is the same as the distance *cd* on the horizontal axis, the neoclassical conclusion is that the welfare state is responsible for the unemployment rate (*cd/Od* in Figure 1) reaching in this situation levels approaching 50 percent of the active population (i.e., *Od* for the wage w').

Since, furthermore, the terminology that has come into common use, and has been repeated over and over to the point of nausea, around a congeries of expressions such as the *Keynesian welfare state, the Keynesian social compact,* and other similar expressions, Keynesianism in the end has come to be seen as the actual theory and actual result of the aggregate state and trade union practices aimed at transforming the labor market into an institution independent of market forces and instead under the sway of the dual and the damaging regulation of the social-syndicalist state.

The principal empirical proof, or at least so-called empirical proof, that neoclassical economists usually offer in their attempts to back up their theoretical argument consists in their challenge to compare the respective experiences of the American economy and the European economy. The U.S. labor market, freer and more flexible than the European one—so they say—has demonstrated that it is more efficient insofar as it has actually managed to date to achieve minimal levels of unemployment,[6] nothing less than a historical record practically equivalent to full employment, whereas the European interventionists, instead of allowing the market to do its work, have found themselves at the opposite end of the spectrum owing to their obstinacy in allowing the institutional labor bureaucracy to progressively take control of the levers of the state, so that, as a consequence, they have reached the highest unemployment levels in the post-war period in Europe because they stubbornly insist on not allowing real wages to fall to the level of equilibrium that would naturally correspond to it.

From diagnosis to remedy

One cannot deny that the neoclassical analysis is coherent. If they blame the state for being ultimately responsible for the high level for wages—*artificially* high, one must not forget—and if they attribute unemployment to high wages, then the solution they offer could not be more logical from their standpoint. Specifically, their solution is to allow society to use all available means to force wages *down* to the equilibrium level so that once the flexibilization of the labor market becomes truly a practical reality and once rigidity is eliminated—that is, once the labor demand curve in Figure 1 is definitively shifted downward and to the right, a subsequent decline in wages will result simultaneously in an increase in the quantity demanded, a decrease in the quantity offered, and at the same time the automatic and ultimate clearing of the market so that the equilibrium finally achieved will reach the full employment level as desired (point E in Figure 1 guarantees that for wages w^*, the number of employed will be q^*, i.e., all those who want to work at this wage level).

And so the neoclassical economists claim to demonstrate, moreover, their goodwill, and thus agree with Jacques Chirac when, in his famous televised confrontation with François Mitterrand, he complained that the left had no right to exercise a monopoly over goodwill (*le monopole du coeur*). And further, these economists aspire to demonstrate that Adam Smith's famous invisible hand is still operative if one allows it to be—the same today as two centuries ago—and not only that, but that it also operates efficiently, even optimally. In other words, it is in fact an adroit and expert hand, much more able and efficient than the visible *left* hand of the Keynesian/Marxist interventionist state.

The Keynesian analysis of unemployment

Every student of economics knows that it was John Maynard Keynes[7] who created the discipline that bears the nice name macroeconomics—a subject or series of subjects of growing complexity over their school career. But perhaps they know less that Keynes was not only lucky enough to become a millionaire through his financial speculations or that he was endowed with good taste, which swung into action whenever he was selecting works of art or Russian ballerinas, or that, what is more, none of this prevented him from finding the time to write the program for the British Liberal party in the 1930s. However, his great merits as a person do not interest us as much as his merits from the perspective of the history of economic thought, for

Keynes gave birth to macroeconomics in his *General Theory*, in which he opposed the traditional neoclassical explanation for the labor market and unemployment.

The Model

According to Keynes, the neoclassical analysis is partially correct, and he shared many of its ideas: Indeed, one could not expect less from such an outstanding student of Alfred Marshall's. But Keynes noted that the neoclassical approach was too microscopic and wanted to add a complementary viewpoint which he called *macroscopic*. It was this "macroscopy" which in the end produced macroeconomics, and once the latter established roots together with its other, complementary half, microeconomics, it gave birth to conventional and orthodox economics in the second half of the twentieth century.

But what did Keynes mean by this "macro approach"? Simply put, Keynes found that the traditional analysis would begin to show flaws as soon as the labor market, instead of being studied separately, was studied together with what was occurring at the same time in the rest of the markets. From this new standpoint, wages are not only the *price* of a particular commodity—or in more precise terms, the price of a factor of production and hence an element of cost for firms—but also something just as important, or even more important than the former, but which the neoclassical economists usually overlook: When wages are taken in aggregate, they are one of the basic components of *aggregate demand* (in societies such as our own, even prior to Keynes's time, the total volume of wages in fact accounted for half the national income and consequently is a very important fraction of society's buying power; indeed this certainly remains the case today, at least in the developed economies, where the vast majority of the population lives off of income from wages).

Consequently, Keynes argued that the neoclassical diagnosis and remedy for unemployment lacked realism. For Keynes, it was not high wages that were the cause of massive involuntary unemployment in England, the United States, and other developed countries at the time of the Great Depression, when the *General Theory* made its appearance. The true cause had to be sought in the problem of insufficient aggregate demand and, fundamentally, in its most volatile component, namely the private investment of businessmen. Keynes saw that business investment depended on the *state of mind* of capitalists and that the latter was shaped first and foremost by their *expectations* of profit (profit rate)—based on a complex set of reasons in which both subjective and objective motives operated at one and the same time—and that it could very well happen that this state of mind became depressed owing to poor expectations, in which case investment would (or could) all but collapse, and along with it the demand for labor on the part of the capitalist class as a whole (in Figure 2, the demand curve would shift totally toward the left in this case until it reached the position reflected by curve *D*').

If this is the case, then the apparent solution offered by the neoclassical econo-

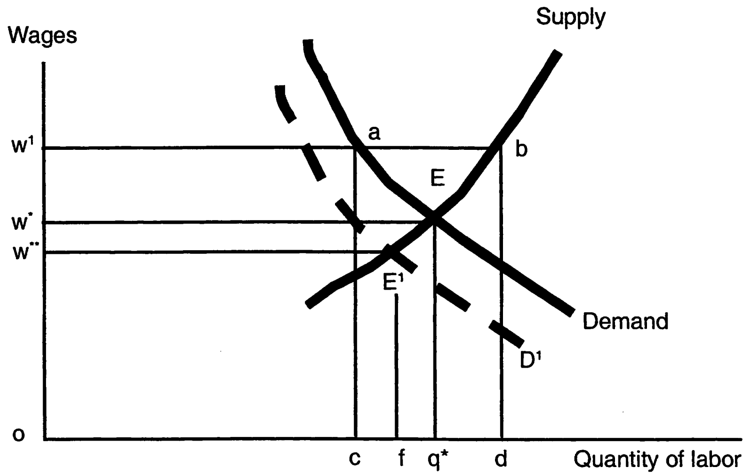

Figure 2 The Keynesian Labor Market

mists might only serve to complicate things further, especially if the attempt were made to implement it during what was already a period of recession or depression. If the desire to return full employment if society reduced the average wage (w') to a lower level—the neoclassical level of *equilibrium,* or w^*—by, for example, an average of 20 percent, then total demand affecting firms in the form of expenditure for consumer goods and services would tend to decline at a very high percentage rate (not necessarily by 20 percent, but sufficient to create a universal problem of sales). Although Keynes knew that wages did not account for 100 percent of demand, and that a reduction in costs could stimulate investment demand, his message basically was a warning that the automatic solution expected by neoclassical economists probably would not happen, since it might also happen that the conjoined effect of the two results would be to the detriment of total demand (rather than in favor of a recovery of production, as the neoclassical economists believed would inevitably occur).

Leaving aside for now the complex technical considerations of the elasticity of the labor demand curve—an important discussion when the problem is to determine the likelihood of one type of effect predominating over another—we observe that from the standpoint of the conventional instrument of Marshall's curve, Keynes argued that the entire curve may well shift to the left, in which case the postulated point of equilibrium of neoclassical economics (E in Figure 2) would not be a point of equilibrium, since equilibrium itself would have shifted to a point situated to the left and below the preceding line (from E to E'), that is, compatible with lower wage and employment levels ($w^{**} < w^*$ and $f < q^*$). According to Keynes, in some circumstances, this could be the worst outcome, since it might end in a *deflationary spiral* in which employment levels would decline steadily and there would be a damaging and growing reinforcement of the system's depressive and self-canceling tendencies, even as prices and wages remained low, which was precisely what his theory was designed to combat.

Keynesian policies to combat unemployment

Keynes' new diagnosis led him to a kind of remedy very different from those defended by neoclassical economists. If the problem is one of aggregate demand, and more concretely of private investment, what was needed was to revive depressed demand, which would put an end to the causes of depression. To achieve this, it would be necessary over the long term to restore conditions of business confidence, which would induce the capitalist class to generate spontaneously a level of investment sufficient to stoke recovery, which would then be followed by a new upswing in the pace of production and supply and, consequently, of employment. But Keynes was much more interested in the short term than in the long term and accordingly never tired of repeating the idea reflected in the famous slogan that "in the long term everyone dies," a maxim which for someone as much in love with life (and moreover the good life) as Keynes did not seem too illogical from a strictly individual standpoint.

Therefore, Keynes concentrated on the measures needed over the short term: a set of policies which had to be implemented by society, and especially by the state, with a view toward reducing the unemployment rate to the lowest possible levels in the shortest possible time. From this standpoint, Keynes believed that in time of depression it was not enough to wait for market forces spontaneously to correct disequilibriums by themselves (since the pace that could be expected from this approach would be much slower than what would be necessary to satisfy the demands of the public), and he publicly defended the need, indeed the urgency, for the state to intervene and itself assume the task of steering the economy in the right direction. Where there is no sufficient spontaneous market demand, Keynes proposed that it was up to the state to fill this gap with an *additional public demand* aimed at stimulating sales and production (and employment). As is well known, Keynes' remedies were *monetary* and *fiscal* at one and the same time. In fact, he merely proposed that the state spend more, yet without collecting more taxes but rather through a strategy of incurring successive public deficits financed directly by new issues of money (since an inflationary impulse to promote growth was preferable to a collapse into stagnation with declining prices and wages).

As noted above, Keynes defended these positions theoretically not because he was an interventionist and antiliberal, but precisely because, as a *realistic liberal*, he defended, like everyone else in his class, a state intervention appropriate to the circumstances (and even a major intervention when circumstances were deeply negative: one need only recall the history of economic theory from the physiocrats or Smith to Milton Friedman or Pedro Schwartz).[8] We know now that Keynes was not the only one to defend these positions in the 1930s. We also know that in fact governments had begun to react in a Keynesian direction before publication of

Keynes's *General Theory*. Roosevelt defended "Keynesian" interventions without knowing it, as did Hitler, Stalin, and so many others—along the same lines as the celebrated seventeenth-century character who was able to speak the purest prose without being the least aware of it. In fact, it must be said that contemporary liberals are more aware of how things are going in the real world than many of those who today criticize so-called anti-Keynesian neoliberalism from the left.

Keynesianism of the right and Keynesianism of the left

Those who see the Keynesian age as the golden age of our dreams and who seem to limit themselves to criticizing the neoliberal wave of the past quarter century with the evident purpose of returning to the immediately prior situation, forget that Nixon marked the high point of conscious Keynesianism when he declared in 1970 that "today we are all Keynesians." They also forget that the greatest bêtes noirs of a proclaimed Keynesian, Reagan and Thatcher, remained in the Keynesian mainstream—although they were piously rebaptized as perverse Keynesians by Keynes's humanitarian defenders, as if Keynes had ever been opposed to public spending that consisted of military spending[9]—at least insofar as they were either unable or did not want to avoid an ever-expanding public sector in their respective economies.

If liberals are today anti-Keynesians, it is because they have done the same as Keynes but under new circumstances: namely, trying to rescue the system with remedies most suited to the purpose of enabling the capitalist class to continue to be the ruling class of the system. In short, they ponder the most effective measures to prevent the motor of the system from grinding to a halt, or reducing the time it is paralyzed to a minimum—this motor being maximum profits, pure and simple. In fact this is exactly what all Keynesians, neo-Keynesians, and post-Keynesians, whether on the right or on the left, are doing today. Yet there are important differences between the left and right.

A post-Keynesian is someone on the left who maintains a position that aspires to be a mixture of a fidelity to the purest Keynes (i.e., that least contaminated by the virus of the so-called neoclassical-Keynesian synthesis) with elements that come from other colleagues and disciples of Keynes (such as Michal Kalecki, Joan Robinson, Nicholas Kaldor, etc.). They were more open (or more tolerant) than Keynes to certain of Marx's ideas (although it would be more precise to say: "ideas they believed came from Marx," because in reality some are pre-Marxian and some come from contemporaries of Marx;[10] and finally some also come from certain self-proclaimed Marxists who defended or defend positions that are quite different from Marx's positions). However we do not here have the space to develop these topics more extensively. We have merely called attention to them to point out that it is typical of the post-Keynesian to go further than Keynes and defend the point that rising wages not only do not work against recovery from a depression, as the neoclassical economists say, but quite the contrary: that rising wages are a factor that triggers recovery.[11]

The heterodox approach

Some economists regard Marx as being a revolutionary and no more. This is tantamount to regarding Keynes as only being a lord and Pareto as being a count and nothing more. In this essay, I treat him as an economist and present his ideas as they relate to current interpretation of these topics, just as we have done with the neoclassical and Keynesian positions. In other words, we shall translate these ideas into a language that the modern reader with some training in economics will more easily understand. However, unlike the neoclassical and Keynesian theories, modern Marxist theory is not well known, and I therefore explain a large number of intermediate concepts to help the reader understand the argument that follows. (Space considerations prohibit considerable detail. Interested readers should turn to more detailed explications in, for example, Guerrero 1995, 1997, and 1997–98).

The difference between the neoclassical and heterodox approaches lies in the fact that the latter (1) does not use the concept of equilibrium; (2) cannot use a conventional curve analysis; and (3) considers that the institutionalists are right when they insist that there are differences between the commodity of labor and other commodities—while forgetting the tremendous similarities that also exist between them. The reality is that heterodoxy, according to Marx and others like Rubin, has a different conception of equilibrium and produces a theoretical as well as graphic analysis of equilibrium on the labor market that differs from both neoclassical and Keynesian analysis.

The basic idea is that the theory of value shared by neoclassical economists and Keynesians (since both are heirs to the legacy of Marshall and/or Walras) is false. The combination of supply and demand does not determine simultaneously *price* and the quantity of equilibrium. This only happens in the neoclassical short term (i.e., when we assume that the quantity of all factors is given and we concentrate on a comparative statistical analysis of what happens as a consequence of changes in the factor that we have taken as a variable). But actually the short-term neoclassical concept is neither short nor long and is not even a term. What is of interest to a realist theory of value is the value or price of commodities in real time, and if when we proceed to analyze it our concern is to understand reality as it is and not to produce propaganda or to apologize for the system, then the only solid conclusion is that over the real short- and long-term (i.e., in historical time), it is supply that determines stable equilibrium prices, while the role of demand is limited to determining the quantity that can be sold at predetermined prices.

If the technology and the costs of production are given, neoclassical theory tells us that long-term equilibrium is given by the optimum exploitation of optimum scale (point OEOS on Figure 3), which is another way of referring to the minimal point on the curve involving average cost, which as we know includes as a cost what the neoclassical economists call normal returns (i.e., the average rate of profit of the system). In other words, this long-term cost, which in reality, given the neoclassical definition of cost, is an authentic price, is nothing other than the

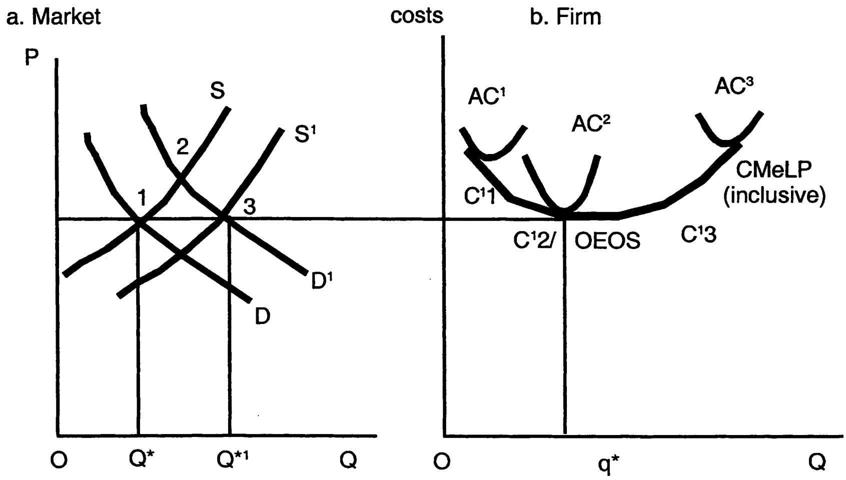

Figure 3 The Long-Term Equilibrium of the Market (3a) and the Firm (3b)

Legend: OEOS is the optimum exploitation on the firm's optimum scale

Note: The price of production is the expression in money terms of the value of production (i.e., what neoclassical economists call the minimum long-term average minimum cost: which of course includes normal earnings at an average rate of profit in the economy).

prix nécessaire of the physiocrats, the natural price of the classics, and Marx's price of production (i.e., the most concrete form assumed by the labor value of commodities). Therefore, stable equilibrium on markets according to Marx provides, as Rubin analyzed very well, the price of production of the commodity, in which no consideration of demand enters, except insofar as it is demand that determines the quantity of commodities which can be sold at this price.

Thus, it is exactly this that happens on the market for labor power (see Figure 4), which neoclassical and Keynesian economists call the labor market. The equilibrium wage is the cost of reproduction of the normal basket necessary to restore this labor power over the long term. The curve plotting the supply of labor power, if it is known how its origin on the vertical axis (wages) is defined, is a horizontal straight line (as is every long-term supply curve when costs are given), and also has a determinate length, which is defined by the set of factors that explain the absolute size of the active population in the society. The curve for labor demand in turn is a falling curve, as is generally any demand curve.[12]

Thus, the problem reduces to the following: Why do new and old commodities appear and disappear every day? They appear when the cost of production falls to a level at which effective demand is positive and disappear when the demand declines to a level that makes the survival of the last firm impossible. There is no

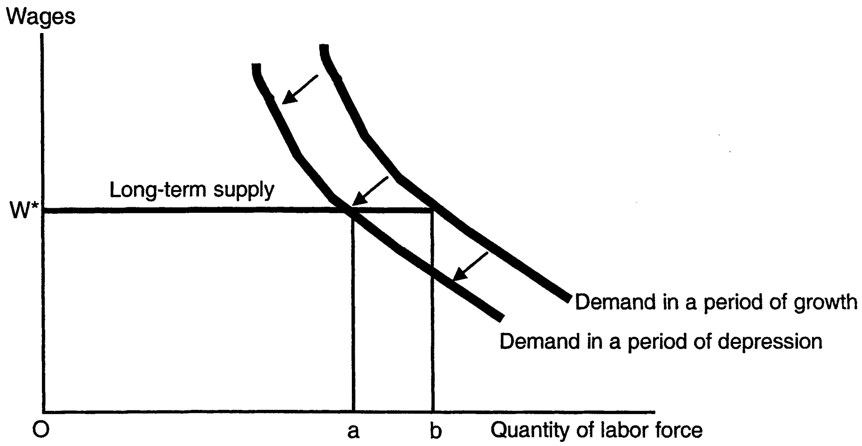

Figure 4 The Labor Market from a Heterodox Approach

Notes: 1) Ob is the size of the active labor force.
2) W* is the stable (long-term) cost of reproduction of simple labor force.

reason in this sense why supply and demand should coincide. The same occurs on the market for labor power: there is no reason why the demand for labor should cross the curve plotting the stable supply of labor at its extreme right, generating a quantity of jobs sufficient to achieve full employment. But it will happen, and below we examine the reasons why demand will set in at a level where its intersection with existing supply necessarily produces a specific level of unemployment.

What explains these two basic tendencies on the capitalist labor market: (1) that unemployment is an integral part of the system and (2) that it tends to increase over the long term?

The necessity of unemployment

Unemployment is necessary as a *recurrent* phenomenon because by necessity, just as naturally as the capitalist economy goes through growth phases, it too has to pass through phases of depression that have their origin in the triggering of a crisis of overaccumulation. This in turn is explained by the fact that the system is a very special system—a very strange system from a human perspective. In this system, human production does not take place with a view to satisfying human needs (of everyone) but for the purpose of obtaining maximum possible profits (for some). In other words, production occurs merely as a means *to augment the value of capital*, and labor is merely a means for exploitation, that is, the extraction of surplus labor. It is for this reason that in our capitalist system *the right to work* does not exist, at least it does not exist in the juridical sense of full rights, but only as a subaltern form, a mediocre form of a *conditional right*. It is a right that only exists when the necessary (but not the sufficient) condition, in the strictly logical sense, is present: namely that the exercise of this right is authorized by—or is compatible with—the profit prospects of the capitalist doing the hiring. Therefore, if there are no prospects of profit, there is no production; and if there is no production, there will be no employment; and if there is no employment, there is no effective right to work for everyone.

However, capitalists are clearly interested in obtaining as much surplus value as possible, since surplus value is the source of profit, regardless of whether they do or do not understand how the system as such functions. But as such, the system only functions well when it is possible to reinvest an increasing share of profits at a rapid pace, which necessarily means two things:

1) that it momentarily surmounts the obstacle that demographic growth (which is slow, in accord with the technical capabilities achieved by capitalist society) continually places in its path; and this in turn is a sign of success for capitalism, since it means that capital grows at a faster pace than profits, thereby making a reality of the idea that Smith and Ricardo were able to derive from the system's own machinery: its functioning or progress by dint of the synchronized movement of the two pillars on which it rests: a) maximum extraction of surplus value (or the worker as machinery-producing surplus value); and b) the maximum conversion of surplus value into new productive capacity through a maximum accumulation of capital.

2) However, at the same time—and what a paradox!—the result is the failure of the system, since the preceding signifies by definition a decline in the average rate of profit of the economy. Although this is not in itself what triggers crisis, as authors such as Grossmann, Mattick, and Shaikh were able to explain quite well following Marx (see Grossmann 1977 [1929], Mattick 1969, Shaikh 1990, and a summary of the idea in Guerrero 1997), it does so indirectly, since it must necessarily produce a contradictory feedback such that a decline in the rate of profit in the end carries the mass or absolute volume of profits with it.[13] It is precisely when the volume of profit begins to stagnate or fall that a crisis of overaccumulation of capital sets in and a phase of depression begins. It begins because the capitalist is then more interested in containing the extent of shipwreck than in continuing to throw more weight on the ship. The capitalist must destroy capital, although on principle and by his very nature he resists this, and believes himself capable of escaping the storm simply by destroying production and employment, but without affecting his own productive capacity. Hence, it is normally not the individual capitalist who destroys his capital—at least voluntarily—but rather it is the market, through its blind and objective fury, whose mission it is to accomplish this undertaking.

But let us look only at employment, since the other manifestations of what happens after a crisis do not interest us at this time. When the crisis in the rate of profit is sufficiently serious, no force, spontaneous or otherwise, will be powerful enough to shift the aggregate labor demand curve, which has been abruptly shifted to the left (see Figure 4), very far from the limit marked by the active population (potential employment in a certain sense) as needed to reabsorb the unemployed. Although the system continues being the same, the businessman has the final word. If it is a free enterprise system, nothing can obligate the capitalist or the capitalist class to invest, much less to hire new employees, because there is just as little that can prevent him from continuing to destroy it.

Therefore, the heterodox position is as easy to sum up as were its two orthodox opposites. From the heterodox position, unemployment is a *necessary consequence* of the internal dynamic of the system and is necessarily linked to its effective content. Its origin is purely and simply the natural contradiction driving the capitalist system, which forces it to transform its own human resources into commodities (in the form of marketed labor power). Thus, it is useless to blame the state and trade unions, because it is just as absurd to say that wages are too high or too low—they are what they are, and nothing else—as it is to say that the price of sulfuric acid or beer is high or low. Nor is there any point in blaming poor business expectations and the resultant depressed aggregate demand, because this immediately raises the question of why the demand for investment must necessarily decline after a certain time, just as at other moments it must rise sky high.

Whatever the case, this system is not only contradictory by its very nature, but it is even contrary to nature in the present historical circumstances. If, for the majority, the condition for being able earn one's livelihood is to allow oneself to be exploited in his labor, we must not forget that the laborer also is forced to behave as he does—since it is the system and not the individual that in the end imposes its laws. The conclusion can only be the following: the capitalist engine comes to a halt for the same reasons that it starts up, for reasons that lie in the very nature of the engine: merely by virtue of being an engine, it has to pass through two alternate phases. Unemployment is not due to the presence of external factors, whether external literally ("the crisis always comes from outside, from the foreigner") or figuratively (the blame lies always with the internal enemy and clandestine supporter of the state itself, together with monopolistic power of the national trade unions, an enemy which although internal—in the geographic/political sense, is still a disruptive exogenous factor from the point of view of conventional economic theory, trapped in the presumptive ideal and constructive beauty of the orthodox micro/macroeconomic model of the market).

The secular tendency toward rising unemployment

But there is another dimension of decisive importance that must not be forgotten. Unemployment is not purely a cyclic phenomenon linked to business ups and downs and the long cycles known as long waves since Kondratieff (see Bosserelle 1994; and, Mandel 1980). Unemployment, being a reserve army of labor, is merely a particular case of the tendency of modern capitalism to design its productive units—and to put them into operation—with excess capacity, which buffers the long waves and keeps respective prices at a proper level during periods when there is a strong increase in the demand for productive consumables. As Koutsoyiannis[15] pointed out, this is the usual practice in business; hence there is no reason not to extend it to the practical management of a firm's human resources, especially since they have been regarded for a very long time, and also continue to be regarded, as a fixed resource.

Does unemployment have a solution?

After the diagnosis comes the remedy. Unlike their neoclassical and Keynesian opponents, the heterodox do not have particular remedies. To be precise, they know that remedies against unemployment do not exist *within* the capitalist system. Outside of this system, there is a solution to unemployment. The point simply is to establish an *authentic democracy* and practically harness the people's willingness to work collectively and to earn a living in a dignified manner. But there are many things lacking, many difficulties to overcome, and many obstacles to remove (not only economic), although we cannot begin to analyze them here. Let me therefore focus on but one of them, which has to do with our field of activity.

According to a celebrated slogan, "Man believes himself free because he does not see his chains." And, I might add, one chain that many critics do not perceive is that, although they believe themselves critics of politically correct thought, all that they are doing is contributing to this unique way of thinking, adding colors to it until it forms a seemingly fantastic and marvelous rainbow. This rainbow of ideas have one thing in common: the belief that capitalism and democracy are compatible. The recipe to concoct this compatibility is left to the taste of the cook on duty: some like a potato omelette with potatoes only (the market); others like some onion added (the state). The menu is good for the diners, so much must be acknowledged, although they continue to be two variants of the same dish. Unfortunately, that is not the worst problem. The most serious flaw of the market system is that those who put labor to work making the two types of omelette oblige the laborer to keep out of the restaurant at dinner time, with no access to the delights of either of the two culinary achievements. Even worse, they are allowed to participate only after the dinner is finished, when it is time to wash the dishes. And as an extra reward, the citizens of the so-called democratic countries, are allowed to say every four or five years whether they prefer their omelette with or without onion.

Notes

1. There is a modern neoclassical *institutionalism* that is represented not only by a school of well-known economic historians such as Douglass North et al., but also by authors such as Robert Solow, whose 1991 book on "the labor market as a social institution" argues that this market is not like other markets. We see below in our heterodox approach

that these differences are definitely there, but they are of secondary importance relative to the similarities between of these two types of market.

2. As Emilio Alvarado (quoting Gual) reminds us, the neoclassical economists argue that there are numerous examples of "distortions in the labor market" introduced by the state: "First, restrictions on the substance of contracts in terms of their length, the costs, and flexibility in beginning and ending the contractual relation (i.e., temporary contracts compared to open-ended contracts, indemnification for dismissals, and part-time contracts). Second, restrictions on the nature of conditions of employment that may be included in the contract (i.e., mobility between production locations and professional categories, flexibility in wage structure, flexibility of the working day, etc.) and other distortions as the following: (1) the existence of a major tax loophole that adversely affects the relative price of labor and willingness to look for a job; (2) the existence of unemployment benefits, which negatively impacts the inclination to look for work; (3) the minimum wage level; and (4) rules that govern collective bargaining" (Gual et al., 1996, quoted in Alvarado 1998, 31–32). However Gual is more moderate in his demands than other neoclassical authors. For example, after saying that " profound changes are necessary to liberalize an excessively rigid system," he adds that "a certain degree of regulation is necessary" to put an end to an eclectic Keynesianism: "the measures of liberalization must be complemented with an aggregate demand policy that avoids long periods of unemployment for labor" (see Gual 1996, 37–38). Others like Sebastian are even more radical, and after observing that a "macroeconomic employment policy has a relatively diminished margin in 'Keynesian' unemployment, the only kind that is reduced by stimulating demand may not be very great," concludes with the precaution that "if policies are not credible, they will merely have negative effects, and if uncertainty is heightened, they could have negative consequences on hiring" (Sebastian 1996, 190).

3. Pedro Schwartz, the well-known neoclassical economist and liberal author, writes that "although most of the ultimate aims of socialists and individualists are the same, i.e. prosperity, freedom, happiness, and security" the reality is that "we differ in the means we choose and in the concept of how social mechanisms function" (1998, 155). Hence, instead of what the socialists call the welfare state, which he prefers to call a paternalistic state, what he proposes is a *liberal state,* but with the prior caution—which is totally right—against the caricature that has been made of liberal ideology: "The attitude of liberals toward the state is often caricatured out of incomprehension . . . they believe that the liberal basically wants to abolish the state, when actually he seeks to centralize and reinforce it" (1998, 167). Thus, if Schwartz is to be believed, whereas liberals seek to strengthen and reinforce the state, what he did was to upstage by fourteen years Tony Blair's famous "Third Way." As Blair explains: "The Third Way is not an attempt to point out the differences between right and left. It is concerned with the traditional values of a world that has changed. It is fed by the confluence of the great currents of thought of the center left—democratic socialism and liberalism—whose divorce in this century so deeply weakened progressive policy in the whole West. The liberals place their emphasis on the defense of the primacy of individual freedom in a market economy, while social democrats promote social justice, with the state as its principal agent. There is no need for conflict." (Blair 1998, 55). Schwartz is right when he says: "We no longer hear socialists justifying the public debt; nor promises to nationalize the means of communication, distribution, and consumption. . . . Their entire talk is of financial orthodoxy, industrial reconversion, flexibility of the work force, and a market economy" (1998, 166). That is all correct, and one can also add numerous complementary details such as the words (much more relevant to the topic of concern in this article) of Victoria Camps, president of la Fundación Alternativas, with which names familiar to Spanish readers such as Felipe González, and more recently Antonio Gutiérrez, are associated: "Unemployment derives from market rigidity and excess regulation." (in Blair 1998, 14), no matter how much you try to add other factors. Schwartz continues: "People

believe that liberals are intent on destroying the state. Quite the contrary, I have said and I would now like to demonstrate that as a political program liberalism is a state and public program. . . . Far from aspiring to the destruction of the state and substituting it with God-knows-what spontaneous social order, the liberals seek the restoration of a strong state, limited, and able to perform its necessary functions: a state that is able to establish and maintain a level playing field on which individual activity will flourish" (1998, 173 and 183).

4. Andrés and Garcia subscribe to a streamlined version of this interpretation which will not be unknown to many Keynesians: the idea that trade union (and political) activism in Spain in the post-Franco political transition was a factor that aggravated the normal negative effects that the "wage supply shock" produced in all countries (1990, 382). However, these authors place less emphasis on the "rigidity" of the Spanish labor market than on the consequences of a lack of geographic mobility and prefer to concentrate on sectoral disparities or on theories of non-neoclassical origin, such as segmented markets (ibid., 383). The analysis of the wage shock is more explicit in Andrés and Garcia 1992: "It is generally accepted that Spain suffered an additional supply shock in the form of a considerable and continuous increase in real labor costs (RLC) during the 1970s" (p. 324); however they state explicitly that "by 1981, the wage shock had subsided" (pp. 332 and 372–73). They also note in analyzing unemployment: "There have been frequent attempts to identify a single cause of this development but, just as in other countries, they were abandoned in favor of global approaches within the broader framework of meticulously detailed macroeconomic models" (p. 327). Andrés and Garcia seem to prefer models of monopolist competition following Sneessens and Drèze (p. 328), with even some Kaleckian elements such as the overt use of the hypothesis of price markup, which is basically Kalecki's (p. 340).

5. Álvaro Espina, who was Secretary General of Employment in Spain between 1985 and 1991, later repeated this idea in his public pronouncements on (in his opinion) dreadful trade union behavior. One decade later, he was still saying the same thing, although without mentioning the trade unions (which he implies are responsible for the state legislation that exists in Spain). For example, regarding dismissals and employment regulations, Espina compares unfavorably the Spanish case with the Dutch case, drawing on the authority of a report by the liberal Council for Economic Policy Research (CEPR) "which shows that foreign investment requires higher profit rates to invest in countries that have more rigid regulations regarding dismissals—among which is Spain. . . . Further, the report shows that the regulation that requires that prior administrative authorization be sought for the regulation of employment frightens off the placement of investments. . . . Actually, a prior authorization only exists in Spain, Greece, and Holland (although it has fallen into disuse in the latter country). . . . One hears echoes of the words of a Swedish businessman: 'If I had known that employment in my firm depended on the Ministry of Labor, I would never have invested in Spain. The advent of the Euro should be the signal to abolish it in Spain as well'" (Espina 1999).

6. Without seeking to deny that the United States is more capable of creating new jobs—although we all know under what conditions—it will not be superfluous to recall the famous study by an institution that cannot be suspected of heterodoxy, namely, American Express Bank, which pointed out that a comparison of the unemployment data of the five principal capitalist countries (the G–5) revealed that "the inclusion of workers who have given up looking for a job in the data can change the position of unemployment completely. Using the data on the proportion of persons who have stopped looking for a job in the total number of employed stated in two studies by the U.S. Bureau of Labor Statistics will yield a rough measure of the 'authentic' unemployment rate" (Amex Bank 1994, 4), and according to the table compiled by the bank (in January 1994), the data are the following:

	Unemployment rate (percent)	
	Adjusted	Unadjusted
United States	6.4	9.3
Japan	2.7	9,6
Germany	9.1	*9.1*
France	12.0	13.7
United Kingdom	9.8	12.3

Note: The unadjusted figure in italics for Germany indicates that the bank includes a footnote in the table stating "the corrections are not available for Germany"; however, the dual final conclusion is that on the one hand "the corrections seem to reduce very considerably the variance of the employment rates within the G–5" and, second, "the effective unemployment rate for the entire group is about 10 percent" (ibid., 2 and 4).

7. As a British colleague of mine says, contemporary economists are losing their good habits, especially the Spanish—and not only because we go to bullfights at tea time, but because we no longer have the least urbanity. We speak of Keynes instead of Lord Keynes, and we show a lack of respect for Pareto when we unfairly deny him his rank and the treatment due him, namely Sir Count Pareto. However, in calling attention to this friend, who is not wrong in his observations because it is well known that respect for counts and lords is diminishing, not to speak of for housekeepers, who are also beginning to be treated rudely, the jargon of economists would be even more tedious for us since we would have to put to trial our linguistic incompetence with ubiquitous and superlative Sir Count Paretians or endless polemics about the relative validity of Lord Keynesian policies and anti-Lord Keynesian policies.

8. The physiocrats saw nothing wrong in being supporters of the *ancien régime* (indeed they lived in the court at Versailles) and at the same time defending their economic laissez-faire liberalism. Likewise, Milton Friedman had no problem applying his remedies to Pinochet's Chile. However, not all liberals necessarily maintain these political positions. The proof is in Adam Smith or in Schwartz himself, who in his youth "was relieved of his place in the School of Diplomacy for having taken part in the student revolts of 1956" (see the inside cover of Schwartz 1998). However, despite the fact that an evolution such the one his admired Popper underwent is not at all ruled out (apparently Popper converted from being a socialist to being a liberal after his participation in a socialist demonstration), one must also not forget the ambiguities of the liberal notables of our epoch, like the iron lady Margaret Thatcher, head of the government of one of the most (so it is said) democratic countries of the world, yet capable of praising Pinochet: "We are very grateful to you because you re-established democracy in Chile, put a new democratic constitution in force, called free elections, respected the popular will, and abandoned power" (*El Pais*, 27 March 1999, p. 1). This liberal conception of democracy dilutes somewhat the spirit of the other proliberal who defines the liberalism he defends with the pretty phrase "freedom is the indivisible coin on whose one face is institutional democracy and on whose other face is the free market" (Vargas Llosa, foreword to Schwartz 1998, 14).

9. We should recall the celebrated quote from the Keynesian Tobin: "A half century ago, four years of total collapse of world economic activity produced massive unemployment. It persisted for the most part for the six years of recovery prior to World War II. It was the world war that then gave rise to a labor shortage and all the rest" (1986, 353). On this point, the realist Keynesians concur with anti-Keynesian critics such as Magdoff, who in a recent article motivated by the need to criticize the idea that "the present neoliberal state is a capitalist state of a type different from the social democratic, Keynesian, and interven-

tionist state of the previous period" uses the case of the United States to argue the contrary: "The spirit and substance of neoliberalism was alive and well in Washington and the financial community in the 'epoch of Keynesian social democracy.' Washington did not need inspiration from Maggie Thatcher to begin an offensive against the trade unions. The tidal wave against labor began in 1947 with the ratification of the Taft-Hartley Law and continued in later legislation, court decisions, and the practice of the Federal Labor Relations Board. What is more, the entire apparatus of neoliberalism was stimulated, and where possible imposed, thanks to the open door given to American multinationals in the third world. The road to NAFTA began at the beginning of the post-war period. In a conference in Bogota in 1948, twenty American nations signed agreements to facilitate foreign investment. Bilateral agreements on friendship, trade, and navigation were negotiated with countries of other continents to smooth the way to unbounded investments of capital from the U.S. The widening of markets and private investment opportunities were the key aims of the World Bank and the IMF from the very first day.... The difference between the Keynesian period as it is called and the present day is that in the first period the key point was a subdued aspect of the discipline that was imposed on the third world, whereas now neoliberal principles are loudly proclaimed as the true faith" (Magdoff 1998).

But there is a second aspect which Magdoff points out: "Not only was neoliberalism alive and well in the Keynesian era, but state intervention is an essential feature of the neoliberal epoch," as demonstrated by each of the financial and credit crises of the end of the 1960s: "What was the nature of these crises? Panic, and in certain cases the collapse of a financial house of cards were avoided by massive government interventions. These interventions took on a variety of forms: for example, huge loans by the government directly or through the Fed; control of Continental Illinois until it was floated; or simply 200,000 million dollars were spent to rescue the savings and loan banks. One of the principle features of the neoliberal period is assumed to be the decline in government involvement in the economy. However, in practice, direct government interventions in the last decade were made to shore up the economy" (ibid.). Magdoff's final conclusion is fully accepted by the author of this article, and should cause everyone to reflect: " the mythology of a Keynesian welfare state potentially without end is as firmly rooted in the left as elsewhere. If this belief is not engraved in our conscious minds, it is because it has taken refuge in the unconscious. The reformist proposals of progressives tend to look for ways to re-establish Keynesian harmony, when we should be working for changes that put capitalism and the ideology of the market system in question. Our educators have an enormous task ahead of them; to explain why the authentic interests of working classes throughout the world is to question capitalism at each opportunity" (ibid.).

10. In both cases Marx fought against these ideas directly, if not continuously.

11. For example, Anisi wrote: "The necessity of an association between a higher level of production and a lower real wage disappears in the post-Keynesian model. Moreover, to include the effect of distribution on effective demand, we will find that in principle, the higher the real wages, the greater the effective demand, and consequently the greater also will be production" (Anisi 1988, 104). And the contrary occurs in the opposite case: "This means that when revenue is distributed to the detriment of wages to improve the profit rate, production falls" (Anisi 1995, 97). But Anisi is not alone in saying this: some more traditional Keynesians also agree. Thus the famous Oskar Lafontaine, tells us: "One of the reasons for the high level of unemployment in Germany is the redistribution policy of the Kohl government. Redistribution from bottom to top is not only a social injustice, but also causes a systematic weakening of domestic demand" (Lafontaine and Muller 1998, 30).

12. In an attempt to dismiss the neoclassical analysis of the labor market, David Anisi was compelled to replace the declining labor demand curve with a vertical curve. He did not notice the essential point, which is that labor demand cannot be identical with the marginal productivity of a factor—just as it is impossible to equate consumer demand with a marginal utility

curve—but after denying the above, nothing stands in the way of plotting the demand curve as a declining demand, as Rubin very well perceived. Although the classical economists and Marx did not plot demand curves (but Cournot did so in 1838, and Cournot was certainly not a neoclassical, despite being a marginalist) Marx's analysis takes for granted that demand curves are perforce that way, providing we introduce the typical safeguard of ceteris paribus. In other words, it is enough to admit the existence of a revenue effect associated with a change in prices to accept a declining demand curve. What is applied in general is also what is applied in a particular case (i.e., in the analysis of the labor market).

13. Anisi (1995) is aware of this difference between the rate of profit and the volume of profits when he writes: "There was something even more serious. From the time that production grew, total profits continued to increase although the share of profits in revenues commenced to diminish. However, the beginning of decline in the profit rate indicated a direction in which even total profits could begin to decline" (1995, 55–56).

14. "The innovation of modern microeconomics in this area consists of its theoretical postulation of an SAVC curve [i.e., short term average costs—DG] as a straight line above a certain interval of production. The installed reserve capacity makes it possible to maintain an SAVC constant for a certain interval of production. It should be taken into account that this reserve capacity is planned in order to give a maximum operational flexibility to the firm. It is completely different from the excess capacity that arises in cost curves in the form of the *U* of traditional theory. . . . Generally speaking, enterprises consider that the 'normal' level of utilization of their plant is between two-thirds and three-quarters of their installed capacity" (Koutsoyiannis 1985 [1979], 125).

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