Understanding Unemployment: Keynesian vs. Marxian Explanations

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> "A study of the struggle waged by the English working class reveals that, in order to oppose their workers, the employers either bring in workers from abroad or else transfer manufacture to countries where there is a cheap labor force. Given this state of affairs, if the working class wishes to continue its struggle with some chance of success, the national organisations must become international." (Karl Marx)

To borrow a metaphor from the medical sciences, an effective cure requires a sound diagnosis. Yet, in the face of the current plague of unemployment the Keynesian economists issue all kinds of passionate prescriptions to remedy the problem of joblessness without paying necessary attention to its root causes.

According to these economists, the origins of the ongoing high rates of unemployment (and of the underlying economic crisis in general) can be traced back toRonald Reagan: his election to the presidency in 1980 and the subsequent rise of Neoliberalismbrought forth an economic doctrine that has gradually led to the reversal of the Keynesiandemand-management strategies of economicstimulation.So, for most Keynesian/liberal economists and politicians, Reagan is the pivotal figure and 1980 is the watershed year:

"Before 1980, economic policy was designed to achieve full employment, and the economy was characterized by a system in which wages grew with productivity. This configuration created a virtuous circle of growth. Rising wages meant robust aggregate demand, which contributed to full employment. Full employment in turn provided an incentive to invest, which raised productivity, thereby supporting higher wages.

"After 1980, with the advent of the new [Neoliberal] growth model, the commitment to full employment was abandoned as inflationary, with the result that the link between productivity growth and wages was severed. In place of wage growth as the engine of demand growth, the new model substituted borrowing and asset price inflation. Adherents of the neo-liberal orthodoxy made controlling inflation their primary policy concern, and set about attacking unions, the minimum wage, and other worker protections" [1].

While this account of US economic policies and developments of the past several decades is shared by most Keynesians and other critics of Neoliberalism, it suffers from a number of weaknesses.

First, the claim thatthe abandonment of Keynesian policies in favor of Neoliberal ones began with the 1980 arrival of Ronald Reagan in the White House is factually false. Indisputable evidence shows that the date on the Keynesian prescriptions of economic stimulation expired at least a dozen years earlier.Keynesian policies of economic expansion through demand management had run out of steam (i.e., reached their systemic limits) by the late 1960s and early 1970s; they did not come to a sudden, screeching halt the moment Reagan sat at the helm.

The questioning and the gradual abandonment of the Keynesian strategies took place not simply because of purely ideological proclivities or personal preferences of Ronald Reagan and other“right-wing” Republicans, as many Keynesians argue, but because of actual structural changes in economic or market conditions, both nationally and internationally. As discussed in my previous essay on this subject [2], Keynesian-type policies were pursued in response to the Great Depression and in the immediate aftermath of WW II as long as political forces and economic conditions of the time rendered those policies effective, or profitable. Those favorable conditions included nearly unlimited demand for US manufactures, both at home and abroad, and the lack of competition for both US capital and labor, which allowed US workers to demand decent wages and benefits while at the same time enjoying higher rates of employment.

By the late 1960s and early 1970s, however, both US capital and labor were no longer unrivaled in global markets. Furthermore, during the long cycle of the immediate post-war expansion US producers had invested so much in fixed/constant capital, or capacity building, that by the late 1960s their profit rates had begun to decline as the capital-labor ratio and other “sunk costs” of their operations had become too high.More than anything else, it was these profound changes in the actual conditions of production that precipitated the gradual rejection of the Keynesian economics.

Second, not only is the Keynesians’ narrative of the actual developments that led to the demise of Keynesian policies and the rise of Neoliberalism inaccurate, but also their theory or explanation of the ongoing problem of unemployment (and of the economic crisis in general) is woefully deficient. By blaming the unemployment on Neoliberalism, or “Neoliberal capitalism,” as some Keynesians argue [3], instead of capitalism per se, proponents of Keynesian economics tend to lose sight of the structural or systemic causes of unemployment: the secular and/or systemic tendency of capitalist production to constantly replace labor with machine, and to thereby create a sizeable pool of the unemployed, or a “reserve army of labor,” as Karl Marx put it. This means, of course, the higher the degree of industrialization and automation, the higher the potential of the reserve army of labor to expand. Marx described this tendency of capitalism to constantly create high levels of unemployment (or low levels of wages) as an essential condition for profitable production in the following words:

> “The greater the social wealth, the functioning capital, the extent and energy of its growth…the greater is the industrial army…. The relative mass of the industrial reserve army increases therefore with the potential energy of wealth. But the greater this reserve army in proportion to the active labor army, the greater is the mass of a consolidated surplus population…This is the absolute general law of capitalist accumulation. Like all other laws it is modified in its working by many circumstances” [4].

The fundamental laws of demand and supply of labor under capitalism are thereforeheavily influenced, Marx argued, by the market’s ability to regularly produce a reserve army of labor, or a “surplus population.” The reserve army of labor, whose size is determined largely by the imperatives of capitalist profitability, is therefore as important to capitalist production as is the active (or actually employed) army of labor. Just as the regular and timely adjustment of the level of water behind a dam is crucial to a smooth or stable use of water, so is an "appropriate" size of a pool of the unemployed critical to the profitability of capitalist production."The industrial reserve army," Marx wrote,

"during periods of stagnation … weighs down the active army of workers; during the period of over-production and feverish activity, it puts a curb on their pretensions. The relative surplus population is therefore the background against which the law of the demand and supply of labour does its work. It confines the field of action of this law to the limits absolutely convenient to capital's drive to exploit and dominate the workers" [5].

It is clear that the Marxian theory of the reserve army of labor, which shows how unemployment arises and why it is necessary to capitalism, provides a much better understanding of the current plague of unemployment than the Keynesian view, which blames it on "Neoliberal" capitalism—and which is essentially tantamount to explaining something by itself.

In the era of globalization of production and employment, the reserve army of labor has drastically expanded beyond national borders. According to a recent report by the International Labor Organization (ILO), between 1980 and 2007 the global labor force rose from 1.9 billion to 3.1 billion, a growth rate of 63 percent. Historical transition to capitalism in many less-developed parts of the world, which has led to the so-called de-peasantization, or proletarianization and urbanization, especially in countries such as China and India, is obviously a major source of the enlargement of the worldwide labor force, and its availability to global capital. The ILO report further shows that, worldwide, the ratio of the active (or employed) to reserve (or unemployed) army of labor is less than 50%, that is, more than half of the global labor force is unemployed [6].

It is this huge and readily available pool of the unemployed, along with the ease of production anywhere in the world—not some abstract or evil intentions of "right-wing Republicans and wicked Neoliberals," as Keynesians argue—that has forced the working class, especially in the US and other advanced capitalist countries, into submission: going along with the brutal austerity schemes of wage and benefit cuts, of layoffs and union busting, of part-time and contingency employment, and the like. Ruthless Neoliberal policies of the past several decades, by both Republican and Democratic parties, are more a product of the structural changes in the global capitalist production than their cause. This is not to say that economic policies do not matter; but that such policies should not be attributed simply to capricious decision, malicious intentions or conspiratorial schemes.

It might be argued: "who cares what caused the unemployment? The fact is that it is a huge problem for millions; and why not simply replicate the Keynesian-type stimulus policies that were adopted in the immediate aftermath of the Great Depression and World War II?" Indeed, this seems to be the view of most of the Keynesian economists and liberal policy makers.

While prima facie this sounds like a reasonable suggestion, it suffers from the problem of issuing useless or ineffectual prescriptions based on inaccurate or flawed diagnoses. Not surprising, repeated Keynesian calls of the recent years for embarking on Keynesian-type stimulus packages in order to help end the recession and alleviate unemployment continue to sound hollow. For, under the changed conditions of production from national to global level, and in the absence of overwhelming political pressure from workers and other grassroots, there are simply no refills for Dr. Keynes's prescriptions, which were issued on a national (not international or global) level, and under radically different socio-economic conditions—the solution now needs to be global.

Theoretically, the Keynesian strategy of a "virtuous circle" of high employment, high wages and economic growth is rather simple: massive government spending in the face of a serious economic downturn would raise employment and wages, inject a strong purchasing power into the economy and create a strong demand, which would then spur producers to expand and hire, thereby further raising employment, wages, demand, supply. . . . Many well-known Keynesians (such as Paul Krugman, Dean Baker, Thomas Palley, Robert Reich, and Randall Wray, for example) have in recent years repeatedly put forth this strategy of economic stimulation—only to see them fall on deaf ears. Why?

While in theory (and on the face of it), the "virtuous circle" proposition is a relatively simple and fairly reasonable strategy, it suffers from a number of problems.To begin with, it seems to assume that employers and their government policy makers are genuinely interested in bringing about full employment, but somehow do not know how to achieve this objective. Full employment production, however, may not necessarily be the ideal, or profit-maximizing, level of production; which means it may not be a real objective of employers. As explained above, a sizeable pool of the unemployed is as essential to capitalist profitability as is the number of workers needed to be actually employed. In its drive to keep the labor cost as low as possible, by keeping the working class as docile as possible, capitalism tends to prefer high unemployment and low wages to low unemployment and high wages. This explains why, for example, in reaction to the ongoing high levels of unemployment in the United States, the Obama administration (and the US government in general) has been making a lot of hollow, echoing noise about "jobs programs" without seriously embarking on a genuine plan of job creation a la FDR.

Secondly, the Keynesian argument that a "virtuous circle" of high employment, high wages, strong demand and economic growth is relatively easily achievable only if it were not due to the opposition of employers, or "bad" policies of Neoliberalism, seems to be based on the assumption that employers/producers are oblivious to their own self-interest. In other words, the argument presumes that it is not in the interests of employers to drive the wages too low as this would be tantamount to undermining consumer demand for what they produce. If only they were mindful of the benefits of the proverbial "Ford wages" to their sales, the argument goes,could they help both themselves and their workers, and bring about economic growth and prosperity for all. The well-known liberal professor (and former Labor Secretary under President Clinton) Robert Reich's view on this issue is typical of the Keynesian argument:

> "For most of the last century, the basic bargain at the heart of the American economy was that employers paid their workers enough to buy what American employers were selling. . . . That basic bargain created a virtuous cycle of higher living standards, more jobs, and better wages. . . . The basic bargain is over. . . . Corporate profits are up right now largely because pay is down and companies aren't hiring. But this is a losing game even for corporations over the long term. Without enough American consumers, their profitable days are numbered. After all, there's a limit to how much profit they can get out of cutting American payrolls. . . ." [7].

There are two major problems with this argument. The first problem is that it assumes (implicitly) that US producers depend on domestic workers not only for employment but also for sale of their products—as if it were a closed economy. In reality, however, US producers are increasingly becoming less and less dependent on domestic labor for either employment or sales as they steadily expand their export/sales markets abroad. Transnational capital's consumer and labor markets are now spread across the globe. As Professor Alan Nasser recently pointed out (in a Counter-Punch article), "On both the supply [employment] side and the demand side, the US worker/consumer is perceived as incrementally inessential" [8].

President Obama and his top economic advisors have been specially keen, indeed aggressive, on expanding US export markets to make up for the loss ofdomestic purchasing power. For example, in a speech (on his National Export Initiative) to the annual conference of the Import-Export Bank (March 11, 2010) the president pointed out: "The world's fastest-growing markets are outside our borders. We need to compete for those customers because other nations are competing for them." Mr. Obama's chairman of the Council on Jobs and Competitiveness, Jeffrey Immelt, likewise states: "Today we go to Brazil, we go to China, we go to India, because that's where the customers are" [9].

The second problem with Professor Reich's (and his Keynesian co-thinkers') argument of "high wages as the engines of virtuous cycles" of growth and expansion is that wages and benefits are micro- or enterprise-level categories that are decided on by individual employers and corporate managers, not by some macro or national level planners (as in a centrally-planned economy) of aggregate demand. In other words, individual producers (large or small) view wages and benefits first, and foremost, as a major cost of production that needs to be minimized as much as possible; and only secondarily, if ever, as part of the national aggregate demand that may (in roundabout ways) contribute to the sale of their products. This is another example of how Marx's theory of capitalist exploitation and wage-determination(as a subsistence-based historical category) is superior to the Keynesian view that, in a manner of wishful thinking, hopes that producers would be wise and generous enough to pay "sufficient" wages in order to sell their products!

Keynesian economists passionately talk about "virtuous cycles" of high employment, high wages and high growth as if there are no limits to such expanding, upward spiralingcycle. It is well established, however, both theoretically and empirically, that such virtuous cycles are bound to be temporary because as they expand they also sow the seeds of contraction. A discussion of economic cycles and the underlying theories of capitalist crisis is beyond the purview of this essay. Suffice it to point out that, contrary to the arguments of Keynesian economists, an expanding cycle of accumulation and high levels of employment may not necessarily be accompanied by rising wages. If it does, it would be temporary because, sooner or later, the rising wages would cut into profitability imperatives, which would then trigger the employers' reaction to curtail wages and benefits—by either curtailing or outsourcing production and/oremployment.

This means that not only may growth and expansion not be precipitates or accompanied by high wages, as Keynesian economists claim, but (on the contrary) by low wages, or low cost of labor. More often than not, capitalism flourishes on the poverty, compliance and, therefore, low cost of labor. Marx characterized capitalism's ability to create a big pool of the unemployed, or "relative surplus population," in order to create a largely poor and meek working class as "immiseration" of the labor force, a built-in mechanism that is essential to the "general law" of capitalist accumulation:

> "In proportion as capital accumulates, the situation of the worker, be his payment high or low, must grow worse.... The law which always holds the relative surplus population in equilibrium with the extent and energy of accumulation rivets the worker to capital more firmly than the wedges of Hephaestus held Prometheus to the rock. It makes an accumulation of misery a necessary condition, corresponding to the accumulation of wealth. Accumulation at one pole is, therefore, at the same time accumulation of misery, the torment of labour, slavery, ignorance, brutalization and moral degradation at the opposite pole, i.e. on the side of the class that produces its own product as capital" [10].

A major flaw of the Keynesian reform or restructuring package is that it consists of a set of populist proposals that are devoid of politics, that is, of political mechanisms that would be necessary to carry them out. They rest largely on the hope that, in an independent or disinterested fashion, the state can control and manage capitalism in the interest of all. This is, however, no more than wishful thinking, since in reality it is the powerful capitalist interests that elect and control the government, not the other way around.

In response to criticisms of this kind, Keynesians are quick to invoke the experience of the "golden years" (1948-1968) of the US economy in support of their arguments. It is true that during that long cycle of expansion high employment, high wages, high demand and high growth reinforced each other in the fashion of a virtuous cycle. But the constellation or convergence of a set of propitious socio-economic conditions (political pressure from workers and other grassroots, fear of revolution and radical change, unrivaled US labor and capital, unlimited demand for US goods and service both on a national and international levels, and more) that precipitated and nurtured that long cycle of expansion were unique historical circumstances of the time. Empirical observations or conjunctural developments under certain/specific circumstances ought not to be facilely extrapolated, generalized, and elevated to the level of a general theory, or a universal/timeless pattern of actual developments. Such an intellectual exercise would be tantamount to empiricism through and through—not scientific or realistic inquiry into a theoretical understanding of the actual socio-economic developments of the day.

To sum up, the Marxian theory of unemployment, based on his theory of the reserve army of labor, provides a much better explanation of the protracted high levels of unemployment than the Keynesian view that attributes the plague of unemployment to the "misguided" or "bad" policies of Neoliberalism. Likewise, the Marxian theory of subsistence or near-poverty wages, also based on his theory of the reserve army of labor, provides amore satisfactory understanding of how or why such poverty levels of wages, as well as a generalized or nationwide predominance of misery, can go hand-in-hand with "healthy" or high levels of corporate profits than the Keynesian perceptions, which view a high level of wages as a necessary condition for a "virtuous" or expansionary economic cycle.

Perhaps more importantly, the Marxian view that meaningful, lasting economic safety-net programs can be carried out only through overwhelming pressure from the masses—and only on a coordinated global level—provides a more logical and promising solution to the problem ofeconomic hardship for the overwhelming majority of the world population than the neat, purely intellectual, and apolitical Keynesian stimulus packages on a national level, which are based on the hope or illusion that the government can control and manage capitalism "in the interest of all." No matter how long or loud or passionately our good-hearted Keynesians beg for jobs and other New Deal-type reform programs, their pleas for the implementation of such programs are bound to be ignored by the government of big business. Only by mobilizing the masses of workers and other grassroots and fighting, instead of begging, for an equitable share of what is truly the product of their labor, the wealth of nations, can the working majority achieve economic security and human dignity.

Notes

[1] Thomas I. Palley, "America's Exhausted Paradigm," http://newamerica.net/files/Thomas_Palley_America%27s_Exhausted_Paradigm.pdf

[2] Ismael Hossein-zadeh, "Keynesian Myths and Illusions,"http://www.counterpunch.org/2011/11/04/keynesian-myths-and-illusions/

[3] David M. Kotz, "The Financial and Economic Crisis of 2008: A Systemic Crisis of Neoliberal Capitalism," Review of Radical Political Economics, Vol. 41, No. 3 (2009), pp. 305-317.

[4] Capital, Vol. 1 (Moscow, no date), pp. 592-93.

[5] Capital, vol. 1 (London: Penguin, 1976), P. 792.

[6] International Labor Organization (ILO), The Global Employment Challenge (Geneva, 2008); as cited in "The Global Reserve Army of Labor and the New Imperialism" (by John Bellamy Foster, Robert W. McChesney and R. JamilJonna): http://www.globalresearch.ca/index.php?context=va&aid=27549

[7] Robert Reich, "Restore the Basic Bargain" (November 28, 2011): http://robertreich.org/post/13469691304

[8] Alan Nasser, "The Political Economy of Redistribution: Outsourcing Jobs, Offshoring Markets,"http://www.counterpunch.org/2011/12/02/outsourcing-jobs-offshoring-markets/

[9] As cited by Alan Nasser, Ibid.

[10] Capital, vol. 1 (London: Penguin, 1976), p. 799.

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