Why do we have Unemployment?*

Prabhat Patnaik

Unemployment has become so persistent a phenomenon in contemporary times that there is a common feeling that it is a “natural” state of affairs, that nothing can ever be done about it, and that the only way to have greater employment opportunities coming your way is either to oppose the system of job “reservations” for the deprived segments of the population altogether, or to demand that your own “caste” or “community” be included in the category of those eligible for such “reservations”.

But this view that unemployment is a “natural” state of affairs is based either on ignorance or on loss of memory, for barely over a couple of decades ago there were societies, a large swathe of them, headed by the Soviet Union, that were so perennially characterized by labour shortages, which is the very opposite of unemployment, that tomes used to be written analyzing the key to their unique and remarkable modus operandi. The most celebrated economist-critic of the Eastern European socialist system, Janos Kornai, while analyzing these economies, had actually argued that full employment, or even labour shortage, was a central feature of these economies. This raises the question: why do we have unemployment? Just to say that it is because we have a capitalist economy is not enough; we have to look at the causal links carefully.

There can be two possible proximate reasons why unemployment exists in an economy: either there is inadequate capital stock to employ everyone willing to work, or there is inadequate demand in the economy to employ everyone willing to work; in the latter case unemployment must co-exist with unused capital stock. Within the first reason again we have to distinguish between two factors: there may be inadequate constant (including fixed) capital; or there may be inadequate variable capital, i.e. wage-goods, to employ everyone at the prevailing “customary” level of subsistence.

This first reason, of capital shortage, has never been a decisive one. Even if there may be occasions when such shortages might have appeared, such as for instance at the top of some boom (though even that is doubtful), they certainly do not explain the perennial existence of unemployment. In fact as Michal Kalecki the renowned Polish Marxist economist had said “the typical condition of a developed capitalist economy” is that the “resources of the economy are far from being fully utilized”. And this is now the situation even of economies like ours where, under the neo-liberal regime, unutilized capital stock and excess stocks of foodgrains (the main wage-good) have become a more or less permanent feature.

The perennial existence of unemployment together with unused capital stock and unsold foodgrains in the Indian economy in its contemporary setting must therefore be attributed to inadequate aggregate demand in the economy. Aggregate demand in turn is made up of four different components: consumption, investment, government spending and net exports (i.e. the excess of exports over imports). For a given income distribution, i.e. share of economic surplus accruing to the propertied classes in total output, consumption demand itself depends upon the level of employment and output, i.e. upon the level of aggregate demand. Hence if consumption demand is to be increased, then (barring transient measures like greater consumption credit) income distribution must be altered in an egalitarian manner, i.e. through an increase in the share of the working people in total output, which capitalists would obviously resist.

Likewise, investment generally depends upon the expected growth of the market. Of course these expectations are sometimes euphoric and sometimes not so, but they can scarcely be “made to order”. And the view that a lowering of the interest rate brings about significant increases in investment is not borne out by facts; investment in fact is quite insensitive to the interest rate.

Government expenditure was considered the main autonomous tool through which aggregate demand, and with it output and employment, could be increased. John Maynard Keynes who had been worried that high levels of unemployment would push capitalism to its doom, and therefore had advocated "demand management" by the State to keep capitalist economies close to full employment as a means of saving the system, had pinned his hopes on this instrument. But under neo-liberalism, when governments are expected to show "fiscal responsibility", i.e. tailor their expenditure to their revenue and run only a small fiscal deficit that is acceptable to globalized finance, this instrument ceases to matter. If output is low, then government revenue is low (and raising larger revenue through taxes on the rich is eschewed under neo-liberalism), and hence government expenditure too is low, which means that output cannot be increased through this instrument. It is no longer an autonomous instrument through which the State can intervene to raise aggregate demand.

Finally, net exports depend upon the state of the world economy: when the world economy is booming, individual economies can export more and hence there will be more employment and output in each of them. But since the world economy itself consists only of the individual economies, it can boom only if some individual economy, notably a large economy like the U.S., starts booming. It follows therefore that in a neo-liberal setting, the level of aggregate demand and hence employment in each economy depends upon whether euphoric expectations get generated in a large economy like the U.S., i.e. whether the U.S. has a "bubble" or not. The "dotcom bubble" in the U.S. in the nineties, and the "housing bubble" in the U.S. in the early years of the current century, were largely responsible for the growth of the world economy over that period and hence ultimately underlay whatever employment generation occurred within the neo-liberal regime in our own country. Those "bubbles" are now over, and there are no prospects of any other "bubbles" emerging in the immediate foreseeable future. The world economy therefore will continue to be mired in crisis; and unemployment in our own economy, which was increasing (though not in an open form) even during the years of high growth, will increase sharply in the coming years.

The conclusion that would follow from the analysis at this level is no doubt illuminating; but it is still insufficient. This conclusion can be stated as follows: if we could detach our economy from the global economy, through imposing controls over capital flows into and out of our economy, as we used to have in the days before neo-liberalism, and thereby make the State's fiscal policy independent of the whims and caprices of globalized finance capital, then "demand management" as in the old days could be resumed; aggregate demand could be boosted, and hence employment could increase.

This is certainly true and important. It also constitutes a proximate solution to the crisis of unemployment. But even if this could happen, unemployment would still not be eliminated. This is because a reduction in unemployment, or more accurately in the magnitude of labour reserves (since unemployment does not exist only in an open form), would strengthen the bargaining position of the workers, who would demand higher money wages. If these wage demands are conceded but prices are raised as a result of such money wage increases, then there would be a cost-push inflationary spiral, with money wages and prices chasing one another; this would destabilize the value of money under capitalism. And if these wage demands are conceded and prices not raised as a result of such wage increases, then the share of profits would fall, which the capitalists would certainly not like. It is important for the stability of the system therefore that the relative magnitude of labour reserves must not fall below a certain level. This amounts to saying that the size of the "reserve army of labour" relative to the active (or the total) army has a floor below which it cannot fall.

If unemployment has to be eliminated, i.e. if the size of the reserve army is to fall below this floor, then pricing of products cannot be left to capitalist enterprises (for that as we have seen would cause a wage-price spiral). There must then be State intervention in the form of an "incomes and prices policy". The State in such an economy must then not only carry out "demand management"; it must also engage in "distribution management". When after years of pursuing Keynesian policies of "demand management", capitalist economies did start experiencing serious cost-price spirals, many governments did try for a while to introduce "incomes and prices policies", so that the high employment levels could be maintained while inflation could be controlled. But these efforts proved futile.

The reason why they proved futile is because capitalists are opposed to any such extensive State intervention in the economy which is not mediated through them, i.e. which does not provide them with "incentives" for improving the state of the economy but attempts to do so directly. This undermines the social legitimacy of capitalism: if the State is so badly needed for increasing employment, people begin to ask, then why doesn't the State take over the running of the economy itself from the capitalists? It is essential for the social legitimacy of the system that capitalists must be seen as indispensible; and to preserve that myth, State intervention must be mediated through them by improving their "incentives", boosting their "animal spirits" and "euphoria"; and so on.

Coming back to the question, why we have unemployment, it follows therefore that under neo-liberal capitalism, where the level of activity requires "bubbles" to sustain itself, the paucity of aggregate demand as a general feature constitutes the obvious explanation. But even in an economy where the State recaptures its ability to boost aggregate demand by pursuing whatever fiscal policy it wishes to, by way of taxation and fiscal deficit, the maintenance of a high level of employment requires increasing intervention by the State, from "demand management" to an "incomes and Prices policy", and so on, which undermines the social legitimacy of the capitalist system and which therefore is impossible to sustain within the confines of the capitalist system.

To say this does not mean that we should not demand higher employment under the existing system or that we cannot even achieve through our struggles higher employment under the existing system. What it means in fact is just the opposite, namely that a persistent struggle for employment within the system is a way of transcending the system itself; and this constitutes an all-powerful reason for our engaging in this struggle.

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