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The Political Economy of Unemployment

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Unemployment, as defined by the U.S. Government, is the number of people seeking work who cannot find it during the period of study, usually a month. This definition reflects a neoclassical economic theory which links total employment with aggregate demand. In other words the higher the Gross National Product (GNP) the higher the employment. According to the theory the actual number of people working is the result interaction of this aggregate demand and the number of people willing to work at the going wage rates, i.e., the supply of labor. "Willing to work" is translated in the government definition as "those seeking work." This approach to defining unemployment combines elements of the theories originally put forth in the 1930's by John Maynard Keynes and more classical free market notions as put forth by the likes of Milton Friedman. However, the policy prescriptions which emerge from this definition are distinctly Keynesian.

Keynesian theory and policies have for some time generated criticisms from the right and left. Such criticisms gained strength with the unusual character of the 1974-75 recession and apparent tendencies in 1980. Combinations of high inflation and high unemployment, unpredictable interest rates, and massive fiscal deficits have led to a variety of blasts at Keynesian principles. This paper takes the position that these criticisms have always been justified. Persistent allegiance to the Keynesian policy principles are a product of political interests as opposed to objective economic theory.

An effort is made here to construct an analysis more closely

linked with political economic theory and reality. Only from such a construction can the political and economic dynamics of unemployment can be explained. Legal or administrative definitions emerge from political expediencies, but they fail to give clear indications of what forces rest behind such definitions. A review of the use of Keynesian policies in terms of full employment objectives should help set the stage for an alternative formulation of a theory of unemployment.

It is quite reasonable to assert that the U.S. economy is characterized by high levels of unemployment. The average annual unemployment rate for 1890-1976 is 7.1 percent, much higher than any typical political or economic definition of full employment (Duboff, 1977). Even when one uses measures which take into account the wide variations in unemployment rates (1.2 percent in 1944 to 24.9 percent in 1933) the results are still significantly higher than full employment definitions. The official political and economic definition of full employment is 4 percent or lower (Council of Economic Advisors, 1962). Since 1890 this level of unemployment has been obtained less than one-third of the time. Since the depression of the 1930's full employment has only been achieved during periods of war (1943-45, 1951-53, 1966-69). A rate of 3 percent has not been achieved since WWII and only three other times prior to 40's (Duboff, 1977).

It is the period since the depression of the 30's that is critical when we consider federal policy prescriptions for full employment. It is during the past 30-35 years in which liberal economists and politicians have felt that they had the appropriate tools for maintaining "full employment and balanced growth." Through the manipulation of monetary and fiscal policies those enacting state power attempted to maintain low unemployment while keeping inflation at a low level. For a number of reasons these tools of liberal political economy, rather than "fine tuning" the

economy, have proven to be not only inadequate but also to contain the seeds of further damage. Outside of the war years mentioned above, unemployment has been consistently above 4 percent, and growing; 4.5 percent average in the 50's, 4.8 percent average in the 60's, and 6.2 percent average in the 70's (through mid 1977). The fact is that public expenditures (federal, state, and local) taxation variations, and money supply policies have failed miserably in achieving anything close to the official full employment level, much less a more serious full employment commitment of less than 4 percent.

In fact, what such policies have managed to do is intensify deep seated tendencies in the economy towards stagnation and disruption. On the one hand such policies have been a necessary political response to these natural tendencies. Without such a response (expansion of public spending) severe political disruption would have emerged some time ago. However, the nature of the response has created a situation in which the economy relies so heavily on government intervention that it would destruct without continuously expanding aid. In 1975 the defense expenditures in the U.S. accounted directly or indirectly for 25 percent of employment. Government payrolls include 15 million civilian workers or approximately 15 percent of the official labor force. This is a 150 percent increase since 1950 (Ginsberg, 1977). The indirect effect on employment of non-defense government programs, such as loan guarantees, contracts, purchases, capital expenditures, etc., can be conservatively estimated at 8 to 15 percent. In other words, government at all levels has an immediate effect on 40 to 50 percent of the U.S. labor force. Even with such an impact employment has failed to approach "full."

An appropriate analogy for the situation is that of a leaking tire. As the tire leaks the government seeks to keep the tire

from collapsing by pumping air into it. But the force of the new air makes the hole bigger and bigger, thus requiring faster pumping. The pumping mechanism for the economy is expansionary but also inflationary. The nature of the expansion, i.e., kinds of jobs created, coupled with the inflation and unemployment puts such expansion on very shaky ground, or rather, with an ever bigger hole to fill. In the final analysis this hole is filled with human suffering.

An alternative analysis of unemployment comes from radical political economy. From this writer's position this framework presents a more complete picture than that offered through Keynesian propositions. A brief description of that framework should set the foundation of a discussion of policy options.

Unemployment is a product of two core features of capitalism; class struggle and capital accumulation. Although these elements can be separated for theoretical discussions, they cannot be separated in reality. They influence each other and work together in such a manner that a narrow focus of analysis on policy will miss a critical element. This, in fact, is one of the weaknesses of Keynesian Theory. It is concerned only with the accumulation process and how a pattern of growth can be maintained within that process. It ignores the political nature of the capital-labor relationship and the role it plays in shaping accumulation.

The class character of capitalism begins with the separation of producers from control over the means of production. There develops a class of owners of the means of production and a class of non-owners. The non-owners, because they must survive, are forced to sell their labor power to the owners for wages and salaries. Because of the "forced" character of this relationship the owners are in a position to appropriate a portion (surplus) of that which is produced from which they attempt to realize pro-

fits. Also because this is a forced relationship (as opposed to a "voluntary " exchange as suggested by liberal economists) it takes on a very political character. The relationship is a power relationship. This is apparent even under liberal assumptions about the capital labor exchange. Given the liberal assumptions of "maximizing" behavior we find capital seeking to maximize profits which requires minimizing costs - which includes wages (that portion of the product paid to labor)-while labor is seeking to maximize its own income (wages). The ensuing struggle over this one of many points of contention between the classes is not merely a market transaction in which maximizers cancel each other out for the benefit of everyone; a la Adam Smith's "invisible hand." It is a power struggle over relative shares of the surplus, i.e., how much will capital be allowed to appropriate versus how much will be paid to labor in wages and salaries. On the side of labor is the power to hold back labor, thus reducing production. On the side of capital is the power to hold back wages and, possibly of more importance, is the power of the state.

The ruling class of any society has the power of the state to control the class struggle in their own interest. The ruling monopoly capitalist class of this era is no exception. The decisions of the state - the U.S. Government and state and local governments - are, in general, decisions which protect the ruling interest of monopoly capitalists. This point is not to suggest that theirs is unbridled power. There are definite limits which are set by the extent of labor to muster its power as well as the strength of national and international resistance and liberation movements. Especially domestically, however, the decisions of the state are such that the dominant relationship of capital over labor is maintained. This dominance not only includes economic policy and labor laws, it is also apparent in social policy.

The second feature of capitalism which shapes the dynamics of unemployment is the capital accumulation process. This process is the central dynamic through which the capital-labor relationship is reproduced. The process begins with the driving force of national and international competition which requires that all capitalists attempt expansion. Expansion brings forth more and more production in an effort to increase the surplus. The capacity of producers to realize a return on such production is limited by the capacity of various units of consumption to purchase such products. In the case of workers or households their capacity to consume is limited by their income, i.e., wages and salaries, which are held in check through the class struggle and market factors. The other significant units of consumption are foreign markets and the state. The capacity of foreign markets to consume the surplus product is limited by the relative strength of U.S. imperialistic forces to force such consumption. Given the highly unreliable character of household and neocolonial consumption patterns, the state becomes increasingly critical in the accumulation process.

The accumulation process is characterized by booms and busts. The booms occur when the drive to expand is the highest. The busts occur when the ability to realize returns on surplus production have ended. At that point profits are squeezed, inventories are high, and production must be cut back. Marginal businesses begin to fold and industries become more concentrated as larger businesses take over the markets of the departing firms. Unemployment rises. Such a rise is generally thought to bring a downward pressure on prices. However, in the monopoly period of capitalism prices are inflexible downward. Therefore, there remains an upward pressure on prices, although less severe.

This process continues until debt has been adequately cleared, discipline restored to workers' wage demands, inventories reduced,

and renewed profit-making conditions restored. At this point expansion can begin anew. Politically the control of capital over labor has been restored by the weakening of labor's relative power through unemployment. Economically the ability of capital to appropriate a larger share of the surplus has improved due to increased competition of unemployed workers for fewer jobs and due to the replacement of people with machines.

Historically this process becomes more and more extreme. The recessions tend to get deeper and thus more difficult to recover from. The deepest bust was the depression of the thirties. As a result of that event the ruling powers learned how crucial the state is in resolving the contradictions of the accumulation process. The state plays many important roles in the maintenance of the system. In terms of accumulation, however, its key role is that of absorbing or consuming the surplus product of the private sector. Without this role the system would collapse. This role is played in two basic ways. First the state provides a massive demand for products, especially military hardware. The state, through its purchase contracts and capital contracts, provides reasons for production (and jobs) which would otherwise be unavailable. Second the state directly employs large numbers of people who in general would not be able to be absorbed in the private sector. These people play a vital part in consuming that which is produced in the private sector.

The significance of the state's role in keeping the system from collapsing is indicated by the fact that forty to fifty percent of the workers in the country depend on public expenditure for their jobs (Ginzberg, 1977). This growing role of the state is no accident. It is a direct result of the character of monopoly capitalism which tends toward stagnation. As time goes by the tendency towards system collapse becomes more severe. A casual

observation may never reveal this tendency. However, a close look at the expanding role of the public sector shows the growing weakness of the private sector. The federal government's share of the GNP grew from five percent in 1920's to almost twenty-five percent in 1975 (President's Council of Economic Advisors, 1975). Defense expenditures directly or indirectly account for twenty-five percent of the national employment. (Monthly Review Editors, June 1975) In states like Connecticut and Virginia defense accounts generate approximately fifty percent of the employment.

Capital accumulation forms the economic basis for unemployment while class struggle forms the political basis. Together they generate an ongoing pattern of cyclically rising and falling employment and secularly growing unemployment. In other words, there is general long-term trend towards higher and higher unemployment, even though the rate may rise and fall within short periods. Contemporary high levels of unemployment are generally linked with the above processes and the following concrete conditions and events:

1. Prolonged growth in the 1960's and early 1970's, generated by extensive defense spending on Vietnam and social service expenditures, failed to allow an essential recession to stem inflation;
2. Increasing energy costs, generated by monopoly oil firms manipulation of oil supplies, have quickened the demise of production in the heavily populated Northeast and Midwest;
3. The U.S. Government is consistently choosing policies to fight inflation at the expense of unemployment;
4. Secularly declining productivity in the work force has fed both inflation and unemployment.

The policymaking framework of the government has consistently been geared towards the interest of the ruling class and its

giant corporations. The President's austere budget, the weakened Humphrey-Hawkins bill, the cuts in CETA funding, and cuts in human services funding in general have reflected this direction. The above discussion was designed to point out the reasons behind such directions. It should be clear, however, that drastic alterations in the policy choices are essential if this direction is going to change. An introduction to a framework for such options is described below.

It has become quite evident that the public sector is and will continue to be more than simply the employer of last resort. Unemployment is not only the responsibility of the government in terms of policies to stimulate the economy, but also in terms of direct employment. There is no indication that this direction will or can be changed. In that light it is essential that all government levels begin to make employment, or rather employing, a priority. Funds, then, can be allocated so as to directly employ the maximum number of people. For example, rather than contracting out capital works to firms which hire and fire based on profits, the government could, without the profit motivation, generate more employment with the dual purpose of completing a project and providing employment. Private employers generally employ people only to get a job done. If they could get the job done without them for a lower cost, they would not employ. The objectives of government sponsored projects should make employment equal to the task of the project. This can only be guaranteed on a large scale in the public sector.

It has further become evident that the private sector has become unable to manage critical resources vital to employment. These resources include energy, the environment, and associated technology. The level of government involvement in such areas is, at best, minimal. Further the nature of its involvement fails

to address fundamental contradictions in the relationship between these elements and the capital accumulation process. The nationalization or public ownership of energy resources and utilities could provide a critical mechanism for managing these resources as well as generating employment. Control over technology in many industries, not just energy, could prevent the use of automation to replace workers.

Short of a progressive revolution, these, amongst other options, suggest possibilities within the current state-capital-labor relationship. However, given the tendencies in the move to the right today, to achieve the above may require such a revolution. The tendency today is away from progressive alternatives and towards reactionary positions. This evidences a dim future for the unemployed, potentially unemployed, and their needs. A retreat from or capitulation to this trend, however, will doom the prospects for ever obtaining full and decent employment.

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