

In 1930s Harrod introduced growth dynamics. The prevailing theory at the time was static rather than dynamic. This meant that it served primarily to explain how the economic system, assumed to be initially at rest, reached a new resting point when and if it was disturbed from without. What was necessary, Harrod argued, was a body of theory to explain what caused the observable movement of the economic system to change over time. In response to this need, Harrod developed his fundamental formula, better known to American economists as the Harrod-Domar formula, in which the growth rate, as the dependent
9 variable, is determined by the propensity to save //9// and the incremental capital/output ratio. But it was not until two decades later that Harrod's pioneering effort to develop a dynamic analysis bore fruit in the emergence of a relatively robust post-Keynesian theory.

In 1956 two key writings appeared
Joan Robinson, The Accumulation of Capital

Nicolas Kaldor, "Alternative Theories of Distribution,"

Both drew on the distinction between wages and profits in the work of Kalecki (and through him of Marx) to an essential aspect of growth dynamics, one inextricably linked to the distribution of income. The point was that an increase in the growth rate, because of the higher level of investment that it implied, would necessarily be accompanied by a larger share of profits in national income, thus leaving workers relatively worse off.

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Both of these published pieces however received little attention from economists outside/Cambridge coterie. Indeed Robinson, feeling that perhaps the fault was hers for making the argument in the Accumulation of Capital too parsimonious, subsequently wrote her Essays in the Theory of Economic Growth, but the response from other economists was no better.

The fact was that at the same time Keynes' one time associates and followers at Cambridge were attempting to enlarge upon the break with orthodox theory, others within the economic profession were working to contain the Keynesian heresy. This was especially true in the United States, which had largely replaced Great Britain as the dominant world power.

There among liberal economists, a new neoclassical synthesis had emerged, based upon the work of Paul Samuelson, who both translated the received theory into mathematics and wrote a popular text book for beginning students. In this exegesis,
10 the Keynesian macroeconomic model was simply grafted onto the prevailing microeconomic theory, with the distinction between the Marshallian and Walrasian approaches lost. The fusion was carried out despite the lack of compatibility between the Keynesian macroeconomic model, with its emphasis on the changes in investment and other discretionary spending, and the prevailing microeconomic theory, with its emphasis on the substitution effects resulting from price changes.

The Keynesian arguments, it was held, applied only in the short run when various market imperfections prevented the neoclassical theory's adjustment mechanisms from taking full effect and the resulting unemployment was likely to prove politically unacceptable. Over the longer run however,

10 especially with the government committed to using the new mode of analysis to deal with the short-run unemployment problem, the pre-Keynesian theory could still be relied on. Indeed this was the underlying assumption of neoclassical growth model formulated by Robert Solow, Samuelson's colleague at MIT (and by Trevor Swan in Australia) in 1956, the same year in which appeared both the Accumulation of Capital and "Alternative Theories of Distribution" appeared.

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Politically, the neoclassical synthesis led to the policies, in the 1960s, of "fine-tuning" an American economy presumed to be fundamentally stable without the need for more drastic forms of intervention. This political program met its debacle over the problem of inflation, thus precipitating the current crisis in economics. For there was nothing in the neoclassical synthesis to suggest how the goals of full employment and price stability could be achieved conjointly, thus avoiding the need to make a Phillipsian choice between the two -- or even to explain how recession and inflation could occur simultaneously, as they did throughout the 1970s.

11 It is the growing lack of confidence in all theoretical models that marks the current crisis in economics. In the resulting confusion, less liberal economists have sought to strip the neoclassical synthesis of its Keynesian trappings, arguing for a return to the monetarism from which Keynes, with his training under Marshall, struggled to escape from in the 1930s. Yet what to other economists is a growing disparity between theory and experience is, to those economists who have re-oriented their work along post-Keynesian lines, simply confirmation of the conceptual framework they employ. In particular, the simultaneous occurrence of inflation and recession is what they would expect under modern economic conditions when neither price nor wage setting depends solely on impersonal market forces.

The number of economist who have consciously and openly made this shift in paradigm is, as already indicated, quite small -- the size of the group reflecting the resistance to their ideas from the established centers of orthodoxy, situated both in the leading training graduate centers in this country and in the leading economics journals. But the number of economists who are either unfamiliar with this alternative to neoclassical theory or who, having come to some of the same ideas themselves, are unaware of the larger body of work within which these ideas fall is much larger. Perhaps they even constitute a majority of the economics professors when those who specialize in applied fields are taken into account.

79 [Reswitching] Thus it happens that seeking refuge in the logical-positivistic argument that empirical outcomes are all that matter, [uncritical] not only begs the question, but is itself a/metaphysical rather than a scientific position. As a salient example of this, Ferguson, after calling for econometric testing so as to determine the validity of the Cambridge criticisms of neoclassical production theory, went so far as to state that: "Until the econometricians have the answer for us, placing reliance upon neoclassical economic is a matter of faith. I personally have faith; but at present the best I can do to convince others is to invoke the weight of Samuelson's authority...."

Thus the reswitching anomaly, along with its theoretical developments and implications, has been placed in abeyance. And it must be so, for if this criticism were taken as no less applicable to the real world than to the theoretical, then it follows, as already noted, that orthodox economics is unable to make any reliable statements concerning the relation of production to the various input markets. That is, the neoclassical vision of a market-coordinated production system, along with derivative growth and distribution theories are all invalidated. As a consequence, the nature of the entire circular flow conception is called into question.

The importance of the foregoing for policy is that the neoclassical vision of the circular flow provides much of the theoretic 80 undergirding for the currently embattled version of "Keynesianism" based on the so-called "neoclassical synthesis" -- That is, the placing of major policy emphasis on the indirect tools of fiscal and monetary policies so as to affect purposively, through market responses, various key macroeconomic objectives, namely, production and employment, the price level and balance in external payments.

It is one thing to say that this conception of indirect economic management does not satisfactorily achieve its goals because of the existence of such real-world problems as bottlenecks, power, premature inflation, inflationary expectations, ratchet and spillover effects, and the like....

It is quite another thing to argue that key markets in the system, particularly those in the resource or input sector, do not possess the fundamental economic characteristics necessary to the orderly systematic functioning that is postulated by mainstream theory. In this case, the entire production system, as envisioned by neoclassical economics, has lost its unifying consistency and coherence. Thus the neoclassical paradigm, summed up in the vision-laden analogy of an ordered circular 81 flow among various markets, no longer reliably //81// explains how production takes place and how the system as a whole functions....

.. An economy so unexplained is obviously not predictable and thus not amenable to the current "means-end" techniques of indirect guidance and control. This is to say that there would be no reason to expect that any particular policy actions (means) would lead to desired results (ends) with any calculable degree of certitude, perhaps, even with respect to the direction of change...

BL: General equilibrium is based on the Cartesian theorem that eight unknowns are determinable by means of eight independent equations, and N unknowns by n independent equations. But a general solution does not determine the precise procedure required to obtain the particular route followed in particular solutions.

81 BL con'd. What reswitching proves is the existence of different routes and consequently the indeterminacy of a general solution. It is shooting with a blunderbus when a rifle is needed. Aliter

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82 For as far as the orthodox vision is concerned now, (1) logically rigorous and complete theoretical consistency is absent; (2) empirical testing (statistical) in accordance with the standards of logical-positivistic methodology will almost surely remain an open (a begged and metaphysical) question for an indefinite future (cf. sup. 78 f); and (3) as even casual observation of current and world-wide experience indicates, our ability to make and carry out policy will remain seriously deficient.

The neoclassical idea of an interdependent market economy is elegantly expressed through the device of Leon Walras' general equilibrium model (1926). Indeed, Mark Blaug, in his Economic Theory in Retrospect (1962), has urged that we should remember "... that nearly all (Orthodox) economics nowadays is Walrasian economics." This includes not only the notion of interrelationships between and among resource and product markets (as specifically examined by Walras himself), but also the the more modern idea of the interrelated 'public sector-private sector' duality of the neoclassical synthesis noted above.

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83 Because of this general "Walrasian" nature of current orthodox economics, it is both interesting and useful to attempt to explicate the particular vision on/Walras himself based his scientific endeavors... Yet it may not be an overstatement //83// to assert that practically every economist has some idea of what Walras is all about. And most economists, if queried, would be inclined to accept the statement that what Walras essentially did was to articulate regorously the notion -- the vision, as it were -- of how an interrelated market economy could be expected to function automatically -- that is, a competitive regime including perfect mobility of resources, perfect flexibility of prices, and perfect information concerning prices as provided by a "hypothetical auctioneer...

The key point in the above argument turns on the inerent consistency and predictability of market-oriented economic forces, meaning that particular economic means could be taken as precedent to particular economic ends, caeteris paribus.

BL The objection from reswitching is that a particular product may demand more than one solution, that varying circumstances induce varying procedures so that an unknown yet to be determined multiplicity of equations may be needed, and this need is not met on any general solution.

The question at this juncture is: Does this vision, the essence of this idea-system, square with Walras's own, and what he thought he was doing in articulating his formal (scientific) model?

84 According to an astute student of Walras, William Jaffé, the answer to that question appears to be no.... Walras' purpose, according to Jaffé, was not to describe or to analyze a real-world system, even under stringent ~~assumptions~~ assumptions. His goal then was not positivistic; rather it was essentially normative; Walras was attempting to find out whether whether an economic system based upon conditions that to his mind constituted economic justice, both in ~~the~~ exchange and in distribution, could exist at any given time. He was thus concerned with a particular end,

84 a vision of a "just" terminal state; he was not exploring the functional relationships that would lead to this state in the means-end sense of modern orthodox economics. As Jaffé puts it: "Walras' aim even in his pure economics was ~~not~~ prescriptive or normative rather than positive or descriptive. His ~~object~~ object was to formulate [invent?] an economic system in conformity with an ideal of social justice."

84ff As Walras was concerned with the theoretical possibility of an end-state, so Walter Lowe would deduce from an end state (full employment) the means that conduce to it (1976).

BL It seems to me that Lowe proceeds far more concretely. His argument is, when an increase of population gives rise to unemployment, then an economic expansion is to be encouraged but ~~not~~ not before and not an unlimited expansion.

BL The reswitching argument also is involved in the Aristotelian contention that "asserta de futuris contingentibus neque vera sunt neque falsa." The truth of the Cartesian algorithm rests on the truth of the initial equations and on the absence of later interferences.

If the equations are true universally, what is going to be true in the concrete situation.

Reswitching is an instance of a subsequent shift of presuppositions: change of interest rates; different implications in different cases.

In the light of such possibilities, the Cartesian algorithm does not provide a solid basis for determinate policy.

- 101 The conventional analysis of the demand for labor....
- 102 ~~The conventional analysis of labor supply.~~
Having thus derived both aggregate labor demand and labor supply as functions of the real wage rate, the standard macro-economic analysis proceeds to demonstrate that, in the absence of rigid money wages, supply and demand in the labor market would simultaneously determine real wages and the level of employment...
- 103 The problem as it is usually presented is that money wages are not flexible downward and thus involuntary unemployment must ensue.
- 106 Keynes (1936), in replying to the argument that an increase in the demand for labor can only be met through an increase in money and real wage rates, noted that in general the volume of labor forthcoming at a given money wage rate depends upon the availability of jobs. Further more he observed in the real world the supply of labor does not necessarily vary with changes in the real wage for, after all, labor is not in a position to withdraw its services with every increase in the price level, even though its real wage has been reduced. Keynes also noted that there have been wide variations in the level of employment without any apparent change in the real wage or the productivity of labor. These real world outcomes are inconsistent with the argument that the demand for labor and the supply of labor are functions of the real wage, and appear to contradict orthodox theory. PKers accordingly have developed alternative theories of labor demand and labor supply.

Production and the Demand for Labor

The PK argument relating the demand for labor to production has three components: the first conceptualizes the institutional nature of the business sector; the third describes the pricing decisions of firms; the second characterizes the prevailing technology. The demand for labor can then be related to the level of output without reference to marginal productivity theory.

- 107 The simplest assumption about the industrial structure of the US that is reasonably close to reality is Robert Averitt's view (1968) that there exists a dual economy. That is, that the American economy may be viewed as consisting of //107//first, a set of core industries characterized by oligopolistic market structures; high capital-labor ratios; the use of sophisticated technology; substantial training costs for skilled, supervisory, and technical workers; high wages; the need for a literate and stable working force; and the presence of strong trade union organizations; and second a periphery in which industries are characterized by their lack of market power; archaic management techniques; low capital requirements; low skill requirements; low wages; seasonal employment and/or an unstable labor force; and little or no labor organization.

Firms in the core are more likely to belong to industries in which concentration is extensive and, as a result, are more likely to have some control over output prices than are firms on the periphery.

Prices set by firms in the core are sufficiently high to permit the replacement of used-up capital and the internal financing of a major part of and planned expenditure, the payment of wages to workers that include a share of the social surplus, and the realization of a rate of profit that is higher than the average rate prevailing in the economy.

Prices of commodities produced in the periphery tend to be depressed below their normal level. Firms can keep prices down only by not replacing used-up capital, by paying workers lower wages and/or accepting a lower rate of profit.

107 Thus we observe in the nonoligopolistic industries numerous workers who despite the fact that that they work full time, must receive welfare payments in order to subsist. At the same time the rate of profit on capital employed is typically below average and the existence of firms in this category is most precarious.

Firms of the periphery do not compete for workers of a given quality on an equal basis with the oligopolistic firms in the core. In addition to higher wage rates, firms in the core are able to offer workers better fringe benefits, greater job security, more opportunities for advancement, and the protection which trade union organization //108// affords. As a result oligopolistic firms have a relatively permanent labor force attached to them.

Workers laid off by such firms may seek interim employment elsewhere, but if production returns to its original level at the plant to which they are attached, they will return to the job that they held there. For similar reasons in periods of rapid growth, the oligopolistic sector is able to attract workers from the non-oligopolistic sector as it needs them.

Price changes vary with changes in demand.

On the assumption that factor inputs can be combined in any proportion, the conventional view is that output can be increased only by combining increasing quantities of the variable inputs (labor and raw materials) with a fixed input (usually capital stock but sometimes management skills). As production increases, the firm experiences first increasing and then decreasing output per unit of input, so that variable and marginal cost curves eventually increase with the increase of input. When marginal cost begins to exceed marginal revenue, price increases as production increases.

The foregoing is applicable mainly to firms engaged in the production of raw materials and foodstuffs.

In other enterprises, even in the short run, output can often be increased by adding a second shift of workers. Full utilization of capacity is more often the exception than the rule. Hence, without any significant change in proportions in which capital equipment and variable inputs are used, output can be INCREASED OR DECREASED by varying the degree in which fixed and variable inputs are employed in an unchanging proportion.

In such cases average variable and marginal costs are constant, increasing only when full utilization of capacity is approached.

In the short run then most firms can meet an increase of demand simply by producing greater output at the prevailing cost level. The supply of output is elastic, and supply curves are horizontal. Prices cannot be determined in the usual manner, and firms cannot maximize short-run profits by producing the level of output at which marginal cost equals marginal revenue.

Modern versions of mark-up, used by Weintraub (1956, 1959), Eichner (1976) and others, owe much to the work of the Polish economist Michal Kalecki (1954).

In these models, average variable cost is constant, average fixed cost decreases as production increases and overhead costs are spread over a greater volume of output. On the basis of a) estimates of the quantity to be sold in the next period, or b) of some standard rate of plant utilization, prices are set. To them usually is added a gross margin to yield a target net profit should the firm actually sell the anticipated volume of output.

Variations in output, if they are moderate, leave prices unchanged but do not affect net profits. But if actual output

is less than the estimate, net profits will be less than the targeted amount. The reverse occurs if the output sold exceeds estimated sales, and the plant is operating more intensively than expected.

While moderate changes in demand do not affect prices, change in money wage rates or in the prices of raw materials generally cause prices to vary.

- 110 When several firms supply the same product to the same market, there commonly emerges a price leader, who effectively sets the market price of the product. This price will enable the leader to achieve his targeted profit when operating as anticipated. But other firms which may be smaller or less efficient may have higher costs and hence lower net profits.

Once prices have been established, the output which the firm produces in the short run is determined by the demand curve for the firm's product. Firms declare their price and produce the output they believe the market will take.

When firms are motivated, not by short term profit maximization but by the wish to maintain or increase market share in a growing economy, they are apt to increase output rather than price when demand increases moderately and excess capacity is available.

However, a large increase in demand may generate a demand by firms for increased productive capacity. In that case firms may require more internally generated funds to finance investment, and they obtain such funds by increasing the margin above costs and setting a higher price.

Thus a sustained increase in demand, large enough to induce firms to increase investment, will eventually result in higher margins if not higher prices. But the usual marginal cost considerations do not enter into the matter.

Summary: As part of the planning process, firms estimate expected GNP and project the corresponding level of industry-wide sales for their products.

Given the share of the market which it expects to command, each firm estimates the level of output it expects to sell in the next period.

Prices are set by means of mark-up over average variable costs that will cover fixed costs at the planned output and will yield a targeted profit if that output is sold.

When excess capacity is available so that the firm is on the horizontal segment of its cost curves, fixed technical coefficients in production imply that the demand for production workers (both in the core and on the periphery) is proportional to the planned level of output. and professional

Managerial personnel and highly skilled technical/workers in the core are usually viewed as quasi fixed factors in production.

The number of such workers is not altered by decisions to use the plant more intensively. If however additional plants are brought into operation, the demand for overhead workers will be discrete amounts.

The aggregate demand for labor by a business sector can be obtained by adding up the demands of all individual firms; and this depends systematically on the expected aggregate demand.

111 Labor supply and underemployment

It is a somewhat distorted perspective which views the individual or household as viewing the disutility from additional work against the utility obtainable from the additional income thus earned, and offering fewer hours of labor or dropping out of the labor force entirely if real wages fall.

112 Eli Ginzberg (1976) has argued that work provides the individual with three essential kinds of satisfaction.

First, whatever the level of real wages, employment of at least one family member/for most households the only available means of obtaining sufficient income to meet family needs. Necessity and the lack of practical alternatives compel households to continue supply labor even in the face of a decline of real hourly earnings. Welfare payments, pail enrollment in manpower training programs, and the possibility of obtaining income via quasi-legal hustles or criminal activities do provide alternative sources of remuneration but, as Bennett Harrison has argued (1977), these are meaningful alternatives to wage labor only for the most poorly paid workers. There is substantial mobility even then between the welfare roles and low-wage employment.

Secondly, employment provides the individual with purposeful activity and has a major impact on the individual's feelings of self-worth.

Thirdly, though not all jobs give the individual a chance for development and training, employment nevertheless provides many individuals who are out of school with opportunities to utilize existing skills and develop new ones. Employment is important, therefore, for the income which the individual receives, for the contribution it makes to the individual's self-respect, and for its impact on the skill acquisition process. Very few households can afford to supply less labor as real wages decline, and an excess supply of labor cannot be eliminated in this manner.

The PK analysis of unemployment draws heavily on the analysis of segmented labor markets advanced by radical economists like David Gordon (1972), Michael Reich and Richard Edwards (1973), the analysis of internal labor markets by Peter Doeringer and Michael Piore (1971), and the job competition model advanced by Lester Thurow (1975).

113 The labor market, in which workers compete for the available jobs, is segmented into submarkets characterized by differences in wages, working conditions, and opportunities for advancement. To a large extent, labor market segmentation arose as part of the historical process which led to the development of technologically advanced, oligopolistic firms in industries at the core of the economy and smaller firms lacking technological sophistication on the periphery.

The production processes of firms at the core have become increasingly complex, hierarchical, and interdependent. On this context many specific skills that workers need can only be learned through continuous tenure on a particular job or with a particular firm. Firms utilizing modern techniques have an incentive to encourage stable work histories for workers in jobs in which productivity is related to tenure both through adjustments in working conditions and monetary rewards and through a system of promotions to higher status jobs. Career ladders serve to stratify workers and to keep them attached to the same firm for longer

113 periods of time. It has thus become increasingly important for firms at the core to create differentiated job categories, whether they are required by technological change or not.

Encouraging stability on the part of the work force is costly to firms. Even firms at the core, therefore, have an incentive to restrict those extra expenses to as narrow a range of jobs as possible. Thus it is not surprising that even technologically advanced firms have created highly stratified internal job clusters with different entry requirements, with some strategic job sectors organized to encourage job stability and others to permit highly unstable work behavior. The labor market is thus segmented into a primary sector in which in which stable work habits are rewarded and a secondary sector in which turnover is high and stability is not required and often discouraged. Unemployment is concentrated among secondary sector workers and is related to the characteristics of their jobs rather than to wage rates.

114 Because testing new employees to determine potential job stability is difficult, employers have used superficial characteristics as an inexpensive screening device. They have tended, when filling the better jobs in which stability is important, to discriminate against those groups -- blacks, women, teenagers -- that historically have had unstable work patterns. Discrimination has set in motion a vicious circle that guarantees that members of these groups will continue to experience high unemployment. Getting into the right job cluster has a critical effect on the training and advancement opportunities a worker receives. To the extent that skills must be acquired within the context of a specific job, discrimination against women and against blacks and other minorities, restricts many of them to lower end of labor market, denies them access to opportunities for job mobility and training, and confines them to the low end of the skill and labor market income distributions. The interaction between the characteristics of jobs in the secondary sector and the attitudes toward employment of workers with limited prospects has generally had a high incidence of unemployment for women as well as for blacks and other minorities.

Sex and ethnicity are not the only screening devices used to regulate entrance into the various segments of the labor market. Differences in class background and unequal access to educational institutions also function to limit entrance into jobs in the higher strata within the primary sector. Credential requirements for those who are hired, together with subsequent promotions along an internal job ladder, serve both to shelter workers in the primary sector from competition of other members in the labor force and to insulate the firm's wage structure from market forces.

How rapidly workers are able to advance along their career ladders and how easily new graduates with the proper degrees and background will be absorbed into the primary sector depends on how rapidly the economy is expanding. Should the supply of highly trained and/or highly educated labor exceed the demand for such workers, it is not wage deflation but credential inflation that will bring the supply of workers competing for jobs in the upper strata of the primary sector into line with existing job openings. Rising educational requirements for entrance into these jobs during periods of slow economic growth has the effect of thwarting the career aspirations of recent college and university graduates, who are bumped down into lower strata jobs in the

in the primary sector and find few opportunities for advancement. Disappointment rather than unemployment is the price these workers pay.

The situation is quite different outside the primary sector of the labor market. With an excess supply of better educated young people, employment requirements ~~for entry~~ for entry into the entire spectrum of jobs rise. Often the level of certification has little to do with the actual requirements of the job; but certification is widely used by firms as an inexpensive scanning procedure. The children of the poor, high school certificates in hand, join the ranks of workers constrained by their own need for income and the limited number of primary sector jobs to seek poorly paying, unstable employment in the secondary sector of the labor market. Denied access to primary sector jobs, they can anticipate experience marked by low earnings and a high incidence of unemployment. On the other hand, firms both on the periphery and at the core have available all the relatively unskilled manpower they need at the prevailed low wage rate. No further reduction in wage rates is likely to reduce unemployment in the secondary sector.

Summary

116 The labor market is not a market as that term is usually understood, for the labor market does not possess a market-clearing price mechanism. Variations in either money wages or in the real wage rate are unable to assure a zero surplus supply of labor, and thus eliminate unemployment. In the context of (1) an industrial structure that is largely oligopolistic, (2) fixed technical coefficients of production, and (3) mark-up pricing, the demand for labor depends on the level of aggregate economic activity. It has little if anything to do with the marginal productivity of labor. The supply of labor, meanwhile, depends largely on demographic and other socio-cultural factors, though it is somewhat responsive to changes in employment opportunities. When aggregate demand falls below the potential output of the economy and unemployment increases, the person 1 qualifications required for entry into or advancement in a given stratum of the labor market increase; and the educational of women, blacks, and others are devalued in the ensuing gains of credentials inflation. The result is a queue of those awaiting access to better jobs, or even to any job at all, that cannot be eliminated by a decline in real wages.

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Conversely, while the demand for labor relative to the supply of labor plays a major role in establishing the level of money wages by strengthening or weakening labor's bargaining position, the growth of output and the solidarity of the trade union movement have an even larger impact. Of greater importance than the level of money wages, however, is the level of real wages. This, moreover, depends not only on money wages but on prices as well. When money wages increase faster than productivity, prices need to rise in order if the firm's margin above average variable costs is to cover fixed costs and continue yielding targeted net profits. In periods of economic growth, if the margin above average variable costs rises as firms try to generate increased internal funds with which to finance investment, prices will rise relative to money wages. The growth of real wages may therefore be depressed below the growth of the average productivity of labor despite substantial gains in money wages. Thus, while conditions of slackness or tightness in the labor market play a role, neither money nor real wages can be said to uniquely determine the demand for and the supply of labor.

117 Policy Implications

The burden of the PK argument is that wage determination and unemployment are two distinct processes and must be understood as such, and that wage rates in most contexts do not serve to equate the supply of labor with the demand for it. Thus the labor market has no market-clearing mechanism -- from which it follows that adjustments in wage rates cannot eliminate unemployment. The volume of employment depends on aggregate demand factors not on wage rates.

Techniques for regulating aggregate demand have been known at least since the publication of Keynes' General Theory in 1936. Reluctance to reduce unemployment through the use of such expansionary policies stems from a misguided view that a Phillips curve trade-off between inflation and unemployment exists. On increasing aggregate demand it is feared will lead not only to increases in the volume of employment but to higher money wages and prices as well. The fear of inflation has led public officials to pursue policies whose effect is to curtail the level of economic activity. It would seem that there has been sufficient experience with such policies in the last decade to convince even a skeptical observer that money wages and prices are largely unaffected by aggregate demand. Restrictive monetary and fiscal policies may keep unemployment high but they are ineffective in combating inflation. The resulting stagflation (high unemployment and high inflation) is an all too familiar outcome.

118 From the PK perspective the primary cause of inflation is not excess demand for goods or labor, but rather // the conflict over the distribution of available output and income. Restrictive monetary and fiscal policies, by reducing the volume of output and income, merely heighten the struggle among megacorps, smaller firms, workers, and government over the distribution of output and income. There is clearly a need for public policies to assure that the economy continues to grow and that the national income is distributed in an acceptable manner. Implicit in this is the need for social and economic planning to determine the secular growth rate, to eliminate poverty, to improve the standard of living of workers and others, and to enable investment to take place at the appropriate socially determined rate.

The difficult political questions raised by this approach should not be minimized.

Safeguards would be required to insure that the development of goals and the implementation of plans would be subject to democratic control and responsive to human needs. Furthermore, such planning would result in socially approved limits on the megacorps' ability to determine its own margin above costs and to determine make investment decisions. But such policies are necessary if economic growth, full employment, and a rising standard of living are not to be sacrificed in the attempt to end inflation by conventional means.

Finally, it must be recognized that whatever the rate of unemployment may be, the burden is not shared equally by all demographic groups. Layoffs and firings are associated primarily with dead-end, low-wage jobs characteristic of the secondary labor market. As a result, blacks, women, and others who are overrepresented in the secondary labor market experience a disproportionate amount of unemployment as well. Ginsberg (1977) has calculated that between 1950 and 1970 the number of poor jobs increased much more rapidly than the number of good jobs; fewer than three out of every ten new jobs created by the private sector during the period were "good jobs". Public policy to

eliminate // the poorest jobs and to create enough good jobs to allow for the upward mobility of women and blacks without displacing workers already in better jobs is clearly required. Again, difficult political and social questions are involved, for any substantial reduction in low-wage employment will require fundamental adjustments in consumption patterns throughout society.

- Eichner 10 incompatibility between the Keynesian macroeconomic model with its emphasis upon the income effects from changes in investment and other discretionary spending and the prevailing microeconomic theory with its emphasis on the substitution effects resulting from price changes.
- 12 Second, P-K theory is formulated with the dominant fact of the past several centuries in mind. This is the continuous though uneven expansion of the various national economies over time. Thus, even if no change is posited in the determinants or the parameters of the model, the economic system is still depicted as proceeding along some secular growth path. This view of the
- 13 economic system as being constantly in motion stands in sharp contrast both to the general and the partial equilibrium versions of neoclassical theory, whereby even if a change occurs in the determinants or parameters of the model, the system still is viewed as coming to rest at some fixed level of activity.
- Cornwall 22 Demand plays a passive role; if the economy is capable of steady stable growth, the rate of growth of demand merely adjusts to the more fundamental supply factors just mentioned. Aggregate demand is always "just right; all units of every factor are assumed to be fully employed. Largely because of this assumption,
- 23 the actual growth rate and what earlier was referred to as the warranted growth rate are readily brought into line with the natural rate of growth. This results from the working of the price mechanism; it is so efficient that, whenever there might be the slightest tendency for any units of capital to be unemployed, relative factor prices adjust, inducing a return to the full employment of capital and labor. In short, neoclassical growth analysis does not concern itself with problems of inadequate demand, the business cycle, or unemployment.
- 23 #5 Whatever fixed proportion of income its recipients choose to save, that proportion will determine the share of aggregate income that is invested. Moreover, whatever the size of this investment share of aggregate income, the long-run growth rate of the economy will be unaffected. This is because the long-run growth rate depends on the supply factors cited above (cf. 22, ## 1-3), so that a higher rate of investment may lead to more capital-intensive methods of production, or even to a temporary deviation from the warranted and natural rates of growth, but not to a change in these rates.
- 23 #6 Neoclassical theory in all its forms shows a strong tendency to reduce the economic (as distinguished from the mathematical) complexity of the analysis, doing so by holding the institutional framework constant. This is accomplished by assuming that consumer tastes and production technologies remain more or less unchanged.
- 24 In neoclassical growth theory the above assumption is introduced in two ways. (1) If the economy is viewed from an overall perspective, both the aggregate production and the aggregate savings functions are posited as being fixed. (2) If the economy is disaggregated into sectors, the growth process is viewed as one in which all sectors of the economy grow at the same pace, together producing a total output whose composition never changes. This unchanged composition of output depends on an unchanging collection of technologies and production functions.
- 24 #7 Perfect competition prevails in all markets, There are no monopoly elements, and all persons have perfect knowledge of past present and future events. Real wages are equalized across jobs, and rates of return on capital are equalized across firms.
- #8 The only role that remains for business men is substituting /verse capital for labor when the relative price of capital falls and vice/

- Cornwall 29 Where NC looks to changes in relative prices, PK looks to changes in saving and investment. Both are adjustment techniques to explain stability of advanced market economies.
- PK macrodynamics views the entrepreneur as central to the growth process. NC's world of fixed tastes and technologies, fixed savings and investment rates, with perfect information about the past, present and future, leaves little place for the entrepreneurial function. It is the world of an accountant.
- 30 NC growth analysis lends itself very poorly to policy prescriptions. Since it does not deal with the business cycle or allow for unemployment, it is unable to formulate anti-cyclical or full employment policies based on analysis. Furthermore, since growth rates are ultimately determined by unexplained factors, it cannot formulate policies for influencing growth rates either.
- ... A preoccupation with determining the mathematical properties of models has led to a neglect of their empirical content. Hence the inability to deal with policy issues.
- In contrast, the PK.. macrodynamics has developed out a desire to explain differences in the relative performance of national economies. Only to the extent that it can achieve this aim can it aid in policy formation. E. G. PK macrodynamics stresses the key role of investment in generating cycles as well as in determining growth rates. This immediately suggests the first priority in considering stabilization, employment, and growth policies. Steady and rapid growth of aggregate output at high levels of employment requires steady and rapid growth of investment at high levels.
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- 31 .. the PK view tends to be that these (NC) policies are counter-productive in the long run. Bu substantially reducing growth and creating higher rates of unemployment, the current anti-inflationary policies are seen by most PKers as creating additional sources of economic, social, and political conflict. These will eventually be reflected in intensified but unrealizable claims by by different groups on available output, and these, in turn, will be reflected in a continued cost-push inflationary spiral.