The Economic and Labour Relations Review Vol. 21 No. 1, pp. 89–104

Labour, Commodities and the Labour Market: A Heterodox Perspective

Graham White *

Abstract

The article sheds light on the proposition that labour is a commodity by considering from a fundamental theoretical perspective whether labour is subject to the same market forces which apply to commodities in general in capitalist economies. It suggests that no spontaneous competitive force exists within capitalism that would adjust labour demand to its supply, in contrast to the adaptation of supply to the demand for commodities in general. This result is argued without reference to assumptions about inflexibilities or impediments in labour or other markets, or institutional features peculiar to 'the labour market'. Its explanation of why labour markets do not clear is at odds with a core tenet underlying orthodox economic theory of the last century, which has acted as a fundamental benchmark for most theorising about labour to the present day. Rejection of this tenet is at the heart of a heterodox explanation of unemployment, the real wage and income distribution in capitalist economies.

JEL Codes: B22, E11, E24, J3

Keywords

General aggregative models — Sraffian, Post-Keynesian; employment, unemployment, real wages; compensation and labour costs.

1. Introduction

The purpose of this article is to appraise critically some fundamental aspects of the analysis of the labour market in orthodox economics and to highlight aspects of a heterodox alternative view of labour in capitalist economies. It seeks to clarify the sense in which, though traded and therefore in some sense a commodity, labour (or labour-power) is fundamentally different from other commodities. Though differences between labour and other commodities are clearly recognised by conventional economics, the latter's underlying theoretical approach to explaining prices and quantities of commodities and resources in general limits the significance of these differences; to the extent of preventing orthodoxy from providing a coherent explanation of 'labour' phenomena such as unemployment and the real wage.[1]

* Discipline of Economics, University of Sydney

The question arises immediately as to the meaning of 'orthodox economics'. For the purposes of this discussion it is contended that underpinning most analysis of the labour market (and also most other economic phenomena) is the proposition that in the absence of frictions and rigidities, including informational asymmetries, labour can be treated as would any primary factor of production (a resource the supply of which is not primarily determined by economic factors): its long-run equilibrium quantity employed and its long-run equilibrium rate of return reflect forces of demand and supply analogous to those for any other primary factor of production.

A myriad of institutional and non-institutional impediments to convergence on such a long-run equilibrium from both the demand and supply side have been entertained as part of the development of labour market analysis.[2] These have not, however, been interpreted as justifying a rejection of the aforementioned theoretical position. On the contrary, the significance of such impediments is invariably interpreted against a benchmark represented by that fundamental position.[3]

Thus within the economics profession there is a general acceptance of the idea that the long-run position of capitalist economies is determined from the 'supply-side'; namely, by the quantity and productivity of 'factors of production', or less formally by the effective quantity of resources, corresponding to a position of approximately zero involuntary unemployment.[4] This idea carries with it a clear implication that, with sufficient long-run flexibility in payments, any resources unemployed, including labour, cannot result from a lack of demand for those resources. In this view, unemployment, over time, cannot derive from a lack of demand for labour in the production process or therefore from an insufficient growth in production levels relative to the growth of the labour force. The long-run position of the economy, in the absence of persistent rigidities in prices, wages, or interest rates would thus correspond roughly with zero involuntary unemployment.[5]

At a deeper level, this treatment of labour generally mirrors that for commodities in general, including inputs to production, and reflects a thorough-going general theory of value along orthodox lines; viz., the dominant marginalist view of production, distribution and value (relative prices). Problems at the heart of the latter will thus engender problems with the dominant view of labour and the conceptualisation of market forces relevant to labour. It is from this angle that the present analysis approaches the difficulties with conventional accounts of labour phenomena.

The following two sections introduce the discussion by attempting to identify the theoretical underpinnings within mainstream or orthodox economics which suggest a view of labour as a commodity, subject to forces similar to those at work in markets for commodities in general. Here the focus is on the application of fundamental axioms of orthodox economic theory that seek to explain how demand and supply of labour may be brought into line; and hence how the return to labour (the real wage) is determined, analogous to the determination of prices and quantities for commodities in general.

Section 4 outlines the profound difficulties within this conception of how labour might behave like a commodity, independently of impediments and imperfections peculiar to the so-called labour market. Section 5 applies this analysis to some aspects of modern labour market economics and conventional attempts to differentiate the market forces peculiar to labour. The conclusion, however, is that the significance of such attempts for the long-run analysis of labour unemployment, the real wage and labour's share in income are inextricably tied to the strength or otherwise of the fundamental conception of labour in the absence of these peculiarities. Section 6 sets out aspects of an alternative heterodox view about the plight of labour in capitalist economies. Section 7 provides some brief concluding notes.

2. Labour — Subject to Different Dynamics

As noted above, conventional economic thinking does provide for the idea that labour is in some sense different from other resources and commodities and therefore at any given time subject to a different kind of dynamic. But, at least in respect of an analysis of the dominant and persistent forces at work in a capitalist economy, the conception of markets and the 'price mechanism' which has dominated orthodox economic thinking for the last 140 years renders this difference unimportant.

So what is this different dynamic, which conventional economics would not dispute? All produced commodities are supplied, to put it in simple terms, according to how much they are in demand, and forces of competition[6] will inevitably dictate this. The nature of competition in a capitalist economy enforces a tendency through time precisely for capital, however organised (whether the nineteenth century capitalist, or the conglomerate head office) to bring supply of commodities into line with demand (though this does not rule out capitalists seeking to direct demand itself in certain ways). It is not just a matter of profitability, but one of competitive necessity, which includes a compulsion to make optimal use of inputs into production, including labour.

If the optimal use of commodities employed as inputs in production does not in the aggregate require all the available supply of commodity inputs, then the return on the production of those inputs themselves will decline, and with it their production, until their supply comes into line with their demand. Hence over time one would reasonably suppose that producers would aim for an optimal utilisation of their productive capacity (i.e. plant and equipment), in turn adapting the scale of that capacity in line with expectations about future demand for the commodities produced using that capacity. In turn, this would determine demand for plant and equipment — 'capital goods', in standard economic terminology — to which the producers of those goods would have to adapt their supply.

The key question for the present discussion is whether there is an analogous mechanism at work in relation to labour. And the answer — both from orthodox and non-orthodox quarters, would surely be a qualified, no! Unlike most commodities, the supply of labour is not governed to the same extent by demand. If in the aggregate the optimal use of labour by producers does not entail the full-employment of the available labour force, it is not a matter of supply simply adjusting to demand, quite obviously because labour is not reproducible (i.e. its supply cannot be adjusted) in the same sense as that of other inputs; although, as we know, there may well be some reduction of supply (e.g. via variation in participation rates) in response to a deteriorating labour market.

3. An Adjustment Mechanism for Labour in Orthodox Economic Theory

However, the dominant view within the economics profession has for a long-time been that, in the best possible world, a market mechanism — analogous to that which is supposed to bring together supply and demand for commodities in general - would adapt the demand for labour to its supply. In particular, the extension to labour of a theory of how commodity markets work led mainstream economists to a view that if the return on labour — its real wage — was sufficiently flexible in response to the demand-supply imbalance in the labour market — this would result in more labour-intensive production methods and alter producers' optimal use of labour in production in its favour.

In other words, cost-minimising producers will, in this view, choose the proportions in which to combine labour with other inputs on the basis of how the real cost of labour (its money wage deflated by the price per unit of the producer's output) compares with the real return which has to be paid to other inputs, or 'factors of production'. If the economy finds itself in a situation where there is unemployed labour, a truly flexible labour market will transform that unemployment or excess supply of labour into a downward pressure on real wages.[7] In turn, according to a proposition at the heart of virtually all versions of orthodox analysis of the last 100 years, falling real wages relative to the return to be paid to other factors would make it cost-minimising to employ labour in a larger proportion relative to these other factors. Hence, the flexibility in the labour market — specifically a flexibility in the real wage in response to an imbalance of labour demand and supply — would trigger changes in the technique of production which would reduce the extent of a specific demand and supply imbalance. Moreover, this automatic correction in the demand-supply imbalance in the labour market, in response to the variation in the relative 'price' of labour, would be reinforced by the fact that commodities produced by more labour-intensive production processes would become relatively cheaper, thus stimulating substitution towards consumer spending on these commodities.

It is worthwhile reiterating here that the general proposition at work in this orthodox view is *not peculiar* to the labour market. The notion of substitution by producers towards employing the relatively cheaper input and the substitution by consumers towards spending on commodities produced by techniques using the relatively cheaper input more intensively, form the bedrock of the mainstream economist's conception of markets for inputs generally.[8]

In addition, traditional economics identifies a second mechanism triggered by price and wage flexibility, which would adjust the scale of the economy, so that whatever the optimal use of labour in production, in the aggregate labour would be fully-employed, analogous to other commodity inputs. The first mechanism, relating to the proportions in which labour is employed, will entail changes to the structure of the economy, and changes in the distribution of income between wages and profits. These changes will impact on aggregate expenditure, output and employment. But according to the second, 'macroeconomic' proposition, there would always be compensating changes in consumption and investment demand, leading in turn to changes in the scale of aggregate production so as to restore full-employment at least over time.[9]

Thus, in conventional economic thinking, labour may not be able to adapt its supply into line with demand — the number of job seekers could not adjust itself to the number of jobs — but a robust and flexible market mechanism in the labour market and in the goods and financial markets more generally could adjust the number of jobs to the number of job seekers. Hence, for mainstream economics, there *is* a difference between labour and other inputs, at least produced inputs. For the latter, supply and demand fluctuate in response to fluctuations in rates of return in the production of those inputs; for labour, since it is not reproducible in the same sense, the burden of the adjustment must be shouldered by adjustment in demand.[10] The point is that the dominant approach to the conception of how markets work in the absence of rigidities provides a basis on which one could argue that precisely such an adjustment in demand is available in the labour market, as in the market for factors of production generally.

Arguably, at the deepest theoretical level, the conventional treatment of labour cannot proceed without acknowledging this inextricable link to the dominant theory of value, distribution and output. The continued belief, certainly by the mainstream of macroeconomists, that the long-run trend of a capitalist economy coincides with the full-employment of labour, has its genesis in precisely that dominant theory.

4. Problems with the Orthodox Adaptation of Labour Demand to its Supply

The source of the flaw in orthodox reasoning detailed above is not a failure to distinguish labour from other inputs into the production process.[11] Rather the 'problem' lies much deeper and with the core of the dominant theory of value, distribution and output. Specifically, it resides in two dominant propositions: firstly, about how the relative demand for inputs in general moves with the relative payments to these inputs; and secondly, about how the level of output and thus (given the technique of production) the aggregate level of labour employment are determined. Recall, these are the two planks to the traditional belief in the ability of labour demand to adapt to its supply.

As long ago as the 1960s, the logic of these arguments and indeed of the fundamental orthodox conception of how markets work was shown to be illusory. A real wage fall need not cheapen so called labour-intensive production processes. At the heart of this seemingly counter-intuitive (if only from an orthodox perspective) result is the fact that a change in the real wage does not change labour costs alone. Since labour enters as an input into all production processes and in different proportions across those processes, a change in labour costs has impacts on relative costs of production and hence on relative prices of commodities — including those used as inputs alongside labour. In a multi-commodity world then this entails complex changes in the relative costs of different combinations of labour and commodity inputs in production — that is, complex changes in the costs of different methods of production.

The upshot of all of this is that it is unclear that there exists solid ground on which to suppose that a fall in real wages would necessarily lead to a rise in the ratio of labour to other inputs in the production process (Kurz and Salvadori 1996: Chapter 14).

Quite aside from this difficulty there is also the impact of changes in income distribution associated with real wage changes on aggregate demand, output and employment. As real wages fall and there is a shift to profits, it is unclear what the net impact on aggregate demand, output and employment will be.

As to the second mechanism which might be relied on to adapt labour demand in line with its supply — nominal price and wage flexibility triggering changes in the scale of the economy so that there is sufficient employment for all — this is similarly lacking a coherent theoretical foundation, as it is predicated on a version of the first mechanism (White 2004: 530–533). In particular, the orthodox argument about a mechanism in the aggregate adapting the scale of the economy to ensure full employment, relies on an argument analogous to the orthodox real wage-labour demand nexus referred to above, applied to the market for capital goods, viz., investment demand.

In summary, at a strictly theoretical level at least, there is no firm basis for the traditional orthodox economist's faith in an automatic market mechanism which could be relied on to bring labour demand into line with labour supply. Once one dispenses with these orthodox arguments one is left with one of the distinguishing features of labour as an input into production — there is no competitive compulsion on capitalists to eradicate an excess supply of this resource.

5. Peculiarities of the 'Labour Market' and Orthodox Economic Theory

The main point of the discussion so far is that for nearly a century, orthodox economic discourse– at a theoretical level at least — has attempted (unsuccessfully in this author's view) to identify coherently, nothwithstanding the differences between labour and commodities, the forces that in the most flexible circumstances could under capitalist conditions adapt labour demand to its supply. At various stages in its history, mainstream economics' characterisation of unemployment and more generally of labour's plight in a market economy has relied essentially on government failure. 'Labour market problems' are seen as stemming from the unwillingness of policy makers to take the necessary action to ensure that the labour market functions sufficiently freely; most especially, by removing impediments to the ability of real wages to respond to quantity imbalances.[12] Hence, labour market problems are not uncommonly traced to governments' lack of 'courage' in deregulating labour markets, including in finding means to dilute the bargaining power of organised labour.

It is worth commenting briefly on where modern labour economics stands in relation to the core theoretical propositions which have been the focus of the discussion so far.

While reflection on the main themes in modern labour market economics would reveal some dissent, on an empirical basis, from the view that flexibility in the labour market necessarily entails employment gains, it is less than clear how widespread this dissent is. Indeed, as Freeman notes (2005: 1), such a view continues to dominate thinking on labour market policies, representing 'a new orthodoxy that makes the deregulation of labour market institutions and increased employment and wage flexibility in the labour market the keys to economic success'. Moreover, it is even less clear, that divergence from this 'new orthodoxy' represents any fundamental dissent in relation to those core theoretical propositions which define orthodoxy in economics. Certainly, reviews of modern labour market economics suggest no widespread dissent in relation to the 'core defining belief' in modern macroeconomics regarding a long-run tendency for output to converge to its full-employment trajectory.[13]

Related to this, and underscoring the persistence of the dominant orthodoxy in the face of empirical challenges, is Freeman's point that

> these economists [who would support the 'new orthodoxy'] come to the problem of explaining unemployment with the prior that markets work well absent interventions, and thus that the right place to look for causes of problems is at institutions that may impede the operation of the markets (2005: 13).

As Freeman notes, this is particularly pertinent to debate about relative employment and unemployment performances of the last twenty years in Europe versus the US.

In the areas of research which have dominated modern labour market economics, discussion of the labour market as part of so-called 'New Keynesian' macroeconomics is especially worth mentioning. As noted by two of the leading writers in the field, Mankiw and Romer, the focus has been 'on two issues … The first is unemployment. Is it possible for the labor market to be in equilibrium when some individuals wish to work at the prevailing wage but cannot do so? The second question concerns the cyclical behavior of real wages and unemployment' (1991: 10).

As to the first issue — that of an unemployment equilibrium — the fact that this question is posed by the so-called New Keynesians is testimony to their acceptance as a benchmark of the fundamental theoretical propositions referred to in earlier sections. One of the better known answers to this question provided by the New Keynesian literature involves linking wages to productivity so as to provide an explanation for why real wages may be resistant to excess supply in the labour market.

Whatever the merits of such an argument as an explanation of the real wage, as an explanation of unemployment — specifically, a lack of demand for labour, relative to its supply — it stands or falls on the strength of a systematic negative relation between labour demand and the real wage. The insight provided by such argument as to nature of unemployment stands or falls therefore on the strength of the dominant theory of value, distribution and output which underpins such a negative relation. This is none other than the body of theory highlighted in sections 2 and 3 above.[14]

Significant also is the other distinguishing feature of modern labour market economics: the 'pronounced interest' in the supply-side of the labour market (Freeman 1987: 73). One may well see this as a manifestation of the acceptance of the the notion, already critiqued above, of a long-run adaptation of labour demand to labour supply; so that variations in employment could be traced either to fluctuations in labour supply, or to impediments to the operation of the labour market which 'place workers off their supply curve'. A significant element in the emphasis on the supply side is the area of search theory applied to the labour market. But as its label implies, this is not about involuntary unemployment in the sense of an insufficient demand for labour relative to the available supply. Rather its focus is on the impediments in the labour market process which explain the timing and extent of difficulties in the matching of the unemployed to existing employment opportunities (Rogerson et al 2005).

As with the New Keynesian treatment of the labour market, there may be many aspects of this search theory providing insight into the wage bargain and into the nature of the process by which the unemployed are matched with employment. But as a body of theory it appears not to depart in any fundamental way from or take issue with the notion that sufficient long-run flexibility in labour, product and financial markets would adapt labour demand to its supply. What it provides is a discussion of the real world frictions which can impede this process; but as suggested earlier the latter discussion does not imply a rejection of the former idea.

It is worthwhile at this point also mentioning another 'recent' (post-1960s) development related to unemployment, though not strictly speaking a development within labour market economics. This development involved the redefining of the notion of full-employment, with an accompanying greater emphasis on the 'choices' of the unemployed, thus dovetailing with the interest in search theory applied to the labour market. For four decades now the belief in a labour market analogous to that for other commodities has found expression in the notion of a 'natural rate of unemployment', which acted, in mainstream opinion, as a centre of gravity for labour market dynamics as well as the dynamics of prices and wages growth.[15]

This 'newer' version of the idea of a full-employment tendency took matters a step further compared with previous versions. Here, the nature of the price and wage dynamics brought with it not only the proposition that government macroeconomic policy designed to augment labour demand would in the long-run fail to reduce unemployment. It also carried with it the notion that such policy would be positively harmful for society (in terms of inflation problems). Hence, it also brought with it added ammunition for those seeking to argue that not only was there 'a labour market mechanism' which policymakers could avail themselves of, but moreover, there was no alternative! This became for the economics profession a much more powerful basis for asserting that the first-best approach of policymakers was precisely to regard labour as a commodity, at least in terms of freeing up the market for labour.

Yet at a fundamental theoretical level this redefining of the notion of full employment and its connection with wage and price dynamics was always there to be found in the dominant theory of value, distribution and output (Eatwell 1983b). The supposed policy dangers (particularly accelerating inflation) which would confront governments seeking to stimulate the economy as a means of addressing unemployment were merely the flipside of the orthodox notion of a long-run tendency to full-employment.

Perhaps more interestingly the natural rate hypothesis may well be seen to have served a wider historical purpose foreshadowed as far back as the 1940s; and this standpoint offers another way of looking at the difference between labour and other commodities in capitalist economies. In particular, one can recall the foresight of the Polish economist, Michal Kalecki. In a 1943 paper arguing the political nature of the definition of full employment, Kalecki (1943) emphasised that not only is there no automatic adjustment mechanism bringing together labour demand and labour supply, but it may well be in the interests of capitalists as a whole precisely *not* to ensure the full-utilisation of the available labour force — as a means of providing discipline on wages and thus as a means of exerting control over the distribution of income.

Looked at from this angle, the treatment of labour as a commodity, particular in the terms this is done within the economics discipline, fulfilled wittingly or otherwise the function of obscuring the political and class interests at work in market economies, as well as obscuring the essential differences between labour and commodities.

6. Heterodox Alternatives

At this point it is useful to consider what a heterodox alternative view of labour 'phenomena' might look like. Within economics, the main dissenting stream in this regard really begins from the critique of the orthodox theory of value, distribution and output referred to in earlier sections and which underpins most analysis of labour. Specifically, this dissenting or heterodox stream takes as the starting point the theory of output. But whereas for orthodoxy the explanation of the level and growth rate of output is co-extensive with that of the evolution of output capacity associated with the growth in the effective quantity of factors of production, the theory of output from a heterodox (at least post-Keynesian and Sraffian) perspective is founded on the idea that aggregate effective demand and thus the level of output capitalists as a whole find profitable to produce is independent of society's capacity to produce. For a given technology associated with production, labour demand and thus labour employment are therefore governed by forces independent of society's capacity to produce; and in particular, independent of the level of output associated with full-employment of the available labour force.

This line of thought is derived from the work of both Keynes and Kalecki (and arguably, also from Marx) and centers on the idea — already explained above — that no mechanism exists in a competitive capitalist economy which could ensure that output converges in the long-run, no less than the short-run, to the level required to fully employ available labour. Moreover, this line of thought would contend this view independently of assumptions about flexibility in labour markets, or for that matter product markets or financial markets. Hence, as Mongiovi notes in regard to the question of

> … whether socio-institutional constraints prevent the economy from achieving full-employment … this cannot be the case, if, as Keynes, Marx and the classicals intuitively recognised, there is no general tendency for the economy to move in the direction of full-employment when such inflexibilities are not present (1991: 35).

As Mongiovi also emphasises, the critique of orthodox theory referred to in section 4 above, which is very much associated with the work of Sraffa (1960) and Garegnani (1978, 1979), 'provided logical evidence that the intuition was sound' (*op.cit.*), to the extent that it removed the logical foundations from the traditional orthodox view to the contrary' (1991: 35).

This starting point suggests the following broad contours of a heterodox approach. First the key to long-run employment growth and thus (given the long-run growth in labour supply), the key determinant of unemployment, would be what Keynes referred to as 'effective demand'. This is governed by forces which are independent of the quantity of resources available, including labour. Indeed, as Eatwell (1995) demonstrates, resurrecting the analysis of Joan Robinson in the 1930s, even phenomena such as 'disguised unemployment' or underemployment can be viewed as a function of effective demand.

Second, the two main heterodox approaches to the analysis of labour — post-Keynesian and Sraffian — would reject the notion that employment, unemployment and the real wage can adequately be explained by reference to analysis of the 'labour market'. On the contrary, these phenomena — as Keynes had supposed in the 1930's — must be explained by references to forces outside that market. This also raises the point that what the labour market bargaining process determines are nominal wages. The more general and alternative determination of the real wage requires a theory of the prices of commodities in general and their relation to the nominal wage.

One possibility here is provided by the Sraffian approach: this approach determines the ratio of commodity prices to the nominal wage on the basis of the technical conditions of production and the rate of return (i.e. rate of profit) on production processes. It allows either for the former or the latter to be determined independently of the price system, but not both. In short, if the real wage (and thus the ratio of prices to nominal wages) is determined independently of the price system, then relative prices of commodities and the rate of return are full-determined. On the other hand, if the rate of return under competitive conditions is set by forces independent of the price system, then this rate of return, along with the technical conditions of production, fully determines the ratio of prices to nominal wages and thus the real wage.

This latter possibility can be taken a step further with some interesting implications. As Pivetti (1885) has suggested, following Sraffa's own suggestion (1960:

33), if the rate of return to production bears a long-run relationship to money rates of interest, and the latter in turn reflect the persistent stance of monetary policy, then real wages and relative prices are governed over time by the technical conditions of production and rates of interest and thus monetary policy. Moreover, in this narrative, the real wage becomes — as does the distribution of income in general — a monetary phenomenon, governed by forces outside the 'labour market'.

Third, the upshot of such an approach to the explanation of prices and income distribution is that the intricacies of bargaining in the labour market, however much this analysis contributes to our understanding of nominal wages, cannot serve as an explanation for real wage outcomes.

Fourth, a new light is cast on much of the conventional work in labour market economics once one dispenses with the orthodox propositions referred to in earlier sections. The analysis of labour supply, particularly search theory, however much it sheds light on the nature of frictional unemployment, could not be an explanation of unemployment per se; unless one adopts the belief in the existence of mechanisms which would ensure a level of production and labour employment sufficient to absorb all labour market entrants except those engaged in search.

Similarly a role for institutions in the analysis of the plight of labour is cast in a different light in a heterodox analysis. Social institutions which underpin income-security measures such as minimum wage requirements, unemployment insurance, fair dismissal legislation for example no longer become part of the explanation of the degree of involuntary unemployment. Once any hard and fast nexus between impediments to wage flexibility in the presence of quantity imbalances and the size of those imbalances is questioned, so too is a necessary connection between such institutional features and aggregate employment, even though their existence may place important limits on the disparities of income in capitalist economies. Hence these features, and some or most of the research about them, retain their relevance in accounting for some features of observed labour market experience; though not as an account of involuntary unemployment.

So too the New Keynesian emphasis on optimising accounts of rigidities in product, labour and financial markets as a means of accounting for labour unemployment is similarly rendered much weaker, once the connection between the absence of rigidities and an unambiguous path to full-employment is jettisoned.

Fifth and more broadly, the view that an analysis of employment and unemployment must begin with an analysis of effective demand, and one which takes the latter to be determined independent of the economy's capacity to produce, also carries with it implications about the significance of technological change and (of particular relevance for conventional labour market analysis) the accumulation of human capital. The influence of technological change on output, and especially of human capital accumulation on the plight of labour, have to be addressed via the proposition that these things influence growth positively only in so far as they impact on effective demand. In improving the productivity of the workforce, human capital accumulation becomes, like technological change in general, (from a heterodox stance) a double-edged sword. The impact on employment growth and aggregate unemployment is a mix of the labour-saving impact and impacts on effective demand. Moreover, the impact on effective demand is likely to be less clear cut than is the labour-saving nature of technological progress, particularly if real wages are not rising to the same extent as labour productivity.[16]

Sixth and finally, it is worth considering a heterodox response to a couple of stylised facts regarding the nature of the so-called 'labour market' which may be thought to offer a measure of support for the traditional economist's view of the ability of labour demand and labour supply to come together. In doing so, it is useful to take note of the argument advanced by Garegnani (1990), albeit, in a slightly different context, as to how these facts need not be interpreted as offering support for that traditional view. In making his case, Garegnani 'enlist[s the help of] a Voltarian Candide and … the tendency of that character to compare what he is told [by a traditional economist] with what he can see'

> Indeed, it seems that Candide, turned economist, would not be easily led by observation to the conclusions of modern theory [as outlined in the discussion above]. Candide might start by noticing the presence in general, in a market economy, of the phenomenon of labour unemployment, at times a considerable amount of labour unemployment … .
>
> [But what of] the possible counter-observation that experience shows some sort of long-run coincidence between labour employment and labour seeking employment, Candide might of course retort that such rough coincidence is only to be expected, to the extent that workers cannot live on air. That rough coincidence may in fact result from employment-seeking labour adjusting to employment opportunities rather than the reverse, with the labour [supply] being a determined rather than a determining magnitude of the system. Candide might indeed easily indicate the massive migrations of workers from country to country that have steadily accompanied the economic development of market economies in the last two centuries. He might also, more subtly, and even more importantly, point to the adaptation implicit in the so-called 'dualism' of many economies, in which a sector using advanced techniques coexists with sectors using the traditional methods, which provide much lower income to the producers and release labour in step with the needs of the advanced sector (Garegnani 1990: 115–116).

In other words, the existence of a limit on the discrepancy between labour employment and labour seeking employment is explicable quite independently of any mechanism along orthodox economic lines by which the former might adapt to the latter. Nor therefore does such a limit serve as support for view that labour could be treated as though it was amenable to market forces analogous to that at work for other commodities.[17]

7. Concluding notes

So, in the end, how are we to understand the term 'labour market'? As noted in the introduction to this paper, the role of labour in society, from a strictly economic standpoint, tells us that labour is subject to many of the same market pressures and its environment is amenable to market dynamics in similar ways as for any commodity.

The discussion above however has suggested that there remain some distinct differences, again, even just from an economic standpoint, which make labour market dynamics fundamentally different from those of any other commodity. That discussion has also suggested that even more significantly, the flawed view of mainstream economics as to how markets work in capitalists economies obscures these fundamental differences and in doing so obscures the real plight of labour in capitalist economies. It is not the treatment of labour as an input in production where the problem lies in orthodox economic theory, but rather its view of how markets work which is the problem.

On a more conciliatory note, as indicated in the penultimate section, none of this denies the possible relevance of a large amount of conventional labour market analysis about the institutions peculiar to the labour market and about the bargaining process in labour markets. The significance of this research however is likely to be of a considerably different nature once one shakes off the overbearing belief in the efficacy of a so-called flexible labour market and the notion of a mechanism by which labour demand can adapt to its supply. Until economics shakes that off — which, in the present author's view, requires a fundamental revolution in economic theory — the true insight provided by that research is likely to be severely limited in what it can offer in terms of any discussion of labour in society.

References

Eatwell J. (1983a) 'Theories of value, output and employment', in J. Eatwell and M. Milgate (eds) *Keynes's Economics and the Theory of Value and Distribution*, Duckworth, London, pp. 93–128.

Eatwell J. (1983b) 'The analytical foundations of monetarism', in J. Eatwell and M. Milgate (eds) *Keynes's Economics and the Theory of Value and Distribution*, Duckworth, London, pp. 203–213.

Eatwell J. (1995) Disguised unemployment: The G7 experience *Discussion Papers*, No. 106, United Nations Conference on Trade and Development, Geneva.

Falk A. and Gächter S. (2008) 'Experimental labour economics', in S. Durlauf S. and L. Blume L. (eds) *The New Palgrave Dictionary of Economics*, Palgrave Macmillan, Basingstoke, available: http://www.dictionaryofeconomics.com/article?id=pde2008_E000276 .

Freeman R. B. (1987) 'Labour economics', in J. Eatwell, M. Milgate and P. Newman (eds) *The New Palgrave Dictionary of Economics*, Macmillan, London, First edition, pp. 73–76.

Freeman R. B. (2005) 'Labour market institutions without blinders: The debate over flexibility and labour market performance', *NBER Working Paper Series*, National Bureau of Economic Research, Cambridge MA, No. 11286, April.

Garegnani P. (1978) 'Notes on consumption, investment and effective demand', Part I, *Cambridge Journal of Economics*, 2(4), pp. 335–353.

Garegnani P. (1979) 'Notes on consumption, investment and effective demand', Part II, *Cambridge Journal of Economics*, 3(1), pp. 63–82.

Garegnani P. (1990) 'Classical versus marginalist analysis', in K. Bharadwaj and B. Schefold (eds) *Essays on Piero Sraffa: Critical Perspectives on the Revival of Classical Theory*, Unwin Hyman, London, pp. 112–141.

Kalecki, M. (1943) 'Political aspects of full employment', *Political Quarterly*, 14(4), pp. 322–330.

Keynes, J. M. (1936) *The General Theory of Employment, Interest and Money*, Macmillan, London.

Kurz, H. and Salvadori N. (1996) *The Theory of Production: A Long-Period Analysis*, Cambridge University Press, Cambridge UK.

Mankiw, N. and Romer D. (1991) 'Introduction', in N. Mankiw and D. Romer (eds) *New Keynesian Economics*, MIT Press, Cambridge MA, Vol. 1, pp. 1–26.

Mongiovi G. (1991) 'Keynes, Sraffa and the labour market', *Review of Political Economy*, 3(1), pp. 25–42.

Rogerson R., Shimer R. and Wright R. (2005) 'Search-theoretic models of the labor market: A survey', *Journal of Economic Literature*, 43(4), pp. 959–988.

Taber C. and Weinberg B. (2008) 'Labour economics (New perspectives)' in Durlauf S. N. and Blume L. E. (eds) *The New Palgrave Dictionary of Economics*, Palgrave Macmillan, available: http://www.dictionaryofeconomics.com/article?id=pde2008_L000241 [accessed 10 October 2010].

Sraffa P. (1960) *Production of Commodities by Means of Commodities*, Cambridge University Press, Cambridge.

White G. (2004) 'Capital, distribution and macroeconomics: "Core" beliefs and theoretical foundations', *Cambridge Journal of Economics* 28(4), pp. 527–547.

Symposium (1997) 'Is there a core of practical macroeconomics that we should all believe?', *American Economic Review: Papers and Proceedings* 87(2), pp. 230–246.

Notes

1. The author is indebted to participants of the workshop 'Is Labour a Commodity?' held at the University of Sydney, September, 2008 at which an earlier draft of this paper was presented, as well to two anonymous referees and the Executive Editors for useful comments. Responsibility for any remaining errors is of course fully mine.
2. Three useful surveys in this respect are Freeman (1987), Rogerson et al. (2005)and Taber and Weinberg (2008). We shall return briefly below to the issue of labour market analysis and its relationship to the above-mentioned fundamental theoretical position.

3. Similarly the significance of imperfect competition in product markets for the macro economy is evaluated with reference to a benchmark set by neo-Walrasian general equilibrium free of such imperfections. In this sense, to contend that the myriad imperfections in the labour market represent a significant movement away or even rejection of orthodox theory erroneously confuses the special with the general case!
4. The clearest indication that this idea forms part of the 'core beliefs' of conventional economics of the aggregate economy is the unanimous sentiment expressed in a collection of papers in the *American Economic Review* in 1997 (Symposium, 1997) — papers by a group of leading macroeconomists on the set of beliefs which would constitute the core of modern macroeconomics.
5. For the present purposes, involuntary unemployment refers to the situation of people willing to work at the going real wage but constrained from employment by a lack of jobs. In the language of conventional economics, zero involuntary unemployment would be described as a position where the actual unemployment rate corresponds to the so-called 'natural' rate of unemployment; this consisting primarily of people engaged in moving between jobs.
6. 'Competition' here means primarily the process by which those seeking investment in production processes will move resources in such a way as to exploit differentials in rates of return across different production processes. This dynamic, left to itself, will inevitably require the scale of production to be brought into line with the demand for commodities. In and of itself however this does not entail a view of demand and supply as functional relations common to orthodox economic analysis.
7. We ignore for the sake of argument any problems in this narrative about how, what initially would be downward flexibility in money wages — in terms of which the wage bargain is struck — is transformed into a downward flexibility in real wages. Suffice to say it requires that prices fall in a smaller proportion than money wages.
8. One of the more eloquent expositions of the integral nature of these propositions for orthodox analysis is in Garegnani (1990: 114).
9. It is worth adding that this second mechanism itself is based in part on the notion of changing of techniques of production in response to changes in relative rates of return for different inputs (Garegnani 1990).

   It is really this second set of mechanics at which Keynes took aim in his critique of orthodox analysis as part of his rejection of the orthodox theory of output and employment (cf. Keynes 1936, Chapters 2, 14, 19).
10. Of course, orthodox economists would not deny that in such a process the 'supply of labour' can adjust in some measure, for example via changes in participation rates. The point remains however that the supply of labour cannot be augmented in the same sense as produced commodity inputs.
11. If anything, critics would argue the problem with the traditional theory of production is its failure to come to grips with the significance of 'reproduction' and thus of produced inputs; specifically, it's attempt to treat the latter

https://doi.org/10.1177/103530461002100108 Published online by Cambridge University Press

as though they were primary factors on a par with resources such as land and labour.

12. A not uncommon 'impediment' here is some type of legislated minimum wage.
13. See the surveys referred to in note 2 above as well as that by Falk and Gächter (2008). In one sense, one would not expect serious dissent from this macroeconomic proposition within labour economics to the extent that the latter is (at least since the 1980s), as one recent reviewer puts it, 'a dynamic field of applied microeconomics' (Taber and Weinberg 2008: 1).
14. Though used slightly in a different context, the description given by Eatwell seems quite accurate for this type of New Keynesian argument: '[The New Keynesians] contrive to produce pre-Keynesian propositions by means of un-Keynesian devices and triumphantly label the result "Keynesian" ' (1983a: 118). Here the pre-Keynesian proposition is that involuntary unemployment must reflect the presence of market imperfections; and the relevant un-Keynesian device would presumably be a mechanism in which whatever output is produced generates a matching demand for that output (in essence, the second of the two orthodox mechanisms referred to in section 3 above).
15. For the purposes of the present discussion, the 'natural rate of unemployment' is the modern equivalent of full-employment of labour and reflects equilibrium in the labour market. Convergence on the natural rate in essence reflects the old orthodox idea of convergence to full-employment.
16. One might argue that in an open-economy context, technological change can enhance effective demand by enhancing the competitiveness of a country's exports. The chief difficulty with this argument is that it cannot be applied to the world as a whole, which is a closed economy. I am indebted to the Editors for pointing out the need for this clarification.
17. One might also add to Garegnani's argument here that if adjustments have come from the demand side namely, adjustment in labour employment to labour seeking employment, such adjustment may well have been the result of government demand management policy as much as to any market mechanics, certainly as far back as the late 1930s.

Authorial Details

» **Dr Graham White** is a Senior Lecturer in Economics at the University of Sydney, Australia. His research interests center on the possibility of synthesising Sraffian-inspired pricing models with Keynesian models of output and growth, especially as a means of providing alternative non-orthodox theoretical foundations. He can be contacted at grahamw@econ.usyd.edu.au .