

# THE PROBLEM OF UNEMPLOYMENT

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## 1. Introduction

Economics shapes our world; it is what drives it to move forward. Its primary aim is to improve people's lives. As Varian aptly stated, "Keynes was only half joking when he said that economists should be more like dentists. Dentists claim that they can make peoples' lives better; so do economists" (2000: 353). Until the late nineteenth century, the preferred term for economics was 'Political Economy' signifying its interdependence with the political and moral spheres. By the end of the twentieth century, in the quest for objectivity and universality, economists began treating economics as a "hard" science, gradually isolating it from the political and moral spheres. Contemporary economists continue this trend. Even though the economy is "a subsystem of a finite biosphere that supports", they treat it as existing "in a void", thereby ignoring its profound relation of interdependence with the environment that sustains it (Daly 2005: 100).

The aim of this paper is to address the problem of unemployment. Economists generally agree that a zero rate of unemployment is not only unattainable but also undesirable within capitalism.<sup>1</sup> This is problematic because, as it will be shown, unemployment has adverse effects on both individuals and societies. Assuming that the primary aim of economics is to improve people's lives, it behooves us to find a solution to the problem of unemployment. Two solutions will be offered. The first works within the confines of the capitalist system – it requires instituting welfare policies that alleviate the adverse effects of unemployment. The second involves a paradigm change – it requires replacing capitalism with an alternative economic system that is consistent with a zero rate of unemployment.

## 2. Unemployment within Capitalism

Economists<sup>2</sup> generally agree that a zero rate of unemployment is not only

unattainable but also undesirable within capitalism. The unemployment rate is the number of unemployed individuals over the labor force multiplied by a hundred. Capitalism distinguishes between three types of unemployment: cyclical, structural, and frictional. Cyclical unemployment corresponds to business cycles – it typically results from recessions. Business cycles are considered to be a necessary evil of capitalism because they purport to allow markets to self-adjust (Schumpeter 1976). Structural unemployment occurs when the jobs that are available do not match with the skill sets of the unemployed workers – it typically results from international competition or technological changes. It is viewed as a positive occurrence because it purports to promote technological advancement. Frictional unemployment corresponds to the turnover of labor – it typically results either from job loss or increases in the number of people entering the workforce. It is also viewed as a positive occurrence because it purports to be conducive to mobility.

Economists believe that there is an inverse relation between inflation and, what is known as, the ‘natural’ rate of unemployment,<sup>3</sup> which is set by (unregulated) markets in accordance with the law of supply and demand.<sup>4</sup> Inflation is thought to be higher when the rate of unemployment is below the natural rate but lower when the rate of unemployment is above the natural rate. A non-zero rate of unemployment is thus required to maintain low (wage and price) inflation. In the United States, an unemployment rate of about four percent was legally mandated and was treated as a full rate of unemployment throughout the seventies (Meltzer 2010).<sup>5</sup> It too, however, has been historically unattainable. Between 1990 and 2010, the unemployment rate was equal to or lower than the full rate for less than a year: from April of 2000 to January of 2001. The average unemployment rate, in the past decade alone, has been 6.19 percent, fluctuating between an average of 4.2 percent in 2001 and 9.1 percent in 2011 (Bureau of Labor Statistics). To put these numbers in perspective, in 2007, out of the total labor force of approximately 154 million Americans, 7 million were unemployed. By 2010, the number of unemployed Americans nearly doubled (Bureau of Labor Statistics). Galbraith (1998) refers to the rate of unemployment at which inequality tends to stabilize as the ‘ethical rate of unemployment’. However, such terminology belies the fact that millions of people at any given time are excluded by the capitalist system.

Dean Baker (2007), a prominent economist, argues that there is an important racial dimension to the problem of unemployment: when “the overall unemployment rises by 2.0 percentage points...the unemployment rate for African Americans is likely to rise by 4 percentage points, while the unemployment rate for African American teens...[tends to] rise by

close to 12 percentage points.” The Bureau of Labor Statistics tells the same story. In 1999, whites saw an unprecedented decline in the unemployment rate (3.5 percent) while their Latino and African-American counterparts saw it increase to 5.8 and 7.8 percent respectively. In December of 2001, the unemployment rate was 5.1 percent for whites, 7.7 percent for Latinos, and 10.1 percent for African-Americans. The following year, the unemployment rate remained unchanged for whites and Latinos but increased by 1.3 percentage points for African-Americans. In 2007, the unemployment rate once again significantly declined for whites (4.4 percent), but showed only a slight decline for their Latino and African-American counterparts (6.3 and 9.0 percent respectively). In November of 2011, the unemployment rate was 7.6 percent for whites, 11.4 percent for Latinos, and 15.5 percent for African-American.

There is also a class dimension to the issue of unemployment since most of the benefits of neo-liberal economic policies tend to go to the top one percent of the population (Schmitt 2009). Between 1979 and 2007, the share of income for higher-income households nearly doubled while the share of income for lower-income households decreased.<sup>6</sup> Income grew by 275 percent for the top one percent<sup>7</sup> but only by 18 percent for the bottom 20 percent of households (Congressional Budget Office, December 2006). In 2004, America’s top one percent held over 2.5 trillion more dollars in net worth, which is more than the net worth of the bottom ninety percent combined, and collected more income than the bottom forty percent (ibid). In the same year, the top one percent of households owned 34.7 percent of all privately held wealth (35.4 percent went to the remaining top nine percent) while the bottom ninety percent owned only 29.9 percent. A similar distribution is seen in 2007, with America’s top one percent of households owning 35 percent of all privately held wealth leaving only 15 percent for the bottom eighty percent. A look at financial wealth, i.e., the total net worth minus the value of one’s home, reveals that the top one percent of households had an even greater share. They owned 42.7 percent in 2007 while the bottom eighty percent owned a mere 7 percent (Wolf 2010).

### **3. The Hardship of Unemployment**

Thus far, it has been shown that a full rate of unemployment has been historically unattainable. As a result, millions of people remain unemployed at any given time comprising what Marx called the “reserve armies” of unemployed. Unemployment is a serious problem because it significantly lowers overall satisfaction with life (Gerlach and Gesine 1996) and has “mental health consequences that are negative, widespread

and sometimes severe” (Fryer 2006), including depression, anxiety, demoralization, and low self esteem (Tarrin & Janson 2006; Linn *et al.* 1985).

While employment, education, and income have significant effects on good health (Cooper *et al.* 2007), negative economic trends tend to increase the total mortality rate (Leigh *et al.* 1991; Brenner 1976). In the past 30 years, the gap in life expectancy at birth has widened between professional workers (who tend to have relatively secure jobs, more education, and higher incomes) and unskilled manual workers (Canada Statistics). Nylén *et al.* (2001) found that in 1973 unemployment among both women and men was associated with increased mortality, even when controlled for social, behavioral, work, and health related factors. In a study conducted on unemployed Finnish men between 1981 and 1985, Martikainen (1990: 407) found that unemployment has “an independent causal effect on male mortality” (as opposed to age, socioeconomic and marital states) and that the effects of “unemployment on mortality were more pronounced with increasing duration of unemployment”. Cooper *et al.* (2007, 2008) also found that unemployment has “a negative effect on the *duration* of good health.” Suicide (Ruhm 2000; Blakely *et al.* 2003), heart disease (Brenner 1976), and automobile accidents (Adams 1981) have also been positively associated with higher unemployment rates, as are increases in military enlistments (Dale and Gilroy 1983), which can, and often do, contribute to an increase in the mortality rate, especially during warfare.

Too often unemployment affects not only unemployed individuals but also members of their immediate families, especially children. A large number of those who are unemployed tend to have children who are affected both physically and psychologically (Aber *et al.* 1997). Studies in neuroscience reveal that the brains of children who grow up in poverty, a direct result of unemployment, tend to have higher levels of stress hormones than children who grow up in more affluent families. Excessive levels of stress hormones cause irreparable harm to children’s brains since they “disrupt the formation of synaptic connections between cells in the developing brain” and affect the blood supply. The early years of a child’s development (between six months and three years of age) are the “foundation of all social problems” they might encounter later in life.<sup>8</sup> Unemployment can thus condemn children to a life of suffering.

These findings debunk the claim that it is the generous compensation offered by the government in the form of unemployment benefits that are responsible for high unemployment rates (Freedman 1981). One could only view ill health as a benefit by failing to distinguish between, what McMurtry calls, “money-capital” and “life-capital” (1999: 257, 2002).

While the latter is “real capital”, in that “it is the real basis of every breath we take and morsel we eat”, the former “is not really wealth or capital at all, but money control of wealth” (McMurtry 2002). Capitalism seeks to expand “money-capital, not life-capital” (ibid). Life-capital, which includes “natural and human capital”, is thus “being increasingly degraded by money capital absolutism” (ibid). Although the “market system cumulatively toxifies and strips social and ecological life-organization to multiply the money-demand of private stockholders...no problem registers to this value calculus because it has no life co-ordinates” (ibid). Unemployment can be seen as one aspect of human capital whose degradation does not register to the value calculus despite that it strips people of their health, wellbeing, and dignity.

#### **4. Solution One: Government as the Employer of Last Resort**

While many capitalist countries, such as Canada, have already enacted welfare programs designed to alleviate the adverse effects of unemployment, the United States has been unable to even have a constructive dialogue regarding the problem of unemployment. As a result, no adequate solutions have been sought. Part of the problem is that, in the United States, unemployment is not viewed as a systemic problem but rather as a failure of the individual to act responsibly (Freedman 1981; Nozick 1974). However, blaming the unemployed and not the system that produces them fails to acknowledge, among other things, the important role luck plays in the outcomes of individual choices (Barry 1989).

In “Zero Unemployment and Stable Prices”, Randall Wray (1998) proposes a solution that requires no fundamental changes to the economic system. Private capitalism can remain unaltered by shifting the problem to state capitalism.<sup>9</sup> Wray accepts that a noninflationary zero unemployment within private capitalism cannot be achieved without state intervention.<sup>10</sup> His solution is to enact a welfare program that would be fully funded by the state. The state would assist private capitalism by acting as “the employer of last resort (ELR), announcing the wage (say, \$6.25 per hour) at which it will hire anyone who wants to work” (540). Although the state would determine the ELR wages, the quantity of ELR workers would be “‘market determined’ by the number of workers the private sector does not want” (Wray 1998: 542). When demand in the private sector is high, “workers whose productivity was formerly too low to induce private hiring will leave the ELR pool” (ibid). But when demand in the private sector is low, the remaining work force will be absorbed by the ELR.

Wray believes that the ELR program would not cause inflation:

Indeed, it is hard to imagine that true full [i.e., zero] employment with an ELR program would be more inflationary than what we have currently. The current system relies on *unemployed* labor and excess capacity to try to dampen wage and price increases; however, it pays unemployment labor for not working and allows that labor be depreciated and in some cases to develop behaviors that act as employment barriers (1998: 543)

He further calculates that the net cost to the government would “fall between \$25 billion and \$50 billion (total expenses in excess of \$100 billion, with savings in excess of \$50 billion)” (1998: 541). This might seem too high a price to pay for solving the problem of unemployment. However, the cost is negligible, especially when compared to the cost of the two most recent wars the United States waged in Iraq and Afghanistan, which have already exceeded a trillion dollars.

Such a program would not only benefit the unemployed and their families, but also society at large. The Environmental Protection Agency has identified 350,000 sites requiring clean up in the next twenty years. The American Society of Civil Engineers reported that America’s infrastructure is crumbling, as approximately 27.1 percent of the nation’s bridges are structurally deficient or functionally obsolete. The report also highlighted a series of problems requiring immediate attention, including the degradation of drinking water, overflowing sewers, restoration of dams, and air pollution.<sup>11</sup> The ELR could use the labor force that cannot be absorbed by the private sector to solve such problems, which contribute significantly to the decline of our quality of life.

## **5. Second Solution: Post-Capitalism**

Wray’s proposal operates within the capitalist paradigm. As such, it requires making no fundamental changes to the economic system. It merely requires state capitalism to function as a subsystem of private capitalism whose sole purpose is to utilize the work force that cannot be absorbed by the latter. Marrying state and private capitalism can, at least theoretically, resolve the problem of unemployment.<sup>12</sup> However, it does so by ignoring the real problem, i.e., the fundamental structure of the very economic system that contributes to the decline of our quality of life by giving rise to problems such as unemployment in the first place. The second solution requires a paradigm change. A brief exposition of the fundamental tenets of capitalism, followed by a critical discussion of these tenets (section 5.1), will pave the road for the proposed paradigm change (section 5.2).

## 5.1 The Main Tenets of Capitalism

One of the fundamental tenets of capitalism<sup>13</sup> is that the pursuit of rational self-interest, when led by the forces of the unregulated market or, to borrow Adam Smith's term, 'the invisible hand', tends to benefit society as a whole by maximizing its wealth (1904: IV: 2). The individual pursuit of rational self-interest is thus expected to promote rational social outcomes. Since the main aim of production is profit, economic policy aims towards the (unlimited) maximization of (monetary) wealth, which is identified with growth. Growth is measured in terms of the nation's GDP,<sup>14</sup> whose increase is associated with the wellbeing of society understood in terms of preference satisfaction realized through consumption (Wolff and Resnick, 1987).

There are various difficulties with the above tenets. Firstly, the assumption that the individual pursuit of rational self-interest promotes rational social outcomes is false. The collapse of the housing market is the most recent example of the failure of individual self-interest to promote rational social outcomes. Global warming is another such example serving as a reminder that economic policy should be based on "the more realistic assumption...that one person's behavior affects another's" (Wilber 1998: 94).

Secondly, empirical studies show that increases in per capita GDP do not equate to economic wellbeing (Cobb 2007). While the annual GDP of the United States reached 14 billion in 2008, the nation's official poverty rate increased from 12.5 percent in 2007 to 13.5 percent in 2008 (U.S. Census Bureau). Since the GDP per capita is an average of output divided by the number of people, it cannot provide accurate information regarding the distribution of the national income. Nor can it provide accurate information regarding unemployment. Contrary to Okun's Law,<sup>15</sup> increases in the unemployment rate need not be proportional to declines in per capita GDP. Although job losses in prior recessions have been roughly proportional to the decline in GDP (which is consistent with Okun's Law), the proportion of jobs lost in the most recent recession (2007-2009) was approximately a third greater than the decline in real GDP (which is inconsistent with Okun's Law).<sup>16</sup> It follows that GDP growth corresponds to neither increases in wellbeing nor decreases in unemployment rates.

Moreover, in viewing growth solely in terms of increases in GDP, i.e., increases in money-capital, capitalism encourages the destruction of natural capital:

When the economy's expansion encroaches too much on its surrounding ecosystem, we will begin to sacrifice natural capital (such as fish, minerals and fossil fuels) that is worth more than the man-made capital (such as roads, factories and appliances) added by the growth. We will then have what I call uneconomic growth, producing 'bads' faster than goods – making us poorer, not richer. Once we pass the optimal scale, growth becomes stupid in the short run and impossible to maintain in the long run. Evidence suggests that the U.S. may already have entered the uneconomic growth phase. (Daly 2005: 100)

Since growth is understood only in terms of money-capital, the push for unsustainable growth, which sacrifices life-capital for money-capital, does not register as a problem within the system (McMurtry 1999).

Thirdly, capitalism views “society [as] a collection of individuals in it. Individual wants, thoughts, and deeds combine to make society what it is. To understand an economy is then to make sense of the aggregate effects of individual wants and acts” (Wolff and Resnick 1987: 15). No distinction is thus made between desires and needs – both are treated as preferences that can be satisfied through consumption, which is associated with wellbeing.<sup>17</sup> The desire for golden toilet seats is, for example, no different from, nor prior to, the need for potable water (Baruchello 2008). Empirical studies, however, show that consumption is associated with wellbeing only insofar as “one's basic needs are satisfied” (Carr-Hill *et al.* 2002: 78). The stagnation of real wages in the past forty years has made it increasingly difficult for Americans to satisfy their basic needs, which include affordable housing, education, healthcare, and transportation (Harkness and Newman 2005). The average worker now spends more than one third of her wages on housing alone. The number of Americans who have been unable to afford healthcare insurance has increased by three percentage points from 1999 to 2010 – it went from 13.1 percent in 1999 to 16.3 percent in 2010.<sup>18</sup> As people become less able to satisfy their basic needs, household debt rises. According to the Federal Reserve, in 2007, the household debt reached 13.3 trillion. This increase is largely due to home mortgages and consumer credit.

Consumer credit increased from 103 billion in 1966 to 2,430 billion in 2006. This increase might be viewed as evidence that capitalism accurately associates wellbeing with preference satisfaction through consumption. This inference, however, is problematic for two reasons. Firstly, since “preferences cannot be adequately expressed in the market, observed market behavior does not demonstrate that everyone prefers greater consumption as a way of improving wellbeing” (Carr-Hill *et al.*



2002). Secondly, empirical studies show that consumption often works “against our need satisfaction and psychological health” since it cannot purge psychological states such as emptiness, loneliness, and depression (Kasser 2002: 73). Purging such psychological states requires establishing strong social relations. Longitudinal studies indicate that people who share strong social relations tend to be happier than those who do not (Fowler and Christakis 2008).

In capitalist societies “[e]very man...lives by exchanging, or becomes, in some measure, a merchant, and the society itself grows to be what is properly a commercial society” (Smith 1904, I: 4). Therefore, “the notion of a social tie disappears” and “every social interaction” is reduced to “an exchange between individuals” in the market (Held 2006: 112). Margaret Thatcher embraced this view when she proclaimed that there are no societies, only individuals. Einstein’s remarks on society elucidates the flaw of her position:

The abstract concept “society” means to the individual human being the sum total of his direct and indirect relations to his contemporaries and to all the people of earlier generations. The individual is able to think, feel, strive, and work by himself; but he depends so much upon society – in his physical, intellectual, and emotional existence – that it is impossible to think of him, or to understand him, outside the framework of society. It is “society” which provides man with food, clothing, a home, the tools of work, language, the forms of thought, and most of the content of thought; his life is made possible through the labor and the accomplishments of the many millions past and present who are all hidden behind the small word “society.” (1949)

Einstein echoes Aristotle who argued that the “proof that the state is a creation of nature and prior to the individual is that the individual, when isolated, is not self-sufficing; and therefore he is like a part in relation to the whole” (*Politics*, Book I Chapter II). Capitalism views dependent individuals as weak and disreputable, thereby stigmatizing relations of dependency (Fraser and Gordon 1994). Far from being independent and self-sufficient, however, humans share interdependent relationships. Societies are thus necessary in human development and subsequently flourishing.

Historically, the aim of economic policy has been to promote the common good. Adam Smith took that as his starting point and argued that the common good can be realized only through the promotion of the individual good. What Smith failed to see is that the individual good

cannot promote the common good if individual interests are in conflict (Kymlicka 2002). Economic inequalities, which are inherent within capitalism (Nozick 1974), inevitably give rise to conflicting individual interests, which, in turn, become obstacles to the promotion of the common good. Not only capitalism has been unable to provide solutions to various problems contributing to the decline of our quality of life, but also, in many cases, it has created them (Schweickart 1996; McMurtry 1999; Daly 2005). If an alternative economic system does not give rise to such problems, it stands to reason that it should be preferable to capitalism.

## 5.2 Alternative Economies

Discussions regarding the flaws of capitalism often end with a general pessimism towards the prospect of a better alternative (Smith 2005; Ester and Moene 1993). However, as O’Neil aptly notes, the “market order survives not necessarily because it is best but because it is so tied into all human relationships that construction of an alternative becomes increasingly difficult to build or even conceive” (2003: 203). The economic system forms the superstructure that gives rise to society’s substructure, which includes ideology, culture, politics, law, religion, and so forth (Marx 1990). Since the economic system influences every aspect of our lives, it is difficult to view it in isolation from the superstructure that it generates. This is what Einstein (1949) must have had in mind when he wrote that “[s]ince the real purpose of socialism is precisely to overcome and advance beyond the predatory phase of human development, economic science in its present state can throw little light on the socialist society of the future.” Envisioning and building an alternative economic system that better suits human needs requires deconstructing and then reconstructing every aspect of our lives. Despite the difficulty involved in making such a profound change, history shows that economic systems can be replaced. Feudalism was, after all, replaced by capitalism once the former was no longer able to preside over changes in the productive forces of society (Marx 1990). The fact that capitalism is sacrificing life capital for money capital (McMurtry 1999; Daly 2005) suggests that it too is no longer able to keep up with the productive forces of society.

Capitalism cannot promote the common good since the relations of its two socioeconomic classes – i.e., the class of “appropriators” that owns the means of production and the working class whose subsistence depends on wages exchanged for labor (Gauthier 1977) – are, more often than not, antagonistic (Gauthier 1977; Smith 1904; Marx 1990).<sup>19</sup> Adam Smith was acutely aware of the existence of such class antagonisms within capitalism:

We rarely hear...of the combinations of masters, though frequently of those of workmen. But whomever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and everywhere in a sort of tacit, but constant and uniform, combination, not to raise the wages of labour above their actual rate...Masters, too, sometimes enter into particular combinations to sink the wages of labour even below this rate. These are always conducted with the utmost silence and secrecy till the moment of execution; and when the workmen yield, as they sometimes do without resistance, though severely felt by them, they are never heard of by other people (1904, I: 8).

Class antagonisms are antithetical to the common good since the interests of one class inevitably conflict with the interests of the other. Class distinctions are by no means natural. As Smith reminds us, they are consciously perpetuated by the capitalist system:

A [work]man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more, otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation (Smith 1904, I: 8).

Adam Smith recognized that class antagonisms are the driving force behind economic policy: “We have no acts of parliament against combining to lower the price of work, but many against combining to raise it” (1904, I: 8). As a result, “the advantages and disadvantages produced by the current economic system’s method of using resources are extremely unequally distributed” (Calinicos 2003: 123). In the past thirty years the share of income going to higher-income households rose while the share of income going to the lower-income households fell.<sup>20</sup> In addition, although the world now produces enough food to feed everyone on the planet, the number of people suffering from famine has remained fairly constant since 1969.<sup>21</sup>

Despite that class antagonisms contribute to the decline of the quality of life, their nature and existence is often obscured. Gauthier (1977) argues that myths such as love<sup>22</sup> and patriotism have been “the real opiates” of the people, enabling the class of appropriators “to conduct their appropriative activities more successfully” (1977: 162) while excluding “most human beings from effective membership in the market society” (1977: 161). Such myths “have been the real support for the enduring coercive order,

enabling it to enlist fear and thus assure the survival of the state”, whose role, according to Gauthier, is to protect the interests of the capitalist class (Gauthier 1977: 163). Gauthier argues that because the capitalist “ideology embraces everyone...as more and more people attain self-awareness”, they aspire “to join the system rather than overthrow it” (ibid). Rousseau identified blind ambition as one of the reasons people allow themselves to be oppressed:

Besides, individuals only allow themselves to be oppressed so far as they are hurried on by blind ambition, and, looking rather below than above them, come to love authority more than independence, and submit to slavery, that they may in turn enslave others. It is no easy matter to reduce to obedience a man who has no ambition to command; nor would the most adroit politician find it possible to enslave a people whose only desire was to be independent. But inequality easily makes its way among cowardly and ambitious minds, which are ever ready to run the risks of fortune, and almost indifferent whether they command or obey, as it is favourable or adverse. (1986 [51]: 194)

This perhaps explains why people who are excluded from the market society continue to have confidence in it.<sup>23</sup> Rousseau is appalled by this state of affairs. Gauthier, by contrast, worries that as more and more people desire to join the system, its “absorptive capacity...is being overstrained”, threatening to “corrode all of those bonds which in the real world have been the underpinning of the market” (ibid).

An economic system whose existence is predicated on the exclusion of most human beings from effective membership in society cannot promote the common good. In order for an economic system to promote the common good, it must eliminate conflicting class interests; and to do so it must eliminate class distinctions. Schweickart (1992) proposes a comprehensive alternative to capitalism, which he calls Economic Democracy.<sup>24</sup> It retains some version of the market but eliminates private ownership of the means of production along with wage-labor.<sup>25</sup> Workers manage each productive enterprise collectively and democratically. While “the day-to-day economy is a market economy” – that is, “raw materials and consumer goods are bought and sold at prices determined by the forces of supply and demand – “new investment is socially controlled: the investment fund is generated by taxation and dispensed according to a democratic, market-conforming plan” (1992: 19). The social control of new investment is designed to discourage overproduction of goods that cannot be sold for profit<sup>26</sup> (Schweickart 1992: 9). Within capitalism, the

market has a dual role: it “allocates goods and resources” and “determines the course and rate of future development” (Schweickart 1992: 9). Economic Democracy eliminates the latter function of the market, thereby encouraging people to view it not “as an absolute good” but rather “as a useful instrument for accomplishing certain societal goals” (1992: 21).

Alternative proposals might eliminate the market altogether rather than merely restrict its function. Within capitalism, the “market is the primary social forum for the members of a society of appropriators” whose primary function is the “exchange of property” (Gauthier 1977: 148–49). Those who do not have property, i.e., money-capital, to exchange are thus excluded from the market society. The elimination of markets need not involve a centralized economy,<sup>27</sup> that is, an economy based on the decisions made by the state. Anarchists, after all, reject the authority of both markets and states (Callinicos 2003). They reject the authority of markets on the basis that they are not conducive to democratic decision-making and other social relations necessary to human flourishing. While capitalism celebrates competition, anarchism views it as an obstacle to “natural growth and freedom” (Buckley 2011: 76). Anarchists believe that competition “distorts and devalues human relations.”<sup>28</sup> As Jimmy Reid succinctly put it, “A rat race is for rats. We’re not rats. We’re human beings.”<sup>29</sup> Human beings get real fulfillment neither from consumption nor accumulation of wealth. “Real fulfillment for any person lies in service to his fellow men and women.”<sup>30</sup> Anarchists also reject the authority of the state since in the absence of common interests its tendency is to protect the interests of one class, e.g., the capitalist class, at the expense of the other (Castoriadis 1955). History confirms that the state is not an impartial observer but rather an active coercive force (Skinner 2006).

In addition to markets and states, anarchism also advocates the elimination of wage-labor, which it sees as “a means to subjugate and exploit the working class” (Buckley 2011: 76). When “individuals have control over their own work and livelihood, they have freedom to grow and develop their own strengths, interests, and capabilities” (Buckley 2011: 75). Within capitalism, workers do not have control over their own work and livelihood since they are treated as mere instruments of production. In “an anarchist society, products and labor would be exchanged and distributed according to necessity and shared equally by everyone” (Buckley 2011: 77). Production would thus be based on need and use rather than profit.

A post-capitalist society, which places priority on human needs, can eliminate not only the problem of unemployment but also a myriad other problems contributing to the decline of our quality of life. This is the

reason Wray's solution seems inadequate when compared to a solution involving a paradigm change.

## 6. Conclusion

It has been argued that zero unemployment is not only unattainable but also undesirable within capitalism. Given that unemployment has adverse effects on individuals and societies, finding a solution to the problem of unemployment should be one of the primary aims of economic policy. Two solutions were offered. The first works within the confines of the capitalist system – it requires instituting welfare policies that alleviate the adverse effects of unemployment. The second involves a paradigm change – it requires replacing capitalism with an alternative economic system that is consistent with a zero rate of unemployment. The latter not only solves the unemployment problem but also a whole host of other problems that arise within capitalism. As such it is superior to the former.<sup>31</sup>

## NOTES

1. For the purposes of this paper, the term 'capitalism' subsumes both Keynesian and Neoclassical economic theory since despite their differences both accept the basic tenets discussed in section 5.1.

2. The terms 'Economists' and 'Economics' refer to neo-liberal economists and neoliberal economic theory respectively unless otherwise indicated. Neo-liberal economists make certain assumptions, which include the equation of higher cost of labor for employers, and hence lower profits, with higher "wage inflation", the use of "natural" unemployment, and the equation of "natural" with "full" employment. These assumptions became standard only in the past few decades and have clear class-based rhetorical connotations, whereby the interests of the capitalist class define the terms of an allegedly value-neutral science, i.e., economics. (I am indebted to Giorgio Baruchello for this observation). Although I find these assumptions problematic, I am utilizing them in order to illustrate that unemployment presents a problem for capitalism even if such assumptions were to be accepted.

3. See Milton Friedman's "The Role of Monetary Policy" in *American Economic Review* 58:1: 1–17, 1968. For an short comprehensive analysis of the

Phillips-curve as well as the difference between the natural rate of unemployment and the non-accelerated inflation rate of unemployment see Kevin D. Hoover's entry "Phillips Curve" in *The Concise Encyclopedia of Economics*.

4. Keynes is critical of the view that markets as automatic stabilizers of output and employment (see Wolff and Resnick, 1987: 110–112).

5. By the late 1970s, in response to the Great Inflation (1965-1980), congress assigned the Federal Reserve a dual mandate: low inflation and a low unemployment rate (Meltzer 2010).

6. See David Cay Johnston's "Richest are leaving Even the Rich Far Behind" published in *The New York Times* on June 5, 2005.

7. Income grew by 65 percent for the next 19 percent and just under 40 percent for the next 60 percent.

8. See Clive Cookson's "Poverty mars formation of infant brains", in *Financial Times*, February 16, 2008.

9. The distinction between private and state capitalism is instrumental in understanding the reason Wray rightly thinks that allowing the government to be the employer of last resort is consistent with the capitalist principles. For, the structure of the economic system, i.e., capitalism, remains unaltered while the burden shifts from private hands to the state.

10. Wray does not distinguish between the three types of unemployment. It is thus unclear whether he thinks that instituting the state run program he proposes will also eliminate frictional unemployment.

11. See ASCE report at <http://www.asce.org/reportcard/2005/actionplan07.cfm>

12. Similar proposals have been advocated by Hyman Minsky (see *Stabilizing an Unstable Economy*, New Haven, Connecticut: Yale University Press, 1986), Warren Mosler (see "Soft Currency Economics" in *Mimeo*, 3d ed., 1995), and Wendell Gordon (see "Job Assurance – the Job Guarantee Revisited," *Journal of Economic issue* 31: 826–834, September 1997).

13. For a more detailed exposition of the main tenets of capitalism see Baruchello (2008). The criticism here pertains primarily to the Atlantic and Chinese types of capitalism, not to Scandinavian social-democracy, which is a different type of capitalism. I am indebted to Giorgio Baruchello for this observation.

14. GDP stands for 'Gross Domestic Product' and it pertains to the goods and services produced within a country. GNP is another such measurement. It stands for 'Gross National Product' and it pertains to the goods and services produced by all nationals of a country.

15. For a detailed explanation and critique of Okun's Law, which has been used as a rule of thumb since 1962, see "How Useful is Okun's Law?" by Edward S. Knotek II

(<http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q07Knotek.pdf>)

16. See Sudeep Reddy's "Job Loses Outpace GDP Decline," in *The Wall Street Journal*, July 10, 2009.

17. In particular, it reduces the prices of all products and services to the supply and demand behavior of individuals, which is, in turn, reduced to preference satisfaction. (See Wolff and Resnick 1987).

18. Since employers are the primary providers of healthcare insurance in the United States, much of the decline can be attributed to the increase in the unemployment rate. In 2000, employers provided healthcare insurance to 64.1 percent of the work force. By 2010, only 55.3 percent of the work force received healthcare insurance through their employer. See Les Christie's "Number of People without Health Insurance Climbs" in *CNN Money*, September 13, 2011.

19. A contemporary example of such class antagonisms involves tax reform. While certain taxes, e.g., the estate tax and taxes on dividends, affect the top 10 percent of the population others, e.g., payroll taxes, affect the bottom 90 percent. Tax reform generally aims to eliminate the former, but ignores the latter.

20. See David Cay Johnston's "Richest are leaving Even the Rich Far Behind" published in *The New York Times* on June 5, 2005.

21. In 2009, the number of people suffering from famine surpassed 1000 million. Most of them are in Asia (578 million) and Sub-Saharan Africa (239 million). But approximately 19 million live in developed countries (United Nations Food and Agriculture Organization).

22. By "love" Gauthier means "the trans-generational affective ties which bind together members of a family" and which "supply the motivation needed for each generation to seek the continuation in society" (see Gauthier 1977: 160).

23. Studies show that 6 in 10 people say that they have a negative reaction to the word 'Socialism'. See "Little Change in Public's Response to 'Capitalism,' 'Socialism': A Political Rhetoric Test", Pew Research Center, December 28, 2011.

24. For a detailed exposition of this economic system see Gatzia 2011.

25. For other alternatives to capitalism see Nürnberger 1998; for limits of market organizations see Nelson 2005; for a discussion of various economic systems see Gary and Joyce Pickersgill 1974; for a comparison between capitalist and Marxist economics see Wolf and Resnick 1987.

26. It also renders usury unnecessary.

27. An alternative economic system need not be identified simply with a planned economy, which is consistent with complete individual enslavement.

28. Jimmy Reid, from a speech he delivered at Glasgow University in 1972; reprinted by *The Independent* in August 13, 2010.

29. *Ibid.*

30. *Ibid.*

31. I would like to thank Giorgio Baruchello, Francesco Renna, and Douglas Woods for valuable literary assistance with this paper.

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