"Political Aspects Of Full Employment" Revisited
A Formal Model Of Reactionary Macroeconomic Policy In Recessions and What To Do About It

Michael Isaacson

Abstract

Using an imperfectly competitive labor market model, this paper presents a pedagogical model to illustrate the scenario reviewed in Michał Kalecki's "Political Aspects of Full Employment." A strict distinction is made between the model presented by Kalecki and those models presenting his idea as a collective social planning problem. The model presented in this paper demonstrates graphically why both employers and the employed have minimal incentive to petition for full employment programs. Lastly, it is explained how historical interventions such as unions for the unemployed can provide an otherwise absent catalyst for full employment macroeconomic policies.

In the 72 years since its publication, Michał Kalecki's "Political Aspects of Full Employment"[1] has received little in the way of faithful formalization. The currency it has found has been mostly in grave departures from its premises and conclusions. For the most part, the paper has been treated as if it were a theory of the business cycle.[2] To be sure, the theory does describe what Kalecki considered to be part of the business cycle[3] – a macroeconomic condition of widespread unemployment. However, the meat of Kalecki's argument is not (necessarily) about what causes economic downturns *per se* so much as the curious way in which large business interests react to them.

In what follows, I hope to present a pedagogical model to demonstrate what I see as the core of this paper – the situation in which business interests oppose policies that will increase their total profit for the sake of maintaining power over their workers. For the sake of using analytical tools familiar to the average economics student, I admit that I deviate significantly from Kalecki's general methodology. In particular, I will be employing a supply and demand framework for the

1 Kalecki 1943

2 Perhaps the most popular is Nordhaus 1975, though Robinson 1972 makes a nod in this direction as well.

3 I am careful with my wording here so as not to imply that what is being described is necessarily cyclical, but rather that aggregate fluctuations, particularly those occurring in approximately 10 and 40 year intervals are commonly understood as cycles. I am not insisting on any sort of periodic regularity of widespread unemployment, but rather that the fact of widespread unemployment has been a recurring reality in market-based economies.

labor market, albeit not a perfectly competitive one. In my opinion, and likely in Kalecki's opinion, the formalization of labor relations into marginalist supply and demand, or even their characterization as a market, requires very strong assumptions about behavior and power which take us far afield of labor relations as they exist in most sectors.[4] It should be noted that this presentation is for illustrative purposes only, and should not be taken as an analytical model.

For the purposes of this paper, however, I feel that the supply and demand formulation is adequate (if still wanting) to illustrate the reactionary forces that push against the implementation of full employment as Kalecki had outlined it. In the first section, I review literature exploring deviations from full employment that claim inspiration from Kalecki's paper, but are not what Kalecki had in mind according to my reading. Next, I draw a formal model illustrating how Kalecki's story could operate within a neoclassical labor market. Last, I describe extra-market remedies to the political gridlock Kalecki described.

What Kalecki Is Not Saying

Kalecki had several papers about the dynamics of the business cycle,[5] but as far as I can tell his 1943 paper is not one of them. The curiosity motivating Kalecki is not one of what *causes* widespread unemployment, but rather why businesses would have an interest in seeing it *persist*. In fact, Kalecki makes this point very clear at the outset:

> "Although most economists are now agreed that full employment may be achieved by Government spending, this was by no means the case even in the recent past. Among the opposers of the doctrine there were (and still are) prominent so called 'economic experts' closely connected with banking and industry. This suggests that there is a political background in the opposition to the full employment doctrine even though the arguments advanced are economic....
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> "...This was to be clearly seen in the U.S.A (opposition to the New Deal), in France (Blum experiment) and also in Germany before Hitler. The attitude

4 For a more thorough analysis of this problem see Simon 1991, and for an alternative formalization of labor relations see Simon 1951.

5 e.g. Kalecki 1935, Kalecki 1937, and Kalecki 1968

> is not easy to explain. Clearly higher output and employment benefits not only workers, but *entrepreneurs* as well, because their profits rise."[6]

In this model, Kalecki takes rampant unemployment as a prior condition, and is interested in why business interests would oppose a full employment program even when such a program is to their own benefit.

This is not to say that there is nothing in this paper that might suggest a "political business cycle."[7] In the fourth section, Kalecki outlines why industrialists might *still* oppose full employment policies in an economic boom:

> "In the slump, either under the pressure of the masses, or even without it, public investment financed by borrowing will be undertaken to prevent large scale unemployment. But if attempts are made to apply this method in order to maintain the high level of employment reached in the subsequent boom a strong opposition of 'business leaders' is likely to be encountered. As has already been argued, lasting full employment is not at all to their liking. The workers would 'get out of hand' and the 'captains of industry' would be anxious to 'teach them a lesson.' Moreover, the price increase in the up-swing is to the disadvantage of small and big *rentiers* and makes them 'boom tired.'"[8]

Certainly, persistent opposition to a public full employment program with occasional push back during slumps might yield a political business cycle.[9] This is a notion championed by William Nordhaus in "The Political Business Cycle." As much as he claims to be formalizing Kalecki's work, he instead formulates the problem entirely devoid of class conflict between workers and employers. Rather the public writ large is electing leaders to deal with an inflation-unemployment tradeoff *à la* Friedman and Phelps[10] with apparent adaptive expectations. The problem with this formulation is that it eliminates investigation into the situation Kalecki spends so much time describing – when business leaders apparently work against their own long-run interest in the short run. In fact, Nordhaus' model makes no room for such intransigence by assuming that all

6 Kalecki 1943, 324.

7 Both Nordhaus (1975) and Robinson (1972) take this to be the major intervention of Kalecki's paper.

8 Kalecki 1943, 329

9 Kalecki even refers to such a scenario as a "political business cycle regime" himself in subsequent paragraphs.

10 Friedman 1968 and Phelps 1968

individuals (actually, a representative agent) have the same vested interests in the economy (low unemployment and low inflation) and act on them accordingly.

In the foregoing fascination with what I read to be a throwaway line about political business cycles, most economists seem to have ignored what I see as the overriding point of Kalecki's paper: namely, the motivating factor of the power dynamics in the workplace. This paper seeks to explore this specific barrier to full employment policy, locating politics not merely at the ballot box (as Nordhaus) in the power relations that shape and determine the economic and social possibilities of workers and capitalists in the economy.

What Kalecki argues is that the very fact of full employment itself gives workers the leverage to bargain for higher wages. For Kalecki, lack of job security acts as a discipline device. With a larger pool of unemployed, workers are easily replaced, and they know it. Thus, any attempt to bargain for higher wages, better working conditions, etc. can be easily remedied by businesses with the sack.

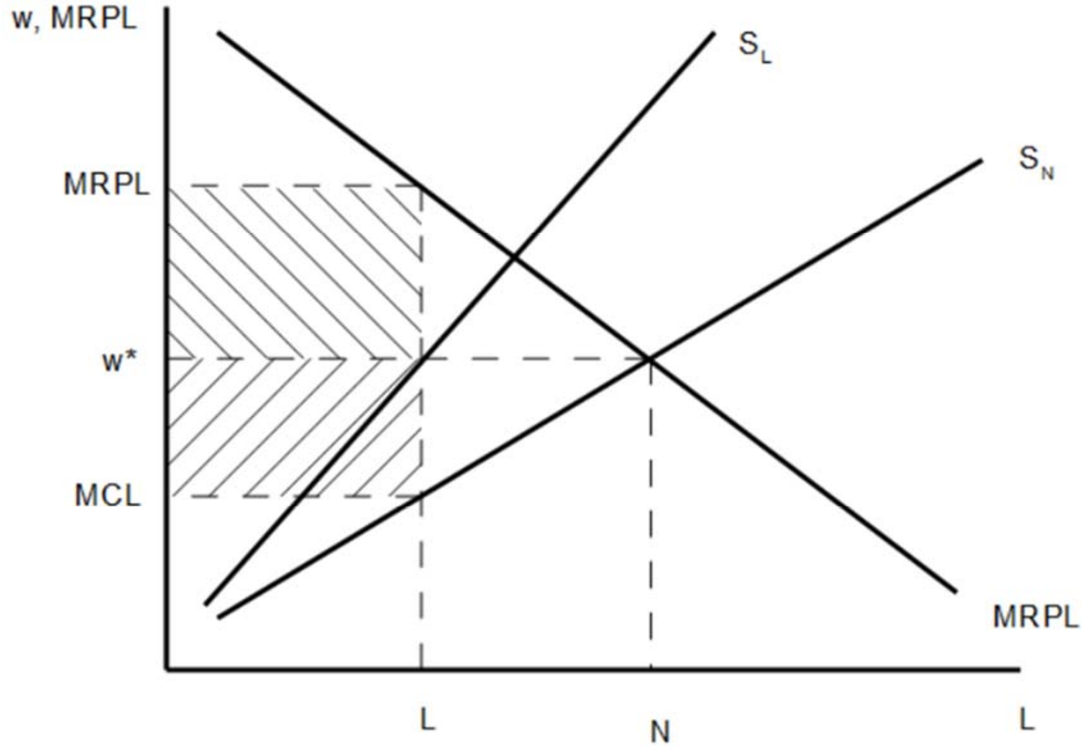
It must be stressed that Kalecki's theory revolved around class conflict, which means that workers and capitalists negotiate with the political machinery (and presumably with each other) as *classes* rather than as individual economic agents. For Kalecki, this three-way negotiation, with the reserve army of the unemployed waiting in the wings, is what drives fiscal policy, rather than an apolitical[11] mass of eligible voters.

Why Such a Situation Might Persist

As has been alluded to already, Kalecki sees the interests of businesses being simultaneously economic and political. The economic side of the story follows the classic economic reasoning that a firm's primary goal is to maximize profits. In addition to this, Kalecki sees businesses also holding fast to a political goal of suppressing worker power. This second goal is realized by suppressing any attempts at subsidizing worker income or providing unemployment relief – that is, maintaining a reserve army of the unemployed. Thus, despite it being in firms' interest to allow the government to push the economy to full capacity utilization (and presumably, higher profits), the potential benefits are outweighed by the cost of firms ceding their power to exploit workers.

11 Apolitical in the sense of being regarded as merely passive "voters" or "consumers" rather than agents of classes able to exercise certain types of power within the production and distribution process.

Figure 1



In Figure 1, I present an illustration of this phenomenon. In this illustration, the labor demand of firms is determined by the marginal revenue product of labor – the additional revenue realized by hiring an additional "unit" of labor.[12] This labor demand function is represented in the graph by the curve labeled MRPL. On the other hand, businesses (in the aggregate) face an upward-sloping labor supply schedule[13] which at full employment is given by S_N. At full

12 I put "unit" in scare quotes because, like its "capital" counterpart in the neoclassical production function, it is dubiously defined as to what exactly one is to measure labor in given the heterogeneity of work and of workers. Mathematically, this is simply the partial derivative of income (or total revenue) with respect to labor. At the aggregate level, for a given level of income and nominal capital stock, wages will be inversely related to the labor demanded, irrespective of the units.

13 The conventional justification for an upward sloping labor supply curve is a presumed increasing marginal cost of increasingly scarce leisure time. It must again be stressed that these illustrations are for the sake of illustration and not description. The author make no claim that a such thing as a labor supply curve exists nor that it necessarily governs labor relations.

employment, equilibrium[14] is given by the intersection of the labor demand and supply schedules with (real) wage w^* and equilibrium labor units N. In the short run, wages are relatively sticky. For any subset of the full employment labor force, one may draw a similarly justified curve S_L that will have a steeper slope.[15] Comparing the two, for any wage rate w^*, if the worker subset S_L is fully employed (say at L), a worker from the unemployed labor force would not only be willing to supply additional labor, but would be willing, in fact, to replace existing labor at a lower wage (as low as – and perhaps lower than MCL).

In a scenario described by a sudden increase in unemployment, employed workers could be represented by S_L and the total labor force by S_N. With wages sticky at w^*, the firms realize a deadweight loss, but this situation of partial unemployment gives the employer more power. Presently employed workers would likely be aware that the scarcity of jobs. Since falling into unemployment would mean that they would compete for jobs below the wage of the employed as low as MCL, the worker would view insubordination as having a welfare cost around $[L\cdot(w^* - MCL)]$.

Thus, along the lines of Kalecki's explanation of political reasons for stagnation, the capitalist is willing to forsake scale economies for the control over workers wide-scale unemployment affords. As far as welfare analysis goes, employed workers would be exploitable to the same extent as the prospective welfare loss from unemployment.

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14 This is another part I am particularly uncomfortable with since equilibrium implies that there is a position at which workers and capitalists will cease pursuing wage increases and decreases, respectively. Given that workers will *always* be better off with higher wages and capitalists will *always* be better off (individually) when workers have lower wages, it seems to me to be patently ridiculous that wages and labor "units" would ever settle at (or even around) one point.

Kalecki prefers the phrase "full employment" which is unfortunately not necessarily implied by the term "equilibrium." To state that the two are identical concepts is arbitrary at best. It should be noted that Kalecki himself does not use the term "equilibrium" once in his entire paper.

It may therefore be appropriate to regard equilibrium as a point of gravitation given the material constraints given by the curves.

15 As we've so far assumed

$Li = fi(w) \qquad f' > 0$

And that aggregate labor L is given by

$L = \Sigma\, Li = \Sigma\, fi(w)$

Since equation (ii) is additive, removing any worker necessarily reduces the aggregate labor units for any given wage below the equilibrium level, generating a effective labor supply schedule with a steeper slope.

A Possible and Historical Remedy

One often overlooked part of the history of the labor movement is the concomitant history of organizations of the unemployed.[16] These institutions became popular during the economic turmoil in the early part of the 20th century. They first appeared during the minor recession in Russia around 1905-1906 as Soviets of the Unemployed and were largely organized by communists and anarchists primarily under the direction of the Russian Social Democratic Labor Party (RSDLP). They later appeared in the United States, Great Britain, and Canada (among other places) as Unemployed Councils during the 1930's depression largely under the directives of ComIntern.

These organizations, particularly in the 1930s, worked on three fronts. First, they served to unite employed and unemployed workers in class struggle through mutual aid and support in strikes and free cafeterias. Second, they pressured government officials for public works programs to counter the capitalists' *laissez-faire* agenda. Third, they agitated against evictions and other consequences of protracted unemployment. All of this short-circuited the exploitability of the unemployed (and the working class as a whole) by effectively raising their reservation wages.

In other words, in the refusal on the part of the unemployed to cross picket lines, and the refusal on the part of the employed to allow the unemployed to suffer the consequences of unemployment, this two-pronged union would effectively seek to shift the labor supply schedule for the entire labor force (S_N) to that of the presently employed (S_L). This move can be explained on the one hand by an increase in the reservation wage – that is, the wage at which a person will opt to provide work – of the unemployed and on the other hand by putting the employed into a position to bargain collectively.

Conclusion

Kalecki's "Political Aspects of Full Employment" has been interpreted in numerous ways. While Kalecki flippantly refers to the tumultuous relationship between bourgeois intransigence and economic reality as a "political business cycle," he does not appear to have in mind a mechanism akin to those derived in his other papers on business cycles. He also does not appear to have in mind a classless rational voter model of macroeconomic policy. He does not see the arbitrary

16 For a more thorough history of these, see Green & Isaacson 2012

nature of political gamesmanship as a mechanism to be modeled. Rather, as he makes clear in the last section of the article, it is a problem to be solved.

This solution, he argues, must arrive at full employment. However, Kalecki is careful to point out that this employment level does not have to result in mere make-work programs:

> "What the masses now ask for is not the mitigation of slumps but their total abolition. Nor should the resulting fuller utilisation of resources be applied to unwanted public investment merely in order to provide work. The Government spending programme should be devoted to public investment only to the extent to which such investment is actually needed. The rest of Government spending necessary to maintain full employment should be used to subsidise consumption (through family allowances, old age pensions, reduction in indirect taxation, subsidising of prices of necessities)."[17]

The advent of councils of the unemployed unequivocally achieved these goals. These unions have the potential to draw us closer not only the the abolition of involuntary unemployment, but towards the equitable abolition of work altogether.

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17 Kalecki 1943, 330

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