

Analyse the neoclassical concept of unemployment economics essay



The neoclassical approach to labor market analysis is based on the analysis at the microeconomic level. It uses the methodological tools of microeconomic theory to analyze the labor market, i. e. to explain how the balance salary is determined salary and the required and offered amount of work. It suggests that the labor market operates like any other market in which the fungible good is labor, which is regarded as one of the four production factors that are referred to economic theory (neoclassical or Keynesian theory).

According to the neoclassical theory, unemployment is voluntary. The term voluntary unemployment means, according to the neoliberal view, that the person is not willing to work in the wage offered and prefers to remain unemployed (because s/he hopes to find soon a better job - job search), or that the employer refuses to employ him because his salary can not be reduced due to national collective agreements. Both the first and the second case reflect the inability of the market to operate under perfect competition either because there are monopolistic trends in the labor market or because workers have incomplete information with respect to vacancies.

Consequently, the inflexibility of setting wages downwards and the lack of information lead to an unstable labor market equilibrium, i. e. in permanent unemployment. The solution promoted by the neoclassical theory is the creation of conditions for the existence of perfect competition, which will allow to the price-salaries mechanism to bring the market in equilibrium and eliminate unemployment.

Certainly the modern neoclassical approach for the labor market offered evener analysis on the rigidity of money wages and the lack of perfect

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competition in the labor market. The rigidity of money wages due, according to the theory of informal contracts (Azariadis 1975: 1183-1202, Baily 1974: 37-50) is due to the fact that wages and employment are determined at the micro level following an agreement of the company with employees that is achieved in an environment characterized by uncertainty and leads to an agreement among employees and employers for relatively low wages in exchange for the rigidity of money wages in periods of economic crisis.

According to the theory of efficient wages (Yellen, 1984, Perrot and Zylbererg, 1989 Perrot, 1984 and Plassard and Tahar, 1990) for the determination of the salary, it should not only be taken into account only the amount of work offered but also its quality as determined by the intensity of labor, labor productivity, etc.

The theory of negotiations (Calmfors and Driffill 1988: 16-61) is an effort of the modern neoclassical approach to explain why the labor market is not competitive and to understand the development of trade unions and collective bargaining in the developed capitalist countries. The outcome of these negotiations is the increase in unemployment due to the rigidity that exists in the labor market on wages and employment, because the unions protect their members (insiders) from those who are from outside (outsiders).

Finally, according to the theory of labor market imperfections, the labor market is not unique. The existence of institutional factors in the labor market led the modern neoclassical approach to link the problem of unemployment to the duality of the labor market. The reduced mobility

between the first sector of the economy (primary labor market) and the second sector of the economy (secondary labor market) is the cause of unemployment among people of the first, who refuse to engage in the work of the second.

An alternative approach to the duality in the labor market is the theory of Insiders - Outsiders (Lindbeck and Snower, 1989). According to this theory, people who are in the labor market (insiders) obtain and defend high wages through their unions, making it impossible for people who are outside the labor market (outsiders) to work.

The traditional neoclassical approach attempts to interpret unemployment as a phenomenon that is not related to development itself, but to external factors which it considers as a pre-given. It believes that unemployment is due either to failure to reduce salaries or to the existence of imperfections in the labor market. So, according to the neoclassical theory the weakness of the labor market to operate in conditions of perfect competition leads to unemployment. Hence the concept of flexibility highlights the key factor to solve all problems in the labor market. The employment policy, according to neoclassical theory, should aim to achieve greater labor market flexibility with the ultimate goal of creating the perfect competition, which will also lead to the solution of the problem of unemployment.

Summary of the neoclassical concept for employment policy

The neoclassical theory was not specific in terms of employment policy because it believed that unemployment was a temporary problem, whose solution should be sought on market forces. Therefore, the neoclassical

approach considered as most important the tackling of inflation through direct state intervention, and less important the reduction of unemployment, which would somehow happen automatically. According to the neoclassical view the reduction of inflation would stabilize the economy, which in turn would lead to economic growth and thus reduction in unemployment. Therefore, the neoclassical approach to reduce unemployment leads to a deadlock, since it regards unemployment as a secondary problem, which itself does not require systematic state intervention.

The refusal of the neoclassical theory to accept any financial support for the unemployed because it considers it as damaging is inherent with its perception of the role of state and the relationship of the economic with the non-economic. Considering that the economic (i. e. the allocation of the labor factor in the labor market and the production process) is completely independent and has nothing to do with the non- economic (i. e. the reproduction of the man and his labor force outside the area which the capital directly controls) directs state intervention only to the purely economic.

Criticism of the neoclassical theory of employment policy – Conclusion

The neoclassical theory explains the problem of unemployment as a phenomenon which is not related to the capitalist development, but to external factors, which are taken for granted. It considers that unemployment is due either to the failure to reduce the salary or to the existence of imperfections in the labor market. So, according to the neoclassical theory, the weakness of the labor market weakness to operate

in conditions of perfect competition result in unemployment. But the labor market can not be equated with any other product market because the commodity in the labor market is the labor force that differs from all other goods. Moreover, the value of labor power, except the costs for the entrepreneur is an element of active demand, it is a factor that contributes to the biological reproduction of the worker. Therefore, the salary can not be regarded as a mere price of a commodity, which could be compressed, depending on the supply and demand, below the survival lever of workers.

The role of the salary in determining employment and the unemployment level has been strongly denied by both the traditional Keynesian theory as well as by the modern economists meta- Keynesians. According to Keynes, the employment level is determined by the expected demand for the product and the technical conditions of production rather than wages (Arestsis and Skott 1995: 43). Therefore, the reduction of the unemployment rate will come primarily from the strengthening of effective demand and not by reducing wages.

Linking the level of wages to unemployment cannot by itself explain the maintenance of high levels of unemployment. Other factors should be taken into account such as the relationship of wages to productivity, the level of prices, etc. (Sachs 1983).

Considering, however, unemployment as a phenomenon which is due to the lack of proper operation of market forces, its continuing increase cannot be understood and also what is the role of labor today. The neoclassical theory does not refer to the organization of the production process, nor to how this

organization way affects the size of employment and hence unemployment. The emergence of new ways of organizing production which are based on flexibility, affects the level of employment and unemployment. The term flexibility refers to the two main aspects of the organization of production. First, it refers to the degree of adaptation of the production structure, which becomes possible due to the new forms of automation and secondly it refers to the degree of internal and external mobility, from task to task, both in terms of specialization and in terms of workplace conditions (Arestis 1986: 84). But although the neoclassical employment policy aims at the proper operation of the market, it lacks the conceptual tools to understand the ongoing changes in the productive system and the labor market.

A further element that the neoclassical theory ignores is industrial relations. Industrial relations does not mean only the legal side of employment, as the neoclassical theory understands it, but a network of institutions that govern both the production and the reproduction process. The analysis in terms of industrial relations is particularly important because the form of industrial relations determines and is determined largely by the specific accumulation status.

The concept of labor market flexibility, as used by the neoclassical theory, (Bentolia and Saint-Paul 1992: 1013-1053, Emerson 1988: 775-817), is not suitable for a scientific analysis of today ongoing changes. By contrast, the theorists of the school of " Regulation" use this concept in a fruitful scientific manner according to the concepts of self respect and status of employment relationship, to analyze the process of socialization through work. They try to explain the development process through the relationship between the

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regime of accumulation and how the way to regulate. The tenant relationship is defined as the set of conditions that permeate the use and reproduction of the labor power, namely, the organization of the labor process, the mobility of the workforce, the formation and method of using the income of employees. A specific type of employment relationship corresponds to any status of accumulation. In the status of meta-fordism corresponds a new type of employment relationship: the flexible tenant relationship (Boyer 1989: 55).

These analyses show that what characterizes the current era is the change of accumulation status and a mismatch between new ways of organizing the production process and the prevailing form of labor, which are seen in the problem of unemployment. The neoclassical approach for the employment policy is unattainable as long as it cannot understand the above changes.

In summary, it is observed that the ruling and the proposed employment policies are associated with a perception of the causes of unemployment. Consequently, the analysis of active and passive employment policies should be seen under this light.

According to neoclassical theory, the employment policy has to face the imperfections in the labor market. The Keynesian approach, considering that the labor market is imperfect by nature, it considers that the employment policy is a result of this apparent failure of the market to operate. Therefore, both the neoclassical and the Keynesian suggest that the employment policy is related to the optimal allocation of productive resources, especially of labor. The state, as an external subject, intervenes in the labor market to

facilitate the achievement of the optimal allocation of labor. Both active and passive employment policies aim at better distributing labor inside the labor market.

These two economic theories demarcate the sphere of production from the sphere of reproduction and believe that the concept of full employment coincides with the optimal allocation of labor (as input) in the labor market (Chletsos, 1996: 30).

The crucial question is whether employment policy (and other policies such as education policy, health policy, the policy of social insurance, etc.) is one of the components of social or this differentiation is false as far as a uniform policy on human entity exists.

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