

The Challenge of Unemployment



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Two articles on the "global crisis of unemployment" in the Advertiser, 3/20/94, made me realize that experts have yet to understand the causes of persisting unemployment in the global economy. Jeremy Brecher in the Advertiser likens the problem to the Great Depression of the 1930's and proposes a "Global New Deal" to solve the problem. Unemployment in the US, however, encompassing one fourth of all workers at its height in the 1930's, diminished to only 17 percent during the New Deal. It remained for World War II to bring it to an all time low of 3 percent.

There is no reason to suppose that the measures Brecher proposes for the world would work any better today than the social welfare and economic stimulus of the New Deal did in the US. As Gaffikin and Morrisey (4) point out, after the oil shocks of the 1970s "the normal Keynesian remedy to unemployment, higher public expenditure," was "discredited in the face of the simultaneous growth of prices and unemployment."

Jonathan Schell in the same issue of the Advertiser noted the plight of those "who seem simply to be left out of the global economy." Such people are to be found not only in the Third World and Eastern Europe, but also increasingly in the US. The book by Gaffikin and Morrisey (Frank Gaffikin and Mike Morrisey, The New Unemployed: Joblessness and Poverty in the Market Economy, London: Zed Books, 1992) is the most comprehensive study of unemployment in the developed part of the world that I have seen. They confirm the growing scope of the problem. Thus:

Unemployment continued to be large-scale even during periods of economic growth and, in most market economies, the unemployed became the biggest single group among the poor. (p4)

Between 1980 and 1982, [in the US] nearly 3 million [manufacturing jobs] were lost and...in the rest of the decade only half were regained. Though manufacturing retained approximately the same share of real gross national product over the period 1982-90, the improvements in productivity -- averaging annually 4.5 percent -- contributed to the need for less labour in this sector. (p57)

With the exception of the US all [the market economies surveyed] suffered higher unemployment in the 1980s than in the previous decade. Yet the 1980s was also a period of substantial economic growth. (p182)

They conclude (p47) that "there is little prospect of a substantial change in this situation. ...The recomposition of employment [since the oil shocks] created a demand for skills and forms of working which the registered unemployed could not supply." While "outside of the developed world, around one billion people are without any formal employment and, at best, are living at barely subsistence levels."

The causes of increasing unemployment in the developed world are not understood. Some refer to "structural unemployment," meaning a permanent loss of employment opportunities due to the structure of the economy. On the surface it appears that unskilled and semi-skilled labor is simply not needed to produce the wealth which a larger labor force produced in the past. If this is so, we need to know it for a fact. Otherwise, increasing productivity, upon which all solutions so far proposed are based, will prove only to heighten the problem, rather than solve it.

No one knows why the measures to promote full employment have failed to work. That is because no one understands how the global economy works. The most obvious aspect is the role of wages. Engels, who had practical experience in manufacturing, was the first to call Marx' attention to the importance of minimizing the wages paid to workers in order to maximize the profit of manufacturers. From this observation and the theory of the classical economists (itself going back through the scholastics to Aristotle) Marx came up with his well-known theory of "surplus value," defined as the value produced by labor minus wages.

Economists no longer believe it is possible, or worthwhile, to determine whether such a surplus exists. However, there is every indication that entrepreneurs continue to minimize unit labor value by every means possible with the goal of maximizing profits and even more important: competitive position in the market. It is this drive that appears to produce unemployment as we know it today.

Thus Massey and Meagan point out that "industry's drive to improve international competitiveness [assumes] three distinct forms -- rationalization, intensification and technical innovation -- each 'justifying' labour shedding (D Massey and R Meegan, The Anatomy of

Job Loss: The how, why and where of employment decline, London: Methuen, 1982; cited in Gaffikin and Morrisey, p. 20)." Certainly we have seen that happening almost weekly for several years in US news reports. For the first time in the US this shedding is being applied to many middle and upper-middle class positions. This trend directly affects tomorrow's college graduates. More on this below.

Unemployment can be short-term, cyclical/seasonal, long-term, or permanent. Short-term unemployment tends to go with part-time and temporary work. Both short-term and permanent unemployment are on the increase as part-time and temporary employment, de-industrialization, and de-skilling occur. These are aspects of structural unemployment, and are driven in large part by the need to minimize unit labor (and labor overhead) costs in an increasingly competitive world economy.

As mentioned, most solutions to unemployment call for increasing productivity. All economists, Marxists included, agree that a nation's productivity is directly related to its capital stock (Peterson, New York Review of Books, 4/7/94). Most also agree that productivity also depends upon the skill of the labor force (*ibid*). But it does not follow from these propositions that productivity will be directly related to a higher rate of employment (lower unemployment).

Thus, while it is true Japan, with the highest rates of capital investment and productivity in the world, has the highest rate of employment (97.7 percent) and the US a lower rate (94.8 percent) along with much lower productivity and investment; the other members of the G7 countries all have lower rates of employment than either the US or Japan along with intermediate levels of productivity and investment (see chart).

Chart I shows the link between investment and productivity by country. The percentage of unemployment for 1989 is given for each country. Taken from Peter G Peterson, "Entitlement Reform: The way to eliminate the deficit," New York Review of Books, 4/7/94. Unemployment data are from Gaffikin and Morrisey, p. 24).

These comparisons suggest that Japan's high employment rate has other explanations. Indeed, there is evidence to support this inference. The high rate of employment is due to a radically different organization of production in Japan, consisting of many small firms with up-to-date technology using much family labor. Japan's economy and capital accumulation derive much from its trade surplus with the US (as well as the rest of the world) and its saving rate derives from the absence of any social security system. Japan can therefore be considered a unique case, rather than proof that capital investment, productivity, and high rate of employment go together.

Japan also provides an exception to the argument that machinery displaces labor while increasing productivity, since Japan's way of organizing production puts the machinery at the disposal of family labor. Families have no incentive to lay off workers. Rather, they utilize machinery to increase production and hence profit. (Interestingly, this was the solution that artisans in the French textile trade attempted, but failed to achieve, when factory organization and machinery were gradually introduced in the 19th century: that is, they attempted to retain the benefits of increased productivity for themselves and their families during a series of uprisings, which were defeated by emerging large "manufacturers" and their upper-class political allies. (See William M. Reddy, The Rise of Market Culture: The Textile Trade and French Society, 1750-1900, Cambridge: University Press, 1984).

The suffering caused by unemployment is incalculable. As William Pfaff, LA Times Syndicate writer put it ("The call to Islam," Sacramento Bee, 4/2/94):

Without work, people are literally demoralized, but so are entire societies. Freud once remarked that work is the principal factor binding most people to reality. One works not only for one's self but nearly always in some kind of collective enterprise with a moral quality: to make a better life for one's children, if only that.

N. Adnett (Labor Market Policy, London: Longman, 1989, p. 172, cited in Gaffikin and Morrissey, p 5) states:

unemployment imposes suffering upon individuals, not just in terms of forgone consumption, but the associated low self esteem often results in behavioral and physical health problems and family/marital instability.

As Gaffikin and Morrissey (186) conclude:

By far the greatest risk of poverty is suffered by the long-term unemployed where a combination of demoralization, benefits erosion and social exclusion form the basic framework of their lives. The 1980s saw a recomposition of unemployment with an ever increasing proportion falling into the long-term category. The resistance of unemployment to economic recovery is largely explained by the low labour market opportunities for this group.

This increasing world-wide trend towards structural unemployment threatens the future of many who will read this. As Pfaff reported :

France has just endured nearly two weeks of often violent protest against government measures intended to promote youth employment. The emotional reality of the protests was denunciation of a future in which it seems that vast numbers may be deprived of meaningful work....

Most of those protesting were students, legitimately anxious about their future. Not since 1968 had such violent protests rocked France.

In conclusion, despite the studies cited in this article, I suspect we really do not know what is responsible for the growing global crisis of unemployment. Knowledge is always slow to catch up to reality. It is time we found out what causes unemployment in the global economy, so that we can imagine alternatives for our future. I can think of no more worthwhile challenge for today's graduate students.

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