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CAUSES FOR PERSISTENT UNEMPLOYMENT AND FLUCTUATIONS IN MONETARY ECONOMIES

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6.1

Capitalist economies follow different patterns of fluctuation. If we think of the rate of unemployment as a measure of the movements of the economy, we note that the patterns of fluctuation vary across time and across countries. After World War II, unemployment remained very low in all advanced capitalist economies up until the late 1960s, then started fluctuating around a much higher rate in the 1970s and 1980s. In certain European countries, the average rate of unemployment in the 1980s was significantly higher than the OECD average and much higher than what it was in the 1950s and 1960s.

What accounts for the differences in patterns of fluctuations and in averages around which economies fluctuate? There is no complete answer to this question, and the answer to it cannot be the object of this article. However, I do try to discuss issues associated with this general question. In particular, based on Keynes’s views on the properties of monetary economies, the article is intended to highlight the factors accounting for economic fluctuations.

The second section discusses the operation of barter economies to show that, in principle, the existence of time and money is not required to impede the possibility of isolated bargains and decisions determining real variables. Section 6.3 explores the properties of money that led Keynes to emphasize
the differences between barter and monetary economies. Section 6.4 examines Keynes's criticism of the classical theory. In section 6.5 the notion of involuntary unemployment is presented based on The General Theory's static equilibrium position. The factors accounting for fluctuations in monetary economies are discussed in section 6.6. Section 6.7 looks at Keynes's view on the causes of persistent unemployment. Section 6.8 concludes by arguing that current orthodox macroeconomic thought dismisses Keynes's view on the ineffective workings of market economies based on dogmatic grounds.

6.2. NOMINAL DECISIONS AND REAL OUTCOMES

In a barter economy, people exchange goods for goods or for promises to receive goods in the future. In particular, workers exchange human effort for goods. Let us take this wonderland one step further and assume that only one good exists. In such case, workers would work only enough to receive the amount of the good they want to consume and save. In this very special world, workers and firms would negotiate over the real wage (units of the good per hour of work) and firms would be certain about the amount to produce. As noted by Chick (1983, p. 294): "If workers are paid in kind, it is conceivable that they receive directly, as payment, the goods they wish to consume. In that circumstance, not only do employers know the demand implications of the labour they hire, but labour also knows the consumption potential of an hour's work, i.e. labour is demanded and supplied for a real wage which is known to both parties."

The situation is different if there is more than one good. For then, if workers were paid in kind, they would have to trade the goods in which they are paid for the goods they want to consume. In this situation, a vector of market prices would arise from the interaction of supply and demand for the goods at each period. Assume that firms produce only to pay their respective workers. Firms would still be sure of selling their output, but workers would not be sure about the purchasing power of their wage the relative value of the basket of goods they receive at the end of the period. However, if the firm pays its workers in kind and sells the surplus in the market, it will not be sure of the price for which the goods will be sold. Hence, in this circumstances, firms would also face uncertainty.

The multigoods system invites the appearance of monies: indeed, money first appeared to facilitate trade. A monetary economy is primarily one in which goods are traded for money. Labor is traded for money, and like all other prices, the money wage is denominated in money terms. Firms pay