A Labor Paradigm for All Seasons

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I. Introduction

Our task is to provide an in-depth assessment of W. H. Hutt's *The Theory of Idle Resources*, published in 1939, almost sixty years ago. Thus, this essay can be thought of as a retrospective review article. There is at least one major advantage to a project of this sort. We have the luxury of hindsight. We know what has happened since Hutt's book was published and, therefore, we can do more than just recite the specifics and themes of his effort. We can ask the broader questions, especially the most important one in the scholarly world, "How has it stood the test of time?"

II. The Tenor of the Times

In order to place *The Theory of Idle Resources* in perspective, a brief description of the milieu in which it appeared is appropriate. 1939 is an intriguing year. It marks both the end of a decade of economic trauma, the years of the Great Depression, and the formal beginning of the cataclysm known as World War II. These events combine to make it a significant time in the world of political and intellectual affairs. On the political side, the 1930s can be thought of as accelerating the rise of the modern state. In some jurisdictions, the phenomenon takes the form of the stern totalitarianism of the regimes that dominated such countries as Germany, Italy, the Soviet Union, and Japan. Elsewhere, what emerges is a softer, paternalistic form of totalitarianism that involves a wide variety of government forms of intervention in individual decision making. The rationale for the latter was often founded in the desperate economic circumstances of the decade. It was a time of crisis, and a crisis mentality can persuade people to accept forms of government interference in their daily lives that they otherwise would find intolerable.

Much of the paternalistic totalitarianism of this time focused on labor market outcomes — jobs and wages. In the United States, for example, one of the major by-products of public policy experimentation in the Great Depression years was an increase in the economic and political significance of trade unions. A series of legislative initiatives culminated in the National Labor Relations Act of 1935 (the Wagner Act) which conferred formal legal standing on labor unions. One of the justifications for this legislation was a naive form of underconsumptionist thinking that was quite prevalent in the 1930s, the idea that increases in money wage rates would stimulate spending on consumer goods and increase employment. In the Policy and Findings
preamble to the act, it is asserted that the "unequal" bargaining power in nonunion situations "tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners in industry" (Miller, 1948, p. 569).

Accompanying the granting of privilege to labor unions in the United States during the 1930s were a series of other interventions in the labor market — minimum wage laws and the institution of social insurance schemes are examples — designed to redistribute income from employers to workers. Certainly, by the end of the decade, a substantial government presence in economic affairs was widely accepted, in the United States in particular and in the West in general.

Developments on the political front during the 1930s were related in a synergistic fashion with the cultural environment of the time. Of course, the dominant intellectual event of the era was the publication of John Maynard Keynes's *General Theory of Employment, Interest and Money* (1936). By 1939, it had acquired widespread popularity. In 1947, future Nobel laureate Paul Samuelson (1947) reminisced about the era as follows: "The *General Theory* caught most economists under the age of 35 with the unexpected virulence of a disease first attacking and then decimating an isolated tribe of south sea islanders." What would later be described as The Age of Keynes was in its infancy — and it was a strong and lusty child.

The heart and soul of the intellectual framework espoused by Keynes is a repudiation of the notion that there is an underlying tendency for markets to produce equilibrium conditions in an economy that are consistent with the full employment of resources. His major focus was on the behavior of money wage rates in a modern economy, especially the linkage between money and real wage rates. At one point in the *General Theory*, he speculates that money and real wage rates move in opposite directions, (Keynes, 1936, pp. 9-10) implying that normal market adjustments to the presence of a surplus of labor are destabilizing, not stabilizing. Declines in money wage rates would increase real wages, which even Keynes admits would reduce employment. 5

Keynes's views on the relationship between real and money wage rates seem to be a fairly straightforward empirical proposition. However, there are indications that his attitude on this matter involves more than just a simple observation on the realities of the world. At another point in the *General Theory*, he makes the absolutely astounding statement, "It can only be a foolish person who would prefer a flexible wage policy to a flexible money policy" (Keynes, 1936, p. 268). The juxtaposition of the notions of flexible wages and flexible money as policy choices reflects his conviction that real wages can be reduced by increasing the price level through the use of monetary and fiscal policy. What this remark reveals is a normative predisposition against flexible money wage rates on the part of Keynes. This is confirmed in other passages from the *General Theory*, especially one at the beginning of the concluding chapter: "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income" (Keynes, 1936, p. 372).