The Palgrave Macmillan

Labour

Jean Vercherand

A Heterodox Approach

Labour

Also by Jean Vercherand

UN SIÈCLE DE SYNDICALISME AGRICOLE: La vie locale et nationale à travers le cas du Département de la Loire

ÉCONOMIE POLITIQUE: Une articulation entre la théorie néoclassique, Marx, Keynes et Schumpeter

LE TRAVAIL: Un marché pas comme les autres

Labour

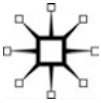
A Heterodox Approach

Jean Vercherand
INRA CESAER, Dijon, France

Translated by

Keith Hodson

palgrave
macmillan



© Jean Vercherand 2014

Softcover reprint of the hardcover 1st edition 2014 978-1-137-37360-1

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No portion of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, Saffron House, 6–10 Kirby Street, London EC1N 8TS.

Any person who does any unauthorized act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The author has asserted his right to be identified as the author of this work in accordance with the Copyright, Designs and Patents Act 1988.

First published 2014 by
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

Palgrave® and Macmillan® are registered trademarks in the United States, the United Kingdom, Europe and other countries

ISBN 978-1-349-47668-8 ISBN 978-1-137-37361-8 (eBook)

DOI 10.1057/9781137373618

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

A catalog record for this book is available from the Library of Congress.

« L'incompréhension du présent naît fatalement de l'ignorance du passé »

("Misunderstanding of the present is invariably due to ignorance of the past")

Marc Bloch (1886–1944), historian, co-founder of the *Ecole des Annales*, and resistance fighter shot by the Nazis. In *Apologie pour l'histoire ou métier d'historien* (1949), Editions Armand Colin/ Cahier des Annales, 3. Paris: Librairie Armand Colin, 2nd ed., 1952, p. 27.

This page intentionally left blank

Contents

List of Illustrations xiii

Preface xv

Acknowledgements xix

Glossary xx

General Introduction **1**
Two key hypotheses 3
Structure of the work 6

1 The "Social Question" since the 19th Century **9**
Introduction 9
1 An evidently asymmetrical power relationship 10
1.1 An asymmetry already acknowledged by Adam Smith 10
1.2 A contemporary manifestation of asymmetry: stress and harassment at work 12
1.3 An asymmetry that lawmakers and jurists have had to acknowledge 13
1.3.1 The contract of engagement of service or the fiction of free will 13
1.3.2 The distinction between dependent and independent labour 15
1.3.3 The nature of the employment contract: a relation of subordination by which an employee "exchanges a freedom against a security" 16
1.3.4 Labour law: the employer's de facto power within a legal framework 17

2 The recurrence of economic crises during the industrial era 17
2.1 Crises of short duration 17
2.2 Long-term fluctuations 20

3 Working time and wages during a long cycle 21
3.1 The extension of working time at the beginning of the Industrial Revolution 21

3.2 The irregular division of gains in productivity between income and leisure 22

4 Workers' claims 25
4.1 A dominant theme: higher wages 25
4.2 The "special" place occupied by the reduction of working time 26
4.3 The goals targeted by the reduction of working time 27
4.4 Opposition from the employers 32
4.5 The criticisms made by economists of the reasoning of the Labour Movement 34
4.6 The will to change society 39

5 Public intervention in the market 39
5.1 The dawn of specific labour laws (before 1914) 40
5.1.1 The limitation of working time 40
5.1.2 From civil equality to the right of coalition 42
5.1.3 The State intervenes at last but with shortcomings 43
5.2 From the State as "simple arbiter" to the State as "orchestrator" (after 1914) 44
5.2.1 From the goal of reducing working time to the establishment of a minimum wage 44
5.2.2 The decisive recognition given to collective bargaining 45
5.2.3 The recognition of the major principles 46
5.2.4 Strong imbrication between legal and contractual procedures 46
5.3 Regulations governing working time today in France 47
5.3.1 Part-time work 47
5.3.2 Overtime 48
Conclusion: erroneous and fallacious reasoning? 50

2 The Neoclassical Model of the Labour Market 53
Introduction 53
1 The theory of labour supply 54
1.1 The hypothesis of optimal choice 54
1.1.1 The equalisation of the marginal utility and disutility of labour 54
1.1.2 The labour/leisure trade-off model 56
1.2 The individual labour supply curve 58

1.3 The interpretation of the historical evolution of working time 59
1.4 Global labour supply on the market 61

2 The theory of labour demand 62
2.1 Labour demand of a competing company 62
2.1.1 The case where labour is the only variable factor 62
2.1.2 The case where labour is linked to other variable factors 65
2.2 The global demand for labour on the market 65

3 The equilibrium of the labour market, its modifications and distortions 66

4 The relaxation of the hypotheses underlying the basic neoclassical model 69
4.1 The different hypotheses brought into question 70
4.2 Wage negotiation models 73
Conclusion: unconvincing models of the labour market 74

3 The Asymmetry of Bargaining Power 75
Introduction 75
1 The consequences of this asymmetry of power on labour supply 78
1.1 Labour supply and its situation of dependence 78
1.2 Individual labour supply when an employer decides to modify its duration 80
1.3 Global salaried labour supply in a situation of dependence 82
1.4 Comparison with other markets characterised by asymmetries of power 85

2 A deeper appreciation of labour demand 89
2.1 Long-run demand for labour by a company 89
2.2 Demand for employees by a company 91
2.3 Long-run labour demand on the market 92

3 Equilibrium and disequilibrium of the labour market in a situation of asymmetric power 94
3.1 Maximising profits by extending working time 94
3.2 Maximising profits by not channelling gains in productivity into the wage rate 96

3.3 Crises of overproduction/underconsumption (or overinvestment) 97

4 The "rigidity" of the real wage rate 99

Conclusion: a social history that becomes intelligible over short periods 104

4 The Dual Impact of Technical Progress 108

Introduction 108

1 The apparent contradiction between short- and long-run consumption functions 110

1.1 The Keynesian hypothesis of the concavity of the short-run consumption function 110

1.2 The linearity of the long-run consumption function 111

1.3 The wrong answers of this contradiction 113

1.3.1 Post-Keynesian reformulations 113

1.3.2 Permanent income and life cycle theories 114

2 The specific role of innovations in consumer goods 115

2.1 The effect of these innovations on the consumption utility function 116

2.2 The effect of these innovations on the trade-off between consumption and saving 119

2.3 Other determinants of consumption behaviour 121

2.3.1 The variation of the production-consumption of public goods 121

2.3.2 The structure of income distribution in society 121

2.3.3 The value of assets 122

2.3.4 Real interest rates 122

2.3.5 Factors of uncertainty 123

2.3.6 Demographic factors 123

2.3.7 Natural and cultural factors 123

2.3.8 Available free time 124

3 The relative effects of technical progress on growth and the use of factors 124

3.1 Interaction between the behaviours of production and those of consumption 124

3.2 The implications for the theory of growth 128

3.3 Specific implications for labour 129

4 The irregularity of growth 130
4.1 Juglar cycles 130
4.1.1 The role of innovations 130
4.1.2 The scenario of short-run business cycles 131
4.2 Kondratieff waves or supercycles 133

5 Comparing the facts 135
5.1 The beginnings of the Industrial Revolution 135
5.2 The Post-War Boom and its demise 138
5.3 Working time and Malthusianism 142
5.4 The pseudo explanations for mass unemployment 144
Conclusion: a social history that becomes intelligible over a long period 145

5 The Normative Implications for Labour Policies 148
Introduction 148
1 The combat against unemployment 149
1.1 Short-term unemployment 149
1.1.1 Prevention 149
1.1.2 Absorbing existing unemployment 150
1.2 Long-term unemployment 150
1.2.1 Prevention 150
1.2.2 The absorption of existing unemployment 151

2 The effects of neoconservative economic policies confronted by long-term unemployment 155
2.1 Labour is a homogeneous factor: the return of short (or average) run cyclic crises 155
2.2 Labour is a heterogeneous factor: the aggravation of income inequality 156

3 The effects of increasing employment in the public sector 158
Conclusion: equal sharing of added value and labour demand 159

6 Is a Synthesis of Economic Theories Possible? 162
1 The neoclassical approach: the main fault 162
2 The Keynesian approach: an unfinished critique 165
3 The Marxian approach: an unfortunate isolation 167
4 The Schumpeterian approach: belated recognition 172

General Conclusion 175

Notes 183

References 203
Economic and social history 203
Political and historical economics of economic thinking 205
Economics of labour 206
Economics of growth 207

Index 209

List of Illustrations

Figures

1.1	Real labour supply curve in the long-run	23
2.1	The basic neoclassical representation of the labour market	54
2.2	The equalisation between the marginal utility and disutility of labour	55
2.3	The trade-off between labour and leisure	56
2.4	The determination of the individual labour supply curve	58
2.5	The evolution of annual working time in industry in France	60
2.6	The determination of the labour demand curve	63
2.6(a)	Value of total product	63
2.6(b)	Value of average or marginal product	63
2.7	The supposed flexibility of the labour market	67
2.8	Wage rigidities and unemployment	68
3.1	The trade-off between independent and dependent labour	79
3.2	Global labour supply, N, in the market	80
3.3	Effect of working time imposed on labour supply	81
3.4	Labour supply subordinated to the employer	83
3.4(a)	Company with two employees (or two categories of employee)	83
3.4(b)	Variation of the volume of work supplied by each employee	83
3.4(c)	Total labour supply of two employees (or two categories)	84
3.5	Subordinated labour supply takes the shape of a range of supply	85
3.6	Relation between a company's supply of goods and its labour demand	91
3.7	Relation between production function and the supply of a good and labour demand functions	93
3.8	Strategy of maximising profits by lowering the wage rate and extending working time	95
3.9	Strategy of maximising profits by not channelling gains in productivity into the wage rate	96

3.10 The "rigidity" of the real wage rate in the case of variation in global demand 100
3.10(a) Adjustments on the market for commodities 100
3.10(b) Adjustments on the labour market 100
4.1 The contradiction between cross-sectional (short-run) views of consumption functions and the long-run 112
4.2 Effect of innovations in consumer goods on the income utility function assigned to consumption 118
4.3 Effect of innovations in consumer goods on the propensity to consume 120
4.4 The relative effects of technical progress on labour demand 126
4.5 The relative effects of technical progress on production and consumption 127
5.1 The effects of neoconservative economic policies confronted by long-term unemployment 156
5.2 Residual demand for labour and casual work 157
6.1 Relation between the classical theory of labour value and the neoclassical theory of prices and costs 171

Tables

1.1 Poster calling on workers to demonstrate on 1 May 1890 28
1.2 Two centuries of workers' rights in France 49

Preface

I want first to defuse any potential misunderstanding. Readers skimming quickly through this work may get the impression of being confronted by the figures and concepts of orthodox economics. They may also think that there is perhaps a contradiction between the book's title and its contents. This is not the case, but a preliminary explanation is necessary.

A huge paradox exists in economic science. On the one hand, neoclassical theory now predominates throughout the world, although its capacity to explain – in particular, to explain the labour market – is poor or at least very limited. On the other hand, heterodox theories (I think first and foremost of the institutionalists and regulationists) remain in the minority, whereas they rely on a far more concrete description of historical reality. What is the reason for this paradox? In my opinion, it is due to the fact that neoclassical theory is based on a set of concepts – a toolbox corresponding to the basics of microeconomics – whose capacity for analysis and application has no equivalent. The problem is to know how to use these tools to solve which question and with what hypotheses, since it is not the tools that make a theory but the way in which they are used.

The events of May 1968 in France led me to specialise in economics in order to understand the society in which I lived. I quickly dismissed neoclassical theory without really understanding it; it appeared far removed from reality, a reality I experienced by working on my parents' farm and in a factory during my studies. I then began studying Marx, which led me to focus on the regulationist school that was influential in France; above all, I attached great importance to history (especially the *École des Annales*, with Marc Bloch and Fernand Braudel, among others).

Why history? The great difficulty that confronts any scientific approach in economics and social sciences when one is validating or rejecting a theoretical hypothesis is that it is rarely possible to perform an experiment, all other things being equal. Yet even failing this, one can still study the actions of human beings in space and time; that is, study the two dimensions of reality: the geographic and the historical. If one must choose one of these two dimensions, history should be preferred, as it lets one go beyond the intellectual, ideological and political modes that are specific to each period and spread through space due to the

effect of mimetism. As the same political choices can often be found in each country, the interest of geographical comparison is lessened. Furthermore, a scientific approach is not limited to applying a hypothetical-deductive procedure to a problem to be studied. It also includes an inductive approach (with multiple echoes between the two), prior to the formulation of explanatory hypotheses. This inductive approach consists in renewing observations of the problem to be studied in time and space and under different angles by calling on data from other disciplines. As we all wear theoretical spectacles, this reduces the risks of reality-related strabismus. In sum, geographical and, above all, historical analyses are essential for conducting a trial by verification in the hypothetical-deductive approach in the economic and social sciences, and they are equally so for constructing pertinent research questions in the inductive approach.

Thus, after working in the field of historical studies, I decided to return to economics at the beginning of the 1990s. It was then that, by reading and rereading *Economics* by Paul A. Samuelson and several good manuals on microeconomics (*Microeconomic Theory*, by J. P. Gould and C. E. Ferguson; *Éléments de microéconomie*, by P. Picard), I discovered the following:

(1) Classical and neoclassical concepts can be linked. (The contribution of neoclassical economists consisted in reasoning the notions of utility and cost not only in terms of totality and average – which is what the classical economists did – but also at the margin, with notions of marginal utility and marginal cost. And with regard to cost, it mattered little whether they were measured in terms of an abstract notion of labour, as did Marx, or in monetary units. It is simply a question of the choice of measurement units.)
(2) It was possible to go back over Marx's economic reasoning much more precisely and completely on the basis of neoclassical concepts. In other words, just as Marx (and Sismondi before him) built a heterodox theoretical corpus based on classical concepts (inherited from Adam Smith and David Ricardo), a priori neoclassical concepts could also be used for this purpose.

For example, in the different editions of *Economics*, Samuelson for a long time quoted an old workingman's saying: "Whether you work by the week or the day, the shorter the work the better the pay." By quoting this saying – without justifying its presence – Samuelson was suggesting that the reasoning put forward by workers had a kernel of truth, in that they

sought to situate themselves on the labour demand curve of companies to collectively maximise their salaries. Indeed, in the 19th century, before the introduction of collective bargaining, the labour movement had repeatedly organised offensive strikes aimed at the reduction of working time to raise global wages during the expansionary phase of an economic cycle. This aim met with total incomprehension from orthodox economists. On the contrary, Marx considered it the most important goal for the labour movement. I use microeconomic tools in this book to demonstrate that the labour movement's drive for shorter working time can be perfectly well validated, but I also show that it has limits.

To my mind, heterodox economists, whose conclusions and way of approaching things (especially their capacity to remain open to the work of the other disciplines of the humanities) I often share, are mistaken in rejecting neoclassical theory wholesale, since the tools it employs can prove very useful for strengthening their analyses and giving them more authority, especially for explaining the recurrence of public regulation in certain markets.[1] Conversely, most orthodox economists have become so mesmerised by mathematical tools that they have all but abandoned any inductive work of examining reality, placing it in perspective in space and, above all, in time. The result has brought about the impoverishment of the issues dealt with by research in economics and a rift between economics and the other disciplines of the humanities.

Thus, this work's main objectives, through an attentive examination of economic and social history, are (1) to account for the historic recurrences of the labour market from the standpoint of economics, especially its conflictual nature, with demands for better wages and shorter working times and the public intervention these demands have brought; this is something orthodox economic theories fail to do, and heterodox theories give only cursory attention; (2) to formulate normative recommendations for regulating the labour market.

After concluding this research, it is my conviction that most economists reason with

1) *a false or biased perception of the labour market* (in this case supply): false for all the economists of neoclassical inspiration who make no distinction between a salaried employee and an independent worker regarding labour supply; biased in Keynes and his heirs insofar as they have not used the most pertinent argument in riposte to the neoclassical theory of labour supply (this is the first hypothesis developed in this book);

2) *a false or partial perception of the determinants of growth*: false for all the orthodox economists, especially supply-side ones who follow the reasoning of Say's law ("supply creates its own outlets"); partial in Keynes and his heirs in that they incorporate only short-term effects in their reasoning on growth (this is the second hypothesis of this book).

Readers familiar with the work of Karl Polanyi – much in vogue during recent decades – will recognise a link between my approach and his. However, his economic analysis of the labour market does not go very far. Today, it is mainly economists who dictate injunctions to political decision makers regarding the labour market and who are listened to most. The social and political stakes of this discipline are also considerable. When all is said and done, my analyses and normative and political conclusions range less widely than those of Polanyi but are more specific where the labour market is concerned.

This book, aimed at English-speaking readers, is a fully revised and amended edition of a work, published in French in 2006 by the Presses universitaires de Rennes, bearing the title *Le travail: Un marché pas comme les autres*. In comparison to the French edition, the present one includes a certain number of historical additions and, above all, improvements in the form given to the presentation of arguments, which remain the same in substance. The few modifications or additions affecting the substance concern the interpretation of long cycles, known as Kondratieff waves, and the interpretation of the shape of the individual labour supply curve.

Note

1. A French regulationist economist, Denis Clerc, wrote of my manual on micro- and macroeconomics that he detected "the art of judo applied to economics: he uses the strengths of his adversary to place them in difficult situations" (*Alternatives économiques*, no. 232, January 2005). It was both a nice and a perspicacious way of describing my approach.

Acknowledgements

I want to express my gratitude to all those who have contributed in different ways to the publication of this work: Presses universitaires de Rennes for the French edition; Palgrave Macmillan for this, the English edition; my former fellow professors at AgroSup Dijon, Jean-Pierre Boinon and Jean-Christophe Kroll; my colleagues at the INRA-CESAER Dijon research unit, Claude Compagnone, Eric Doidy, Nathalie Joly, Bruno Lémery, Pierre Morlon, Sandrine Petit and Laura Sayre; Keith Hodson, who translated the book into English; and my wife, Gisèle, for her overall support and especially her aid in her capacity as legal expert.

Glossary

AC	average (total) cost (or unit cost)
AVC	average variable cost
C	consumption
ε	elasticity
FC	fixed cost
R	income
r	income unit
I	investment
t	leisure time
MC	marginal cost
mpc (or c)	marginal propensity to consume
U_m	marginal utility
Y	national income or gross national product
Π (or π)	profit
S	saving
St	stocks (or inventories)
T	time unit
TC	total cost = VC + FC
U	utility
VAP	value of average product
VMP	value of marginal product
VTP	value of total product
VC	variable cost
L	volume of labour (on labour market)
w	wage rate
l	working time (or labour)

General Introduction

Labour is one of the rare markets[1] that have almost always given rise to specific, intensive and recurrent public intervention since antiquity. Evidence dating as far back as the Code of Hammurabi (17th or 18th century BCE) shows that it was then, as it still is, one of the rare markets whose prices are subject to scaling. In Rome the labour market was governed by different rules that prefigured the guilds of the European Middle Ages. These guilds officiated for seven centuries, pronouncing for each trade a set of rules which, today, can be associated with different branches of law, such as those governing competition, consumption and labour.[2]

At the end of the 18th century, the first industrial countries totally deregulated their labour markets, thereby bringing to an end this very long history of legal supervision. The guilds were suppressed (France) or else emptied of their substance (United Kingdom). Coalitions, meaning strikes and what were later to be called unions, were declared illegal as they were considered to be barriers to free trade and competition on the labour market. But this market, which appeared a priori to satisfy the conditions of pure and perfect competition, became a source of conflict. Economic crises – that were very rapidly perceived by contemporaries as crises of overproduction occurring approximately every ten years – threw part of the working population into distress and misery. Claims for higher wages and shorter working times became recurrent.[3] Despite prohibitions, strikes occurred, sometimes degenerating into conflicts, riots and even insurrections when the authorities intervened to uphold the law. The history of the labour market in all industrial countries is littered with violent and tragic events, a phenomenon that cannot be considered normal for a market. In parallel, ideologies emerged that criticised economic liberalism for

some and economic and political liberalism for others and aimed at solving this "social question". These ideologies ranged from socialist and anarchist thinking to the neocorporatism of Catholic socialists[4] and included intermediate currents of thought such as social democracy and Christian democracy that called into question neither private property nor the major liberal principles but deemed it necessary to protect workers. The two great tragedies of the 20th century – communism and fascism (in its different forms) – did not occur by chance. All said and done, analysis shows that they stemmed from the conflictual issue of the labour market.[5]

Finally, labour laws have been formulated in every democratic country in order to – so says the legislator – pacify labour relations. It is noteworthy that these laws do not concern the self-employed or work done at home, only salaried work. These laws are based on a limitation of working times (i.e. supply) for children, women and all employees. Furthermore, attempts to reach agreement (or coalition) between employees are no longer considered illegal (but can lead to breach of contract and dismissal) and have become a constitutionally acknowledged right.[6] Lastly, governments have imposed a minimum wage in certain countries and, above all, generalised collective bargaining regarding working conditions and pay so as to compensate for the position of weakness of one of the parties vis-à-vis the other, in this case the employee versus the employer.[7]

Therefore labour is one of the rare markets for which the supply of the actors is restricted by law;[8] it is the only market in which monopolistic behaviour (coalitions) is legal and the only one in which conflicts (strikes) are so consubstantial that they give rise to censuses by official statistics and, consequently, to international comparisons. Once again, these facts illustrate that this market is in no way banal or innocuous!

The aim of this work is, above all, to understand

- why the "free" market for labour, as it was organised at the end of the 18th century, has become so conflictual, with recurrent claims for higher wages and shorter working times;
- why legislators have come to accept the monopolistic behaviours of the actors involved (coalitions) and have formulated specific laws for salaried employment, starting specifically with the limitation of working time.

Let us be quite clear in this respect; by anticipating what will unfold further on in this work, neither the new microeconomics of labour nor

the general trend of the different contemporary theories proposed really allow taking this hugely significant singularity of the labour market into account.[9] Any economist with knowledge of the history of the labour market is well aware of this fact. What is more, the large number of economic models available constitutes an implicit avowal and makes the labour market one of the most controversial areas of economic analysis as a whole.

Two key hypotheses

To answer these questions, we start off with the facts, in particular the recurrent claims of workers' movements regarding wages and, above all, working times. The reduction of the latter – as will be seen further on – has been proposed for three major reasons, giving rise to highly specific actions carried out in clearly defined periods that sometimes overlap:

- To obtain more free time to rest, improve family life, cultivate oneself and become an active citizen in the community (this objective is common to every case);
- To obtain higher wages – that is to say "work less to earn more" and thus regulate the so-called Juglar cycle. This objective gives rise to offensive strikes during the expansionary phases of this short-run economic cycle;
- To combat unemployment – that is to say "work less so that there's work for all" – since the productivity of labour is deemed to increase more rapidly than consumption. This objective, contrary to the previous one, rarely gives rise to strikes, even defensive ones, but much more often to campaigns of claims that culminate during the downturns of long cycles called Kondratieff waves (or slow growth), such as the campaigns in favour of the ten-hour working day in the 1840s, the 8-hour day in the 1880s and 1890s, the 40-hour week in the 1930s and, lastly, a new reduction of working time in the 1980s and 1990s that resulted in the 35-hour week in France.

These claims regarding wages and working times have been satisfied many times since the 19th century by private enterprises and the public authorities.

Therefore, to take these facts into account and give a direct answer to the questions asked initially, we introduce two central hypotheses in the dominant economic corpus; that is to say, the basic or standard neoclassical model.