INVOLUNTARY UNEMPLOYMENT

By William Barnett II* and Walter Block*

Abstract:

Our claim is that in the purely free enterprise system, there can be no such thing as involuntary unemployment, as long as wage demands are in accord with expected productivity, as perceived by the potential employer. Seeming counter examples are shown to violate one or more of these conditions. Nevertheless, there is great resistance on the part of professional economists to this axiomatic claim. The second part of the paper attempts to probe the cause of this resistance, and finds in praxeology, a rejection of Keynesian economics and psychological analysis, the cure for it.

Key words:

zero unemployment, involuntary unemployment, indifference, praxeology, psychology, psychologizing, Keynesianism, economic scarcity.

JEL classification:

E24, J6, J64

I. Introduction

Our claim is that in the purely free enterprise system, there can be no such thing as involuntary unemployment, as long as wage demands are in accord with expected productivity, as perceived by the potential employer. In section II, we survey the Austrian economics literature and this question and demonstrate that seeming counter examples violate one or more of these conditions. Nevertheless, there is great resistance on the part of professional economists to this axiomatic conclusion. Section III

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of this paper is thus devoted to probing the cause of this resistance. We offer as explanations failure to appreciate praxeology, vestiges of Keynesianism and psychology. We conclude in section IV.

II. Involuntary unemployment?

When Mises (1998), Rockwell (2006), Rothbard (2004), Hoppe (2007) propose that there cannot be involuntary unemployment on an unhampered labor market, they simply mean that labor is a scarce good and like all scarce goods has a market-clearing price at which all sellers can find a willing buyer and conversely. On the labor market this implies that a worker is *always* employable or able to sell his labor services as long he is willing to work at a wage rate that does not exceed his *prospective* marginal revenue product to a firm, i.e. the addition to the total revenue of the firm that it *anticipates* hiring him.

Says Mises (1998, 599) in this regard:

> Unemployment in the unhampered market is always voluntary. In the eyes of the unemployed man, unemployment is the minor of two evils between which he has to choose. The structure of the market may sometimes cause wage rates to drop. But, on the unhampered market, there is always for each type of labor a rate at which all those eager to work can get a job. The final wage rate is that rate at which all job-seekers get jobs and all employers as many workers as they want to hire. Its height is determined by the marginal productivity of each type of work.

In the view of Rockwell (2006):

> When we speak of unemployment, we cannot be talking about a shortage of jobs to be done. There is always work to do at some price. For that reason, there can be no such thing as involuntary unemployment in a free market. Everyone who wants to work is working and everyone who does not want to work is in that position by choice. This is a truth that follows from the universal reality of scarcity.
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> There are only two reasons for unemployment: legal restrictions that forbid contracts from forming (France has plenty, and the United States does too) and price restrictions that prevent the market for labor from clearing properly (France has that

too, as does the US). In other words, involuntary unemployment is always and everywhere brought about by the same cause: government restriction of the market.

And in Hoppe's analysis (2007, footnotes omitted):

Employment will increase and wages rise so long as entrepreneurs perceive existing wages as lower than the marginal value product (discounted by time preference, which a corresponding increment in the employment of labor can be expected to bring about. On the other hand, unemployment will result and increase so long as a person values the marginal value product attained through self-employment or the satisfactions of leisure more highly than a wage that reflects his labor services' marginal productivity. In this construction there is no logical room for such a thing as "involuntary unemployment."

A person is not employed, that is, not working as a hired laborer, either because he prefers leisure or because he is self-employed. In either case the person is unemployed voluntarily. But may it not be true that, on the free and unhampered market, someone is "unemployed" in the modern sense, that is, he is seeking work and cannot find a job? But such a construct raises many problems. Thus, I may be seeking a position as president of Harvard University, and this employer, for some obscure reason, may refuse to hire me for that post. We could say that I am "involuntarily unemployed," but this would distort any sensible meaning of the term.

In any wage agreement, as in any exchange on the free market, *both parties* must participate willingly in the exchange, that is, both must participate voluntarily. If half of the labor force should take it into their heads that each of them should be hired as president of Harvard, and each insists on this employment and no other, then indeed half of the labor force minus one person will be permanently and "involuntarily" unemployed. But is this, as Keynes would have it, a failure of the free market, or is it a failure of the mental processes and values of those laborers? And since this problem is clearly a failure internal to the workers themselves, we must conclude that such unemployment is "voluntary" in the realistic sense that it is the consequence of the internal mental processes and choices of those workers, even though each would "voluntarily" prefer to be president of Harvard rather than to be without work.

Rothbard (2004, 780) puts the matter very succinctly:

"… there can be no involuntary unemployment in a free market…"

The case of physically or mentally handicapped individuals does not contradict the proposition because their expected MRP may well be zero or negative in all endeavors, meaning that their labor services are not scarce.[1] Nor does the fact that an individual who is laid off from a job is

[1] In such cases, we would have to modify our main contention to incorporate the possibility of negative wages. For example, if a man's expected productivity were minus $2.00 per hour, we could expect him

not instantaneously re-employed contradict the proposition. The worker could have offered to work for a nickel an hour or some other low wage for the firm that laid him off, the local McDonald's, or doing domestic chores or errands for his neighbors and he would be re-employed in short order (assuming his expected MRP exceeded $.05 per hour). More realistically, markets are temporally separate in our world, meaning that the fact that he had to wait until the next day because labor markets do not operate at night or wait until he traveled to a prospective new employer does not contradict the proposition because where there is no market, buying and selling are necessarily absent.

Third and finally, the proposition is not falsified by the fact that prices in labor markets are never the final prices of a fictional final equilibrium or state of rest. The economy never achieves a final state of rest and a structure of final prices. This does not mean, however, that prices actually paid in real markets are not market clearing prices in the Mengerian sense. The fact that a seller withholds some of his stock of goods or a laborer decides to pass on an employment offer and keep searching because the prevailing market price does not meet his expectations is fully consistent with market-clearing and full employment in the labor market. It is a speculative and voluntary refusal to exchange that is fully consistent with a dynamic view of supply and demand curves which both include speculative elements because of uncertainty. Menger was the first to conceive an exchange equilibrium that gives rise to actual prices and wages and in which the mutual benefits of perceived exchange opportunities at a given moment are completely exhausted. He called it "points of rest"; Boehm-Bawerk, a

to be employed if the employee paid the employer to work. In this regard states Bradley (unpublished): "Insull enjoyed these years despite an almost complete absence of leisure. A combination of hard work, broad skills, and smarts made Samuel a success at two jobs and family breadwinner by the time he was 18. Then in a bolt out of the blue, his day boss ended a positive performance review by firing him! A wealthy customer, it turned out, had arranged for his son to enter the business world by assuming Samuel's job and work for the experience rather than pay. The episode violated Insull's ego, which McDonald (1962, 15) described as an "untouchable area," where "even a modest affront was unforgivable and unforgettable."

"momentary equilibrium"; and Mises, "the plain state of rest." All three regarded this condition as a recurrent and observable characteristic of all real world markets. You and the local grocery store are in a plain state of rest when you purchase and walk out with a gallon of milk, two pounds of steak, five pounds of potatoes, and two bottles of red wine, no more and no less. The precise price and quantities of these items were strictly determined by the interaction of your (concurrent buyers') maximum buying prices and the minimum selling prices (probably determined by its speculative reservation prices) of the grocery store.

III. Resistance

Why is there great resistance on the part of the economics profession to the insight that on the unhampered market, there can be no such thing as involuntary unemployment? Why do economists recoil in horror from the "specter" of zero unemployment? For example,[2] Palmer[3] refers to the "the absurd and non-Austrian view that free market unemployment is "always voluntary.""

Our answers to these questions can only be speculative. We are, after all, addressing motive. However, there are several reasonable explanations for this state of affairs.

1. Vestiges of Keynesianism

Keynesianism has played a virulent role in the economics profession. Its central idea, that there could be an underemployment equilibrium, is a hard one, evidently, to jettison. Like a vampire,

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[2] Palmer has no official credentials in economics (http://www.tomgpalmer.com/papers/cv.pdf) but frequently writes about this subject in any case (http://www.tomgpalmer.com/).

[3] See Raico (2003), and point 4, below.

intellectually shooting this economic philosophy is not good enough: one must employ garlic, or a silver bullet, or some such,[4] lest it arise from its "killing," ghoul-like. Keynes (1936) has been "killed" over and over[5]; yet it marches on, oblivious to its own death.

To wit, one would have thought that Keynesianism would have been stopped dead in its tracks by the phenomenon of stagflation. For, the Keynesian remedy for inflation was to reduce aggregate demand; for deflation, or depression, to increase. What, then, when not one but *both* of these phenomena present themselves at the *same* time? Any economic philosophy with but a modicum of respect would have vanished into the woodwork in the face of so obvious a rejection of its basic tenets. But not, of course, Keynesianism, which has a life of its own despite being blatantly contradicted by real world experience.

This refusal to contemplate an equilibrium situation at other than full employment stems from this "dead from the neck up, but not below," phenomenon.

This explanation may be part of the story, but it cannot constitute the complete elucidation. It can account for why many members of the profession reject the thesis, but not all. To wit, it fails to explain why Austrians, who by definition (Barnett and Block, unpublished) adhere to praxeology, fail to grasp it.

2. Praxeology

[4] The authors of the present article are located in New Orleans, the vampire capital of the universe. We brook no disagreement with our claims in this regard. Although we usually eschew argument from authority, in this one case we stand ready to employ it.

[5] For critiques of Keynes (1936), see Butos, 2001; Garrison, 1995; Hayek, 1995, 1972; Hazlitt, 1959, 1983; Hoppe, 1992; Hutt, 1979; Rothbard, 1959, 1960; Salerno, 1992; Skousen, 1992; Smiley, 1987; Van den Hauwe, 2000.

Here, we refer to a failure to sufficiently think in praxeological[6] categories. The analysis in section II, supra, is a matter of praxeology. This means that the denial of the conclusion, that in the unhampered market there can be no such thing as involuntary unemployment, is a veritable contradiction in terms. If one buys into the premises that labor is a scarce good, the conclusion follows ineluctably. To be sure Austrians think in praxeological categories, but in this case, evidently not all of them, and not fully.

This becomes apparent when one attempts to specify conditions under which, given an unregulated free enterprise system, it would be logically *possible* for there to be involuntary unemployment. When one attempts to do so it is clear, as per our section II, that either one denies that labor is scarce, or that MRP of labor must be in the eyes of the beholder (e.g., the employer), not the worker, or that the profit maximization assumption is being violated, etc.

3. Psychology[7]

Most adults have at one time or another been fired from a job. Rarely if ever was this followed up by, within a second or two, an offer of another employment opportunity. Usually, finding another post took weeks or even months. Hence, in the mind's eye of those who reject our

[6] See on this Block, 1973; Batemarco, 1985; Fox, 1992; Hoppe, date, 1989, 1992, 1995; Mises, 1998; Rizzo, 1979; Rothbard, 1951, 1957, 1971, 1973, 1976, 1997a, 1997b, 1997c, 1997d, 1993; Selgin, 1988.

[7] Our use of psychology is compatible with Rothbard's (1997, 218) definition of, and warning against, "Psychologizing … a common error in utility analysis. It is based on the assumption that utility analysis is a kind of 'psychology,' and that, therefore, economics must enter into psychological analysis in laying the foundation of its theoretical structure. Praxeology, the basis of economic theory, differs from psychology, however. Psychology analyzes the *how* and the *why* of people forming values. Economics, on the other hand, rests simply on the assumption of the *existence* of ends, and then deduces its valid theory from such a general assumption (footnote omitted)." This is because in the present section, strictly speaking, we are engaging in a bit of amateur psychological analysis, not economic or praxeological analysis.

thesis, they, seemingly, have their own experience as a guide in this matter.

It cannot be denied that in the way that ordinary people use the language, this phenomenon does exist. That is, *of course,* in the way people ordinarily speak, there is involuntary unemployment. And, for the typical economist, there is both frictional and structural unemployment, none of which can even with the wildest stretch of the imagination, be characterized as "voluntary."

We know full well that as a matter of technical economics (see section II, supra), this is nonsense, and nonsense on stilts. We suggest here that there may be some sort of verbal dispute underlying these differences.

That is, words are being used differently by the contending parties. Two analogies spring readily to mind, one from physics, one from economics. From the former realm, the concept of "work" is technically defined as a "transfer of energy by a force acting to displace a body. Work is equal to the product of the force and the distance through which it produces movement."[8] This means, if it means anything, the if an object is *not* transferred through space, then, whatever else may be true, there is no work going on. But suppose a man holds two 25-pound weights with his arms extended. Sweat will immediately begin dripping from his brow. The physicist would deny that any "work" at all was going on, and yet, from an ordinary language point of view, this would be among the most excruciating types of work possible.

Now consider "indifference" from the latter realm, economics. The ordinary speaker of the English language is often indifferent between two

[8] See http://www.bartleby.com/65/wo/work.html

sweaters as he reaches into his clothing drawer. He will wear whichever of them he removes from his closet. Yet, as a matter of technical economics, he *cannot* be indifferent between the two of them; he simply has no way to *demonstrate* this. Rather, the demonstration shows that, indeed, he picked sweater A, when he could have, but did not, pick B. Caplan (1999, 2001, 2003) errs in this regard, adamantly refusing to acknowledge the two different meanings of this concept[9].

A similar phenomenon seems to be operating in the present context. The psychological state of being involuntarily unemployed is being confused with technical economic considerations that vitiate against there being any involuntary unemployment at all, as a matter of praxeology. The fact that words can be legitimately used in two different contexts does not let off the hook *economists* who have been using the ordinary language concept. Qua dismal scientists, they are supposedly wedded to their profession.

4. Sheer cussedness and irrationality

> In his reply to Raico, Palmer savagely attacked Hoppe -- in part because Hoppe maintains the absurd and non-Austrian view that free market unemployment is "always voluntary."
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> Palmer and I corresponded over a year ago about another issue, but Hoppe came up. After I defended Hoppe, Palmer wrote me: "[...] who could take a self-described economist seriously when he writes that unemployment is impossible in a free market? And when he claims that that's somehow an implication of Austrian economics he adds insult to ignorance. [...] The fact is that Mr. Hoppe is an embarrassment."
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> In a reply to Palmer, I pointed out that Mises, in *Human Action* (Chapter XXI. WORK AND WAGES, Section 4. Catallactic Unemployment, p. 599), explicitly stated: "**UNEMPLOYMENT IN THE UNHAMPERED MARKET IS ALWAYS VOLUNTARY**". Clearly Hoppe's view on unemployment is the same as Mises'. Is Mises supposed to be an embarrassment to Austrian economics too?
>
> Palmer's reply to this? "For Mr. Hoppe it is a cult based on reading and interpreting sacred texts, the point of which is to 'master Misesian economics.' [...] I don't really give a fig about what Mises said just because it's what he said; what I care

[9] For support of our contention vis a vis Caplan, see Block, 1999, 2003; Hulsmann, 1999

about is whether what he wrote helps me to understand the world. [...] You write, 'And it is more than an implication of Austrian economics--it is Mises' actual, express, explicit view, in his magnum opus.' If you're right, then so what? Is that an argument? If you're right about this, then Mises was wrong. Is that so hard to accept?"

Note that Palmer himself attacked Hoppe's pedigree as a free-market economist, indeed, as an Austrian economist, by citing Hoppe's allegedly absurd and non-Austrian view that involuntary unemployment is impossible on a free market. When I simply pointed out that Mises himself had the same view, I was clearly not citing Mises to prove that proposition is correct, but to show that this view is not "an embarrassment to Austrian economics," but is rather the view of one of the premiere Austrian economists. Palmer is the one who brought up pedigree; when I showed that his argument was flawed, he retreated to the charge that my citing Mises is cult-like. Need anything else be said?[10]

Well, yes, there is more to be said, at least in terms of the present paper. And it is that this claim, voluntary unemployment is impossible in the free society, is one that sticks in the craw of more than one commentator. And, noting the acidity of this interchange, this statement sticks very deeply into the craws of some commentators.

IV. Conclusion

We maintain that strictly speaking, and how else are we to speak in a scholarly publication, it is impossible for there to be any unemployment in the free economy. We have considered and rejected several arguments to the contrary, and thus rest our case.

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[10] See Kinsella, 2003; also Kinsella, 2005.

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