

Keynes vs. "the classical theory"

Keynes says most treatises on the theory of value and production focus on the issue of distribution of some volume of resources between different uses but not their "actual employment" of resources.

Keynes thinks classical econ has two key postulates

Keynes' statement of how his two postulates of classical economics determine unemployment

Keynes thinks "classical theory" only allows for "frictional" unemployment and voluntary unemployment.

Justin's Comment: So Keynes is saying basically that economics stuff before his work focused on how resources were used assuming some X amount of resources was to be used, but didn't cover whether X resources were used at all.

Hazlitt thinks this is an incorrect factual statement: I doubt whether this factual statement can be supported. Many treatises before 1936 had explained in great detail how labor and other resources may come to be idle, and how goods already produced may long remain unsold, because of the rigidity or "stickiness" of some wages or prices, i.e., because of the refusal of unions or other sellers to accept the lowered market or "equilibrium" wage or price for the services or goods that they have to offer.

The first postulate: "The classical theory of employment—supposedly simple and obvious—has been based," Keynes thinks, "on two fundamental postulates, though practically without discussion" (p. 5). The first of these is "I. The wage is equal to the marginal product of labor" (His italics, p. 5.)

The second postulate: II. The utility of labor is employed is equal to the marginal disutility of that amount of employment.

Justin's Comment: Chapter 2 of Keynes' General Theory is "The Postulates of the Classical Economics" but then he frames his discussion as talking about postulates of "[t]he classical theory of employment". Issues of employment and labor are a subtopic within classical economics, so it seems confusing to me to call alleged postulates of the classical theory of employment "Postulates of the Classical Economics."

Keynes: the volume of employed resources is duly determined, according to the classical theory, by the two postulates [which Keynes has named]. The first gives us the demand schedule for employment; the second gives us the supply schedule; and the amount of employment is fixed at the point where the utility of the marginal product balances the disutility of the marginal employment

Keynes wants there to be a third category, "involuntary" unemployment.

Hazlitt thinks all unemployment is voluntary or involuntary and you don't need a third category. So Hazlitt disagrees with both Keynes' statement of "classical" theory (cuz Hazlitt rejects the "frictional" category) and Hazlitt also disagrees with Keynes' own theory (cuz Hazlitt thinks there should be two categories, not three.)

Justin's Comment: Keynes may be setting up an early contrast to the "supposedly simple and obvious" postulates of what he calls classical economics and his more complicated and "profound" stuff.

Hazlitt thinks this postulate is correctly and clearly stated but shouldn't be labeled as part of classical theory of employment. Hazlitt wants to confine "classical" to pre-marginalist revolution people.

Keynes elaborates: Disutility must be here understood to cover every kind of reason which might lead a man, or a body of men, to withhold their labor rather than accept a wage which had to them a utility below a certain minimum

Hazlitt argues that the "orthodox" marginal theory of wages and employment is that wage-rates are determined by the marginal productivity of workers. He thinks Keynes' second postulate, where Keynes brings in disutility, isn't really necessary or clarifying anything.

Justin's Comment: I'm trusting Hazlitt's assessment of the literature here.

Hazlitt responds: "Disutility" is here so broadly defined as to be almost meaningless.

Hazlitt: The first postulate—that "the wage is equal to the marginal product of labor"—does not merely give us the "demand schedule" for labor; it tells us the point of intersection of both the "demand schedule" and the "supply schedule.

Hazlitt elaborates: "Frictional" unemployment must be either voluntary or involuntary. In practice it is likely to be made up of a little of each. "Frictional" unemployment may be involuntary through illness, disability, failure of a firm, unexpected cessation of seasonal work, or discharge. "Frictional" unemployment may be voluntary because a family has moved to a new place, because a man has relinquished an old job in the hope of getting a better one, because he thinks he can get more pay than he is offered, or because he is taking a vacation between jobs. Such unemployment is the result of a decision, good or bad, on the part of the man who is unemployed. "Friction," though a traditional term, is perhaps not the most fortunate metaphor to describe it.

Hazlitt elaborates: The demand schedule for workers is the wage-rate that employers are willing to offer for workers. The "supply schedule" of workers is fixed by the wage-rate that workers are willing to take. This is not determined, for the individual worker, by the "disutility" of the employment—at least not if "dis utility" is used in its common-sense meaning. Many an individual unemployed worker would be more than willing to take a job at a rate below a given union scale if the union members would let him, or if the union leader would con sent to reduce the scale.

Justin's Comment: Hazlitt's bit about "at least not if 'disutility' is used in its common-sense meaning" anticipates an objection. The way Keynes frames it, one could try to rebut Hazlitt by saying that "well, the threat of getting beaten up by union members if you are a 'scab' creates disutility for the worker." But Hazlitt anticipates this. When people speak of disutility of labor in the context of economics, they typically mean something like (as the Mises Wiki defines it) "the discomfort, uneasiness, inconvenience or pain inherent in human effort. Because of this quality men regard labor as a burden and prefer leisure to toil or labor."

Justin's Comment: I don't get the significance of this debate or point yet.

Justin's Comment: I think it's interesting/notable/sad that such a controversial value claim as that work/effort inherently involves some kind of negative value can be treated as a pretty uncontroversial premise, especially when counter-examples are not very difficult to find.