

Employment policy within the framework of the production system, inflation and unemployment

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Abstract

Employment is the use of labor as a factor for the production of goods and services. The main problems of full employment are the following:

- The danger of rising inflation
- The trade union and wage policy

On the other hand, stagflation is caused by two factors: (a) by a lack of aggregate demand in relation to GNP and (b) by an increase in production costs.

Of course, when the level of demand in the economy rises, unemployment decreases but at the cost of higher inflation, always within the bounds of the labor market and the particular production system.

Keywords: employment, unemployment, inflation, stagflation, production system

Περίληψη

Απασχόληση είναι η χρήση της εργασίας ως παράγοντα μέσα στην παραγωγή των αγαθών και υπηρεσιών.

Τα προβλήματα της πλήρους απασχόλησης είναι τα ακόλουθα:

- Ο κίνδυνος της αύξησης του πληθωρισμού.
- Η πολιτική των συνδικάτων και των μισθών.

Από την άλλη πλευρά, ο στασιμοπληθωρισμός είναι εξαρτημένος από το έλλειμμα του σχετικού μεγέθους της ζήτησης σε σχέση με το Ακαθάριστο Εγχώριο Προϊόν και επίσης από την άνοδο του κόστους.

Βεβαίως, στη περίπτωση, που το επίπεδο ζήτησης στην οικονομία αυξάνει, η ανεργία θα μειώνεται, αλλά αυτό θα συμβαίνει μέσα στο επίπεδο του κόστους του πλέον υψηλού πληθωρισμού, πάντοτε μέσα στο πλαίσιο της αγοράς εργασίας και του συστήματος παραγωγής.

Λέξεις-κλειδιά: Απασχόληση, ανεργία, πληθωρισμός, στασιμοπληθωρισμός, παραγωγή.

A. THE LABOR MARKET AND THE MODERN UNITS OF THE PRODUCTION SYSTEM

The economy of a country, in the modern patterns of the production system, uses production factors and produces gross income. The relative mathematical function of the production is equal to the sum of the consumption and the investment (or the saving): $Y=C+I$.⁵

The importance of this function of the production lies to the fact that, with this we can estimate the balance income, which, finally, is related with the size of the employment. This size of the employment does not necessarily cover completely the available manpower, meaning the total of persons who wish and are able, under the specific circumstances, to work. Consequently, the nature of the labor supply, which is, up to a point, infinitely flexible and does not allow a reduction of the salary, justifies the existence of unemployment and, at the same time, the

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⁵ The full-time employment of the manpower of the economy does not coincide with the level of balance of the economy's income. On the contrary, the general case is the coexistence of the unemployment with a balance level that of course does not correspond with the full-time employment (Th. Georgakopoulos and others, Introduction to Political Economy, Athens, 1982, Gutenberg, p. 230).

existence of income balance, without pressures from the labor market in order to absorb this unemployment. (Petraki & Kottis, 1991).

According to some neo-classical economists, the labor market is almost a perfect market and forms the governing line of the other markets. Labor is considered homogeneous, the information and the mobility costless and the individualistic competition prevails between many buyers and sellers.

According to the traditional models, the labor market is less homogeneous even in large professional groups and does not form necessarily the mould of the perfect sub-market.

The local labor market for a specific type of labor and a given production system, forms the nucleus of the larger labor market, because it functions as a market of salaries and labor and according to Grooman "is the place where the companies are searching for workers and to which most of the population is working".⁶

In the established labor market, (Petraki & Kottis, 1991) the basic delimitations are made by the conflicts between the groups which are related directly to labor and its policy.

In the unstructured labor market, employee and employer are connected only through the salary. No employee has any right and no employer has any authority. The structure comes into the market when the different treatment is given to those who have the authority and to those who do not.

Most of the hiring today is made on a non professional basis. Speed, skill and ability of adjustment are being rewarded but not experience and specialization. And this is a result of the variety of methods in the modern production industries.

The training costs of the companies along with the unavoidable costs of hiring and firing mean that labor can not be treated any more as a part of the company' s variable costs and that labor is a semi-stable factor of production.⁷ Lester, agreeing to the above, adds that the not-on-trial workers are not subject to competition for their jobs from others outside the company and that the companies do not think to replace the existing employees with young candidates, even with lower salaries (Burton, 1972). The importance of the internal market in an enterprise is shown by the way the hierarchically superior positions are covered, meaning the internal promotions and not the hiring from outside. More specifically, the workman in production, starting from the lower paid positions, experiences hierarchical advancement in the internal market of a company, according always to his capacity and his seniority. His external advancement though is being prevented because his entering in the new enterprise will be made again at the lower paid position. For the arts and the low level white-collar jobs the internal promotion is being done like in the previous category, while the external is presented as easier because in this case the basic part is played by training itself and apprenticeship. Finally, for the majority of the blue-collar workers, the labor office of every company is indeed a separate market of manpower and each worker is connected more with an enterprise than an industry or a profession (Mc Connell, 1984, 1987).

The evaluation of labor in a company is more and more usual, as a way of defining the internal structure of salaries in it. But the techniques used are not scientifically accurate and the results of this evaluation vary between the enterprises. The importance of the internal labor market in an enterprise is great in the study of the labor supply, the mobility and the evolution of salaries.

But the enterprises do not exist the one isolated from the other from the labor markets, instead they are part of the larger network of the economy (Paish & Culyer, 1973).

The traditional and neoclassic models of labor market as they are presented by the respective doctrinaires of economy, nowadays and especially in Greece, seem to be refuted. Employers do

⁶ The labour market is a market of a factor of production that provides for an exchange of labour and salary. The side of supply of this market is represented by individual workers or more usually by unions who are negotiating on a collective basis. The side of demand of the labour market is represented by companies, who need labour as an internal factor of the production procedure.

⁷ Of course, here there is the interference of productivity of labour, which is the relation between the added value and the quantity of labour, which is represented by the number of workers or the product made per number of working hours. The increase of the labor's productivity appears to be caused by the modernization of equipment, the evolution of the qualitative characterizes, the rationalization of the production's organization and the increase of the capital's quantity per worker.

not have anymore the power to dominate the labor market because institutions like the state and the unions interfere dynamically in this sector by determining parameters like salaries, working conditions, working hours etc. The labor market does not determine by itself the upper and lower limits of salaries, but also a employee can not make an individual agreement with his employer. In the modern Greek labor market the unions with their policy, the government and of course the employers have a decisive contribution.

More specifically, within a structured company, the employee does not have a simple relation of salary payment with the employer, but in their relation interfere the rights and the obligations of both parties. Also, in the hiring of an employee, more important is the speed and the ability of adjusting to the circumstances of the specific company and not the existing experience and perhaps the specialization. And this happens because a company is aware of the fact that it is going to spend an amount (periodically) in the training of its employees, in order to give them the knowledge concerning its specific needs. This is one of the more basic reasons for which an enterprise does not choose to renew its manpower, even if it could hire new employees with a lower salary.

In everything that concerns the hierarchical evaluation in an enterprise, we observe that, according to the professional category, for the workers the start is from the positions with the lower salaries, which successively reach to the as much as possible higher level. In the case though that someone is hired in another enterprise, the possibilities are that he will start again from the position with the lower salary, with the exception of the skilled workmen, who can move more easily to the same professional level, between different enterprises. (Harvey, 1980).

In respect of the system of payment according to the result, which is in force to most industrialized countries, we may observe that, in Greece nowadays it is partly in force. It is in force in some of the large enterprises (and jobs) and surely not to a high percentage, as it is p.e. in the United Kingdom. What is in force is mainly the contract of labor. We must not of course forget to point out the important part played on this issue by the workers' unions⁸ (Liargkovas, 2007).

Every enterprise has surely its own way of evaluation, but there are no essential differences from each other, within the bounds of the same market (Dimopoulos, 1988; Le Caillon, 1972).

B. UNEMPLOYMENT, INFLATION AND PRODUCTION SYSTEM

1. The conditions of the production system which create stagflation.

For many years the dominant opinion was that inflation was caused by an excessive demand which was not enough to absorb the full-time employment's product, and on the other hand unemployment was believed to be caused by insufficient demand. For this reason these two problems were believed to be impossible to coexist. During the 1970's and in the early 1980's there was in many countries the phenomenon of stagflation, meaning the coexistence of relatively high percentages of unemployment and inflation (Benos & Sarantidis, 1986).

Complete employment in an economy means that the number of the offered positions of employment is equal to the number of persons who are seeking to work. Accordingly, complete employment does not mean inexistence of unemployment. On the contrary, no matter how high is the labor demand in an economy, there always will be some people who will be unemployed and seek to work (Kearl, 1989).

The unemployment that exists on the complete employment' level consists of the friction unemployment and the structural unemployment. The friction unemployment is caused, mainly by the fact that some employees leave their jobs in order to seek a better one and this seeking procedure takes time. This kind of unemployment also includes persons who are unemployed and seeking work, because they got fired from their jobs or because they enter the labor market for the first time, or after a break. In these cases it is possible to have available positions but the

⁸ The salary's value in the labour market depends on the labor's supply and demand. These two sizes depend on other factors, which entail that the labour market cannot always be considered as a simple homogeneous market but must be treated as a number of separate labour markets, each one with its own special characteristics.

unemployed need some time in order to find the positions that they consider more suitable (Borkakoti, 1998).

The factor of unemployment which exists in the complete employment's level is referred to as natural factor of unemployment. The natural factor of unemployment cannot be reduced with an increase of the total demand without creating a notable increase of the prices. This factor of course can be reduced with other measures like p.e. educational programs for the increase of the mobility of the manpower, a better organization of the employment offices, effective transmission of information concerning the market conditions, professional orientation in schools, erosion of unjustified obstacles in entering to some professions etc. (Reynolds & Taft, 1956), and finally all these changes create a new type of production system⁹ (Mardas and Valkanos, 2007).

The coexistence of inflation and unemployment may be created under various conditions¹⁰ (Guitton et Bramoullé, 1979). Let's suppose that in an economy there is unemployment and that the authorities, estimating that this unemployment is excessive, resort to measures which increase the total demand. This increase will have as a result the upward move of the curve of total demand and the increase of prices, the reduction of real salaries and the increase of employment (King, 1983).

In a modern economy the increase of the prices will be realized by the employees, even with a small delay, and this will drive them to exert pressures for increase of their nominal salaries and in many cases, more than it is justified by the increase of prices. As the employees' salaries and the cost of production will be increased, the curve of total supply of the produced goods will move to the left and the unemployment rate will begin to increase again. These increases may be strained, if the enterprises try to increase the demand, having as a result the repetition of the above mentioned procedure and to a new wave of the prices' and salaries' increases. These increases may be also strained if the enterprises try to increase their profits, and this way the curve of total supply will move even further to the left. If the increases of the prices continue for some time, expectations that the inflationary procedure will continue, will be created to the public. In this case, the various groups of employees and the enterprises will try to protect in advance their income, having as a result to contribute to the aggravation of inflation, especially, if the expectation, that this rhythm will be more intensified, is created (Adda, 1998).

The spark for inflation can be created not only by moves of the curve of total demand upwards but also by moves of the curve of total supply to the left (Froyen, 1984).

The inflationary procedure, with specific production volume, can start either with an increase of the total demand or with a decrease of the total supply. When the total demand is increased, the level of the prices is also increased, and until the adjustment of the nominal salaries to the new prices' level, the product and the employment are increased. When the total supply is decreased, the level of prices is increased but the product and the employment are decreased, meaning the simultaneous creation of inflation and recession. It should be noted that when the total demand is increased or the total supply is decreased, the process of the prices' increase continues until the economy reaches a new balance level. This process is assisted and continued because there are also other moves of the curves of total supply and total demand, caused by reactions of the employees or the fiscal or monetary authorities.¹¹

⁹ The economic stagnation and crisis of the 1980's effects, until today one quarter of the earth's population and contribute to the constant reduction of its income, having as a result that 43 countries are poorer than they were in the 1970' s. A characteristic case of the modern stagflation is the socio-economic substance of Russia. The G. N. P. and the industrial production of this country are reduced by 40% and 60%, respectively, within the last seven years (L' état du monde, 1997).

¹⁰ The economic concept of stagflation consists in the phenomenon of stagnation (stoppage of increase that might concern a factor of demand or the total of the economic activities of a nation) of production that is accompanied by an increase of the inflation and unemployment. Situations of this kind, meaning inability to maintain the production on a stable level, are not rare like p.e. U.S.A., France, former West Germany (Guitton H. et Virty D., *Economie Politique*, 1981, Paris, *Precis Dalloz*, p. 701).

The seriousness of inflation as a macroeconomic problem is unlikely to be appreciated until it has been experienced (Seddon E., *Advanced Economics*, ed. Pan Books, London and Sydney 1987, pp. 211-227).

¹¹ The fight against inflation may use various means: a) of monetary policy, b) of budgetary policy in view of the direct decrease of the increase of the total demand, c) of income and competition policy and d) structural

2. The anti-stagflation policy. The insufficiency of the Keynesian measures.

As it is obvious from the analysis above, the problem of stagflation is not possible to be faced with the known Keynesian measures, which aim to the changes of the total demand. When an economy suffers from stagflation, if, in order to face the problem of unemployment, the total demand is increased, the problem of the inflation will get worse, while if, in order to face inflation, the total demand is decreased, the unemployment will be increased. (McConnel, 1984).

The Keynesian policy, despite the fact that by itself is not effective in facing stagflation, it can be used in combination with other measures, in the framework of the international trade¹² (Borkakob, 1998). In relation to that, there are several suggestions. According to one suggestion Keynesian measures should be used in order to reduce the total demand and face the problem of inflation and combined with special programs in the labor market in order to reduce unemployment. (Union Européenne, Communes Européennes, But: le développement, 2004).

On the contrary, according to another suggestion, some measures must be resorted to, in order to increase the total demand and decrease the unemployment, and on the same time the suitable income policy must be used in order to face the problem of inflation.

The choice of the suitable policy in order to face the problem of stagflation depends on the conditions existing in an economy, the causes and the degree of inflation and unemployment problems, and the priority given to the solution of each of these two problems.¹³ In any case the importance of the regulations of the total demand as a measure to face stagflation, appears to be reduced and other measures come forward, measures which aim to the increase of productivity and competitively in the various economies, and which are examined in the various types of the respective production systems (Griffiths & Wall, 1991).

The correlation of the above macroeconomic indicators, lead to the conclusion, that the economic balance in a country demands for an economic policy which guarantees the stable self-reliant necessary production, with simultaneous severe control of inflation and unemployment in the framework of the perfect investments' planning (Guiiton & Virty, 1981; Spentzas, 1992).¹⁰

policy (increase of supply, increase of investments which release productivity profits etc). The neoclassics have accepted the existence mainly of a voluntary unemployment. Keynes' theory adds the involuntary unemployment. Keynes proves that in the neoclassic logic it is enough to make the assumption of inflexibility with the basis of the important salaries in order to present the involuntary unemployment (op.cit. Guitton H. et Vitry D., p. 688).

¹² Keynes thinks that it is possible for the economy to be found in two types of situations: a) in economic slenderness (involuntary unemployment on a market of goods and services on a level weak because of the inefficiency of demand) and b) in complete employment.

¹³ Stagflation is a characteristic more of the cost-inflationary impulse, than of the demand-inflationary traction. Indeed, the cost of the raw materials and/or of labour, reduces the profitability and the ability of the enterprises to rise their prices and results to investments cuts. Consequently the state faces the dilemma of the decrease of the general inflation's rhythm, but this way the unemployment problem may get worse.

¹⁰ According to the official estimation of the Organization of the Employment of Manpower of Greece, during the year (1996) there are structural changes in the composition of the manpower (reduction of the number of employees with depended labour relations, increase of unemployment, increase of self-employed). While the registered manpower is being reduced constantly, unemployment is not increased on respective rate. On January 1997 the registered unemployed in Greece were 225.688, meaning the 9,27% of the manpower (employed). During the last 14 months, the amount of the employed is being reduced constantly (December 1995: 2.413.147, December 1996: 2.262.918, January 1997: 2.207.619). On a strictly research level,

the complete and scientifically undisputed image of the relation of unemployment, production and inflation is presented by the partial rhythms of changes of the manpower and the unemployed, of the total population above 14 years old of the unemployed and the employed, of the prices indicators of consumer and of the average per capita gross national product in stable prices [Newspapers «Vima» (29-12-1991), «Eleytherotypia:» (29-1-1992 and 22-2-1997 and O.C.D.E. 1997)].

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