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**Involuntary Unemployment versus "Involuntary Employment" :  
J.M. Keynes and Beyond**

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# Involuntary Unemployment versus "Involuntary Employment" : J.M. Keynes and Beyond

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## Abstract

This paper is concerned with the important question of how and to what extent great economists such as Keynes, Knight, Hicks, Samuelson, Takata, and Morishima have been intermingled with each other. Our discussion focuses on the two key concepts in the labor markets; involuntary unemployment and "involuntary employment." On the one hand, there are so many persons in the street who are willing to work at the existing wages but cannot find jobs because of a shortage of the effective demand as a whole. This is clearly the issue of involuntary unemployment, which has been energetically tackled by J. M. Keynes and his followers since the 1930s. On the other hand, since the 1990s, there also have emerged so many people who must work unwillingly for their survivals at the minimal level of wages. This is a new issue of "involuntary employment" or "non-regular workers", which has recently been investigated by Nobuaki Takahashi, a rising Japanese economist. Although the Takahashi approach is an attractive one, it nevertheless seems to remain at the embryo stage, thus requiring further developments in many ways. The second Keynes would urgently be needed.

**Keyword** Keynes, involuntary unemployment, Takata, sociological factors, non-regular workers, Takahashi, "involuntary employment"

**JEL Classification** B22, E12, E24

## 1. Introduction

One day when I myself felt tired of writing some essays, I happened to find a rather old book in the corner of the bookcase of my study. The book, entitled *Keynes' General Theory: Reports of Three Decades*, was published in 1964. It also contained my personal signature printed on the back cover, "Yasuhiro Sakai, University of Rochester, April 1970," This book was a collection of very important papers which comprehensively reported the impact of the *General Theory* for the period between 1936 and 1966. More than four decades have passed since then. As the saying goes, time and tide wait for no man! <sup>1)</sup>

In the light of the history of economic thought, back in the 1930s, John Maynard Keynes (1936) wrote a monumental work of economics, entitled *The General Theory of Employment, Interest and Money*. How and to what degree this book influenced the academic circle at the time of publication, by and large, seemed to be dependent on the age of economists. According to Samuelson (1946), contained in Lekachman (1964), there existed two dividing lines of ages; the age of thirty-five and the one of fifty:

"The *General Theory* caught most economists under the age of thirty-five with the unexpected virulence of a disease first attacking and decimating an isolated tribe of south sea islanders. Economists beyond fifty turned out to be quite immune to the ailment. With time, most economists in-between began to run the fever, often without knowing or admitting their condition." (Samuelson, p. 315)

In 1936, Keynes himself was 53 years old because he was born in 1883. Remarkably, both Joseph Schumpeter and Yasuma Takata were born in the same year as Keynes. If we followed the Samuelson doctrine aforementioned, both of them should have been quite immune to the "Keynesian ailment." It was well-known that Schumpeter had thought Keynes as one of his greatest rivals from his youthful days. Although Takata distinguished himself as a great social scientist in Japan and the East, it was quite unfortunate that he was kept rather unknown in the West until Michio Morishima, once Takata's disciple, helped to publish some English translations of Takata's great books on sociology and economics. In his important yet non-translated book, Takata (1950) once remarked:

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1) For details, see Lekachman (1964).

"this book aimed to state my own theory of power economics for which, as a critic of the Keynes doctrine, I [Takata] have continuously put all my energy for those thirty years. .... Although Keynes and I were born in the same year and have done research in the same field, namely social sciences, the opinions of the two persons should not be the same. How and to what extent my theory is different from his must be a very interesting question to ask. Which will be the correct theory of economics, Keynes or Takata? Let the future history decide it! This is my true motive of writing this book. (Takata (1950), Preface, p. 1)

Martin Bronfenbrenner, who was once my teacher at Kobe University, had great respect for Takata, and even called him "Marshall of Japan." As the reader will see, it is one of my intentions of writing this book to reexamine the question how and to what extent Keynes and Takata differ from each other with respect to the problem of unemployment, one of the key issues in modern times.

Another related topic would be the relationship between Keynes and Knight. Frank H. Knight was born just two years later than Keynes, and made an outstanding contribution to the same field as Keynes, that is the economics of risk and uncertainty. When the *General Theory* was published in 1936, Knight was 51 years old, thus a bit over fifty. In spite of , or perhaps because of, almost the same age and almost the same research area, there appeared a clear divergence of their views on the unemployment problem. Why and how their opinions became different will be another topic to be explored in this paper. In this regard, it is worthy to note that Knight (1937) carefully read the *General Theory* just after its publication, leaving the following criticism of Keynes:

"I [Knight] must confess that the labor I have spent on *The General Theory of Employment, Interest, and Money* leaves me with a feeling of keen disappointment."  
(Knight(1937); Emmett (ed.) (1999), p.366)

Knight's word "keen disappointment" was a very strong expression to demonstrate his spiteful criticism after reading the book. The degree to which Knight was disappointed was also well-described by P. A. Samuelson, who went to Chicago at sixteen in 1931 and received his B.A. before going to Harvard for his Ph.D. In *the New Yorker*, Columnist John Cassidy (2009) wrote a very instructive interview article with Samuelson, which was later reproduced by Tyler Durden (2012) in *Zero Hedge* with a

more attractive title. According to the article, "Knight really thought Keynes was the devil," Samuelson recalled. "Knight didn't believe in God, but he knew a devil when he saw one. He insisted that the old economic system—the neoclassical one—worked pretty well, except in the Great Depression." It seems that Keynes and Knight are like oil and water: Keynes likes macro, but Knight likes micro. On the surface, they are both fond of risk and uncertainty, but at the bottom of their thoughts, however, they look fundamentally incompatible.

In contrast to Knight as a difficult person to please, Takata (1955) has never revealed such bad feeling, but rather broadmindedly praised Keynes in the following fashion.

"Keynes is no doubt a big star of economics in the first half of the 20th century. His shining place in the academia will never be shaken no matter who will appear in the latter half. .... Why has his fame spread out in the 20th century? It is because his achievements have been so revolutionary, and even destructively effective."

(Takata (1955), p. 1)

How and to what extent great economists such as Keynes, Knight, Hicks, Samuelson, Takata and Morishima have been intermingled with each other would surely be a very challenging question to ask. Presumably, this paper would represent a small yet important attempt for seeking the correct answer.

The contents of this paper are as follows. In section 2, we will carefully reexamine the concept of involuntary unemployment that was first employed by Keynes in the 1930s and later have given rise to a heated controversy. We will especially pick up the two great economists, Takata and Knight, and aim to discuss how and to what extent they differ from Keynes in modern perspective. In section 3, the concept of "non-voluntary employment" rather than the one of voluntary unemployment will be introduced in line with the original work of Nobuaki Takahashi, a rising Japanese economist. The former concept is very important in modern Japan since the existence of non-regular workers who are forced to work for bare survival against their wills is becoming more conspicuous every year. Concluding remarks will be made in the final section.

## **2. Involuntary Unemployment à la Keynes**

### **2-1. A Very Terribly Written Book of Macroeconomics**

According to J. M. Keynes, the fundamental facts of the capitalist economy lies in massive unemployment and the inequality of income and wealth. In fact, Keynes (1936) lamented with a strong expression:

"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 incomes." (Keynes (1936), p. 372)

When Keynes was writing the *General Theory*, he was constantly annoyed by his long struggle of escape habitual modes of thought and expressions. The difficulties lay in finding the best way to get rid of the old ideas which ramified into every corner of our minds. Surely, as the saying goes, old customs die hard. The cost of replacing the old ideas by the new ones would sometimes make the burden too heavy for Keynes. As a result, his final work, namely the *General Theory*, became one of the most difficult books in the history of economic thought. In this connection, it is quite interesting to record what Richard Kahn once told Hirofumi Uzawa after reading it:

"Mr. Uzawa, this may sound strange to you. I honestly tell you, however, that only in the last year (namely, 1978), I finally read the *General Theory* to the very last page. Then I found it a very terribly written book. I could not understand at all what it really intended to inform the reader about." (Uzawa (1984), p.15)

Keynes was well-known as the master of English writing before the *General Theory*. Such a fame, however, was completely reduced to ashes after its publication. Although the difficulty of the book has not changed a bit from the past, it is worthwhile that the men living in the 21st century have to make every possible effort to understand it. When I myself attempted to read it though after long absence, I found some key lessons to reach on the top of "Mt. General Theory." First of all, we have to reconfirm the lesson that macro is macro and should not be regarded as the simple sum of micros: any attempt to seek the micro foundations of macro must be an exercise in futility. Second, we have to come back to the original text in a humble manner, thus ignoring the unnecessary "noises" or complexities of later developments. Then we will immediately find that, in the world of Keynes, unemployment is a macroeconomic concept rather than a microeconomic one; it is the outcome of aggregate decisions in a collective sense, not the simple sum of outcomes of individual decisions.

In this connection, it is recalled that John Kenneth Galbraith (1987) once

remarked:

"Keynes was a lucid and resourceful master of English prose, as were Smith, Bentham, Malthus, the two Mills, Marshall and Veblen. .... *The General Theory of Employment, Interest and Money*, however, is a complex, ill-organized and sometimes obscure work, as Keynes himself recognized, noting that the general public, 'though welcome at the debate, are only eavesdroppers' at this necessarily technical effort to persuade his fellow economists. Very few people outside the field of professional economics have ever accepted Keynes's invitation to listen."  
(Galbraith (1987), p. 232)

I would like to add that Galbraith himself was a lucid and resourceful master of English prose. Interestingly enough, such an eloquent writer acknowledged that *The General Theory* was "a complex, ill-organized and sometimes obscure book". He was very fair to say, however, that the central ideas were not so troublesome, but even very lucid and unequivocal. As he clearly noticed, Keynes's main interest was centered around the question of how the level of output and employment was determined. In order to conquer a academic high mountain named *The General Theory*, we have to make every possible effort to find a very effective route leading us to the peak. As the saying goes, where there is a will, there is a way.

## **2-2. The Original Framework: the Aggregate Supply and the Aggregate Demand**

First of all, we should remember that Keynes (1936) was a specialist book that was chiefly addressed to his fellow economists, thereby being hardly intelligible to the general public. Second, Chapter 1 per se was named a very challenging name "The General Theory", meaning that the existing neoclassical theories including Pigou (1933) were regarded by Keynes as merely special theories.

After critically discussing the postulates of the neoclassical economics in Chapter 2, Keynes boldly attempted to introduce his own ideas and concepts in Chapter 3, in which he gave a brief summary of his unique theory of employment and unemployment. In our opinion, the following sentence is of the utmost importance for us to comprehend the essence of Keynes's theory.

"[T]he volume of employment in equilibrium depends on (i) the aggregate supply function,  $\phi$ , (ii) the propensity to consume,  $\chi$ , and (iii) the volume of investment,  $D_2$ , This is the essence of the General Theory of Employment." (Keynes (1936), p. 29)

Then the following question would come to our mind right away. What is the aggregate function all about? Very strange enough, the properties of the aggregate supply function had not been thoroughly investigated until Nobuo Okishio (1956) wrote a technical yet excellent paper in an obscure Japanese journal, but then unfortunately, doomed to leave out of memory again by an explosion of works on the more fashionable topic of IS and LM functions. In this paper, we attempt to let the old story of aggregate supply-aggregate demand come to life again, thus reexamining the problem of employment and unemployment from a new angle. We can learn new lessons from old teachings! <sup>2)</sup>

Following the original work of Keynes (1936), let  $Z$  be the aggregate supply price of the output from employing  $N$  men. We may call the relationship between  $Z$  and  $N$ , namely  $Z = \phi(N)$ , the aggregate supply function. Let  $D$  be the proceeds that entrepreneurs expect to receive from the employment of  $N$  men. We can call the relationship between  $D$  and  $N$ , i.e.  $D = f(N)$ , the aggregate demand function. Then the volume of employment is provided by the point of intersection between the aggregate supply function and the aggregate demand function. The value of  $D$  at the point of  $f(N)$ , where it is intersected by  $\phi(N)$ , is named by Keynes the effective demand. Keynes claims that this is the substance of the General Theory of Employment.

According to Keynes, the effective demand, namely  $D$ , is the sum of the two quantities,  $D_1$  and  $D_2$ . Here,  $D_1$  represents the amount which the community is expected to spend on consumption, and  $D_2$ , the amount which it is expected to devote new investment. Keynes assumes that  $D_1$  is a function of  $N$ , which we may write  $\chi(N)$ , depending on the propensity to consume. In contrast to  $D_1$ ,  $D_2$  is supposed to be an independent variable since it may increase or decrease rather independently of  $N$ . Summing up, we may have the following relations:

$$Z = \phi(N) \quad (1)$$

$$D = f(N) = \chi(N) + D_2 \quad (2)$$

By carefully looking at equations (1) and (2), we may reach the following

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2) Nobuo Okishio was one of my respected teachers at Kobe University. It was quite unfortunate that almost all of his works were written in Japanese.



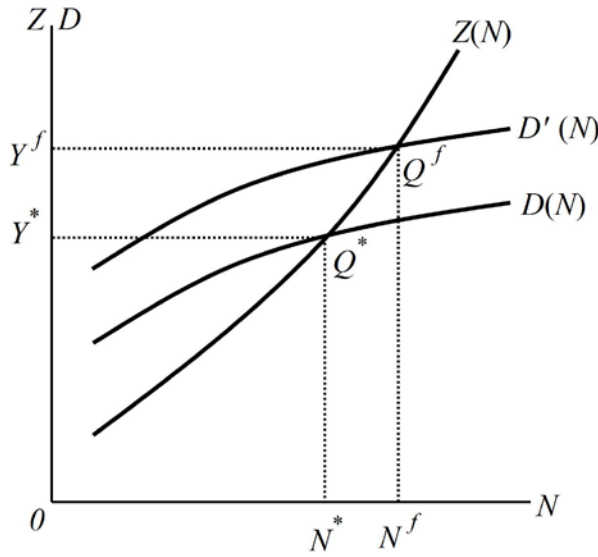


Fig. 1 The aggregate supply and aggregate demand functions

conclusion. The equilibrium volume of  $N$  at which  $Z$  and  $D$  are equal depends on the three factors: namely,  $\phi$ ,  $\chi$  and  $D_2$ . Needless to say, this is the very essence of Keynes's theory of employment.

Graphically speaking, the aggregate supply function  $Z(N)$  and the aggregate demand function  $D(N)$  are depicted in Fig. 1. As has been lucidly pointed out by Okishio, (1957), the function  $Z(N)$  must be an increasing and *convex* function whereas the function  $D(N)$  must be an increasing and *concave* function. Note that the distinction between convex and concave curves is of the most importance. The point of intersection  $Q^*$  stands for the equilibrium of the Keynes system, and  $N^*$  and  $Y^*$  respectively show the equilibrium volume of employment and the one of the aggregate output so that  $Y^* = Z^* = D^*$ .

Let us suppose that the point of full employment is denoted by  $N^f$ . Then we will easily see in Fig. 1 that the two points  $N^*$  and  $N^f$  should not be identical. Expectedly,  $N^*$  is less than  $N^f$ , meaning that we are in an underemployment equilibrium. By the same token, on the vertical axis,  $Y^*$  is less than  $Y^f$ , so that the aggregate production is operating at less than full capacity. In the history of economic thought, only a limited number of economists have been brave enough to point out the non-equivalence of  $N^*$  and  $N^f$ . Karl Marx (1867), a famous or infamous socialist who has written *Das*

*Kapital* , is one exception. It is J.M. Keynes that represents another outstanding exception among non-socialists.

More than 50 years ago, Okishio (1957) took great pains to mathematically derive the aggregate supply function from the micro economic basis, and to rigorously discuss its interesting properties. He led a rather solitary life in the Land of the Rising Sun, being isolated from the Land of the Union Jack and the Land of the Stars and Stripes; indeed, his outstanding works have been relatively unknown until Michio Morishima, his close friend, energetically introduced Okishio's accomplishments to foreign countries in a small yet influential book, *Marx's Economics*. Since Okishio's mathematical derivation of the aggregate supply function was so complicated to follow, we are content here to attempt more elementary derivation by help of a simple figure. <sup>3)</sup>

To this end, let us denote the aggregate production function by  $F(N)$ . It is usually assumed to be increasing and concave; so that  $F'(N) > 0$  and  $F''(N) < 0$ . The vertical axis measures the aggregate supply price of the output from employing  $N$ , whence  $Z = p F(N)$ . Corresponding to three possible supply prices,  $p^1$ ,  $p^2$  and  $p^3$ , we have three possible concave curves,  $p^1 F(N)$ ,  $p^2 F(N)$ , and  $p^3 F(N)$ . Since the aggregate profit can be written as  $\Pi = p F(N) - w N - C^o$  where  $C^o$  denotes the fixed cost, its maximization with respect to  $w$  results in the following equation:

$$p F'(N) = w, \quad (3)$$

which would teach us that even at the aggregate level, the price of the marginal product of labor is supposed to be equal to wages. Presumably, we could interpret Eq. (3) as the "aggregate version" of the marginal productivity doctrine. This is just one possible interpretation, being subject to critical investigation. In the light of economic thought, there has been serious controversies regarding the existence of the aggregate production function per se. Whether and to what degree Keynes himself would agree with such an interpretation would remain a hard nut to crack.

Eq. (3) above enables us to obtain the three equilibrium points  $Q^1$ ,  $Q^2$ , and  $Q^3$  as shown in Fig. 2. By combining these three points and possibly many more equilibrium points, we are able to find an increasing and convex curve  $Z(N)$ , which is indicated by a bold dotted curve in the figure. This  $Z(N)$  is what we have strongly wanted to derive, the aggregate supply function. People might call it Keynes's favorite "macro tool", or

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3) For a detailed derivation, see Okishio (1956) and Niino-Okishio (1957),..

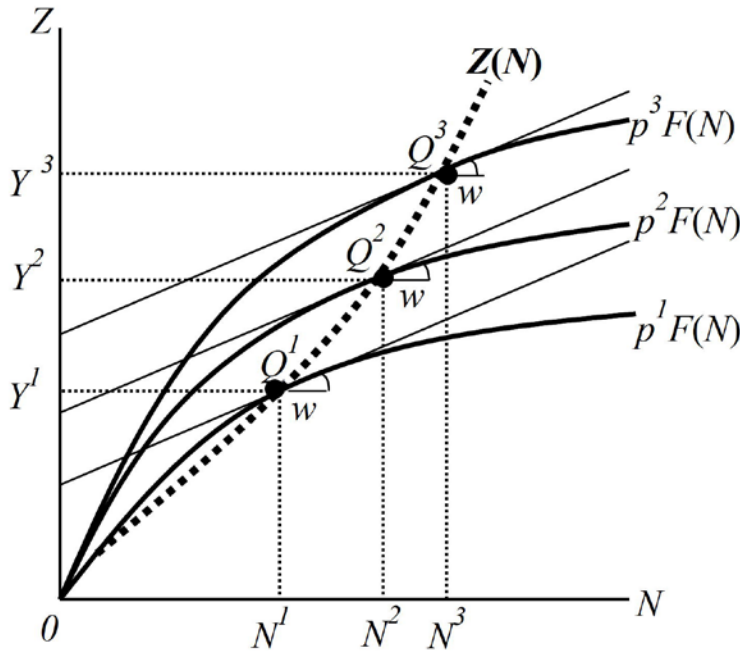


Fig. 2 A graphical derivation of the aggregate supply function

possibly his unwanted "macro enigma", depending on the degree and direction of his taste for Keynes's theory.

By boldly introducing the new concepts of the aggregate supply and aggregate demand functions into his new book *the General Theory*, Keynes intended to escape from the old modes of thought and expression. New wine had to be put into new bottles! One of such old modes was well-represented by the neoclassical doctrine, which could be expressed in the following Say's law: "Supply creates its own demand." If we restate such a law within the new framework à la Keynes, we can say that "the aggregate demand price of output as a whole is equal to its aggregate supply price for all volumes of output." (Keynes (1936), p. 26) In short,  $f(N)$  and  $\phi(N)$  are equal for *all* values of  $N$ , namely for *all* levels of output and employment, namely that these two functions are identical, or  $f(N) \equiv \phi(N)$ . Consequently, in the neoclassical world, there should be no obstacle to full employment. By completely denying Say's law, Keynes thus succeeded in getting out of the old world toward the new one.

### 2-3. Involuntary Unemployment: A New Concept in the Labor Market

In writing a new book, Keynes courageously called it *The General Theory of Employment, Interest and Money* with a definite article "*The*", placing his emphasis on the word *General*. He never wanted to employ a more modest name *A Theory of Employment* with an indefinite article "*A*". The object of such a highly-motivated title was to contrast the unique character of his new theory with that of the existing neoclassical theory including Ricardo, J.S. Mill, Marshall, Pigou (1933), and possibly Knight. According to his argument, the postulates of the neoclassical theory are applicable only to the very special case of full employment, and not the general case which allows for an arbitrary number of unemployed workers.

There is fundamentally a methodological issue between Keynes and Knight. Keynes analysis started with the presence of unemployment and then discussed how to adopt new policy measures to eliminate unwanted obstacles to the return to full employment. In contrast, Knight remained to live in the old neoclassical world: he thought that the other way around should be the correct one: i.e. full employment was regarded as the most usual state of affairs. Unlike Keynes, we should not assume unemployment first, but instead start our discussion with full employment, and then explain how unfortunate situations with no jobs could occur. To sum up, the question of where we should start our discussion, either at the situation of unemployment or at the one of full employment, was the turning point in our argument. The two giants, Keynes and Knight, adopted just the opposite ways of thinking..

In what follows, let us carefully discuss how Keynes introduced his new concept of "involuntary unemployment" in the labor market. In plain English, involuntary unemployment occurs when a person is willing to work but cannot find his job: he is unwillingly out of the job market. Note that involuntary unemployment must be different from "voluntary unemployment," where workers intentionally choose not to work. The former is also distinguished from frictional unemployment, where certain degrees of mismatches between job offers and seekers take place because of geographical, seasonal, informational reasons or whatever.

The neoclassical view of the labor market is simple and straightforward. The labor market is depicted in Fig. 3, where the horizontal axis measures the amount of employment,  $N$ , and the vertical axis the real wage rate,  $R (= w/p)$ . According to Keynes, the neoclassical doctrine is based on the two fundamental postulates:

- (i) The real wage rate is equal to the marginal product of labor; namely,  $R = w/p = F'(N)$ .
- (ii) The utility of the real wage when a given amount of labor is employed is equal

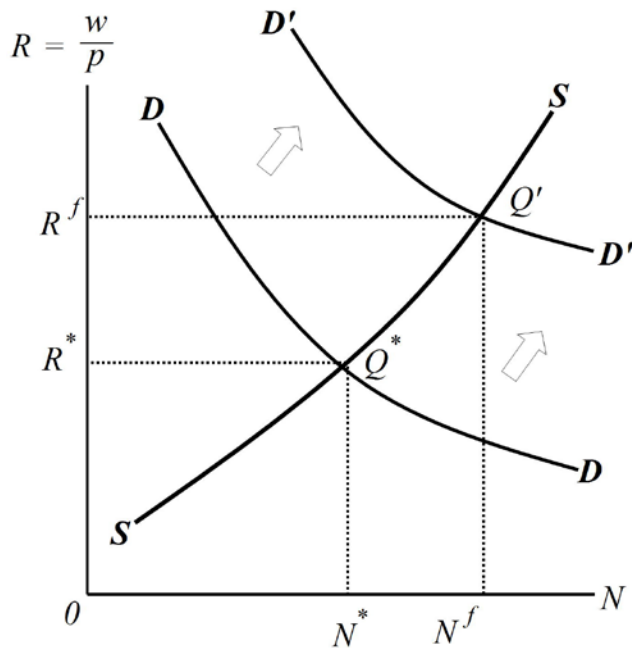


Fig. 3 Is involuntary unemployment a real phenomenon ?

to the marginal disutility or pain of that amount of employment.

In the light of postulate (i), it would be an easy job to find that an increasing  $R$  results in a decreasing  $N$ , so that the labor demand curve  $DD$  must be decreasing. Similarly, by virtue of postulate (ii), we could show that an increasing  $N$  corresponds to an increasing  $R$ , whence the labor supply curve  $SS$  must be increasing. The intersection point  $Q$  of the two curves,  $DD$  and  $SS$ , shows the equilibrium of the labor market in which the labor demand and supply are just equal. The equilibrium amount of employment and the equilibrium rate of real wage are respectively indicated by  $N^*$  and  $R^*$ . In such a perfect world, there should emerge no unemployment at all.

The question of critical importance is whether or not the equilibrium point  $Q^*$  guarantees the ideal state of full employment in the labor market. Let us denote the equilibrium amount of full employment and its corresponding rate of real wage by  $N^f$  and  $R^f$ , respectively. Such a situation would occur in Fig. 3 when the labor demand curve from shift upward from  $DD$  to  $D'D'$  and the new equilibrium point shift upward

from  $Q^*$  to  $Q'$ . If this is the case then we would find  $N^f$  less than  $N^*$ , and  $R^f$  less than  $R^*$ , meaning that a undesirable situation with jobless persons would occur. Not

all the persons who are willing to work cannot find their jobs. More exactly, the line segment  $N^*N^f$  on the horizontal axis measures the amount of involuntary unemployment.

The important question to ask at this point is why we have entered the miserable world of involuntary unemployment. According to Keynes, the answer should be unmistakably clear : it is because of the lack of aggregate demand which in turn is caused by the insufficient amount of consumption or investment as a whole. Otherwise, the labor demand curve could be pushed up from  $DD$  to  $D'D'$  ; and correspondingly the equilibrium point from  $Q^*$  to  $Q^f$ .

In the academic world, there are a group of liberal economists who have the strong desire to understand the meaning of involuntary unemployment and its policy implications. For example, Shapiro and Stiglitz (1985) remarked:

"To us, involuntary unemployment is a real and important phenomenon with grave consequences that needs to be explained and understood." (Shapiro and Stiglitz (1985), p. 1217)

In contrast, there exist another group of conservative economists who do not believe that involuntary unemployment in its true sense really exists, thus having serious doubts about its relevance to the core of economic theory. In this regard, Robert Lucas (1978), a famous market fundamentalist, once remarked:

"[T]here is an involuntary element in all unemployment in the sense that no one chooses bad luck over good; there is also a voluntary element in all unemployment, in the sense that, however miserable one's current work options, one can always choose to accept them. .... the unemployed worker at any time can always find some job at once. " (Lucas (1978), p. 354)

Lucas has the strong belief that unemployment must be voluntary rather than involuntary. It is true that a certain jobless worker could desperately accept any job if he neglects human right and dignity. We must remember, however, that a person should not be a "working machine" ; if he wants to work at a shop or factory, then he must find a good reason for staying there as a human being.

We could also think that the labor market operates like a social institution in which both employers and employees as flesh-and-blood persons meet together and make some form of labor contracts between them. Remarkably, Yasuma Takata, a very famous

Japanese social scientist, applied his unique power theory to the labor market, thus shedding new light on involuntary unemployment. This and related topics will carefully be discussed in the following sub-section.

#### **2-4 Takata on Keynes: Another Look at Involuntary Unemployment**

Yasuma Takata (1883-1972), a contemporary of J.M. Keynes (1883-1946) and J. A. Schumpeter (1883-1950), was a person with plenty of striking characters; namely, cool head, warm heart and strong will. In his young days, he found much interest in the problems of social reform and race discrimination, which in his later years helped to stimulate his own dualistic view and brilliantly multifaceted life. He was not only a world famous sociologist and a first-class economist, but also a highly talented poet. He distinguished himself as a great educator who succeeded in establishing the world-famous Socioeconomic Institute at Osaka University, which collected a group of young and ambitious scholars including the young Morishima and the young Nikaido.<sup>4)</sup>

In contrast to the neoclassical tradition, Takata thought that Robinson Crusoe, who survived a shipwreck and spent a rational and economical life for years on an isolated island, was no more than the imaginary creation of Daniel Defoe (1719), thereby having no qualification at all for a typical person to be modeled in economics.

According to Takata, a person engaged in trading does not only seek for more utility, but also he or she possesses a strong desire for more power. Such desire for seeking power is most clearly present in the labor market. Because the labor market is of human and social character, the concepts of justice and moral must also be involved. The real wage rate for different works are not so freely determined by supply-demand interactions as are traditionally supposed by neoclassical economists, but the absolute money wage per se should demonstrate the worker's true desire for maintaining or raising pride or prestige.

It is in this sense that Takata believed that Keynes's new approach to the working of the labor market became somehow close to Takata's one. We will show their analytic similarity by help of a new figure, namely, Fig. 4. Note that the real wage rate is the ratio of money wage rate to the price level; i.e.,  $R = w / p$ . This figure distinguishes itself from the last figure in the sense that the vertical axis does not measure  $R$  any more, but rather  $w$ . As both Takata and Keynes strongly believed, the difference between  $R$  and  $w$  is of critical importance with relation to the origin and persistence of involuntary unemployment. To take an example, a person may demonstrate strong

4) See Takata (1950, 1995) and Morishima (1994, 1998).

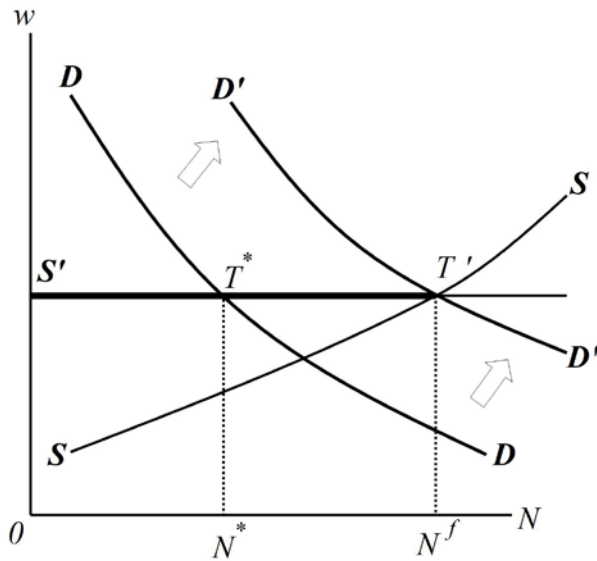


Fig. 4 Strong Resistance to Cut in Money Wages:  
Takata's Interpretation of Involuntary Unemployment

resistance against a 5 % cut in his or her money wage, even though his or her degree of resistance might be rather weak when the price level increases by 5 %. Mathematically speaking, these two effects should be the same in terms of real wage rate. In reality, however, the person in question is most likely to prefer the price rise to the money wage fall. This is certainly because the level of money wage per se may indicate the degree of his status in the society; indeed, a cut in  $w$ , not a rise in  $p$ , would represent a downfall in his pride or prestige. In this connection, Keynes (1936) once remarked:

"In fact, a movement by employers to revise money-wage bargains downward will be much more strongly resisted than a gradual and automatic lowering of real wages as a result of rising price." (Keynes (1936), p. 264)

Keynes already recognized strong resistance by workers against a money wage cut in a modern democratic society. It is in this sense that Keynes became very close to Takata, who as a strong promoter of sociological power theory was brave enough to go



even beyond Keynes.

Let us look back at Fig. 4. Then we see that the vertical axis measures the *money* wages,  $w$ , not the *real* wages,  $R = w/p$ . In our opinion, such an assumption looks very congruent with the Keynesian spirits. The upward-sloped curve  $SS$  associates employment,  $N$ , with money wage,  $w$ . This is not the aggregate supply curve we want to discuss here, however. We are instead eager to pay special attention to the *kinked curve*  $S'T^*T'S$  which consists of the two parts: the horizontal part  $S'T^*T'$  and the increasing and concave part  $T'S$ . The first horizontal (bold-faced) part represents the absolute level of money wage to be desired by the workers; indeed, as was wisely asserted by Keynes himself, any movement by the employers to revise the level downward would strongly be resisted by the workers.

Let the aggregate demand curve be denoted by  $DD$ . Then surely, its intersection  $T^*$  with the kinked curve  $S'T^*T'S$  would stand for the equilibrium under question. Note that  $N^*$  indicates the amount of underemployment. Note that  $N^*$  must be less than  $N^f$ , the amount of full employment, which is attainable only if the aggregate demand moves upward from  $DD$  to  $D'D'$ .

In the above we have shown that when the aggregate demand is deficient there is under-employment of labor: there are workers unemployed who would be willing to work at the existing level of money wage. As the aggregate demand rises, however, aggregate employment increases correspondingly. The above is by and large the essence of Keynes-Takata theory of employment and unemployment. Power really matters!

It is remarkable to see that in their later years, both J.R. Hicks (1989) and Robert M. Solow (1990) came close to Takata. As Morishima (1994) remarked, Takata's power theory is still alive today. We can learn new lessons from old teachings!

### 3. "Involuntary Employment": A New Concept Beyond Keynes

#### 3-1. Depression Economics: Old and New

Most people in the world, especially in the United States, remember the 1930s as the most terrified and most tragic years in the 20th century. In 1935, just one year before the publication of *The General Theory*, J.M. Keynes (1936) recognized the serious failure of the capitalist system as a whole. This is now what we could call "*Old Depression Economics*".

Around 20 percent of the American labor force was unemployed, and real Gross National Product still remained under the level of 1929. As Galbraith (1987) correctly

recalled, to none of those horrible events could the neoclassical economics correctly respond. In spite of the fact that so many people in the street could not find jobs, they were by and large regarded as being voluntary unemployed. The depression economics of Keynes seemed to offer us the only one solution which could solve the serious problem of mass unemployment in the capitalist society.

And so many years have past since then. And so many events have happened between the 1930s and the 1990s — the Second World War, The Cold War, The Fall of the Berlin Wall, the Collapse of the Soviet Union, the Iraq War, and the like.. It seemed that the capitalist economy was the final and indisputable winner of the Cold War. As a result, on appearance, so many people have enjoyed high economic growth and great prosperity, almost forgetting the curse of the old depression economics a la Keynes.

As the saying goes, however, history repeats itself. The "Economic Tower of Babel" is destined to collapse. Already in the late 1990s, a respectable group of Asian economies including Japan, India and China experienced an economic slump which bore a striking resemblance to the Great Depression. In his new edition, Paul Krugman (2008) , a winner of the Nobel prize in economics and one of the most influential economists today, published a very interesting book entitled *The Return of Depression Economics and the Crisis of 2008*. Indeed, he remarked:

"[A]s this new edition goes to press, much of the world, very much including the United States, is grappling with a financial and economic crisis that bears even more resemblance to the Great Depression than the Asian troubles of the 1990s."

(Krugman (2018), p. 4)

This is what we would like to call "*New Depression Economics*". As Krugman and other prominent economists have noticed, "Depression Economics" has never been dead, and now is safely and triumphantly returned to the academic profession. In his new book, Robert Skidelsky (2009), Keynes's wellknown biographer, has declared that after so many years, Keynes is still alive and fundamentally all right. It seems that we are living the *Second Age* of Keynes, which is similar to, yet must be different from, the *First Age* of Keynes. A simple reproduction of the Old Keynes would not work well, We need the *New Keynes* who goes beyond the *Old Keynes*, presumably giving us a new useful sets of guides for solving much more complicated problems of unemployment and economic inequality than ever before.

### 3-2. Unhappy Workers Dispatched by Outside Agencies

I have a habit of getting up rather early, exactly at 6:30, every morning and enjoying reading several daily newspapers from the top page through the last one. One cold winter morning, I had a serious shock by reading the following complaint against social injustice by Mr. Taro Tanaka, who is one of the now popular non-regular workers in contemporary Japan:

"I am a non-regular employees who unwillingly have to work under only five year agency contracts. I would like to let you know that my yearly income is merely two million yen, around half of the pay of a regular worker. Because of such a low income, I remain unmarried, having no choice other than living with my old parents. I wonder whether and how I am able to get out of such a hopeless situation. I want to die without losing my human dignity." <sup>5)</sup>

We could call Mr. Tanaka one of the modern working poor, or even one of the modern "wage slaves." Keynes has paid special attention to those people who are willing to work at the existing pay but cannot find their jobs. Clearly, Mr. Tanaka is not such an involuntarily unemployed person. Judging by appearance, he has a job but is unwillingly working under unfair working conditions such as extremely low pay, no guarantee for promotion, and no permanent contract. In substance, he might be called an "involuntarily employed person" or a sort of "wage slave" in a modern society.

As discussed above, Keynes (1936) has shown that when the aggregate demand is deficient there emerges under-employment of labor in the sense that there are men unemployed who would be willing to work at less than the existing real wage. As a result, as the aggregate demand increases by means of a rise in investment or consumption, employment as a whole is expected to increase. This is certainly the problem of involuntary employment which was energetically discussed by Keynes in the 1930s.

Eighty years have passed since then. We are now in the 2010s. Presumably, the depression economics à la Keynes has returned to a certain degree. We would like to say, however, that that was the past; things seem to be a bit different today. Looking at the Japanese data today, there are so many men including Mr. Tanaka aforementioned, whose jobs are neither regular nor wanted. There should be a

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5) Mr. Tanaka's complaint or similar accusations can be heard everywhere and every day

in Japanese Newspapers today. Japan is no longer a class-less society!

clear-cut distinction between the regular and non-regular workers, which has been rather ignored even by Keynes himself. Non-regular workers are those who are dispatched by an outside agency in order to work less than full time for a limited duration (at most for five years). In contrast, regular workers are those who work full time under permanent contracts with their companies. Although regular workers enjoy benefits such as bonuses, housing, training and lifetime employment, non-regular members might get as little as half of the pay for the same work, with no bonuses and no fringe benefits.

We have been informed that in the past 20 years or so, the number of non-regular workers has grown to one-third of all workers (young and old, male and female included) and even to 40% of all young workers. Seeing is believing! So let us take a look at the recent data that shows the significant pay gaps between regular and non-regular workers in Japan today. In Fig. 5, the horizontal axis measures the age of each person (from 25 years old to 50 years old) and the vertical axis the monthly pay of that person (on the basis of thousand yen). Note that this is not the original figure per se, but an intentionally simplified version for the purpose of easily grasping the whole picture.<sup>6)</sup>

By looking at the figure, we can learn several lessons. First of all, the pay gaps between regular and non-regular workers are significant and persistent for all the age groups. Second, those gaps are rather small at the young age of 25 years old, but tend to gradually widen as the age of a worker advances. Third, the gaps are the greatest at the age of 50 years (in fact, regular workers can earn twice as big as non-regular workers), and stays the same until the retirement age of 60 years old. It seems that Japan is now a sort of "class society" in which the regular worker class and the non-regular one are firmly divided. Once a man gets a small job with a temporary labor contract, he will almost probably be trapped in a series of unhappy jobs until his retirement. Although there is a strong will, there is perhaps no way out! Around 30 years ago, Japan was highly praised as the "All the Middle Class Society for One Hundred Million People" all over the world. This is no longer correct any more. As the saying goes, nothing is certain in this world.

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6) For rigorous empirical approaches to the 2014 employment structure and the 2016 wages structure in the Japanese society, see Japan ministry of Welfare and Labor (2015, 2016).

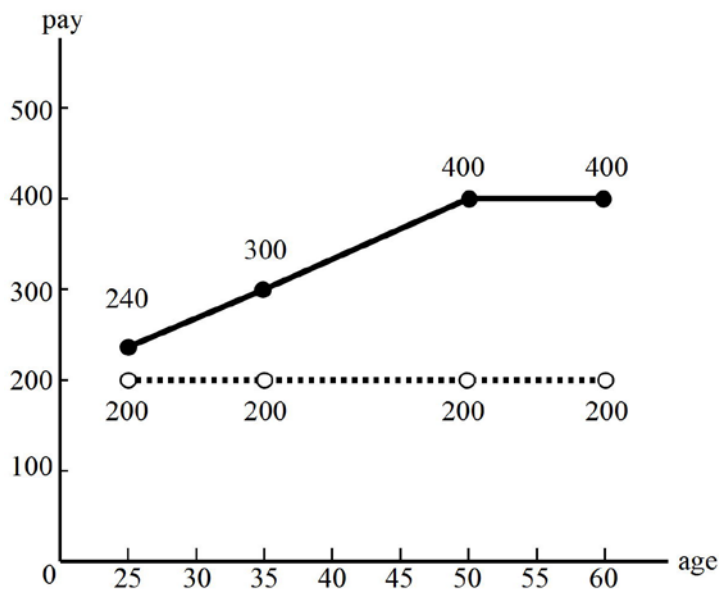


Fig. 5 The pay gaps between regular and non-regular workers:  
Japan pay statistics, 2016, monthly basis (thousand yen)

### 3-3 Takahashi's New Approach to "Involuntary Employment" : Looking Beyond Keynes

Eighty years have passed since *the General Theory*, no doubt the greatest book in the 20th century. We are now in the 2010s. On appearance, the depression economics a la Keynes has returned to a certain degree. We would like to say, however, that that was the past; things seem to be a bit different today. Looking at the Japanese data today, there are so many men whose jobs are neither regular nor wanted. As was

clearly shown above, there should be a clear-cut distinction between the regular and non-regular workers, which has been rather ignored even by Keynes himself. Non-regular workers are those who work less than full time for a limited duration (at most for five years) under temporary agency contracts. In contrast, regular workers are those who work full time under permanent contracts with their companies. Although regular workers enjoy benefits such as bonuses, housing, training and lifetime employment, non-regular members might get as little as half of the pay for the same work, with no bonuses and no fringe benefits.

It is under such circumstances that Nobuhiko Takahashi, one of rising liberal economists in contemporary Japan, boldly introduced the new concept "involuntary employment into economic theory. In his small yet ambitious book, Takahashi (2012) has wanted to show that the severe crisis of the Japanese economy today resides neither in deflation nor in accumulated financial deficit, but rather in involuntary employment. Here, the word "involuntary employment", which has newly been invented by him, is supposed to mean the severe state of employment in which, as typically exemplified by the working poor and the men who work overtime till late, the employees are forced to work against their wills : indeed, their working pains presumably far exceed their earned wages. In what follows, let us attempt to explain his ideas of involuntary employment by help of a figure.

In Fig. 6, it is noted that the vertical axis measures real wages,  $R = w/p$ , rather than money wages,  $w$ . The equilibrium in labor market is indicated by the intersection point  $Q^*$ , of the two curves; namely, the upward-sloped labor supply curve  $SS$  and the downward-sloped labor demand curve  $DD$ . Needless to say, the equilibrium amount of wages is indicated by  $R^*$ . This  $R^*$  is supposed to show the wages for fortunate regular workers, not the one for unfortunate non-regular workers.

We now live in a sort of "class society." Like airplane passengers, there are two distinct classes within the workers — the "first-class workers" and the "second class workers", with no intermediate "business-class workers" being present. The second-class workers or non-regular workers are not hired by the firm they are actually working at, but merely dispatched to the job from an outside human-allocation agency. From the very nature of things, the power of humble non-regular employees are much weaker than the one of upper-seated employers. Consequently, as is seen in Fig. 6, there emerges a double wages structure, the upper level  $R^*$  and the lower level  $R^u$ . While the regular members earn their wages as much as  $R^*$ , the non-regular members are forced to accept the minimal wages  $R^u$ . There the difference between the points  $U$  and  $V$ , or equivalently the one between  $N^u$  and  $N^v$  is supposed to measure the

amount of "involuntary employment", or more plainly "unwanted employment."

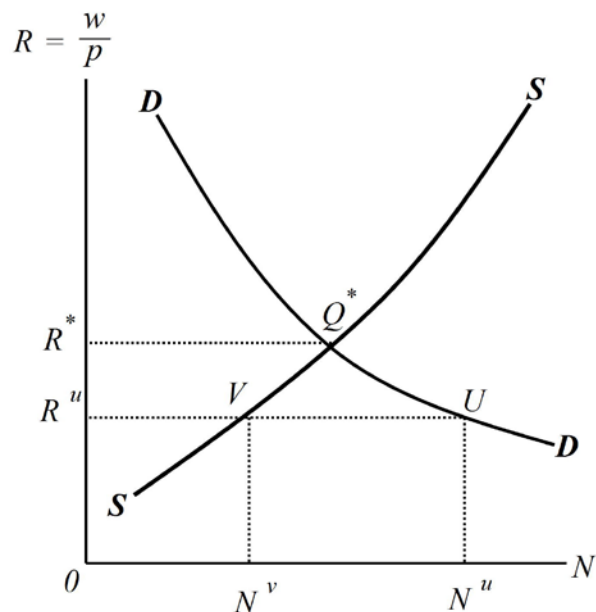


Fig. 6 Takahashi on "involuntary employment":

Is there no resistance to pay cut ?

If the labor market under question is depicted in Fig. 6, we have to face a sort of "labor discrimination." At this point, the question which might naturally arise in our head is why and how long such a discrimination can continue. This would really be a rather easy question but very hard to answer !

In our opinion, there are by and large two different points of views conceivable — economical and sociological. According to the first economical point of view, the efficiency or productivity differs from person to person: the regular workers work more efficiently than the non-regular workers, whence the former is entitled to earn definitely more than the latter. In reality, this is sometimes only partly true, and not true at all in most of the cases. To take an example from university instructors, the teaching and research capability differences between permanent members and non-permanent members are by and large minimal, whence there would be no justification whatever for overly preferential treatment for regular members with

tenures. It would almost always be the case that non-regular members such as temporary or part-time instructors without tenures are simply underpaid; they earn much less pay than they really deserve.

Those economic considerations point out to seek sociological point of view. In particular, Takata's power theory may work again here! The place of regular workers in a modern society has been historically high, and their powers are guaranteed by strong labor unions. In contrast, non-regular workers are not well-organized and less respected by other members of the society; consequently, they could little resistance against pay cut. Notwithstanding those power theoretic interpretations, we need to do much further inquiry. As the saying goes, steady dripping may wear away stone!

#### 4. Concluding Remarks

Quite recently, Thomas Piketty (2013), a rising French economist, published a very exciting book entitled *Le capital au XXI<sup>e</sup> siècle*. Its English translation *Capital in the Twenty-First Century* published a year later immediately became a best seller all over the world. This title per se seems to remind us of the return of Karl Marx (1968), who published a very sensational book entitled *Das Kapital* more than 140 years ago.

Upon the publication of Piketty's new book, Paul Krugman quickly wrote the book review in *the New York Times*:

"It seems safe to say that *Capital in the Twenty-First Century*, the magnum opus of the French economist Thomas Piketty, will be the most important economic book of the year — and maybe of the decade. Piketty, arguably the world's leading expert on income and wealth inequality, does more than document the growing concentration of income in the hands of a small economic elite." (Krugman (2014))

Piketty's new book is a timely and well written book. By and large, it has been so well received by the general public as well as the economics profession. Why has it been so popular all over the world? In our opinion, the key to answering this question resides in the old and new remark by Keynes (1936): 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 incomes.

According to Keynes, there are two critical problems we have to solve in the capitalist economy, i.e., unemployment and income inequality. We think that the first problem has been thoroughly investigated by Keynes himself. The key concept he has



employed is the one of "involuntary unemployment" : there are so many persons in the street, who are willing to work at the existing wages but cannot find jobs because a shortage of the effective demand as a whole. It would be safe to say, however, that Keynes's attempt to solve the second problem has not been so successful. Only in the recent times, Piketty, acting as the modern Keynes, has bravely tackled the leftover problem of inequality of income and wealth with a smashing success.

If we carefully look at the Japanese economy today, we have to point out that a new and old phenomenon "involuntary employment" has been emerged, and its importance is getting greater and greater every year. There are simply so many people in the street who have to work unwillingly at the minimal level of wages. The gaps between regular and non-regular workers are so wide and persistent that the people feel as if they lived in a sort of class society. Although Takahashi's analysis of involuntarily employed workers seems to be less than perfect, we would think that it is in the right direction, requiring further investigation in the future.

In their challenging book, Linbeck and Snower (1988) has developed the new insider-outsider theory of employment and unemployment. Whereas the "insiders" are the incumbent employees whose jobs are protected by labor turnover costs, the "outsiders" who are not employed and have no solid protection at all. In our opinion, although the Lindbeck-Snower theory looks attractive, it cannot give an effective tool to analyze the miserable states of the non-regular workers. It is noted that both regular and non-regular workers may be regarded as insiders; they rather belong to distinct classes of insiders — "upper-class insiders" and "lower-class insiders." Besides, Unfortunately, the barriers between those two classes are great and almost insurmountable.

We believe there remain so many important problems unsolved. And time seems to fly so fast. We need another Keynes, and also another Piketty.

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