And the Nobel prize for economics goes to… Karl Marx!

Anarcho

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Unsurprisingly, the Economist was cock-a-hoop over the giving of the (non-)Nobel prize for economics to Edmund Phelps (*"A natural choice: Edmund Phelps earns the economics profession's highest accolade"*, **The Economist**, Oct 12^{th} 2006). The reasons why become clear.

According to the magazine, *"Phelps won his laurels in part for kicking the feet from under his intellectual forerunners"* by presenting a neo-classical explanation for the breakdown of the so-called "Phillips curve" which presented a statistical trade-off between inflation and unemployment (*"unemployment was low in Britain when wage inflation was high, and high when inflation was low"*). The problem was that economists *"were quick – too quick – to conclude that policymakers therefore faced a grand, macroeconomic trade-off."* The magazine presents it as follows:

> *"In such a tight labour market, companies appease workers by offering higher wages. They then pass on the cost in the form of dearer prices, cheating workers of a higher real wage. Thus policymakers can engineer lower unemployment only through deception."*

Phelps innovation was to argue that *"[e]ventually workers will cotton on, demanding still higher wages to offset the rising cost of living. They can be duped for as long as inflation stays one step ahead of their rising expectations of what it will be."* This meant that the *"stable trade-off depicted by the Phillips curve is thus a dangerous mirage"* which broken in the 1970s with the rise of stagflation (high unemployment and high inflation). Phelps, reports the Economist, argued that there was a "natural" rate of unemployment, where *"workers' expectations are fulfilled, prices turn out as anticipated, and they no longer sell their labour under false pretences."* This *"equilibrium does not, sadly, imply full employment"* and so capitalism required *"leaving some workers mouldering on the shelf. Given economists' almost theological commitment to the notion that markets clear, the presence of unemployment in the world requires a theodicy to explain it."* The religious metaphor does seem appropriate as most economists (and the Economist) do treat the market like a god (a theodicy is a specific branch of theology and philosophy that attempts to reconcile the existence of evil in the world with the assumption of a benevolent God).

And, as with all gods, sacrifices are required and Phelps' theory is the means by which this is achieved. As the Economist notes: *"in much of his work he contends that unemployment is necessary* *to cow workers, ensuring their loyalty to the company and their diligence on the job, at a wage the company can afford to pay"* (i.e., one which would ensure a profit). Unsurprisingly, attempts to lower the "natural rate" have all involved using the state to break the economic power of working class people (attacking unions, increasing interest rates to increase unemployment in order to temporarily *"cow"* workers and so on). All so that profits can be keep high in the face of the rising wages caused by the natural actions of the market!

Yet Phelps' conclusions are hardly new. Anarchists and other socialists have been arguing that capitalism has no tendency to full employment since the 1840s either in theory or in practice. They have also noted how periods of full employment bolstered workers' power and harmed profits. It is the fundamental disciplinary mechanism of the system (*"a whip in [the bosses'] hands, constantly held over you, so you will slave hard for him and 'behave' yourself,"* to use Berkman's memorable phrase). It is, in other words, *"inherent in the wage system"* and *"the fundamental condition of successful capitalist production."* While it is *"dangerous and degrading"* to the worker, it is *"very advantageous to the boss"* and so capitalism *"can't exist without it."* (Alexander Berkman, **What is Anarchism?**, p. 26)

These kinds of arguments used to be dismissed as nonsense by neo-classical economists (the main branch of the religion). So it is ironic Phelps has got a (non-)Nobel prize for restating, in neo-classical jargon, the model of the labour market expounded in, say, Chapter 25 of the first volume of Marx's **Capital**:

> *"If [capital's] accumulation, on the one hand, increases the demand for labour, it increases on the other the supply of labourers by the 'setting free' of them, whilst at the same time the pressure of the unemployed compels those that are employed to furnish more labour, and therefore makes the supply of labour, to a certain extent, independent of the supply of labourers. The action of the law of supply and demand of labour on this basis completes the despotism of capital. As soon, therefore, as the labourers learn the secret, how it comes to pass that in the same measure as they work more, as they produce more wealth for others … as soon as, by Trades' Unions, etc., they try to organise a regular co-operation between employed and unemployed in order to destroy or to weaken the ruinous effects of this natural law of capitalistic production on their class, so soon capital and its sycophant, Political Economy, cry out at the infringement of the 'eternal' and so to say 'sacred' law of supply and demand. Every combination of employed and unemployed disturbs the 'harmonious' action of this law. But, on the other hand, as soon as … adverse circumstances prevent the creation of an industrial reserve army and, with it, the absolute dependence of the working-class upon the capitalist class, capital … rebels against the 'sacred' law of supply and demand, and tries to check its inconvenient action by forcible means and State interference."*

That the Economist and Phelps are simply echoing, and confirming, Marx is obvious. Phelps' theory has informed "State interference" in the economy for the last 30 odd years. The use of Phelps' theory by capital in the class war is equally obvious — as was so blatantly stated by the Economist.

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A few comments on the winner of the 2006 so-called Nobel Prize for economics. A more obvious example of economics as ideology for the ruling class is hard to find!

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