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Since the 1970s, capitalist economic policy has been rooted in “fighting inflation,” an euphemism for “crushing the workers.” This policy is rooted in the notion of the “Non-Accelerating Inflation Rate of Unemployment” (or NAIRU) and, like most of the silly and/or nasty ideas in modern economics, has its roots in the works of the late and unlamented Milton Friedman.

The NAIRU is based on the idea that there is some rate of unemployment below which inflation starts to rise. The problem is, it is invisible. There is no way of determining what that rate is beyond looking at what actually happens to the inflation rate. So the economic policy across much of the world is based on a group of technocrats trying to guess where an invisible value is and, to make matters worse, the rate changes over time.

This is because the rate is dependent on many factors, the key ones relate to working class power – i.e. our ability to demand and gain better pay and conditions. The logic is simple. As unemployment falls, workers feel more able to demand better pay and conditions, form unions and so on. This raises the wage bill, which companies off-set by raising prices. This, in turn, gets workers to demand higher wages and inflation starts to accelerate. This was the process at work in the 1970s and was broken by Thatcher's and Reagan's deep economic crises brought upon by the application of Friedman's Monetarism nonsense (this silly dogma was very fashionable with the right back then but did not survive impact with reality, as predicted by such post-Keynesians as Nicholas Kaldor). With the staggering levels of unemployment this theory produced, workers could no longer offset price increases and so costs required for "recovery" were passed onto the working class.

Needless to say, Edmund Phelps (the economist who formulated the modern version of this theory) was given the (non-)Nobel prize for economics in October of 2006. Unsurprisingly, **the Economist** was cock-a-hoop over this (*"A natural choice: Edmund Phelps earns the economics profession's highest accolade"*, Oct 12th 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 broke down in the 1970s *profits"*? Are profits sacred? Why should the majority accept *"lower real incomes"* so that the few can get see their incomes rise? And Blair declared that the class war was over. Someone should tell King…

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 raise unemployment in order to temporarily *"cow"* workers and so on). All so that profits can be kept 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) As such, it is ironic Phelps has got a (non-)Nobel prize for restating, in neo-classical jargon, the model of the labour market long dismissed as nonsense by neo-classical economists (the main branch of the religion).

Interestingly, the business section of the *Washington Post* reported Phelps reward under the surreal headline **"You Might Have to Thank Him for Your Job."** He, like Friedman, argued that the state has to keep the unemployment rate at or above the (unknown and unknowable) "natural rate" in order to keep inflation from accelerating. In other words, you have to make people unemployed or fear being made unemployed (by raising interest rates and slowing the economy) for capitalism to survive. Given Phelps' theory, it would make far more sense for the *Washington Post* to produce headlines like **"You Might Have to Thank Him for Not Having a Job"**; **"You Might Have to Thank Him for Your Job Insecurity"; "You Might Have to Thank Him for Exploding Inequality caused by Stagnating Pay in spite of Rising Productivity";** or **"You Might Have to Thank Him for the annual transfer of $235 billion from labour to capital since 1979"** (figure from *"The State of Working America 2006/7"*). But, as with economics, why let reality get in the way of a snappy sound-bite?

That this state manipulation is considered consistent with the "free market" says a lot about the bankruptcy of the capitalist system and its defenders. But, then, for defenders of the system state intervention on behalf of capital is part of the natural order, unlike state intervention (at least in rhetoric) on behalf of the working class. Thus neo-liberal capitalism is based on monetary policy that explicitly tries to weaken working class resistance by means of unemployment. If "inflation" (i.e. labour income) starts to increase, interest rates are raised so causing

unemployment and, it is hoped, putting the plebs back in their place.

This was the message of Mervyn King, the governor of the Bank of England, a few days before Pelphs was given his prize. King warned Britain's pay bargainers to accept wage restraints or interest rates would increase. This is despite dearer energy bills. King stated that the current small increases in earnings were not *"sufficiently restrained"* to compensate for the inflationary effects of higher energy prices and unfavourable changes in the prices of imports and exports. *"Ultimately, both developments must result in lower real incomes,"* he said (the silence on bosses exploding pay remains, as always, deafening). In other words, the working class must pay the price for capitalism's problems. Hence the need to *"to keep our eye on the ball and monitor closely the evolution of wage and cost pressures."* As a statement of class war, it is hard to find a more succinct one.

Of course, according to the eternal and sacred law of "supply and demand," wage rises are to be expected when unemployment falls. The laws of the market are the justification for bosses' massive rises, after all. Equally, according to the "science" of neo-classical economics, firms are price takers and so cannot influence market price of their goods. But the reality of capitalism is far removed from neo-classical ideology and the state is always at hand to give capital a helping hand. Yet even in the unreal world of capitalist economics, wage rises need not cause price increases. This is because wage increases can be offset by reductions in profits.

However, this is not an option in reality. As King notes, while *"wage pressures have so far been subdued, it is still not clear that earnings have been sufficiently restrained to accommodate the past rises in energy prices and the fall over the past year in the prices of our exports relative to our imports without a squeeze on profits. Ultimately, both developments must result in lower real incomes."* Sorry, but no. Why should there **not** be a *"squeeze on*