ABOUT THE AUTHORS

Jean-Luc Gaffard, Professor of Economics, Université Côte d'Azur, GREDEG-CNRS, OFCE Sciences Po, Institut Universitaire de France.
Email Address: jeanluc.gaffard@sciencespo.fr

ABSTRACT

There is a basic opposition between a theory of equilibrium and a theory of evolution in dealing with the question of labour and employment. The one claims that an optimal state of the economy and of society, to which the fluidity of jobs and the flexibility of wages would be coupled, exists and is known beforehand. The other maintains that the search for the solidity of jobs and the viscosity of wages only makes sense in terms of the consequences that one expects in terms of the viability of an evolution whose contours it is not possible to know a priori. This opposition actually reveals distinct philosophies of knowledge, one referring to a pre-existing reality, the other attentive to experience without a priori.

KEYWORDS: Employment, flexibility, labor, wage.

JEL: B40, J01, J08.

RÉSUMÉ

Il existe une opposition fondamentale entre une théorie de l'équilibre et une théorie de l'évolution dans le traitement de la question du travail et de l'emploi. L'une prétend qu'un état optimal de l'économie et de la société, auquel seraient couplés la fluidité des emplois et la flexibilité des salaires, existe et est connu d'avance. L'autre soutient que la recherche de la solidité des emplois et de la viscosité des salaires n'a de sens qu'en fonction des conséquences que l'on attend en termes de viabilité d'une évolution dont il n'est pas possible de connaître les contours a priori. Cette opposition révèle en fait des philosophies de la connaissance distinctes, l'une se référant à une réalité préexistante, l'autre attentive à une expérience sans a priori.

MOTS CLÉS: Emploi, flexibilité, salaire, travail.

JEL: B40, J01, J08.
Antecedents in labor economics*
Jean-Luc Gaffard
Professor of Economics, Université Côte d'Azur, GREDEG-CNRS, OFCE Sciences Po,
Institut Universitaire de France

Abstract
There is a basic opposition between a theory of equilibrium and a theory of evolution in dealing with the question of labour and employment. The one claims that an optimal state of the economy and of society, to which the fluidity of jobs and the flexibility of wages would be coupled, exists and is known beforehand. The other maintains that the search for the solidity of jobs and the viscosity of wages only makes sense in terms of the consequences that one expects in terms of the viability of an evolution whose contours it is not possible to know a priori. This opposition actually reveals distinct philosophies of knowledge, one referring to a pre-existing reality, the other attentive to experience without a priori.

Key words: Employment, flexibility, labor, wage.

JEL codes: B40, J01, J08.

Résumé
Il existe une opposition fondamentale entre une théorie de l'équilibre et une théorie de l'évolution dans le traitement de la question du travail et de l'emploi. L'une prétend qu'un état optimal de l'économie et de la société, auquel seraient couplés la fluidité des emplois et la flexibilité des salaires, existe et est connu d'avance. L'autre soutient que la recherche de la solidité des emplois et de la viscosité des salaires n'a de sens qu'en fonction des conséquences que l'on attend en termes de viabilité d'une évolution dont il n'est pas possible de connaître les contours a priori. Cette opposition révèle en fait des philosophies de la connaissance distinctes, l'une se référant à une réalité préexistante, l'autre attentive à une expérience sans a priori.

Mots clés : Emploi, flexibilité, salaire, travail.

Codes JEL : B40, J01, J08.

1. Introduction

Dewey, in his book *The Quest for Certainty* (1929), identifies two philosophical traditions: the one according to which “the office of knowledge is to uncover the antecedently real”, and the one according to which “it is to gain the kind of understanding which is necessary to deal with problems as they arise” (p. 20). The pure intellectual activity is, thus, separated from the practical action, where change and contingency reign. The philosophical tradition predisposed to the universal, the invariable or the eternal, in search of certainty (a "complete system of immutable and necessary truth") is placed in opposition to a pragmatic philosophy attentive to experimental investigation. This vision of philosophy favors "the contingency without a priori on all that can occur in the world, without prejudging any law or any norm that would be substituted for it from outside or from all eternity" (Cometti 2018 p. 22). It leads Dewey to consider that the validity of a theory is measured by its consequences.

By following this approach, it becomes possible to revisit the theory of market economies and what it tells us about labor, employment and wages. On the one hand, the reflection on the place and role of labor is located in a theoretical reference frame, that of a virtual reality, without any relation to experience, and is none other than the state of perfect competition as conceived by Walras (1874). On the other hand, this same reflection refers to concrete experiences, those characteristic of a situation of coordination in a situation of incomplete information as conceived by Keynes (1936), which belong to a specific historical and institutional context and therefore cannot respond to an immutable law, the putative mechanics of prices.

Markets where labor supply confronts demand and where wage rates are set exist in practice. These markets are multiple. They correspond to various qualifications and locations. They are places of power and negotiation. They can be internal or external to the firm or the branch of activity. This elementary presentation, on which everyone can agree, masks antagonistic conceptions or premises of what is meant by the market economy, one conducted in terms of equilibrium, the other in terms of disequilibrium. From a general equilibrium perspective, in a competitive regime, supply and demand behaviors are guided by price signals (including wage rates), which reveal the degree of imperfection of the markets defined with respect to a reference state, perfect competition. The flexibility of these prices is the guarantee of the efficiency of behavior and the possibility of reaching this optimal state. From a disequilibrium perspective, in a situation of imperfect and incomplete information, employment depends, of course, on the tension between labor supply and demand, but also on the monetary and financial conditions affecting this supply and demand and, more generally, on the sequence of events that structure the evolution. The necessary coordination requires appropriate institutions and policies.

Depending on the assumption made, the expected consequences of the policies or the lack of policies implemented will be different. It is these consequences that ultimately measure the validity of the a priori. If we are led to discard the a priori that relies on the belief in the existence of an equilibrium independent of any historical or institutional contingency, this does not mean that it is easy to adopt another a priori inasmuch as placing the requirement of coordination in incomplete information at the center of the game does not imply that the nature of the coordination problems is an invariant. The challenge is to move away from an attitude of thought that would make the a priori an ideology.
2. The assumption of a predefined equilibrium

This is an analysis of the functioning of market economies that is based on the idea that there is a state of perfect competition, a state in which the free formation of prices (and wages) ensures the communication of complete and immediately available information and leads to an optimum. Such an assumption is sufficient to explain the presumed harmful nature of market imperfections and the need to remedy them. It leads, in particular, to the dissociation of the unemployment rate from the inflation rate.

The mechanics of the labor market

The economic analysis of labor is most often driven by a conception of the market economy, that of Walras and Pareto, which consists in referring to an ideal – a social optimum – that one seeks to reproduce as closely as possible. Labor is the object of an exchange on a market, the labor market, thus becoming a commodity offered by some (the workers) and demanded by others (the employers). This merchandise has a price fixed on the market, the wage, which, in the best case (in perfect competition), is given by the marginal productivity of labor. At this wage rate, the supply of labor is equal to the demand for labor. All those who seek a job at this wage rate get it. There is no unemployment other than voluntary unemployment. This situation is conditional on a perfect flexibility of the wage rate that guarantees the existence and stability of the equilibrium on the labor market.

Dealing with labor, employment and wages in this way is at the heart of macroeconomic theory, which is based on the existence of a long-run equilibrium characterized by a natural rate of unemployment. According to this theory, the natural rate of unemployment is the only rate of unemployment compatible with a constant rate of inflation – positive, zero or negative. Full employment is none other than the equilibrium reached in a labor market without assistance or distortion from government regulation.

This unemployment rate can increase under the influence of shocks that increase the size of the flows irrigating the labor market: inflows and outflows of the labor force, the employed population and the unemployed population. The larger these flows, the higher the unemployment rate and the job vacancy rate, for possibly low and constant unemployment or job vacancy durations. Thus, when the economy is engaged in an innovation process that creates and destroys jobs simultaneously, the equilibrium (natural) unemployment rate resulting from the matching conditions between vacancies and unemployed jobseekers will be higher the higher the innovation intensity and the higher the product growth rate (Aghion and Howitt 1994).

The other factor that increases the natural rate of unemployment is the imperfections that affect the functioning of both the labor and goods markets. One way of accounting for these imperfections is to establish two relationships between the real wage rate and the unemployment rate, one relating to the functioning of the goods market, the other to the functioning of the labor market (Layard, Nickell and Jackman 1991). According to the first, the price level is determined by the nominal wage rate plus a markup that reflects imperfections in the goods market. According to the second, the real wage rate – the nominal wage rate relative to the expected price level – depends negatively on the unemployment rate, but positively on the rigidities specific to the labor market (institutional layoff and unemployment compensation schemes), which reflect the bargaining power of employees. In equilibrium, the current price level is equal to the expected level, and the prevailing unemployment rate is the natural rate of unemployment. The increase in the markup, due to increased market power of
firms, and increased rigidity in the labor market, due to increased bargaining power of employees, both result in an increase in this natural rate of unemployment. On the one hand, the expected price level increases so that in equilibrium the supply of goods decreases. On the other hand, the real wage rate for each level of the unemployment rate increases so that at the same expected price level the natural unemployment rate increases. This unemployment due to market imperfections of an institutional nature remains voluntary unemployment, which is nothing other than the reflection of institutional choices and power positions.

**The dichotomy between unemployment and inflation**

The analytical approach thus promoted tends to dissociate the explanation of unemployment from that of inflation (Friedman 1968). Unemployment is due to dysfunctions in the labor and goods markets. Inflation is due to monetary and budgetary excesses attributable to the government. No trade-off between the unemployment rate and the inflation rate can be sustained. Their dichotomy has as its corollary the neutrality of money and finance, in other words the dichotomy between a "real" sector and a monetary sector.

From this perspective, employment can be described as casual, and the employment contract is a hire contract. As for unemployment, it is the result of market imperfections that must be corrected as much as possible if we want to reduce it. These imperfections take the form of rigidities in the wage rate due to the existence of a minimum wage or unemployment benefits, to the exercise of union power for the benefit of workers already employed, but also to the exercise of market power by firms, which leads them to raise their prices and reduce the volume of production and the number of jobs, even when they choose a wage level higher than the competitive equilibrium wage, known as the efficiency wage, which is supposed to encourage employees to reveal their true productivity level. In all cases, legal rules and institutions that exercise power are at stake and are systematically perceived as obstacles to the achievement of the social optimum of perfect competition, which is a state that is in some way a-institutional and a-historical. The solution advocated consists in structural reforms aimed at making markets more competitive by promoting price and wage flexibility. These reforms may be accompanied by so-called job security measures, which remain individual job training measures and do not call into question the principle of free markets.

**3. The need for coordination out of equilibrium**

An alternative approach breaks with the idea of competition as a state and gives way to the idea of competition as a process of rivalry aimed at the progressive acquisition of relevant information. According to this other original (antecedent) conception of competition, certain market imperfections or public interventions are required to ensure, not the optimality of a particular state of equilibrium, but the coordination of decentralized activities and the viability of evolution of the economy.

From the perspective looked at by Keynes at the time of the Great Depression, the relationship between unemployment and the wage rate takes on a completely different dimension. Involuntary unemployment exists and is that which resists a fall in the real wage rate or decreases when this same wage rate increases (and aggregate demand increases). Of course, the money wage rate is rigid downwards when more labor is available at the same or a lower wage rate. This rigidity is due to the fact that wage rates are not subject to daily auctions but are posted and fixed for fixed durations. It may be explained by workers' preoccupation with
relative wages and by the absence of a central (economy-wide) mechanism for changing all money wages together, that is, decentralized bargaining (Hicks 1974). Employers and workers do not have the ability to coordinate at the aggregate level to set a real wage rate that would ensure a level of effective demand (anticipated by entrepreneurs) corresponding to full employment.

The link between the disequilibrium in the labor market and the disequilibrium in the goods market explains this lack of coordination. Excess supply in both markets does not lead entrepreneurs to increase employment in the expectation that newly employed workers will increase their demand for goods. Similarly, workers do not accept a fall in their money wage rate in the expectation that the fall in prices will translate into an increase in their real wage rate, all the more because the fall in wages and prices are likely to aggravate the excess supply of goods and unemployment.

As a matter of fact, employment and wages are driven by separate but interdependent forces. The level of employment depends on the interaction between different markets, including the financial market. More precisely, it depends on entrepreneurs’ incentives to invest (and thus on effective demand, that is the demand anticipated by entrepreneurs), which is controlled by the state of long-term expectations in a context where financial markets (interest rates) fail to ensure the coherence of long-term production and consumption plans. Thus, a fall in the expected rate of profit is not accompanied by a fall in the interest rate, which would result from a reduction in the demand for loanable funds ensuring equilibrium in this market and full employment at the cost of a redistribution of demand between consumption and investment. The reason for this is the behavior of capital owners who anticipate a fall in the price of securities, in other words a rise in interest rates, resulting in an increase in the unemployment rate. More generally, two mechanisms are at work. One regulates prices and the wage rate in response to market disequilibria on the basis of trading conditions in decentralized markets. The other determines employment, which depends on available financing resources given negotiated price and wage levels and demand expectations.

The complex relationship between unemployment and inflation

In this perspective, unemployment and inflation can no longer be considered as independent of each other. Both reflect disequilibria in the different markets, are closely related to each other and reveal coordination failures that cannot be resolved by price and wage changes.

The simplest situation is one characterized either by generalized excess supply, which leads to a rise in the unemployment rate and deflation, or by generalized excess demand, which leads to a fall in the unemployment rate and inflation. Thus, the Phillips curve is derived, reputed to be a stable inverse relationship between the unemployment rate and the inflation rate, opening the way to a fine-tuning of the economy through global, fiscal or monetary means.

In fact, this relationship does not have the stability that has been attributed to it. It can happen that the unemployment rate and the inflation rate increase (or decrease) simultaneously. This does not mean that they are independent of each other, but that they reflect the heterogeneity of the micro markets for goods and labor. Indeed, it is enough for the reactions to market disequilibria in terms of prices and quantities (of employment) to be asymmetric – firms increase prices rather than quantities in the face of excess demand, and vice versa in the face of excess supply – for a greater variance of the distribution of excess demand and supply to result in a simultaneous increase in the inflation rate and the unemployment rate (Tobin 1972, Fitoussi 1973).
4. The labor relationship revisited

An a priori emphasis on coordination failures is part of a representation of labor that breaks with the reference to the market relation alone. The "ordinary" theory ignores the fact that the labor relationship has been transformed at the same time as labor has acquired a new status, that of a fund of resources comparable to physical capital because of the specific character of qualifications and the duration of their commitment (Georgescu-Roegen 1971). Labor now has a qualitative as well as a quantitative dimension. It no longer has the property of homogeneity that is attributed to it in many models. It cannot be transferred freely (without cost and without delay) from one type of production process to another. Thus, the employment contract has appeared, whose characteristic, often forgotten in economic literature, is that it is not a strict market relationship like the hire contract. It constitutes a relationship of authority before being a market relationship (Simon 1951). Moreover, it presupposes a certain continuity in the relationship between employer and employee. This continuity explains why there is a cost to breaking this relationship, for the employee of course, but also for the employer, since there is, to the detriment of both, a loss of accumulated human capital and of the learning capacity. In other words, the employment contract is part of a progressive enrichment of skills that responds to the need for the company to constantly renew its business and its customers (Segrestin and Hatchuel 2012).

Labor is not inevitably a commodity subject to the possibly erratic vagaries of supply and demand. A job can be described as regular. The durability of the employment relationship requires mutual trust between the employer and the employee. Wage formation is then governed by conventional rules based on the principle of equity, which meets the need for the viability of both firms and the global economy. Fairness goes hand in hand with the fact that wages set by employers do not react suddenly and rapidly to labor shortages or surpluses but remain relatively rigid. This rigidity is a matter of continuity in the employment relationship, not of monetary illusion (Hicks 1974, pp. 65-66). Unemployment cannot be reduced to a malfunctioning of the labor market.

The flexibility inherent in the employment contract is that the tasks set by the employer can and usually do change to meet new business needs. It is a form of liquidity that aims, like financial reserve assets, to preserve the widest possible range of future choices (Simon 1951). This is based on the conviction that innovation is a matter of collective learning, at the heart of which stands the firm. From this perspective, "the great singularity, and the enduring modernity of labor law, consists precisely in recognizing that the capacity of individuals is necessarily embedded in that of the groups to which they belong, and that society is not and cannot be this dust of contracting particles to which market fundamentalists would like to reduce it" (Supiot 2010, pp. 139–140). This construction takes as its starting point the creativity of people and their collective capacity. It is anchored in an economy of imperfect knowledge, not in an economy of perfect competition.

The flexibility required cannot be equated with an immediate responsiveness of wage rates to market signals, which generates the mobility that ease of hiring and firing would make possible. It becomes a capacity for initiative that allows the firm to evolve, to create new productive options and to build its own environment by creating new skills and competences (Amendola and Bruno 1990).

The emphasis is therefore placed on the long-term potential of human resources rather than on their immediate performance. What is important is not so much the tasks assigned to
workers at a given moment as the possibility of their redeployment to perform new tasks. The purpose of outsourcing some of these tasks is not to reduce costs, but to free up internal resources for new, more productive, or more promising tasks. These learning and redeployment processes take time and involve temporary cost increases, mobilizing resources whose use is neither systematically nor immediately optimized.

It is true that in the field of new technologies, de facto, firms mainly use the external labor market with the result that the duration of job is relatively low. These firms do this because they are looking for the experience their employees have gained with their competitors. For this reason, they offer ever higher wages to new workers who exercise their market power and remain permanently employed, albeit in different firms. They can do this because they are in a position of monopolistic competition. This is a very specific form of labor mobility, which must be distinguished from the mobility required by the destruction of jobs due to changes in technology or customer preferences that lead to changes in required qualifications.

No less particular is the mobility induced by the existence of communities of practice or knowledge, associating employees who may work in different firms, whose object is the creation of knowledge. These communities transcend the distinction between internal and external labor markets, while at the same time stabilizing individual commitments, far from flexibility in its common sense of immediate optimization of individual situations. They reflect the desire to control social interactions, not at a given moment in time, but throughout a never-ending process of innovation (Cohendet and Gaffard 2012).

Stable jobs and fair wages are part of a conception of the firm, not as the property of shareholders who are supposed to be in the best position to make strategic choices, but as a political coalition contractually associating the different stakeholders, i.e., managers, employees, capital owners, customers and suppliers (March 1962).

Executive managers and workers base their actions on long-term, contractual or informal commitments. Incentives are based on the duration and stability of the employment relationship. Hiring decisions are not simply determined by the wage rate. They are determined by reference to the present value of expected costs and benefits (Bruno 1987 p. 138). Work force is a fund of services in the sense of Georgescu-Roegen (1971), the effective use of which proceeds from a labor contract of indefinite duration. "The rise of this wage status has led to a legal resurgence of non-contractual forms of exchange, such as the intergenerational solidarities established by pay-as-you-go pension schemes, which institute a life-long debt to the previous generation" (Supiot 2013 p. 34).

The durability of the employment relationship (or the employment contract) is, moreover, conditioned by the durability of the finance contracts. Entrepreneurs can guarantee the duration of the employment relationship only if they have the necessary financial resources at their disposal at the time they are needed. The employment contract can no more be dissociated from the finance contract than the labor market can from the financial market. The distinction between "outside" and "inside" shareholders takes on its full meaning here. Consequently, "the fact that corporate law favors one or the other of these two forms of shareholding is obviously much more significant for employment than the more or less protective nature of the firing law" (Supiot 2010 p. 112).
5. The experimental consequences of an a priori

The a priori assumed are not without consequences for the course of events, whether they postulate the existence of an optimal equilibrium outside of any experience or whether they are embedded in a historical and institutional context. This is demonstrated by the following experiments, one described as neo-liberal, the other as Keynesian.

The neo-liberal experiment

From the 1970s onwards, after inflation had been eradicated, apparently thanks to the intervention of central banks, human resources once again became an individual rather than a collective resource in the minds of policymakers. Job mobility measures, which are supposed to provide individual job security, have taken precedence over job tenure guarantees. The frequency of job changes, and thus of switching to the external market, has increased at the same time as the average length of time spent in particular jobs has decreased.

Of course, one could always imagine that the specificity of investments made by firms to create jobs, reinforced by institutional rules that prevent layoffs, would devalue the firm's option of using its resources outside the initial employment relationship and reduce the opportunity to invest because of the risk of appropriation of part of the quasi-rent by labor. The result would be technological sclerosis and underutilization of labor (Caballero and Hammour (1996, 1998).

To see things this way, however, is to ignore the fact that maintaining a certain level of employment protection is the way to encourage investment in human capital, that is, to create conditions that are favorable to learning and innovation, and to encourage the adaptation of skills to the new requirements of the goods market. Finally, it ignores the existence of financial constraints that inevitably have an impact on the learning process. The apparent paradox is that by favoring immediate flexibility of reaction, firms deprive themselves of the capacity to adapt in the future and are subsequently confronted with rigidities due to a lack of physical and human capital.

The main result of the flexibility of labor markets has been a lasting polarization between high-skilled, high-paying jobs and unskilled, low-paying jobs, with the result that median wages have fallen. The human resources freed up, far from being directed towards better-paid high-tech activities, have been forced to go towards activities where the jobs offered were low-skilled or unskilled, sometimes part-time, and most often precarious. This is because the workers who were dismissed did not have sufficient financial resources or the knowledge to access the higher qualifications required. The multiplicity of jobs held over the course of a working life was then a reflection of this precariousness rather than a reflection of the multiplicity of occupations performed and qualifications held over the course of a working life. The high entry and exit rates were more indicative of the precariousness of jobs than of the intensity and speed of innovation, and the decrease in the unemployment rate went hand in hand with an increase in the rate of precarious employment and the poverty rate.

All empirical studies of the employment situation in the United States (Katz and Krueger 2019) as well as in Europe over the past two decades attest to this polarization. A very large number of the millions of jobs created have been temporary, ad hoc, short contract, independent consultant jobs. Most often, the working poor, with little or no qualifications, navigate between unemployment and precarious jobs because of their low probability of benefiting
from any training during or outside their employment period, all of which creates limitations on their ability to adapt, in other words, rigidities, which is not the least of the paradoxes.

Encouraging flexible responses and authorizing institution-wide fluctuations in employment apparently encourages firms to choose riskier investments, since they will not have to bear the totality of these risks, part of which will be borne by the workers, contrary to the thesis that only shareholders are exposed to risk. Above all, it encourages these same firms not to invest much in human capital, since they anticipate potentially losing the benefit of this investment with the departure, voluntary or involuntary, of their employees. In a way, the bad firms could drive out the good ones. Creativity is exercised with the only aim of achieving very short-term gains.

This transformation in the nature of jobs and the associated fall in wages has affected the quality of human resources and, hence, potential growth. It is not labor market rigidities that have steered investment and technological choices in a direction damaging for productivity and growth, but the development of dualism in labor markets.

The malfunctioning of these markets has resulted in the perpetuation of labor supply surpluses in one part of the market and labor demand surpluses in the other, with wages falling on one side and rising on the other. The result has been a widening of inequality and a decline in the middle class, affecting the structure of demand for goods. The richest households, whose incomes are largely rent-like, buy luxury goods manufactured in small volumes, sometimes abroad, or use their abundant savings to buy existing financial and real estate assets. The poorest households in rich countries have turned away from domestic products to buy products manufactured at low cost in low-wage countries. A form of deindustrialization seems to have taken place, reducing productivity gains, export capacity and potential growth rates. In general terms, close links have continued to exist between disequilibria in labor markets, goods markets and financial markets. The quasi-disappearance of inflationary pressures has been associated with the restructuring of jobs and trade, and with the financialization of the economy.

The rise of dualism is undoubtedly the reason why, over the last period, productivity gains were as low in the United States and the United Kingdom as in the euro zone countries, despite significant differences in employment protection, the intensity of competition in the goods and services markets, and the weight of the public sector and taxation.

The Keynesian experiment revisited

The crisis in Keynesian economics in the 1970s was above all the consequence of an erroneous assessment of the nature of the coordination difficulties faced by developed market economies, which were the result of profound structural changes. The a priori response brought about by what had been learned from the crisis of the 1930s no longer produced the expected results. Faced with the simultaneous, unprecedented increase in the unemployment rate and the inflation rate, the indiscriminate support of aggregate demand failed, causing inflation to soar without halting the rise in unemployment. The increase in wages to increase aggregate demand came up against the heterogeneity of both supply and demand and the specific coordination problems that this heterogeneity gives rise to.

The reality at the time was that the sharp rise in the prices of all commodities resulted in a disruption of the structure of the economy, with some sectors going into decline while others began to expand again. This was the basic reason for stagflation. Firms in the expanding
sectors increased prices rather than quantities, as they remained uncertain and were cautious about investment. Firms in declining sectors cut quantities and employment rather than prices in the false hope of maintaining their market share.

In this situation, a generalization of wage increases in response to the rising unemployment rate could only precipitate an inflationary spiral while accelerating job losses in declining sectors. Inflation, having passed a certain threshold, proved harmful in that it undermined the trust in bargaining that makes the labor contract a guarantee of economic efficiency and social equity (Hicks 1974). This was a major reason to fight it. This was not a reason for questioning the foundation of the labor contract.

Today, the digital revolution and the need for ecological transformation of production and consumption methods, combined with geopolitical upheavals linked to the health crisis and the war in Ukraine, are creating a situation that in some respects is reminiscent of that of the 1970s. Inflation has resurfaced in the form of soaring prices for raw materials, certain agricultural products, and industrial components. Temporary shutdowns of certain production processes and disruptions in supply chains are cited as explanations. The implicit assumption, from the perspective of equilibrium, is that there will be a more or less rapid return to normality. The reality is more complex. Inflationary pressures are spreading from upstream to downstream. Sectoral restructuring becomes all the more likely as exogenous shocks are likely to lead to the relocation of activity. So, once again, we are talking about an evolution based on a more or less virtuous chain of disequilibria in the different markets and in the different spheres of the economy, rather than convergence towards a predetermined equilibrium.

In this situation, a strongly and rapidly restrictive monetary policy, designed to re-establish an imaginary equilibrium, is likely to result in a collapse of the financial markets and an increase in the cost of public debt, which would also vary from country to country, creating a particular difficulty within the euro zone. This would depress aggregate demand and harm growth, without resolving any of the sectoral disequilibria and bottlenecks that characterize the structural transformation of the economy. Inflationary pressures would be contained, but at the cost of penalizing productive investment, raising the unemployment rate and delaying structural change.

It would be better to promote an organization of work that favors the long-term relationship between managers and employees, an organization that is inseparable from a financial organization that guarantees its durability. Globalization has threatened this durability by establishing the dominance of capital owners focused on short-term performance, leading firms to fragment their production processes and to play on the competition between legal systems, leading to the development of precarious jobs. The challenge is to restore the institutional dimensions of markets, particularly the labor markets. It is up to the law to set the limits of competition or cooperation, to establish the contours of the firm, which is not a simple knot of contracts, but a political coalition between what are called its stakeholders.

6. Conclusion

Economic theory is driven by various a priori, each of which undoubtedly has an ideological dimension. Things are, however, a little more complicated than that. Thus, the theory of general equilibrium is ambiguous. For Walras (1874), it constitutes “a realistic utopia, i.e., a delineation of a state of affairs nowhere to be found in the actual world, independent of time.
and place, ideally perfect in certain respects, and yet composed of realistic psychological and material ingredients” (Jaffé 1980, p. 530). It does not, however, entail prescribing measures that would disregard the informational hypotheses on which it is based. Where ideology takes over is when this precaution is abandoned, and one believes in the omnipotence of coordination through price flexibility even though information is incomplete. Keynesian theory, in its standard version, is also not immune. Applied outside the context in which it was developed and consisting in sticking to the management of aggregate demand through the budgetary instrument, it becomes in turn an ideology that leads to a loss of control over macroeconomic variables when there are structural changes in the economy. From this discussion, it emerges that the a priori that should guide the theory is none other than a twofold observation: an evolution punctuated by recurrent changes in technologies, preferences and institutions systematically comes up against changing coordination difficulties; paradoxically, this evolution is only viable if certain forms of inertia prevail, which are inscribed in the institutions.

Thus, the search for job stability and wage stickiness only makes sense in terms of the consequences expected regarding the viability of an evolution whose contours it is not possible to know a priori. This conception of work is opposed to the notion that there exists an optimal state of the economy and of society that can be known beforehand, to which the fluidity of jobs and the flexibility of wages is attached. It is part of a legal order that includes, among others, labor law, competition law and company law, a multiple order that is the product of experience, in this case the experience of instability.

In the philosophical perspective, which is the one argued by Dewey (1929) and which we have adopted, “an idea is tentative, conditional, and rigorously determinative. It controls an action to be performed, but the consequences of the operation determine the worth of the directive idea” (ibid. p. 274). Thus, following Dewey, “we have considered some of the definitive steps by which security has come to attach to regulation of change rather than absolute certainty to the unchangeable. We have noted how in consequence of this transformation the standard of judgment has been transferred from antecedents to consequents, from inert dependence upon the past to the intentional construction of a future” (ibid., p. 276).

References


ABOUT OFCE

The Paris-based Observatoire français des conjonctures économiques (OFCE), or French Economic Observatory is an independent and publicly-funded centre whose activities focus on economic research, forecasting and the evaluation of public policy.

Its 1981 founding charter established it as part of the French Fondation nationale des sciences politiques (Sciences Po), and gave it the mission is to “ensure that the fruits of scientific rigour and academic independence serve the public debate about the economy”. The OFCE fulfils this mission by conducting theoretical and empirical studies, taking part in international scientific networks, and assuring a regular presence in the media through close cooperation with the French and European public authorities. The work of the OFCE covers most fields of economic analysis, from macroeconomics, growth, social welfare programmes, taxation and employment policy to sustainable development, competition, innovation and regulatory affairs.

ABOUT SCIENCES PO

Sciences Po is an institution of higher education and research in the humanities and social sciences. Its work in law, economics, history, political science and sociology is pursued through ten research units and several crosscutting programmes.

Its research community includes over two hundred twenty members and three hundred fifty PhD candidates. Recognized internationally, their work covers a wide range of topics including education, democracies, urban development, globalization and public health.

One of Sciences Po’s key objectives is to make a significant contribution to methodological, epistemological and theoretical advances in the humanities and social sciences. Sciences Po's mission is also to share the results of its research with the international research community, students, and more broadly, society as a whole.

PARTNERSHIP