

FROM LABOR RATIONING TO (INVOLUNTARY) UNEMPLOYMENT: A CONCEPTUAL ELUCIDATION

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INTRODUCTION

Over the last decades, unemployment has been an important item on economists' agendas, a fact which has manifested itself in a series of significant breakthroughs. Coordination failures, efficiency wage, insider-outsider theories come to mind as examples. However, does unemployment in these theories really correspond to what this term designates when speaking about real-world phenomena? The looming ambiguity is as follows: whereas the efficiency wage and insider-outsider models are able to demonstrate in a more or less robust way the possibility of excess supply of labor at the equilibrium wage, they hardly broach the issue of what happens to the rationed agents. It is taken for granted that they end up unemployed. But why should this always be the case? Why could they not, for example, become self-employed, in which case labor rationing and unemployment no longer go hand in hand?

In short, with a few exceptions, economic theory tends to assume that rationing and unemployment are synonymous. In contrast, this paper rests on the premise that these two concepts need to be disentangled. Labor rationing will refer to a specific market outcome, namely excess supply in a given labor market. Unemployment will be understood as pertaining to a typology of the active population, where people are classified according to the sort of activity they are engaged in. The category of unemployment then applies to those agents whose specific activity is job searching. They have, it is supposed, experienced labor rationing in their preferred labor market and are waiting with the hope of participating in it at a later trading round, instead of engaging in non-wage activities or taking a job in some less-preferred labor market. Obviously, labor rationing and unemployment are linked, as the former is a necessary condition for the latter. Yet labor rationing is not a sufficient condition for unemployment. Individuals who are rationed in their preferred labor market may well end up other than unemployed.

The aim of this paper is twofold. First, it examines the elements intervening in the transition from labor rationing to unemployment by assessing rationed agents' possible post-rationing trajectories (including unemployment). Imagine a violinist

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who fails to be hired in an orchestra, e.g. because of insider-outsider factors. Which paths are open to him—to go on the dole, to give private violin lessons (with the risk of losing his chances of being hired later on), to drop the violin and start another occupation, to emigrate? To raise comparative issues, would a low-skill manual worker face the same choice set as the violinist? Or, take two violonists, both rationed in their preferred job (to play in an orchestra). They are identically good as violonists but one is wealthy and the other poor. How does this influence their lot? These are the sorts of questions which the taxonomy I will construct addresses. Second, my paper will discuss the issue of whether the involuntary unemployment concept—the emphasis on involuntary—makes sense once unemployment is understood as a post-rationing activity rather than as synonymous to rationing.¹ As a part of his broader criticism of Keynesian theory, Lucas has claimed that it does not. In his view, people who are observed as unemployed should be considered to have chosen this activity. Since alternative job opportunities are always available, it must be the case that they have refused these opportunities, hence the voluntary nature of their unemployment. This article's second aim is to challenge Lucas' stance by describing conditions under which the involuntary unemployment notion makes sense.

To achieve these two aims, I develop a series of concepts to assess the rationed agents' possible post-rationing trajectories. First, I present a general taxonomy of the social forms in which economic activities can be embedded. The notion of economic activity choice set (in short activity choice set) will be introduced to capture the idea that distinct social forms are available to agents for exerting their economic activities. The old idea that some agents may have no alternative to wage labor to earn their subsistence will be encapsulated in the notion of wage-dependency. Second, some assumptions on the organization of trade will be spelled out. Third, the concepts of labor-rationing, unemployment (in general), voluntary unemployment, involuntary unemployment, and misemployment will be defined or re-defined.

The paper is organized as follows. I begin by expounding Lucas' stance. I then present my categories of post-rationing activity choice set followed by a presentation of the labor market structure under which the phenomena I wish to bring to the fore can become possible. My claim that involuntary unemployment can be a plausible outcome is then supported. I continue by remarking on the social embedding of the categories carved out in the earlier parts of the paper. Finally, at last I discuss the issue of how New Keynesian economists fare with Lucas's stance and show that, surprisingly enough, they seem to have no objections to level against it.

Finally, two warnings are in order. First, labor rationing is the topic which has drawn, under the unemployment label, most economists' attention. However, my paper does not study its determinants, for my subject matter is the aftermath of labor rationing. The existence of labor rationing is taken for granted and assumed to be explained by efficiency wage, insider-outsider or search models. Henceforth, unemployment will not refer to labor rationing but to joblessness as one of its possible consequences. Likewise, involuntary unemployment will be understood in a sense close to the vernacular, i.e. as an "unchosen" activity. Second, the paper is mainly concerned with semantic and taxonomic questions. Many economists tend to side-

step such issues and consider them unimportant. Clearly, this paper would not have been written had I shared this belief.

LUCAS' STANCE: THE EVER EXISTENCE OF JOB ALTERNATIVES

Lucas' stance can be characterized in a twofold way. First, he seems to accept the need to draw a distinction between rationing and unemployment — at least, he makes it quite clear that to him unemployment is an activity:

Workers who lose jobs, for whatever reason, typically pass through a period of unemployment instead of taking temporary work on the 'spot' labor market jobs that are readily available in any economy. ... To explain why people allocate time to a particular *activity* — like unemployment — we need to know why they prefer it to *all* other available activities [1987, 54].

Second, he views involuntary unemployment as a meaningless concept. To him, "involuntary unemployment is not a fact or a phenomenon which it is the task of theorists to explain" [(1978) 1981, 243]. Put differently:

Nor is there any evident reason why one would *want* to draw this distinction [between voluntary and involuntary unemployment]. Certainly, the more one thinks about the decision problem facing individual workers and firms the less sense this distinction makes. ... The unemployed worker at any time can always find *some* job at once, and a firm can always fill a vacancy instantaneously. That neither typically does so *by choice* is not difficult to understand given the quality of the jobs and the employees which are easiest to find. 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 [(1978) 1981, 242].

The above quotation is concerned with unemployment as understood in this paper rather than with rationing.² Lucas' point is neither that fired or rationed people should take whatever job is available, nor that they should be blamed for choosing the unemployed position. It is just that to him, for all its frustrating character, unemployment ought to be seen as an activity like others, to be analyzed in choice-theoretic terms. An unemployed person must be considered as somebody who, for good reasons, has chosen the job-search activity over available alternatives. Hence, to him:

It does not appear possible, even in principle, to classify individual unemployed people as either voluntarily or involuntarily unemployed

TABLE 1
A Taxonomy of Social Forms of Economic Activities^a

Participation in Goods Markets				
Participation in the labor market		Lack of participation	Participation in demand yet not in supply	Participation in supply and demand
	Lack of Participation	the autarkical activity	the rentier activity	the self-employment activity
	Participation in supply		the wage-earning activity	
	Participation in demand			the capitalist activity

a. Some occurrences have been discarded because of their lack of plausibility. The first one is the case of the exclusive supply participation in goods markets (it is assumed that in order to supply goods or services inputs other than labor ought to be purchased). The second one is the case of joint supply and demand participation in the labor market.

depending on the characteristics of the decision problems they face [(1978) 1981, 243].³

This is the view which my paper will challenge.

A TAXONOMY OF POST-RATIONING ACTIVITY POSSIBILITIES

In order to evaluate Lucas' claim, it is necessary to investigate what these alternative activities might be in more detail. I will therefore propose a classification of social forms of activities in this section.

To make it simple, a series of restrictions should be made. First, certain fractions of the population, namely the young, the old and the disabled, are left aside. Second, my typology refers to individuals rather than households. Third, for all the boundary difficulties involved, I want to draw a distinction between activities allowing normal social integration and those expressing or prompting social exclusion or marginalization. I will thus only consider activities allowing normal social integration. Finally, a semantic remark is in order. The notion of social form of economic activities ought to be separated out from that of occupation. For example, occupations as different as engineer or a truck driver can be grouped in the same category, in as far as they are exercised in the same social form, i.e. as an employee. On the other hand, two plumbers who technically speaking are doing the same work, ought to be classified differently in social relationship terms if one of them is an employee while the other is self-employed.

In Table 1, I give a general typology of conceivable forms of economic activities prior to any rationing. It is built on very simple criteria, as it follows from asking two

questions: are agents participating in the product and/or labor markets? And second, if they are, are they sellers, purchasers or both?

Five main categories of activities emerge.⁴ The first one is the autarkical activity. It pertains to agents engaged in self-production and consumption. They function entirely outside the market sphere (or, to put it the other way, entirely within the domestic sphere). Whenever this mode of subsistence is an effective possibility, it means that agents are able to survive without trading. As this activity is borderline, it will not be considered. For all their differences in terms of social relationships, the next three categories — the wage-earner, the self-employed and the capitalist activities — share the common feature of a twofold market participation. The last type, the rentier activity, concerns individuals who live on unearned income. They act as purchasers in the product market without participating in the labor market. They are full-time "leisure choosers" and hold this activity either on a definitive or a temporary basis. In order to belong to this category, an obvious condition is that agents are endowed with enough non-labor resources to insure subsistence without working.

Let me call the set of activities open to a given individual his "activity choice set." Quite plausibly, agents will differ widely in this respect. The broadest conceivable set will include all the different types of activities, the narrowest will include only the wage-earning activity since any individual's labor power is his smallest endowment.⁵ Agents whose activity choice set comprises only this activity will be dubbed as "wage-dependent".

Think of two individuals, alike in terms of occupation, skill as well as other professional features and who are both in a wage position yet differ in terms of their personal wealth. As a result, one of them is wage-dependent while the other has an extended activity choice set and could have taken up a non-wage activity had he wanted to. The wealthier agent enjoys a wider scope of freedom and is less vulnerable to economic adversities than the wage-dependent one; were both of them to become rationed, their prospects would be different. In the same vein, take the case of wage-dependent agents belonging to the same occupation but at different levels of skill. One can argue that the higher skilled have a broader scope of freedom than the lower skilled. Were they rationed in their own market, i.e. the market corresponding to their skill, they would still have the possibility of participating in lower-skill markets. Such a recourse is normally lacking for those whose own market corresponds to the lowest skill.

THE LABOR MARKET STRUCTURE

For the purpose of my argument, a unique labor market cannot be assumed. The point becomes how to spell out the relationship among markets in a simplified way. Some assumptions ought to be made about agents' mobility possibilities across labor markets; it is also necessary to be more specific about the organization of trade.

To begin, I assume that the number of labor markets depends on the occupation-skill structure. Assume that m different occupations i (i.e., $i = 1 \dots m$) exist, each subdivided into the same amount n of skill-levels j ($j = 1 \dots n$). Moreover, assume there exists one further category, z , the unskilled type, to which no specific occupation is

attached. The occupation-skill structure is the array consisting of $(m \times n) + 1$ elements. Supposing that one specific labor market is attached to each of them, we thus have $(m \times n) + 1$ different labor markets.

The Structure of Markets

			<i>skills</i>		
	x^{11}	...	x^{lj}	...	x^{ln}
<i>occupations</i>	x^{i1}	...	x^{ij}	...	x^{in}
	x^{m1}	...	x^{mj}	...	x^{mn}
					x^2

Mobility assumptions can be spelled out in the following way: markets are ordered according to skill.⁶ They are described in the table above in descending order, (i.e. x^{11} is a market with a higher skill than x^{12}). The market corresponding to a given agent's skill-occupation will be called his normal market, which is also his preferred market for labor participation. Occupations and skills are given. It is further assumed that mobility across occupations is impossible, even from a higher to a lower skill level (e.g. from x^{11} to x^{22}), and that people cannot be employed above their skill within their occupation. As a result, the only form of mobility is downward intra-occupational mobility.⁷ Take the case of agent h^j whose skill-occupation characteristic is ij . If he is rationed in his normal market x^{ij} , all lower-skill markets in his occupation plus the unskilled market remain feasible. Thus, his labor market participation opportunities amount to $(n - j) + 1$.

Finally, some additional assumptions about the organization of trade must be made. Let us assume that the economy consists of a sequence of self-contained trade rounds. My interest here is in what arises in one of them rather than in their intertemporal dynamics. Assume that each self-contained round is sub-divided into two phases, input markets taking place in advance of goods markets (the only input I am actually concerned with is labor). Wages are set instantaneously. Assume moreover that there is a sequential order within the operation of labor markets: they open in decreasing order of skill. As each occupation is sub-divided into the same number of skill levels, trade occurs in parallel across occupations down the skill ladder. The first decision an individual therefore has to make concerns his participation in his normal labor market. Labor rationing is considered to be a possible outcome within each labor market and rationed agents are allowed to participate in lower markets within their occupation. As a result, two types of labor suppliers can be encountered in each labor market (excluding the highest skill ones): downwardly mobile agents, (i.e., people rationed in higher markets), as well as those agents for which the market in question is their normal market.

UNEMPLOYMENT AS AN ELEMENT OF THE POST-RATIONING ACTIVITY CHOICE SET

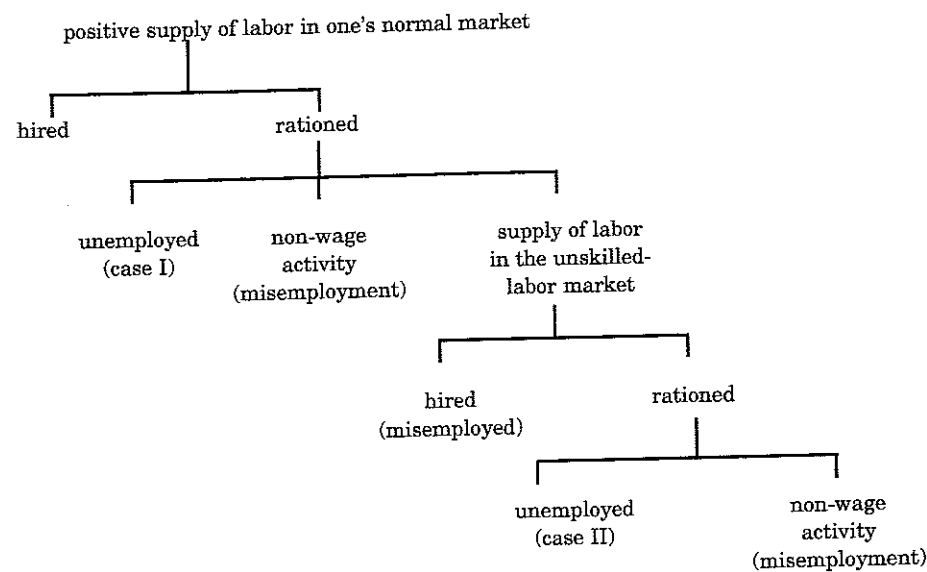
Let me now sketch out the possible trajectory of a skilled agent who has experienced rationing in his normal market. The activity choice set, as depicted above, needs to be modified and replaced by a post-rationing activity choice set. The very fact that the agent made a trade offer in the market from which he has been excluded means that the different elements comprising this new choice set are all second-best outcomes. The post-rationing activity choice set contains two additional differences from the first-best activity choice set: first, participation in other labor markets may still be possible; second, a new activity enters the picture, namely unemployment.

More precisely, the agent in question potentially faces a threefold choice (its effectiveness depending on the content of his activity choice set): first, accepting the downward-mobility solution, (i.e. supplying his labor service in a lower-skill market), second, dropping his labor participation and engaging in one of the non-wage activities referred to in Table 1 and, third, opting for the unemployment solution.⁸ I suggest subsuming the first two alternatives under the new term "misemployment". The prefix indicates the second-best character of such an outcome, whereas the suffix 'employment' is meant to indicate that they have chosen whatever activity except unemployment.⁹ The upshot of rationing is then either misemployment of different forms or unemployment. To illustrate, let me go back to the violinist example. Assume there is a correspondence between the ranking of the orchestra and the musicians' skill. Were the violinist not to be hired by an orchestra corresponding to his skill, he might (a) apply to a lower-ranking orchestra, (b) become a self-employed violin teacher or, were he wealthy, commence living as a rentier or, finally, (c) prefer to be registered as unemployed thereby declaring his aim to apply to orchestras corresponding to his skill-level at the next trade round.

Whenever the agent chooses either unemployment or the non-wage activity, the course of his post-rationing trajectory ends. However, if the downward mobility solution is taken, the trajectory continues. In the lower market he may either be employed or encounter rationing again. Possibly, he may spill down the skill ladder and end up in the unskilled labor market, while at each step retaining the possibility of foregoing labor market participation. Assume that eventually he ends up in the unskilled market in which he is again amongst the rationed. Even now, selection is still available as the agent may either register as unemployed or decide to take up another social form of activity, other than the wage-earning activity. The choice concept remains relevant as there is still more than one element in his choice set. This reasoning is illustrated in Figure 1 which, for the sake of simplicity, considers one specific occupation i and assumes there is just one skill level, $j = 1$. There are thus two ordered labor markets to consider: the skilled and the unskilled labor market.

Up to now, my account is perfectly congruent with Lucas' stance. The point of departure concerns the possibility that unemployment may be involuntary. This can certainly not be true for case I of unemployment in Figure 1 as agents who happen to be rationed in the skilled market always have the possibility to supply their services

FIGURE 1
An Example of Post-Rationing Choice Trajectory



in lower markets. Hence, they ought to be classified as voluntarily unemployed. As a result, a necessary condition for the possibility of involuntary unemployment is that rationing arises in the unskilled labor market. An additional condition is that the rationed agent has to be wage-dependent because his choice set then turns out to be a singleton: it comprises no other possibility than the unemployment status. If this is the case, it can no longer be considered a chosen status. On the contrary, as soon as a non-wage activity alternative exists, any unemployment position should be considered as chosen.¹⁰

Two further remarks are in order. First, there is the issue of limiting the notion of a job. Should petty provisional jobs, such as washing car windows at street corners, be considered as possible jobs? Lucas avoids this question. I, for one, argue that only 'decent' jobs — i.e. law-abiding and socially integrated jobs — should be considered, leaving open the question of how to delineate their boundaries. For example, begging should not be considered as belonging to the decent job category. Second, it could be argued that even if an agent's choice comprises only one element, this element might be the option he would have chosen anyhow were alternatives available. This objection leads to an issue which has not been considered up to now, namely the moral hazard effects of unemployment benefits.

Clearly, the existence of unemployment benefits may prompt some people to prefer to withdraw from labor market participation, in as far as the difference between wage and benefits does not compensate for labor disutility. Since unemployment benefits are normally conditional to job search, these people may have to pretend they are searching, whereas in fact they are moonlighting or living as temporary insur-

ance-financed (small scale) rentiers. Such opportunistic behavior amounts to diverting the function of the social insurance scheme from its initial objective. Instead, it is used as an unconditional social dividend — possibly an anticipation of some incipient social transformation.¹¹ Upon reflection it appears that this evolution has little bearing on the distinction between voluntary and involuntary unemployment, as understood here. The point is that the existence of unemployment benefits concerns labor market participation rather than unemployment. What is now needed is to draw a distinction between two sorts of labor rationing, separating those agents who are true victims of rationing from those who are not. A further condition should then be added, namely that the agents considered are not 'pseudo-rationed'.¹²

To recapitulate, five conditions ought to be fulfilled for the existence of involuntary unemployment:

- (a) the possibility of rationing is admitted,
- (b) rationing arises in the unskilled labor market,
- (c) the rationed agents ought to be wage-dependent,
- (d) the self-employment activity is made up of decent or socially integrated jobs,
- (e) the rationed agents are not pseudo-rationed agents.

These conditions provide a good set of criteria allowing discrimination between the voluntarily and the involuntarily unemployed. My contention is not that Lucas' proposition is never true but rather that it not always so. Therefore, contrary to what he asserts, it is possible, in principle, to classify individual unemployed people as either voluntarily or involuntarily unemployed, depending on the characteristics of the decision problem they face. Involuntary unemployment ought thus to be considered as one possible outcome of labor market rationing. Beyond doubt, people to whom it may apply will belong to the poorest fraction of society.¹³

At this point, it may be worth giving neater definitions of the different concepts introduced above. They are as follows:

- (a) Labor rationing: *An individual is labor rationed when the market real wage rate exceeds his reservation wage, yet he is not participating in labor trade. A skilled individual may successively enter into lower-skill markets and be rationed each time.*
- (b) Unemployment: *Unemployment is a social category regrouping individuals (i) who have encountered labor market rationing, (ii) who neither take up a job in lower-skill markets nor take up a non-wage activity, and (iii) who still want to participate in the specific market from which they have been rationed at the first possible opportunity.*
- (c) Voluntary unemployment: *Voluntary unemployment refers to individuals who, after being rationed in their specific labor market, prefer to remain jobless during the trade round under consideration in order to preserve their chances of being hired in this market in further trade rounds, rather*

than either supplying their labor service in a lower-skill market or taking up some available non-wage activity.

- (d) Involuntary unemployment: *Involuntary unemployment refers to individuals who face rationing in the unskilled labor market and who, moreover, lack any non-wage activity possibility.*
- (e) Misemployment: *Misemployment is the alternative to unemployment when somebody is rationed. It refers to individuals who have succeeded in taking up a second-best activity position, either by participating in a lower labor market or by adopting a non-wage activity.*

I believe that these definitions constitute notable progress in the phrasing of the issue. Drawing a distinction between labor rationing and unemployment permits an important clarification. In addition, my classifications suggest that the current understanding of voluntary/involuntary unemployment should be replaced by a more complex set of relationships. Three observations are worth making in this respect. First, the voluntary unemployment category is too heterogeneous. To many authors, it means chosen leisure. In my view, leisure requires a category on its own — the rentier activity — and should not be considered to belong to the sphere of unemployment. Even leaving the rentier activity aside, the voluntary unemployment label remains ambiguous as it groups together two cases which should be separated out: workers preferring the job-seeking activity to misemployment and the pseudo-rationed agents pretending to be looking for a job. Things would be clearer if voluntary unemployment designated only the first of these two types. Second, voluntary unemployment (narrowly understood) should not be viewed in a pejorative way; voluntary unemployment is better than misemployment in many cases. Finally, the voluntarily unemployed and the involuntarily unemployed categories should be viewed as two sub-types of the broader job-searcher category rather than as being polar opposites. The only difference between them pertains to agents' scope of freedom. Involuntary unemployment implies that some agents have less freedom than assumed in economic theory. When rationed, they have less scope to maneuver than better endowed agents. Hence, whenever involuntary unemployment yields ground to voluntary unemployment, this should be hailed as good news.

SOCIAL EMBEDDING

To put some flesh on the above definitions, it is worth reflecting on the social context in which they may become embedded. Clearly, my classifications apply best to a developed economy or 'welfare state economy', where unemployment benefits have become a pervasive social institution. Put differently, it should be realized that the unemployment concept is not universal. It emerged only gradually, not having its present-day meaning initially. The following observation by Piore, in his review of Salais and al., *L'invention du chômage*, and Keyssar's *Out of Work: The First Century of Unemployment in Massachusetts*, brings the point home:

In the early nineteenth century, unemployment as we know it today does not seem to have existed as a category, at least in the modern sense of the term. The word was widely used, but it referred mainly to 'those who were simply "not employed," who were idle or not working'. It thus included small children, who were never engaged in productive labor and grown men who had taken the day off to go fishing. By the end of the century, however, it had come to be understood exclusively in the modern sense of 'involuntary idleness', wanting a job but being unable to find one. [1987, 1838]¹⁴

The autonomization of unemployment as an effective social category followed the emergence of unemployment benefits. In Piore's terms, it might have been the case "that workers have been induced to behave as unemployed by the fact that they thereby become eligible for unemployment insurance payments" [1987, 1837]. Thereby it became possible to drive a wedge between rationing and poverty, for as long as this wedge was absent, the threat of falling into poverty loomed large on rationed agents.¹⁵

These brief remarks may help to explain why the unemployment category is not found in the writings of the first generation of classical political economists. Adam Smith is an enlightening example. If, at his time, one were to look at the activity choice set of agents populating the wage-earning category, beyond doubt, the overwhelming majority of them would belong to the wage-dependent group. As stated by Smith, property-less laborers "stand in need of a master to advance them the material of their work" [(1776) 1970, 168]. Actually, in this context, nobody having a choice would take up waged labor, because such jobs are unattractive, low skilled and badly paid. Labor rationing is then an issue affecting only wage-dependent agents, whereas misemployment is of marginal importance. What is strikingly absent, however, is the unemployment outcome. The following extract from his *Wealth of Nations* chapter on wages explains why:

But it would be otherwise in a country where the funds for the maintenance of labor were sensibly decaying. Every year the demand for servants and laborers would, in all the different classes of employment, be less than it had been the years before. Many who had been bred in the superior classes, not being able to find employment in their own business, would be glad to seek it in the lowest. The lowest class being not only overstocked with its own workmen, but with the overflowings of other classes, the competition for employment would be so great in it, as to reduce the wages of labor to the most miserable and scanty subsistence of the laborer. Many would not be able to find employment even upon these hard terms, but would either starve, or be driven to seek subsistence either by begging, or by the perpetration perhaps of the greatest enormities. Want, famine and mortality would immediately prevail in that class, and from thence extend themselves to all the superior classes, till the number of inhabitants in the

country was reduced to what could easily be maintained by the revenue and stock which remained in it. [(1776) 1976, 90-91]

Smith's account is telling. Excess supply triggers downwards mobility (misemployment), with people moving from superior to lower markets. As a result, the wage rate decreases and reaches the subsistence floor, before being able to absorb the excess supply. Rationed agents would then, one might think, become unemployed. However, this will rarely be the case because in the Smithian framework, rationed agents rarely have the means to survive without working, "Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment" [(1776) 1976, 84]. Thus, unemployment can have only a fugitive existence. Either people are able to leave it quickly or they slide into poverty. There is, as it were, a short-cut from labor rationing to disenfranchisement, skipping the unemployment stage. Labor rationing, according to Smith's argument, is the antechamber of poverty and starvation, the latter of which he observes serves the purpose of solving radically the excess labor supply issue.

In economies where everyone is beyond the level of subsistence yet wherein institutions of the welfare state are scarcely present, the unemployment category will be of little importance. In this context, two other categories of my classification are likely to play a more important role than they do in more advanced economies: the domestic or autarkical sphere and self-employment. The scope of the latter may then widen by encompassing petty unskilled jobs requiring no capital, the frontier between socially integrated and marginal jobs thereby becoming blurred. This feature would confirm a remark attributed to Sydney Weintraub and mentioned to me by a referee, stating that in India there was little unemployment but many self-employed with a low status.

NEW KEYNESIAN ECONOMISTS AND LUCAS' STANCE

New Keynesian economists are supposed to be the main opponents of the new classical approach. Hence, it might have been expected that they felt it necessary to criticize Lucas' stance. By pondering the dual labor market literature, I will show in this last part of the paper that, surprisingly enough, this is not the case.

I mentioned in the introduction that labor rationing and unemployment are usually considered synonymous in economic theory. Nonetheless, the distinction between labor rationing and unemployment is implicitly present in some strands of the new Keynesian literature, in particular in writings aiming at embedding efficiency wage and insider-outsider models in a dual labor market structure. Two related assertions relevant to my purpose are to be found there. According to the first one, certain unemployed agents should, at one and the same time, be characterized as involuntarily and voluntarily unemployed. The following quotation gives the idea:

With a secondary sector all workers can get a job. Does that not imply that all unemployment is *voluntary*? In some sense that it is true. ... And, although it is true that every unemployed worker might be able

to get a secondary sector job (so that in *one sense* there is no *involuntary* unemployment), it is also true that unemployed workers would be more than willing to work in primary sector jobs at prevailing wage rates. *In that sense* such workers are *involuntarily* unemployed. [Akerlof and Yellen, 1986, 10-11]¹⁶

A given agent, the story runs, is rationed in the primary sector for the reason given in efficiency wage theory—a situation which these authors call "involuntary unemployment" yet which I label "labor rationing". However, as the agent is supposed to have discarded available job alternatives in the secondary sector, his ultimate unemployment—according to my definition of the term—is considered voluntary.

The second proposition asserts that involuntary unemployment and full employment may co-exist. The following excerpt illustrates:

For sectors where the efficiency wage hypothesis is relevant—the primary sector—we find job rationing and voluntary payment by firms of wages in excess of market-clearing; in the secondary sector, where the wage-productivity relationship is weak or non-existent we should observe fully neoclassical behavior. The market for secondary sector jobs clears, and anyone can obtain a job in this sector, although it may be at lower pay. [Akerlof and Yellen, 1986, 3]¹⁷

This situation differs from the preceding one only in that rationed agents are now characterized as having accepted a job in the secondary sector. Yet, despite their employment, they are classified as "involuntarily unemployed" in reference to their initial rationing situation. Imagining that all rationed agents become employed, we could have involuntary unemployment and full employment at one and the same time.

While the above quotations are concerned with the issue of post-rationing career trajectories, their flaw is that they broach it in too rudimentary a way. A significant gain in clarity is obtained by explicitly separating unemployment from labor rationing. The first quotation could then be grasped as pertaining to a case combining labor rationing and voluntary unemployment while the second would describe a case of labor rationing without unemployment. However, none of them account for the existence of involuntary unemployment—that is, the situation of unchosen joblessness. This ensues from assuming that the factors liable to prompt a non-Walrasian wage arise in the primary rather than in the secondary sector. Once the secondary sector is assumed to be perfectly competitive (or to function as an auction market), the issue of the voluntariness of unemployment is sealed. As people who are rationed in the primary sector may either accept or refuse a job in the competitive sector, whenever they opt for the second solution, their unemployment follows from a choice and is thus voluntary. Yet, could not the explanatory factors of rationing be at work in the secondary sector too? Oddly enough, the abovementioned authors do not seem to contemplate this possibility. As a result, the bone of contention between them and new classicists turns on the existence of labor rationing and its market failure character

rather than on its eventual employment result. As far as the voluntary nature of joblessness is concerned, new Keynesians and new classicists are at one in their rejection of involuntary unemployment.

CONCLUDING REMARKS

The main aim of this paper was to argue in favor of drawing a distinction between the concepts of labor rationing and unemployment. The following two points have been made: (a) By putting forward a series of new concepts such as misemployment, occupation possibility set, wage-dependency, etc., I hope to have improved upon the few insights found in the literature on the subject of the consequences of labor market rationing. (b) The main bone of contention between both new Keynesian and new classicists on the one hand, and myself on the other, concerns the possibility of involuntary unemployment as a specific post-rationing activity. There is no room for the involuntary unemployment concept if Lucas' stance, namely that some alternative activities are always available, is valid. Yet, this stance should not pass unchallenged. As I have shown, it does not hold if it accepted that the notion of a job should be limited to socially integrated, non-marginal jobs and that labor rationing may arise in the unskilled labor market and affect wage-dependent agents. Unemployment is involuntary when these conditions are fulfilled.

NOTES

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1. The issue of the possibility of involuntary rationing is addressed in De Vroey [1998].
2. It also implies that Lucas accepts the possibility of rationing. At first, this proposition may look odd, in view of his basic claim that equilibrium and market-clearing ought to be taken as axioms. However, attentive reading of Lucas' writings shows that his position is more nuanced. His point is that an equilibrium theory of the business cycle can be constructed on the basis of such axioms, its object being fluctuations in *employment* rather than variations in *unemployment*. In other words, this theory assumes that varying levels of employment are evenly distributed across agents. When it comes to explaining unemployment *per se*, Lucas admits that one has to leave the realm of Walrasian general equilibrium theory (where rationing is absent) and to enter into that of search models (where it is present). Cf. Lucas [1987, ch. VI].
3. Lucas' stance has, in fact, a long lineage. To wit, it was voiced by von Mises in his 1949 *Human Action*: "Unemployment in the unhampered market is always voluntary. In the eyes of the unemployed man, unemployment is the minor of two evils between which he has to choose" [1949: 596].
4. Since rationing is excluded, unemployment ought to be left aside.
5. Thus there is no empty choice set.
6. Additionally (or alternatively), they could be stratified according to some location criterion
7. Moreover, mobility across social forms of activities will also be assumed possible
8. In view of the purpose of this paper, it is unnecessary to delve into what may motivate agents to prefer unemployment against taking their chances in lower-skill markets. Just to give a hint, they may for example assume that taking a lower-skill job prejudices the chances of getting a job in their normal market in the future (which amounts to believing that the risk of human capital loss is higher with downwards mobility than with unemployment).

9. The "misemployment" term ought thus to be understood widely, as it may encompass the rentier activity.
10. "If workers were always able to achieve self-employment, then there could be no involuntary unemployment. Whoever could not work for someone else, would work for himself" [Lindbeck and Snower, 1988, 51].
11. Hence the possible negative connotation of the term voluntary unemployment, as it is implicitly understood as designating this profiteering behavior.
12. Keynes' definition of involuntary unemployment, given in Chapter 2 of the *General Theory* [1936, 15] might be helpful to detect pseudo-rationed agents. According to Keynes, the test of the existence of involuntary unemployment consists of an experiment where the unemployed are offered exactly the same job which they have been unable to get (or to keep) yet at a lower wage than the prevailing one. The condition for ranking them as labor rationed is that they accept this job offer. Those refusing it should be classified as pseudo-rationed agents.
13. My analysis rests on the premise that a market rationing outcome has already occurred in the labor market, as explained either by an efficiency wage or a search model. Darity and Goldsmith [1995] notice that it is possible to have jointly market-clearing and involuntary unemployment in the form of discouraged workers. The reason is that the discouraged workers are no longer trying to participate in the labor market, since they already know that they will be rejected. Market-clearing then pertains only to the sub-set of the non-discouraged workers.
14. In the same vein, in an essay on unemployment in Britain in the inter-war years, Whiteside and Gillespie note that a possible rationale behind the rise of unemployment as a distinct category was the need to differentiate it from poverty: "Unemployment" as originally conceived in the late nineteenth century had no uniform or self-evident meaning. The 'unemployed' were distinguished from the rest of the pauper host by their moral superiority: made evident in their previous regular working habits, their independence, thrift, sobriety, and honesty. Policies for the unemployed therefore aimed to save these stout fellows from the horrors of a punitive poor law, on whose tender mercies they might be thrown in hard times, through no fault of their own. Such policies, however, excluded the 'residuum' — those surplus to labor market requirements whose physical and mental weaknesses rendered them incapable of regular work" [1991, 674-75].
15. As stated by Whiteside and Gillespie, "The survey [New Survey of London, carried out at the London School of Economics between 1928 and 1931] concluded that the loss of six weeks wages in the course of six months would be enough to place the average unskilled worker in poverty. At the beginning of 1929, a relatively prosperous year, almost 14 percent of the adult male workforce fell within this category" [1991, 671].
16. Similar statements can be found in Stiglitz [1992, 54], Bulow and Summers [1986, 405], Hahn [1987, 3] and Layard, Nickel, and Jackman [1991, 41].
17. See also Hahn [1983, 225] and Lindbeck [1993, 53].

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