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De economie van de niet-productieve arbeid. Over de oorsprong en de betekenis van het onderscheid tussen productieve en niet-productieve arbeid

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SUMMARY

This study is about the fysiocratic, classical and marxian distinctions between productive and unproductive labour. It is called *The Economics of Unproductive Labour* because it deals with the unproductive rather than with the productive labourers. Part one discusses the fysiocratic and classical theories, part two the marxian one. In part three an attempt is made to discover some aspects of the distinction that may be relevant to economic theorizing within the tradition of the classical surplus approach.

The questions. In chapter one it is argued that in classical theories the distinction between productive and unproductive labour was virtually synonymous with a distinction between what was thought to be important and what was not. Anything that seemed to be important for classical economic modelling and for answering the crucial questions about capital accumulation and income distribution, was called productive. Unproductivity was a residual notion, in principle denoting anything that was thought to be inessential for the crucial classical questions, but that happened to be a phenomenon in a complex economic reality. In other words, the distinction between productive and unproductive labour is about how classical economic models were applied to economic reality. This study discusses two problems connected with the classical distinction.

- Classical authors believed that an economic surplus was produced in particular sectors of the economy and not in others. Economic growth was thought to depend on putting this surplus to productive uses.
- Classical authors defined the wage and the non-wage incomes (the

surplus) in the leading sectors as the only original incomes. All other earnings were seen as transfer incomes which impeded economic growth.

In this study the first is called the leading sector argument, the second the problem of income accounting.

Thus, there is no sense in asking who the classical unproductive labourers were. Instead, our questions concern the arguments with which the leading sector argument was introduced and the theoretical consequences of classical income accounting. We asked four questions.

- How were the leading sector argument and classical income accounting adapted when classical theory developed?
- On the basis of what arguments was the idea that economic growth did not depend upon the activities in non-leading sectors accepted?
- What errors in classical theory can be related to the distinction between productive and unproductive labour?
- Are the arguments with which classical authors tried to underpin the leading sector argument and their income accounting still relevant for the modern surplus approach?

Development of the leading sector argument. The fysiocratic doctrine that the economic surplus is produced in agriculture was probably founded in the idea that only in agriculture a technical change could be introduced of such a kind that this sector eventually could gain from comparative advantages. In **chapter two** it is argued that the basic proposition behind this is anti-ricardian: the fysiocratic ideal economic system is a pastoral in which no producer strives for a surplus; the surplus exists as a result of rentpayments (which influence relative prices).

For Adam Smith the fysiocratic doctrine was unacceptable. He believed, as is discussed in **chapter three**, that together with the production of material commodities a surplus was generated. In classical theory there was much confusion about this criterium of materiality; the reasons for introducing it were and are still unclear.

Marx's treatment of the leading sector argument can be called 'modern'.

In **chapter five** it is stressed that he discussed the matter in terms of producers's objectives: capitalists strive for surplus and capital accumulation, other market producers do not. According to Marx the capitalists' objectives are 'abstract': their preference for capital accumulation cannot be reduced to preferences for consumption in the future.

Development of the income accounting procedure. Adam Smith's criterium of materiality is a relatively unimportant issue. Much more important was the theoretical scheme of distribution he introduced, which depended on his definitions of original and transfer incomes. This certainly is the noble theme of producers and parasites.

Marx dropped the criterium of materiality, but held the belief that some services - in particular banking - are unproductive. In **chapter four** his amendment of the definition of a national income to account for this is discussed: he introduced a new criterium, the so called 'false costs' criterium, and incorporated this in his labour theory of value. Unfortunately, the general definition of false costs does not allow one to 'identify' all false costs (although some expenses may be called false costs). Since false costs are seen as a diminution of the 'original' income, there is no way of using the marxian income accounting.

Nonleading market sectors. In both fysiocratic and marxian theory the idea that in some sectors no surplus is produced depends upon a proposition about economic behaviour: producers who own their means of production strive for an acceptable working day and an acceptable standard of living. Whenever possible they determine their offer prices so that no surplus results.

Of course, there is no reason for not forcing these producers to produce a surplus by means of taxing or interest payments. In **chapter two** it is said that the fyiocrats were not in favour of taxing industry, probably in consideration of international competition and a desirable immigration. Marx said - as is discussed in **chapter five** - that the so called 'small commodity producers' produced no surplus value. Even in the absence of interest payments and taxes, this marxian proposition is hard to under-

stand.

The discussion of Marx's ideas in **chapter five** brings an interpretation of what is called traditional economic behaviour. Individuals strive for a 'normal' working day and a 'normal' standard of living, both determined by 'historic and moral' factors. Marx ascribed these objectives not only to the small commodity producers, but also to the labourers in capitalist enterprises. In fact he defined such a social equilibrium for the labour market, that to a considerable extent the income distribution between wages and profits is determined by conventions.

Errors. The distinction between productive and unproductive labour has given rise to errors and confusions, some of which resulted in a more or less heated debate, such as the *general glut controversy*. In this study attention is drawn to two errors.

The *invisible hand*, i.e. the thought that the market economy finds an optimal allocation of resources without government interference, seems to depend upon the classical scheme of distribution in which the contribution of government to national income is defined as zero and in which salaries of officials are treated as transfer incomes. In **chapter two** it is argued that this thought is theoretically hardly - and in reality not at all - compatible with Adam Smith's view that increasing returns in industry depend upon the 'extent of the market', while the extent of the market depends upon government activities with respect to infrastructure. From a theoretical point of view this problem is similar to John Stuart Mill's treatment of *human capital*. In both cases government activities are inputs in private production processes (as proposed by Kuznets), and we have to attribute a value added to these government activities. Therefore, the classical scheme of distribution breaks down and the *invisible hand* finds at most a suboptimal allocation of resources. This is of course well known; novel in this study is but the conclusion that interpretations of Adam Smith in which the *invisible hand* is seen as all important, simply neglect crucial parts of the *Wealth of Nations*.

The scheme of distribution which came along with the distinction between

productive and unproductive labour made *Say's law* practically inescapable. Gross profits were related to productive efforts; when given the natural wage and - in a ricardian model - the margin in agriculture they are constant per productive labourer. Interest payments were seen as a transfer incomes. Thus, net profits per productive labourer and the rate of interest are strictly inversely related. Whenever total profits decline and investment demand breaks down, the resulting decline in interest rate augments by definition net profits per productive labourer. An underemployment equilibrium seems impossible. This led to the discussion of Marx's monetary theory in **chapter six**, as Marx is highly praised for his criticism of *Say's law*. His acceptance of the distinction between productive and unproductive labour, however, leads one to expect that Marx's criticism did not imply a rejection of *Say's law*. This turned out to be true: Marx's criticism is that the mechanism behind *Say's* equality is effective after some delay, with the result that a capitalist economy according to him moves cyclically around a classical 'natural' equilibrium.

Modern relevance. This study has been written in the belief that a modern reconstruction of the history of economic thought from an economist's point of view can and should contribute to present-day economic theorizing. In general, reinterpreting passed down and even sometimes forgotten theoretical positions with the toolkit of the modern economist is a possible way for competing schools of economic thought - each claiming descendency from the great classical economists - to strengthen their protective belts in intellectual discussions. This study is directed at modern adherents of the classical surplus approach, i.e. the followers of Sraffa and marxists. It shows that the distinction between productive and unproductive labour had precisely the task of defining empirically the economic surplus as a residual income.

More specifically, on the question whether there is any present-day relevance to the classical discussions about unproductive labour, the answer is twofold. First, since definitions leading to an original income exists only for productive activities (in both classical theory and the modern *System*

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of National Accounts) - all of them more or less arbitrary, - it is hard to see what could be gained by calling the rest of the world unproductive.

Secondly, on the question whether there are elements in classical discussions that might be relevant, the answer is affirmative.

In **chapter seven** we have applied the marxian notion of false costs to the normative theory of exploitation. We discussed the so-called costs of discipline. By enforcing discipline employers seek to prevent that labourers control their working conditions themselves. This chapter ends with the conclusion that the means for covering these costs are obtained by exploitation.

In **chapter eight** we have applied the fysiocratic and marxian ideas about traditional producers in an analysis of the distributional consequences of informal activities. For these producers informal earnings constitute a buffer to meet changes in disposable income. The upshot is that in these cases one can expect price-effects in the informal markets different from those in cases of intended tax fraud. As a result the estimation of the effects of informal activities on the distribution of real income is very hard; most likely the real effects on profit income are underestimated.

In **chapter nine** the idea of a traditional producer is applied in a conflict theory of the distribution of domestic labour. Whenever ideas in a household about a 'normal' working day and a 'normal' standard of living are infeasible, e.g. as a consequence of a decline in income, an increase in domestic labour in the short run allows the household to adapt ideas about a 'normal' standard of living in the long run. In this chapter a model is presented in which the conflict about the distribution of this extra domestic labour between individuals may endanger the stability of the household.