

# A Power Model of the Labour Market

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## Abstract

This article discusses a bilateral monopoly model of wage determination in which the employers determine the level of production and employment. The threat of a strike is the principal instrument of the employees, while employers, being the owners of the monopoly surplus, can simply ignore wage claims. In the orthodox-economic model the wage elasticity of labour demand as well as the horizon and the discount rate used when calculating strike costs and strike benefits, are essential. In a heterodox-economic model employers can frame their reality in an Austrian or in a neoclassical way. Employees can frame their reality in a radical-economic or in a post-Keynesian way. The frame chosen affects the factors discussed in the orthodox model. Moreover, irrationality (from behavioural economics) and immorality (from social economics/economic sociology) play a significant role in the outcome of the negotiations. To make participants more rational and morally aware, a Communication Platform should be set up, in order to organize Habermas-like power-free confrontations. In this way society could slowly move from a shareholder society to a stakeholder society.

## Keywords

Labour Market, Power, Strike Costs, Strike Benefits, Concession Costs, Framing, Ideology, Militancy, (Ir)rationality, (Im)morality

## 1. Introduction

When analysing the role of power in the determination of wage rates and employment levels, it makes sense to distinguish between an orthodox-economic and a heterodox-economic model. Orthodox economics is built on four axioms about the nature of a human being and his environment. People are assumed to be 1) *economic*, 2) *perfectly rational*, and 3) *perfectly non-social*. They are part of a reality which is determined. In other words it is a closed system and the relations between the different elements can be described by means of 4) *logic*. Upon the basis of these four axioms an analysis is made and a series of theories

are derived as logical implications offering a typically economic description of the functioning of a *market* mechanism. A whole series of market structures are distinguished. The first is that of a *perfectly competitive market* structure. From this idealized model many other market structures can be derived. One of them, the *bilateral monopoly structure*, will be used here as the starting point of a heterodox-economic analysis of the labour market. This heterodox perspective is built on two axioms. The first is that human motivation is dependent on the situation. People are more or less economic, pro-social or anti-social, and more or less rational. The second axiom is that the situation should be approached as an open system. It means that one should see reality as an organism, not mechanically determined. Its openness means intrinsic as well as extrinsic disclosure. When starting with a simple model one can assume a closed system, and make it open in a later and more complex stage<sup>1</sup>.

In Section 2 I will show a few models of an orthodox-economic nature, and argue that the bilateral monopoly model is undetermined as long as the role of variable preferences, which are the horizon and the discount rate of the bargaining parties, is ignored. It should also be recognized that a full-fledged explanation of the bargaining results requires an analysis of a series of non-economic factors.

In Section 3 I discuss a bilateral monopoly bargaining model, in which the threat of a strike is the principal weapon of the workers. The role of the government is essential—it offers legislation to support the monopoly position of both parties. In Section 4, the model is made more complex and the role of phenomena such as wealth and imperfect information is discussed.

In Section 5 I offer a heterodox-economic power model by introducing phenomena such as framing, irrationality, and immorality. In section 6 my analytical tools are placed in a historical context—a typical heterodox research strategy. It means that all the factors mentioned are constantly evolving. In some stages people are more rational and moral than in other stages. Sometimes particular frames such as the Austrian or the radical-economic frame are more realistic than, for instance, the neoclassical or the post-Keynesian frame. Ideas of social economics and of behavioural economics are discussed and given a place in the historical development.

Now that a more complete picture of the determinants of the bargaining agenda and outcome is given, Section 7 provides an analysis of the communication between the different parties. It is shown how the long term results can be improved. Communication is a principal concept in sociology (Habermas, 1987). It is more than just exchanging information. A communication process should create more mutual understanding between opponents. It makes it easier to compromise when decisions must be made.

In Section 8 I will be more specific by designing a typical polder architecture, and Section 9 offers a summary and a few conclusions.

<sup>1</sup>Keizer (2015), chapter 2 explains a series of principal methodological concepts.

## 2. Orthodox-Economic Models of the Labour Market

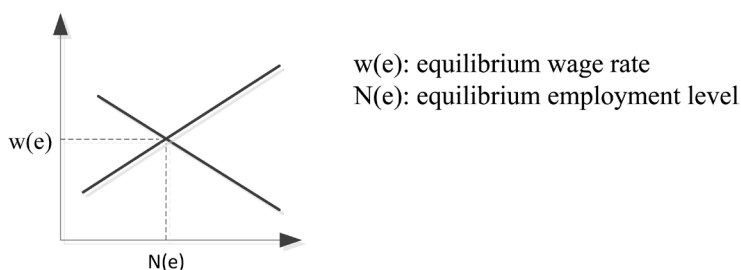
As I explained in the introduction, orthodox economics assumes that people are economic, rational and non-social, and meet each other in markets. Markets are competitive if governments abstain from interference in the coordination process, and stick to the protection of private properties. Prices are considered a *reflection of natural scarcity*. Neoclassical economics assumes that orthodox economics can function as a theoretical foundation for empirical research of markets and market economies. In heterodox economics a market is associated with *conflicts*, in which outcomes are determined by the relative power of the various parties. Only if the different powers are in balance, the performance might be satisfactory for society as a whole.

In this section I argue that the orthodox economic labour market model does not offer a solution for the coordination problem when a monopsonist meets a monopolist. Therefore, I first present the solution in case of perfect competition, a market structure without any market power. There are many demanders and many suppliers, they bargain about volume and price of a homogeneous product. There are no transportation costs, and all parties are perfectly informed about price and product quality.

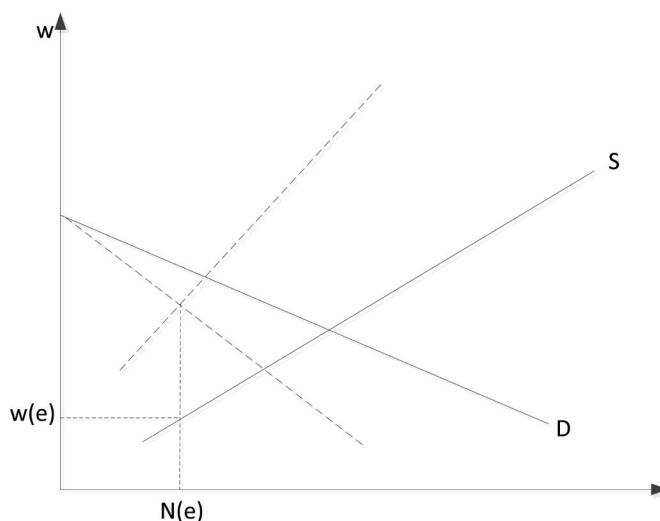
In **Figure 1** I have pictured the situation of such a *perfectly competitive market*. The bargaining system is completely individualised. Actors adjust their claims until equilibrium is reached:  $w(e)$ ,  $N(e)$ , where  $w$  is the wage rate and  $N$  is the employment level.

In **Figure 2** I have pictured the situation in which many suppliers of labour bargain with one and the same employer: *monopsony*. The intersection of the marginal revenues curve of the employees and the marginal costs curve of the employer determines the level of employment:  $N(e)$ . The supply curve shows us the wage rate ( $w(e)$ ), which belongs to  $N(e)$ . The equilibrium wage rate is lower than in case of a competitive market. Moreover, there is unemployment, since the equilibrium wage rate is lower than the subsistence wage.

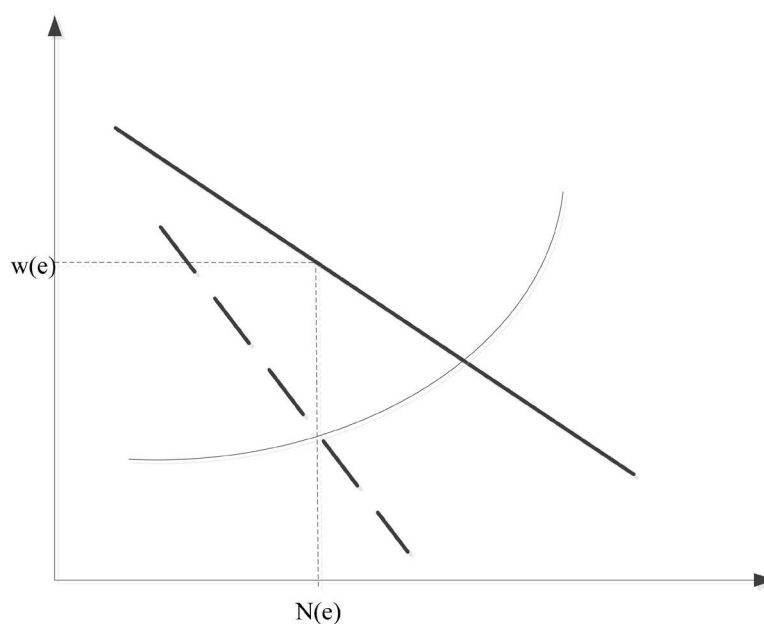
**Figure 3** shows the market structure in which many employers compete with one employee: *monopoly*. The intersection of the marginal revenues curve of the employee and the marginal costs curve of the employers determines the equilibrium level of employment ( $N(e)$ ); the demand curve shows which wage rate belongs to this



**Figure 1.** A competitive market.



**Figure 2.** A monopsony market.

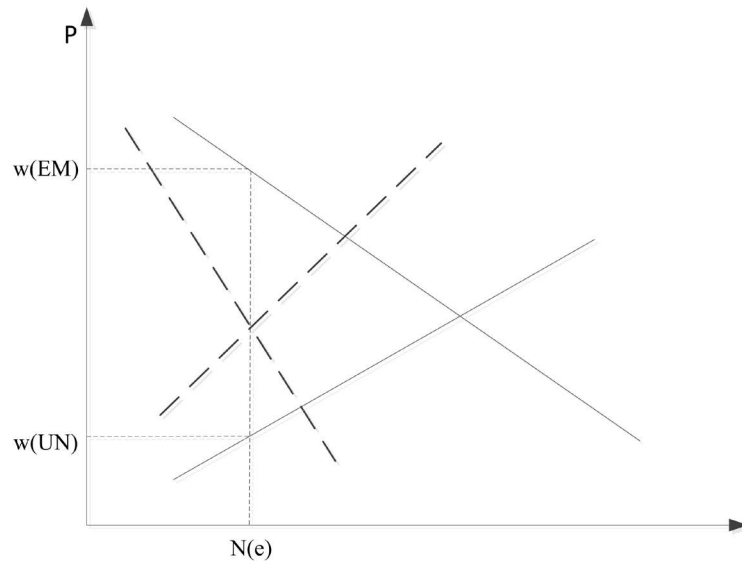


**Figure 3.** A monopoly market.

employment level ( $w(e)$ ). Again, there is unemployment: the employee is offered fewer hours than he is asking for.

In **Figure 4** I have brought the pictures 2 and 3 together. It shows the situation that is called *bilateral monopoly*: one demander and one supplier. The wage rate claimed by the supplier is  $w(UN)$ , and the wage rate offered by the demander is  $w(EM)$ . The wage rate which is the outcome of the bargain is determined by the relative power of the two parties. The power ratio is not only determined by the economic market power, but unavoidably also by non-economic factors, which are outside the scope of orthodox economics.

If all employers are organised in one representative body (EM), and all employees are united in one union (UN), perfect competition has been transformed



**Figure 4.** A bilateral monopoly market.

into a perfect bilateral monopoly. In the next section I discuss a simple solution for the problem of coordination by means of bargaining.

### 3. A Simple Bargaining Model of the Labour Market<sup>2</sup>

Imagine an economy in which the wage level is determined by negotiations between the representation of the employers (EM) and the representation of the employees (UN). Their power consists of the relative wealth on the one hand, and the relative costs and benefits they face in case of a strike, on the other hand. In the first and simplest model we assume that both parties are very rich; in other words, their wealth is not a restriction in case of a strike. We also assume that UN aims at the *maximisation of the wage sum*, being a combination of two sub-goals, namely the maximisation of the wage rate and the employment level. For EM we assume that they aim at the *maximisation of their profits*.

*The benefits of a strike for UN* are the increase in the net present value of the wage sum as a result of (the threat of) a strike, discounted over a particular *horizon*, at the particular *discount rate*.

$$\Delta w(B) \cdot (1 - \eta) \cdot N \cdot V(m, j) \tag{1}$$

where  $\Delta w(B)$  is the wage increase as a result of the bargaining,  $\eta$  is the wage elasticity of the demand for labour,  $N$  is the actual employment level and  $V(m, j)$  the discount factor, whereby  $m$  is the horizon and  $j$  the discount rate.

*The strike costs for UN* are the loss of the wage sum during the strike plus the fixed costs of organising a strike.

$$w(0) \cdot N \cdot s + FS(UN) \tag{2}$$

where  $w(0)$  is the actual wage rate,  $N$  is the actual employment level,  $s$  is the strike duration and  $FS(UN)$  are the fixed costs of organising a strike for UN.

<sup>2</sup>An extensive treatment of the model can be found in Keizer (1982).

The strike costs for EM are the losses in profits during the strike, which are the surplus not realised plus the fixed costs of the economy plus the fixed costs of organising a strike.

$$(S + C) \cdot s + \text{FS}(\text{EM}) \quad (3)$$

where  $S$  is the surplus,  $C$  represents the fixed costs of the economy,  $s$  is the strike duration, and  $\text{FS}(\text{EM})$  are the fixed costs of organising a strike for EM.

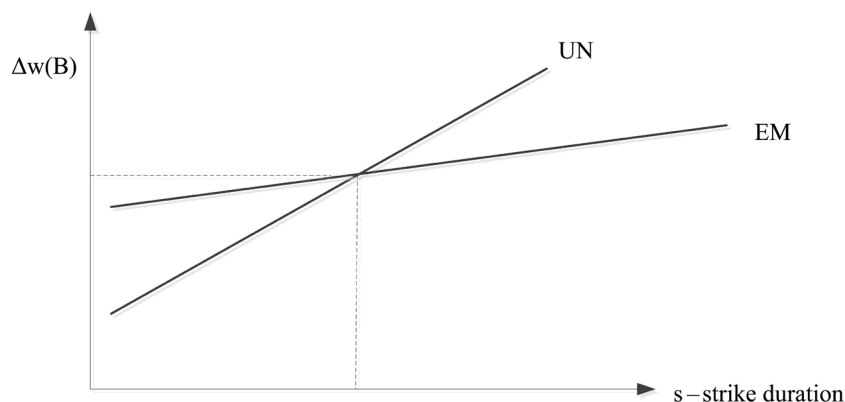
The concession costs for EM are the net present value of the increase of the wage sum, as a result of (the threat of) a strike.

$$\Delta w(B) \cdot (1 - \eta) \cdot N \cdot V(n, i) \quad (4)$$

where  $\eta$  is the wage elasticity of the demand for labour,  $N$  is the actual level of employment,  $V(n, i)$  is the discount factor— $n$  is the horizon and  $i$  is the discount rate.

Assume that both parties are perfectly informed about their own power as well as the power of the other party. The union compares its benefits with its costs of an eventual strike. Now we can calculate the strike duration, where costs and benefits are equal, and the union is indifferent between striking and not-striking. In **Figure 5** we have drawn its indifference line, indicated with UN.

We can also calculate the strike duration that makes the strike costs of the employers equal to their concession costs, and they are indifferent between a strike or doing concessions. In **Figure 5** I have drawn this indifference line, indicated with EM. The line UN represents the set of combinations of the bargaining result  $\Delta w(B)$  and the strike durations, for which holds that UN is indifferent between a strike or not. The line EM reflects this set for EM. The intersection of the two lines represents the “equilibrium solution”. In the figure I have chosen a case, in which the autonomous part of the UN is larger than that of the EM. In other words, the EM costs of being prepared for a strike are higher than the costs for the UN. Moreover, the slope of the indifference line of the EM is less steep than the slope of the indifference line of the UN. In other words, given the  $\eta$  and the  $V$ , the UN losses as a result of the strike (wage sum not received by the employees) are larger than the losses of the EM (profits plus fixed production



**Figure 5.** Bargaining result, in case of perfect information.

costs). Actually there are many different situations, in which a strike will not occur because one of the parties is stronger than the other.

The assumption of perfect information means that both parties know the position of both lines, including the equilibrium. The function of a strike is to give the parties information about the strength of the other. In case of perfect information this is not necessary. Both know at which level of  $\Delta w(B)$  both parties have the same optimal strike duration. The threat of a strike is sufficient to get the equilibrium result.

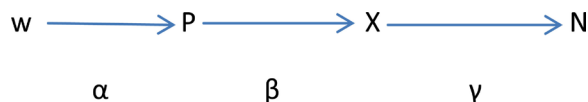
In the appendix I have presented a simple mathematical model that shows which variables are determining the position of the lines. It leads to the following determinants of the relative power, and therefore of the size of the wage increase which is the result of the bargaining.

- 1) The wage elasticity of the demand for labour,  $\eta$ ;
- 2) The horizons of the two parties,  $m$  for UN and  $n$  for EM;
- 3) The discount rates of the two parties,  $j$  for UN and  $i$  for EM;
- 4) The relative strike technology of the two parties; for UN the ratio between benefits and strike costs, and for EM the ratio between concession and strike costs;
- 5) The level of the surplus ( $S$ ) plus the level of the fixed costs of the economy ( $C$ );
- 6) The level of the wage sum before the bargaining ( $w(0).N(0)$ ).

Ad 1. The wage elasticity  $\eta$  expresses the effect of a change in the wage rate on the level of employment. This relationship is affected by a series of economic relationships. In **Figure 6** I present the most important ones<sup>3</sup>:

The letter  $\alpha$  represents the wage elasticity of the goods price level ( $P$ ). The letter  $\beta$  represents the price elasticity of the supply of goods ( $X$ ). The letter  $\gamma$  reflects production elasticity of the demand for labour ( $N$ ). In case of a relatively closed economy  $\alpha$  approaches 1, while  $\beta$  approaches 0. It means that an eventual increase in the nominal wage rate will not affect the level of production and employment. In a more open economy  $\alpha$  is smaller, and the production declines in case of an increase in  $P$ . In a very open economy  $\alpha$  approaches 0. It means that the increase in the nominal wage rate leads to more or less the same increase in the real wage rate. This will affect the level of the production volume significantly, with strong negative effects on the level of employment.

Besides the degree of *openness*, the question whether the economy is *close to equilibrium* or not, is relevant. If a closed economy is in disequilibrium because



**Figure 6.** The relationship between the wage rate and the employment level.

<sup>3</sup>In the longer run neoclassical theory predicts a substitution of labour for capital in case of an increase in the wage rate, given the level of the interest rate. But when we take technological progress into account, we see a structural increase in the capital intensity, which is more important than the substitution effect. Post-Keynesians ignore this substitution effect.

of a lack of effective demand, a wage push has a positive effect on the level of production and employment. If this economy is in disequilibrium because labour is too costly to make investments profitable, a wage push has a negative effect on the level of employment. In case of an open economy, which is in equilibrium and operates in a flourishing economic environment, a wage push has a negative effect on the level of employment. If both the economy and its economic environment are in disequilibrium because of external factors, a wage push has a positive effect on the level employment<sup>4</sup>. In conclusion, the effect of  $w$  on  $N$  is very much dependent on the economic situation. Therefore, wage claims and wage offers must be presented, together with a careful analysis of the actual situation. When discussing the issue of frames, I come back to the relevance of this point.

The relationship between  $X$  and  $N$  is a technical one, determined by the laws of decreasing marginal revenues, and of increasing, constant and decreasing economies of scale. Technological progress implies permanent shifts in this relationship. Research has shown that technological progress is of a capital-augmenting, that is *labour saving* nature, which implies a structural increase in labour productivity. In case of a constant capital coefficient ( $K/X$ ), the growing surplus makes a wage increase that is proportional to the increase in labour productivity possible. Later we will see that the radical-economic assumption of an increase in the capital coefficient ( $K/X$ ) has become more realistic over the last decades, thereby limiting the room for a wage increase.

Ad 2. The horizons of UN and EM are  $m$  and  $n$ , respectively. They show whether a party aims at long-term or short-term goals; whether a party wants to have success now or prefers to have a better future for the next generations; whether it wants to show the other party and society as a whole its strength, thereby gaining prestige or not. A *long-term strategy* requires different policy instruments, and leaders, who do not work for their own status. Unions that declare strikes as soon as they are angry and frustrated, are not acting in the long-term interest of the employees. Unions that analyse the situation carefully and approach the other party in a constructive way, will have more success in the end. Employers, who understand the situation of the employees well, and sympathise with some of their goals, will be more successful in the end. But when it comes to a real strike, long-term oriented people persevere! They show the other party, and society as a whole, that they are prepared to sacrifice a lot, in order to reach their respectable goals.

Ad 3. The discount rates of UN and EM are  $j$  and  $i$ , respectively. These rates show the value an actor attaches to having the benefit now rather than in the future. The higher the rate, the lower future benefits are weighted relative to current benefits. As is the case with the horizons, the discount rates show the attitude towards long term orientation. We need both elements, horizon and discount rate, when weighting the short-term and long-term elements in the flow of

<sup>4</sup>This was the situation of the eurozone over the period 2009-2016:  $\eta > 0$ .

expected benefits and costs.

Ad 4. When discussing the phenomenon of strike costs, one can distinguish fixed and variable strike costs. Fixed strike costs are made when preparing a strike. For UN as well as for EM we can think of all the meetings they have when formulating strategies and tactics. But we can also think of all the meetings between UN and EM about each other's interpretations of the situation, and about the preferences of each party with respect to the various components of the wage. It can be the wage paid to the employee, but it can also include the money paid by the employers and employees to the social security funds of the employees, and the money for the financing of schooling and training, the organization of a personnel council, or the representation of employees in the company council. The negotiations might end up with a compromise, which is determined by the relative power of the two parties. This relative power includes the efficiency of executing a strike. EM must be aware of the vulnerable parts of the production process. UN must be aware of paying the strikers enough without crossing the line of subsistence. Both parties must be aware that the wage increase as a result of the threat of a strike is a benefit for the UN and a cost for the EM—both calculated over a particular period and at a particular discount rate. EM can take precautionary measures by having large inventories of finished products, while UN can search for parts in the production process that generate large employer costs in case of a strike, while just a few strikers must be paid by UN; so, this is about *strike technology*. Every union has built up a strike fund, the size of which is a secret of strategic importance. Every employer has his own capital in the firm, which can be used in case of a strike.

Ad 5. The negotiations are essentially about the division of *surplus*  $S^5$ . It is important to understand that EM is its owner, and UN must try to get its share of this surplus. If the surplus is negative, the bargaining should deal with the optimal wage decline. In these cases, a positive or a negative surplus, the two parties are inclined to threaten each other with a strike as long as they think this to be beneficial. As long as we ignore the wealth position of the two parties, we cannot analyse the consequences of these assumptions.

Ad 6. The absolute level of the wage sum at the moment of bargaining is relevant. In the first place, it affects the strike costs of the union. Moreover, it affects the size of the change in the wage sum, necessary to reach the desired change in the wage sum, expressed as a percentage.

#### **4. A Sophisticated Model of Bargaining in the Labour Market**

The simple model is far from realistic. Therefore, I introduce a series of variables that make the model more sophisticated, and investigate its effects on the relative power of the parties.

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<sup>5</sup>Orthodox socialist unions do not stop when the whole surplus is theirs. They go on until all the capital has been taken over.

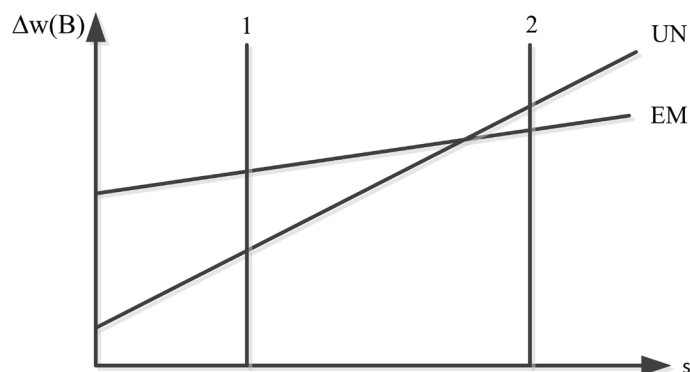
### Wealth

So far we calculated the efficiency of a strike. But it is important to realise that a strike is a type of investment, and we must know whether the parties can finance an eventual strike. Therefore, I assume that both parties have some capital available. Wealthy companies have their own capital, and can easily borrow money from investment funds or banks. Poor companies are inclined to give in so as to reduce the short-term costs, and in the long-run, time will tell. Rich unions can finance long strikes, which makes them powerful. Most of the time, unions are poor, and unable to finance strikes and their preparation. This means that in such situations employers are determining the wage level.

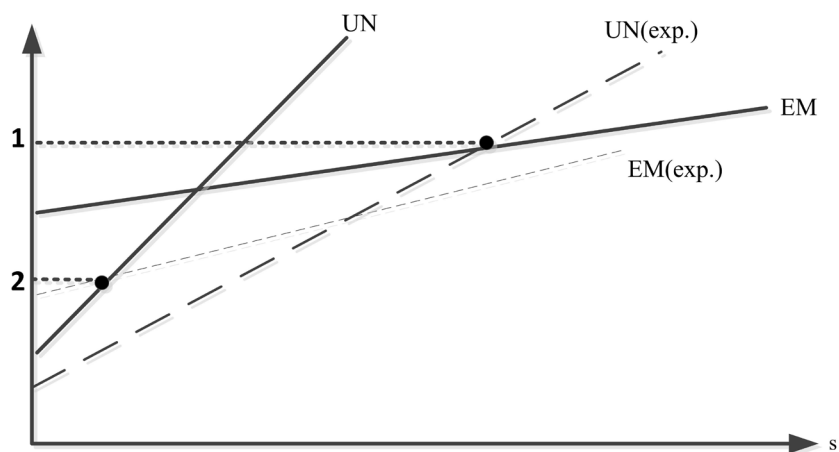
In **Figure 7** I have drawn two vertical lines. The first vertical shows the position of a relatively poor union. It cannot finance a strike with optimal duration. Therefore, even though a strike might be efficient, lack of finance restrains the union from declaring a strike. The second vertical shows the position of a relatively rich union. It can easily finance an optimal strike, which means that wealth is not playing a role in the strike.

### Imperfect information

When both parties have perfect information, there will be no strike. If parties have the same perception of their relative strength, a strike is not necessary. Negotiations have the function of exchanging reliable information, and parties will easily reach a compromise. But if they have different *perceptions*, a strike has the function to show which party is the strongest. **Figure 8** analyses the situation in which each party has perfect information about his own strength, while having a restricted perception of the strength of the other. I have assumed that the autonomous part of the UN-line is lower than that of the EM. It means that the steeper the UN-indifference curve, the lower the wage increase that results from the strike threat. For the EM-indifference line holds the same: the steeper the slope, the lower the wage increase. In this figure it is assumed that the UN underestimates the power of EM, while the EM overestimates the power of the UN. The result is a higher wage increase, in particular because of the EM giving in quite fast. If EM underestimates UN, while UN is overestimating the power of EM, the



**Figure 7.** Vertical 1 means an effective wealth barrier; Vertical 2 means an ineffective wealth barrier.



**Figure 8.** UN underestimates the power of EM. (EM overestimates the power of UN; 1. wage increase, as expected by EM; 2. wage increase, as expected by UN).

wage increase will be lower than in the case of perfect information. In general, if both parties are underestimating the other, the party with the strongest self-confidence is the winner.

Besides the problem of under- and overestimation, there are three other problems involved. In the first place, there is the possibility of *asymmetric information*. Unions must always deal with the problem that they are dependent on the information from the companies about their real economic position. Employers have more accurate information about the opportunities and threats for the economy in the near future, and can manipulate relevant information. This form of asymmetric information leads to a lower level of negotiated wage increase.

In the second place, there is the so-called *hold-up problem*. This means that there is a time difference between accepting a lower wage offer by the unions, and the suggested positive effect of this acceptance on the level of employment. So, unions must trust the employers, when they promise a higher level of employment in the future. In many situations unions do not trust the employers.

Both situations require institutional solutions. The problem of asymmetric information can be solved by offering a profit-related additional wage increase. The hold-up problem can be solved by appointing an employees' representative in the board of the company. This representative can convince the unions that employers' views of future economic developments are sincere.

The third problem is called *framing*<sup>6</sup>. Since perfect information will never exist—information is a scarce good!—people are forced to select information. They are doing this by developing frames, that is, information structures that are focused on what is relevant, while leaving out what is irrelevant. Orthodox-economics offers a typical economic frame. In this frame, all actors are only economic, and there are no psychological and social factors. All actors think that all people are of the same nature. The actors in this frame assume that society is a huge market society, in which all actors are relatively unimportant, and cannot

<sup>6</sup>Keizer (2015) contains a description of many frames from economics, sociology and psychology.

change the course of this market society. In other words, there is just one frame, which means that framing is not conceived as a problem. In the next section, I will discuss heterodox extensions of this model.

## 5. A Heterodox-Economic Power Model

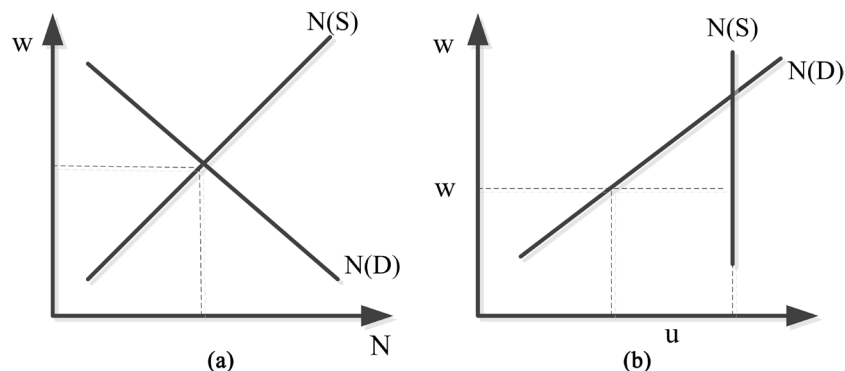
Heterodox economics rejects the idea of the homo economicus, who is economic, rational and non-social (Keizer, 2017). Human behaviour is situation-bound. The motivational structure of economic behaviour is always a particular mix of economic, psychic and social aspect. The environment of the actor is decisive for a specific mix at a particular moment. Moreover, the actor does not live in a completely determined, mechanistic world. The world is an organism, which is constantly changing. It is an open system, and all relationships are disclosed, extrinsically as well as intrinsically. Only because people are inclined to solve their information problems by adopting habits and other types of conventions, reality has some stability.

### Frames

Frames are a priori knowledge structures, and also called perspectives or approaches. In science, the paradigm of a particular research programme functions as a frame (Lakatos, 1970). Usually people are not aware of the characteristics of their own frames, and they are not even aware that they use frames. They think that they just observe what is true and what is false. Properly trained scientists are aware of their own paradigms and those of their opponents. To solve large conflicts the “warriors” should talk, not fight. In our case of EM versus UN the parties should realise that in most cases their views are ideological justifications of their own short-term interests. Ongoing communication should lead to the growth of mutual understanding, and a common view of long-term common interests.

We can distinguish many levels of analysis, such as company level, sector level, national level, supranational level, and global level. On all these levels we need an institutional structure which brings the relevant parties together. For all these levels it makes sense to develop an analysis of the situation. The way in which the situation is framed is decisive for the outcome of conflicts. In this article I limit myself to a few approaches that play an important role in systems of collective wage bargaining.

A first approach is the *neoclassical analysis*. It is based on the orthodox-economic axioms and assumptions. Actors are assumed to be economic, rational and non-social (Keizer, 2015, 2017). They are well-informed, but make mistakes regularly. It means that persons, organizations and markets are always close to, but not completely in equilibrium. **Figure 9(a)** shows a market equilibrium. Neoclassical analysis assumes that a change in price does not affect the position of the supply and demand curve. It means that market systems are stable: in case of a disequilibrium the system turns back to equilibrium through price adjustment. If labour markets are in disequilibrium, wage flexibility is the



**Figure 9.** (a) Neoclassical labour market; (b) Post-Keynesian labour market.

solution. If wages are rigid, the government must be blamed for institutions that frustrate the functioning of the market mechanism. In the Western world many governments have given unions the exclusive right to bargain about labour conditions. It has led to monopoly wages, and thus unavoidably to unemployment.

To make the neoclassical analysis a little more realistic, we can add some typical Austrian influences. Hence, reality is not mechanic, but organic. It is an open system, which means that it is permanently subject to intrinsic and extrinsic shocks. Equilibrium will never be reached, and disequilibrium is the normal situation. If organizations such as governments and unions do not accept this volatility, and introduce planning systems, they will make problems worse. As soon as we all accept permanent uncertainty, our rationality leads us to take precautionary measures, which means, for instance, the building of buffers of many kinds.

A second approach is the *post-Keynesian analysis*. It is based on typical heterodox-economic axioms. Reality is an open system, it is organic rather than mechanic, people are not perfectly rational and are pro- or anti-social rather than non-social. Uncertainty rather than (calculable) risk is the rule. The market system is unstable, which makes it necessary for the government to intervene. To explain the instability of a market system, we start with an economy, which is accidentally in equilibrium. Subsequently a decline in the effective private demand takes place. Production level and employment level decrease. Prices of goods, and wage and interest rates are inclined to drop. If the economy is very closed, demand curves shift downwards, which makes the situation worse<sup>7</sup>. Consumers and investors get depressed, which means that they become (irrationally) pessimistic about their prospects in the medium-long term. Every decrease in their income leads to a decrease in their spending. So in times of depression the market mechanism does not work! In **Figure 9(b)** I have pictured the situation in which wage flexibility leads to unemployment. In a depression, the post-Keynesian labour demand curve has a positive slope ( $\eta > 0$ ).

In a depression the wage level should not decline, while in a boom the wage

<sup>7</sup>Here we see the big difference with the neoclassical approach: a particular wage adjustment leads to a shift in the demand curve, which makes a quick restoration of market equilibrium illusory.

level should not increase<sup>8</sup>. Negishi (1979) has shown that macro wage stability can easily coincide with wage flexibility on the micro-level. In case of a boom, inflation will increase, which means a decline in the real wage level. In case of increasing scarcity of particular professions, their nominal wages can increase relative to other professions. If wages grow for all professions, they must be financed by the firm's own capital or by attracting external capital. If wages continue to grow, companies will react by decreasing employment and production, so as to stop the profit squeeze.

I will add *some radical economics* to this post-Keynesian analysis. Radical economics assumes that technological progress leads to increases in the capital-intensity ( $K/N$ ), the capital coefficient ( $K/X$ ), and the labour productivity ( $X/N$ ). The increase in the capital coefficient means that wages cannot rise proportionally to the increase in labour productivity. An increasing part must be paid to the capital suppliers. For UN this is important information. The increase in labour productivity is no longer a good indicator of the room for wage increases. Moreover, a strongly increasing capital stock makes EM more vulnerable for well-organized strikes. If a few strikers can stop a large capital stock, the strike costs of UN are relatively small, while the costs for EM will be very high. This will lead to larger concessions by EM.

Whatever the developments in  $X/N$ ,  $K/N$ , and  $K/X$ , in the neoclassical approach price flexibility makes the allocation optimal, and the prices of goods, wages, and interest rates reflect more or less the natural scarcity of goods and services. Neoclassical and Austrian economists do not bother about distributional affairs. If wages are too low for a decent living, there is no place for poor employees in a free-market economy. In practice, we see that Austrians are more militant in their liberalism than their neoclassical colleagues. It means that an Austrian EM takes a relatively long horizon and a lower discount rate, compared with more moderate neoclassical liberals.

Post-Keynesians consider a system of markets unstable. Wages can be too high, which means that the government should implement wage policies. Wages can also be too low. In case of a depression wage flexibility makes it worse. The government should step in, and give the unions the monopoly in the negotiations concerning labour conditions. This will increase the effective demand for government investment goods, until the economy is close to equilibrium again. In the neoclassical and Austrian approach the wage elasticity of the demand for labour,  $\eta$ , is always negative. In the post-Keynesian approach it is negative in a boom, and positive in a depression. In the radical approach  $\eta$  is always positive, since there is always an excess supply on the labour market. When looking at the length of the horizon and the level of the discount rate, we see that post-Keynesian unions tend to use a relatively short horizon and a relatively high discount rate,

<sup>8</sup>In this analysis technological progress does not exist. If we make the analysis more realistic, wages can more or less proportionally rise together with the increase in labour productivity. If we introduce radical economic elements into the analysis, we will see that the relationship between wages and labour productivity is more complicated, as I will explain below.

because unions must serve the interests of the current employees. The government is responsible for an effective full-employment policy. Radical unions, however, stress the relevance of the class struggle between EM and UN. The main goal of this struggle is to make society ripe for government investment planning in strategic areas of the economy. So, they use a long horizon and a low discount rate. With respect to the division of income between labour and capital, radical unions might see a collective fund for capital gains as one of the results of the final labour victory, because this redistributes wealth from capitalists to the people in general.

### **Irrationality**

Especially post-Keynesian economics assumes actors to be irrational. Keizer (2015) provides an extensive treatment of psychology and behavioural economics and offers an analysis of the concept of *irrationality*. It is assumed that a person, indicated as the “I”, has two selves. One is *the actual self* (AS) and the other is *the true self, as experienced by the person* (TSE). AS is a bundle of emotions that drives a person to immediate and automatic behaviour. TSE is a bundle of emotions that drives a person to deliberately consider different options: is it wise to take strategy A or is B the better one? The capacity to logically structure the incoming information is called the person’s *ratio*. The “I” of a person has the capacity to develop willpower (WP); this is a sort of executive power, used to force AS to do what “I” has decided. Both selves communicate with “I” in different ways: emotionally by means of feelings, and cognitively by means of texts. The more educated a person, the stronger the cognitive part can communicate in the internal dialogue between the three elements<sup>9</sup>. A person is called perfectly rational if “I” is able to completely control the AS. The attempts of AS to create miserable feelings and to use justifying ideologies in its conversation with “I” are not successful; in other words, such a person has a strong mentality and is a strong personality. A person is perfectly irrational if “I” does not have any control over AS. The person’s behaviour is completely ruled by a bunch of bad feelings, accompanied by *justifying rationalisations*, for example: “the use of a little cocaine is not bad; actually it makes me feel better”.

Generally speaking irrationality means that persons do not serve their own long-term interests. We saw that (partly) ignoring the advice of the TSE is one aspect of this phenomenon. A second aspect can be illustrated as follows. A person knows, for instance, that eating peanuts is bad for his health (the deliberate part, taking time and energy), but the smell is enough to eat them (the immediate low-energy reaction); later he feels regret, but then it is too late (Romer, 2000). The second aspect is the influence of the AS on “I”, who is taking the decision. TSE is constantly informing the decision-maker about the long-term strategy to be followed. Now AS has developed the habit of also talking to the

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<sup>9</sup>It is unclear whether a highly-educated person is more rational than a low-educated person. The highly-educated person is better in defending his long-term interests, AND better in the production of justifying rationalisations by the AS.

decision maker. He is doing it the easy way: “as we all know...”, “of course this is the way we will do it...”, “don’t listen to them, they are enemies...”, “of course in times of unemployment the wages should decline”, etc. This is called *ersatz* or *instrumental rationality*, being the opposite of *genuine or true rationality*. Imagine a neoclassical economist has advised the minister of Finance to take a series of austerity measures, in order to solve the existing economic crisis. Other economists write articles on their websites, in which they elaborately argue against austerity measures, and plead for an increase in effective government spending. The advisor knows that there is criticism, *but he is not prepared to read it*: “what a nonsense; these critics don’t understand the complexity of our economy”. This is an example of the functioning of the so-called *ostrich-mechanism* (Keizer, 2017). Inconvenient truths are not welcome because they are a threat to the self-respect of a person. Therefore the mind is not accepting this information, and such information will not be stored in the brain (Kahneman, 2011; Keizer, 2015). This ostrich behaviour is typical for irrational persons.

Now I will apply this idea of irrationality to the protagonists of this article. Imagine a radical-economic UN, which receives a report on the economic situation from EM. Sales are dropping and profits are decreasing. The report ends with a proposal to talk about a very modest wage increase offer. UN interprets this report as an attempt to fool the opponent. UN knows that their relationship is characterised by conflicts, which can only be solved by changing the economic regime into an economy in which strategic sectors are socialised. For the time being UN is bound to fight: EM is only sensitive to outright expressions of power. UN organizes a series of strikes, thereby applying the latest technology. Public relations officers approach the citizens to support the strikers, materially and mentally, and put pressure upon the government to set a minimum wage increase.

An Austrian EM agrees with the conflict view of UN. The existence of UN is an anomaly in a market economy. So a complete victory over UN would be the best solution. Correct information about the economy is secret. The public relations department of EM frames and selects information that is given to UN and the media, and to relevant actors in the political sector.

The confrontation between a radical-economic UN and an Austrian EM is tough; both parties are quite militant. In my model, militancy is measured by the factor  $V$ . Both parties choose a long horizon and a low discount rate (Keizer, 1982, 2015, 2017). Only pragmatic and opportunistic pressure groups go for the short term, and for a high discount rate. If UN is influenced by post-Keynesian ideas, it supports left-oriented government policies, executed by a social-democratic government. UN is willing to accept lower wage increases, if the government guarantees the building up of a welfare state and full employment. If EM is enlightened by social economics, it strives for harmony rather than conflict. It tries to avoid strikes and gives in quite soon, since it sees a healthy and well-educated work force as a long term benefit.

The model developed so far does not analyse explicitly the role of a govern-

ment. But it is easy to imagine that the cost-benefit analysis of a possible strike changes significantly, if there is a government that offers welfare services in exchange for an increase in the collective burden, together with a reduction in the net wage increase. If the government is of a post-Keynesian type, it offers the bargaining parties a full employment policy by stimulating effective demand in case of a depression. Then the size of  $\eta$  does not matter anymore. A full employment guarantee by the government makes the wage elasticity of the demand for labour,  $\eta$ , zero. A necessary component of this social democratic and social economic consensus is a macro gross nominal wage policy, which guarantees that the increases are more or less proportional to the growth of labour productivity. Tripartite negotiations deal with the question whether the economy is or is not in equilibrium, with the role of the increase of labour productivity, and with the increase of the welfare package, including the necessary increase in the collective burden.

### **(Im)morality**

Sociology assumes that human actors are social<sup>10</sup>. It means that they perceive themselves as member of a whole range of *groups*, of which some are more important than others. A person derives his *identity* from his most important group memberships, be it family, ethnicity, gender, profession, or religion. He learns that his group is superior to other groups. Such feelings of superiority may be based, for instance, on the conviction that Islam is superior to the Jewish belief, that one's family is richer than the other families in the region, or that one's profession is more prestigious than other professions. Sociology is about grouping and ranking, and society is the arena where the status battles take place. Some battles are not very serious, but others are very aggressive and violent. In the first period of humankind, groups discovered that this rivalry could mean the end of humankind, and that total destruction was not unthinkable. According to Girard (1978) the fear for total destruction led to the moral idea that we *should* not be so aggressive to people, who are members of a different group. Much later, the Jew Jesus advocated that empathic feelings should not be restricted to members of one's own group, but be extended to everybody. In 1947 the United Nations was founded, and the UN adopted the golden rule: "Do unto others as you would have them do unto you". *Perfect morality* means that all persons in the world accept all other persons as being essentially equal. This fundamental equality of persons who are so different from each other in many respects, must be seen as the substance of the ideal-typical *social world*. In families, labour organizations, countries, and in the world as a whole, nobody should be discriminated, and nobody should be denied a series of basic human rights and duties. Rawls (1971) has become the modern advocate of this classical idea of morality. Immorality is the opposite, and refers to all forms of *discrimination*, such as clientelism, lying to people, ignoring critical persons, and firing whistleblowers. In many countries, people are imprisoned because of their religious

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<sup>10</sup>Ritzer (2008), Bauman (1990), and Keizer (2015, 2018) offer sophisticated sociological analyses.

belief, their ethnicity or their honesty. Also in the western world discrimination is omnipresent. Fevre (2003) makes a relevant distinction between *genuine* and “*ersatz*” *morality*. The social (=moral) world as described above results from a successful attempt to ignore one’s own short-term interests, and ask people to place themselves in the position of “the other”. In daily practice most people are not doing this. Instead, they formulate *justifying ideologies*, a typical example of “*ersatz*” or *instrumental rationality*. Moreover, they develop moral rules that fit their own short-term interests. Many approaches in economics have their own specific views on morality, and usually these views are a mix of genuine and instrumental elements.

The Austrians are the most radical liberal philosophers in stressing individual freedom, including individual economic freedom. They consider this system to be the most efficient one. Therefore their most important rule is: “hands off each other’s property”.

Neoclassical economists underscore the relevance of economic freedom, but they recognize that markets adjustments take time. In the meantime the victims must be supported, as well as people who are handicapped.

Post-Keynesians more or less agree with the social economists. A market economy is an unstable system, and the government should step in to prevent depressions. Moreover, a market economy is an unfair system. Scarcity might affect the distribution of wealth and income, but is not natural, but *institutionally embedded*. Unfair institutions create unfair reward systems. The government is a very important institution, since it has the power to redistribute resources.

Radical economists tend to be socialists. A market economy is an unstable economy, and the government can stabilise it in one way only. It must make a plan in which government investments in strategic industries should manage the economy in an efficient and fair way. Unions are an important instrument to change societal structure, especially the governance systems of big firms.

Now that I have discussed a series of complications, we will see how a system can *evolve* over time from one type to another.

## 6. Historical Logic

UN and EM can have various interpretations of their situation. A different view leads to different goals and instruments. We can imagine several combinations. In my analysis four interpretation schemes play a role, namely the Austrian, the neoclassical, the post-Keynesian and the radical-economic perspective. The Austrians are militant liberals, for whom the free market is the solution for all problems. The neoclassicals are not militant, and are inclined to accept some of the social measures suggested by social economists. The Post-Keynesians consider the government as an important stabiliser of the economy. They are open for suggestions of behavioural economists as to how to deal with the irrationality of human beings, and for the suggestions of social economists with respect to the

problem of immorality. The radical economists are militant in their ideas about the important role of the government in the planning of the economy. They are inclined to discuss cultural matters with their sociological companions, the (neo-)Marxist sociologists, in order to make societal culture more in line with the necessary structure.

The actual situation can be characterised in several ways: (i) small versus large government, (ii) small inequality versus large inequality, (iii) the economy being quite closed versus the economy being quite open, and (iv) people being very irrational and immoral versus people being very rational and moral.

Historical logic can give us the following sequence in capitalist development. *Early capitalism* shows increasing competition, together with the step-by-step decline of feudal and corporatist institutions. The second phase is that of *industrial capitalism*. Manufacturing is becoming the largest sector, and is subject to a process of accumulation and *concentration*. Low-skilled workers form a large part of the labour force. They work in large factories, which makes it relatively easy to found unions. From then on class conflict is institutionalised. Both parties interpret their relationship as antagonistic. The gain of one party means a loss of the other. Powers become more clustered, and the government is growing and forms a countervailing power against big industry and big unions.

The situation can be characterised as follows: an Austrian-orientated EM has a conflict with a radical-economic UN, in an environment with a small but growing government, large inequality, a relatively closed economy, and both parties being quite irrational and immoral. Both parties are militant, which means that their horizon is long, and their discount rate low.

Over time EM becomes increasingly impressed by the length and depths of the depressions in the industrialised economies. In terms of economic theory they move from the Austrian view towards the neoclassical one, in which equilibrium on all markets is considered as the optimal situation. As pointed out above, Austrians consider disequilibria as a positive phenomenon, because they are incentives towards innovation. EM accepts government interference in terms of social benefits for those who are unable to work, and access to education and health care for all. These expenditures can function as automatic stabilisers, making the deviations from equilibrium socially acceptable. When UN discovers that their negotiations are successful and that there is real progress for the mass of the employees, it undergoes a similar process of moderation. Moderate liberals, inclined to adhere to neoclassical theory, are very reluctant to accept a large social security programme, because it might create *inflexibilities*. Post-Keynesians, however, offer an economic theory which explains under which conditions an economy with a large free market sector is *stable and fair*. The economist Beveridge has extensively worked on a blueprint of a modern and sustainable welfare state. Tripartite consultation between EM, UN and GOV (government) creates the necessary social-economic basis for it.

There are two problems left, and they are interrelated. Socialists as well as lib-

erals offer a *structural view* on society. It means that societal structure determines human behaviour. Socialists assume that people *become egoistic in a free market society* at the expense of poorly equipped people. Fair and efficient state planning, however, is an incentive for human beings to become cooperative and to show solidarity. Liberals assume that *egoism is natural*, and that co-operative behaviour is efficient only if it is completely voluntary. State planning will never operate efficiently. *The typical liberal problem* is the question why egoistic people should accept the liberal rule: “hands off private property”. Fraud, corruption and robbery should be minimised. The problem is, however, that a perfectly egoistic person does not accept legal rules, and will always try to evade them. *The typical socialist problem* is to find out what to do if significant structural changes, such as the step-by-step introduction of a welfare state, do not lead to reduction of egoism, and a sufficient level of rationality and morality.

In the history of Western Europe the welfare state was not only a compromise between socialists and liberals. Confessional unions and employers’ organizations as well as confessional political parties played a significant role here. They pled for more consultation and more moral debate between the two antagonist parties, and offered more functionalist analyses of an organic society. Their motivation to strive for more justice was based on biblical notions of sympathy with the poor. Centuries long this sympathy has led to charity. But during the 19th century confessionals became increasingly aware that this was not enough. So-called architectonic critique made confessionals support social legislation. Whereas the socialists wanted to use the social security system to level differences in income, the confessionals considered inequality as natural, as created and intended by God. So their systems were aimed at keeping people in their original strata. Unemployment, sickness, and disability benefits should be determined in percentages of income, not in absolute levels. Much social legislation was adopted through political cooperation between socialists and confessionals. The liberals did not have the electoral support to prevent a particular degree of leveling of income and wealth.

To scientifically understand the position of confessional organizations, ideas of social economics and behavioural economics become relevant. The first-mentioned approach assumes that there is always a cultural context in which economies are embedded. Culture is about the common view of the members of society, and about the consequent values and norms, and the institutions that are derived from it. In daily practice, however, there are many subcultures, of which instrumental “values and norms” are related to the short-term interests of the various groups. It leads to ongoing conflicts, which can only be solved through power battles. The winners can dictate the conditions, and the losers must accept these. Meanwhile they search for strategies to increase their power. In a society without any common culture, the struggle is very bloody, and might lead to outright war. History shows many examples. It appears very difficult to create a common understanding between the opponents. Straight rivalry is the result. Fortunately

there are always persons who have the personality to develop a different idea, a different interpretation of the situation and break through group boundaries.

Behavioural economics focuses on the role of psychology in the explanation of the economy<sup>11</sup>. In the previous section I have explained what is meant by irrationality. People are inclined to ignore inconvenient truths. Applied to my analysis it means that Austrian employers have not studied radical economics extensively, and do not understand what their opponents are saying. A priori they consider their opponents' views and claims as nonsensical. The same holds for radical-economic unions. They see the capitalist system as the cause of all evil, and there is nothing they can learn from Austrian economists. To break through this stalemate, society needs people with a *strong personality*, who have an open mind and enough self-respect to admit that they may be wrong occasionally. They are able to go beyond thinking in terms of short-term interests, and develop views that represent long-term common interests. A *strong employer* tries to understand why so many employees are so desperate. When he meets employees, he invites them for having coffee and listens to them. *Strong employees*, active members of the union, approach employers, and ask them for having regular contact, and discuss the long-term interests of the company. Slowly ideas about compromises will emerge. Strong employers are able and willing to withstand irrational opposition within their own group. They show true leadership when presenting their long-term views. If leaders are successful, an increasing part of the employers and employees will be supporting this process of slow politics. The thesis-antithesis antagonism will transform into realistic step-by-step progress.

Theoretically speaking this road means a transformation of quite irrational and immoral people towards more rational and moral people. These mental-cultural characteristics should extend to many employers and employees. A *personal commitment to long-term strategies* that serve the interests of all stakeholders implies an attitude of less corruption and fraud. Rules, including tax rules, are increasingly obeyed. In an ideal-typical welfare state everyone is perfectly virtuous in the sense of Adam Smith (Smith, 1759). In daily life we will always be far from these perfectly virtuous actors, but all improvements in mentality and culture, small as they may be, are welcome.

The following distribution of the surplus will be on the agenda of virtuous EM and UN, who strive for consensus about a typical stakeholders society.

- 1) Net profits paid to the shareholders are in line with the risk-capital return on the financial markets.
- 2) Increase in taxes and social premium payments, to enlarge the funds for collective services.
- 3) Net wages paid to the employees.
- 4) Fringe benefits, such as improvements in participation and working condi-

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<sup>11</sup>For an overview of the most important approaches in psychology, see Glasman and Hadad (2004), and Keizer (2015).

tions.

5) Training of relevant skills to improve the employability of employees and the unemployed.

6) Improvement of social relations within the local context.

In a competitive market economy the profitability of capital and the reward for labour are prices on markets, and therefore expressions of the scarcity of capital and labour. But the idea of perfect competition is far from realistic, and there is always a surplus. In a capitalist system the capital owners are the owners of the surplus. Shareholders rule the economy. Liberal politicians can only be forced to communication by means of social strife. When forced to talk with representatives of labour, capitalists run the risk of becoming convinced of the relevance of participation by employees. Rational and moral persuasion might make participants wiser. It leads to a better distribution of the surplus, and to improvement of the industrial climate. The cooperation between capital and labour might also lead to co-ownership of firms and economy. Part of the surplus can be deposited in a Labour Fund, which means that labour receives part of the retained profits, to be used for the financing of socially important investments in the economy<sup>12</sup>.

Next I will give an analysis of the psychology and sociology of effective negotiations.

## 7. An Analysis of Intra- and Interpersonal Communication

I have developed a power analysis, and have applied it to a situation of one union (UN) and one employer's organization (EM). I wanted to show how relative power determines the distribution of the surplus of an economy. It is a battle between capital and labour. In the extreme case it can be interpreted as the battle between a capitalist economy and a centrally managed economy. Most societies show an economic structure somewhere between these two poles. Capitalism produces capitalists with monopolistic power on the goods markets and monopsonistic power on the labour markets. Labour can try to form a countervailing power, for instance a monopoly on the labour markets with respect to the labour conditions. In daily practice we see that in every corner of society unequal power relations exist, and affect the allocation and distribution of scarce resources.

A generally accepted idea is that power corrupts. We can add that lack of formal power corrupts as well. Power is used to create intransparencies, and in its shadow all types of vicious practices flourish. But not only vicious, also irrational practices flourish. People regularly communicate with like-minded people. They constantly check which strategies are promising, and which are dead-end streets. People cluster together, create bubbles, form subcultures, and common inter-

<sup>12</sup>During the seventies of the 20<sup>th</sup> century the Dutch socialist-confessional cabinet introduced legislation to distribute capital gains in this way. It was a period of uncertainty, and unions had squeezed the profits structurally. This makes it understandable that Parliament rejected these proposals.

pretations of the situation emerge. It becomes increasingly clear who are friends and who are enemies. In my case of the capital versus labour battle, managers, who operate on behalf of the shareholders, are never openly and honestly talking with representatives of labour. These managers have learned at prestigious universities how to run businesses, and which bottlenecks must be eliminated. Since neoclassical analysis dominates university programmes, and is presented as the one and only analysis, it is difficult for the “enemy” to give his interpretation of the situation. When being educated so irrationally—never listen to “heretics”—it is easy to develop a culture of corruption and fraud, since this is simply necessary to survive the class struggle. In daily life people will not call their own action corrupt and fraudulent, since it serves a decent goal. Habermas (1987) has developed ideas about the organization of power-free communication. In our situation simulation games, in which union members play the role of employers and vice versa, can improve mutual understanding and sympathy.

My starting point is the situation of two rivals, an Austrian EM and a radical-economic UN. Both are irrational and immoral. The economy is the battle-field, and when negotiations lead to a compromise, it is just an armistice, not the end of the class struggle. This capitalism versus socialism debate has its own language, and every word that does not fit into this language, is misunderstood or outright rejected. Examples of concepts that cannot be used are consensus, (moral) persuasion, corporatist structure, and communitarian organization<sup>13</sup>.

Suppose a person who is a member of the EM-delegation meets a person who is a member of the UN-delegation in a pub. After a chat about family matters, they come to speak about the negative atmosphere during the negotiations. The EM-person refers to the lack of economic knowledge of the UN-people. The UN-person replies by saying that the opposite is the case: EM-people do not understand the position of the rank-and-file, and the way economies function. The discussion focuses on the interpretation of the current situation—is it recession or depression?—, and on the way in which the relationship between wages and employment must be analysed. At the end they still disagree, but there is more *respect* for each other. They experience the other at least as an honest person. They agree that it would be very useful to meet each other more regularly.

Both persons appear strong, and tell their colleagues about the discussion in the pub. “The others are not stupid, they just have different experiences. Maybe they listen to us if we create safe circumstances. We must think of the usefulness of their ideas and arguments”.

In this way two very important negative mechanisms do no longer work. The first is the mechanism of discrimination, which is the so-called scape-goat mechanism: “the others must be excluded from decision-making”. It reflects the omni-present thinking in terms of “us” versus “them”. The second mechanism is

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<sup>13</sup>From a political point of view this is an unstable situation. It might lead to chaos and moral resentment. Austrian persons tend to become more conservative or even outright fascist. Radical-economic persons also tend to become more conservative, or even outright communist.

the pre-selection of information, the ostrich-mechanism. Just as ostriches put their heads into the sand in case of a threat, people are inclined to ignore relevant but inconvenient information. In our case, neoclassically educated economists have always learned that a wage increase has a negative effect on the level of employment. They are confronted with people who say just the opposite: a wage increase has a positive effect on the level of employment. The ostrich-mechanism forces the neoclassical economist to definitely not listen to the opponent's argumentation: "What a nonsense, a first-year student of economics already knows why that is simply wrong"<sup>14</sup>. The operation of the scape-goat mechanism is typically immoral. The second mechanism shows the typical irrationality of human behaviour.

The two people in the pub did not only tell their colleagues of their experiences, they also encouraged their colleagues to do the same. EM decided to organise courses for their staff so as to get familiar with alternative approaches in economics, such as post-Keynesian economics and radical economics, and social and behavioural economics. UN decided to also accept academically educated economists, but of course only those who also studied heterodox economics on their own initiative.

Communication between people who understand the different theoretical foundations that are offered in economic science, is much easier, and compromises are found with less irritation and misunderstanding. Thus extreme views cannot be defended anymore; people with such views constantly lose reasonable discussions. In our case of wage negotiations, the idea of  $\eta$  being always and everywhere a negative coefficient cannot be held anymore. It implies less irrationality. The same is true for  $\eta$  being positive, which is not always and everywhere true. If both parties agree to set up communication lines, and frequently use them, it means that the immorality of excluding particular parties from decision making is reduced. Both tendencies imply more effective decision making. More important interests are taken into account, interests that could survive the heat of the debates by reasonable persons. In the final section I will give a sketch of a typical polder architecture.

## 8. A Typical Polder Architecture

Neither a capitalist nor a socialist society can function well. One important bottleneck is the scarcity of rational and moral people. In the power clash between EM and UN, representatives of each party should learn, and understand the views of the opponent. They should become aware of the axiomatic foundation of their own approach, and be able to compare and contrast it with the axioms of the other. If so, lobbying activities become dangerous, because the other might

<sup>14</sup>During the period 2009-2017 the Trojka argued in favour of neoclassically oriented reforms, while Greece argued the opposite. Unfortunately the Trojka was not willing to discuss the matter, leading to a strong decrease in the wage rate, followed by a strong decrease in employment (Varoufakis, 2016).

be right at some points<sup>15</sup>.

The government should play an important role in the organization of a communication framework. Established unions that are willing to participate in a well-developed Communication Platform are invited, and the same goes for established employers' organizations. The government should maintain a series of collective bargaining laws that give the established parties the right to close a contract. If the result of the contract is not in compliance with the long-term goals of society, the government should have the right to nullify the contract. If the result is acceptable, the government should make the agreement obligatory for a particular sector as a whole. The government's evaluation will not just focus on the level of the wages, but also on the agreements with respect to other important matters, such as anti-discrimination and life-time learning. In times of emergency the government should organize tripartite consultations, so as to come to a national wage policy.

With respect to social protection the government should have the responsibility for the establishment of a social minimum with respect to income, and for access to education, health care, and the judicial system for all. For those who are disabled or old there should be a system of benefits. Both UN and EM are responsible for a system that arranges social premiums and benefits for all people, including the sick and the unemployed. Unemployed people should always have access to the educational systems of the firm, the sector or the professional circuit to which an unemployed person belongs.

Several stages in a negotiation process can be distinguished. The first stage is called *rational and moral persuasion*. There will be deliberate discussions about the current state of the economy, the sector, or the professional circuit. Experts have made reports that are debated thoroughly by the broadly educated representatives of the negotiation parties. In the second stage, the *agenda* of the negotiations is established. Possible issues are: which rules should the government change, what are the desired changes in the premiums and benefits, what are the components of the nominal gross wage? How to organize profit sharing by all employees, savings funds for the employees, training facilities, co-determination systems in the labour organizations, and the relations with the local context? The third stage is formed by the negotiations about the *wage increase* for the next period, including all the components just mentioned.

## 9. Summary and Conclusion

In the orthodox-economic approach to a market economy competition ensures that no actor has the power to dictate prices. Monopolistic surpluses attract newcomers, thereby reducing these surpluses. Our daily reality is different, however. On the goods markets big industry rules, and puts pressure on the

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<sup>15</sup>Varoufakis (2016) offers an important example. The Greek minister of Finance was right according to many well-known economists, but the Trojka's irrationality made it unable to recognize it, at the cost of the well-being of many people in Europe, especially the Greek population.

government not to limit their latitude too much. On the labour markets employees have tried to develop countervailing power by founding unions. They put pressure on the employers to improve labour conditions, and on the government to develop the necessary legislation to support their labour market power. Especially in Northern Europe the unions were quite successful. The introduction of universal suffrage led to social legislation, and to a bilateral monopoly system with respect to wage determination. Tripartite relationships between labour, capital, and public made it possible to create more balance in society.

This article analyses the power determinants in case of a bilateral monopoly, based on collective negotiation legislation. Every period the two parties, UN and EM, try to persuade each other of the reasonability of particular wage offers and wage claims. If they fail, a strike will show which party is strongest. A simple orthodox-economic model leads to the following determinants of the negotiated wage increase: the wage elasticity of the quantity of labour demanded (1), the horizon and discount rate, used in the calculation of the costs and benefits of a strike (2), the relative strike technology (3), the size of the monopolistic surplus (4), and the actual wage rate (5). In a more sophisticated orthodox-economic model relative wealth (6), relative imperfection of the information available (mutual asymmetric information) (7) and the size of the hold-up problem (8) are the additional factors.

When we take a heterodox-economic approach we replace the orthodox-economic axioms with the typical heterodox ones. These imply a different world view. Reality is *organic*, not mechanic, and reality can be interpreted as an *open system*, not a closed one. Its organic substance is that everything changes all the time, everything adjusts to changing circumstances, and everything is constantly migrating to better circumstances. This makes it necessary to apply an evolutionary, historical approach. Institutions are developed so as to reduce uncertainty. Institutions might change under the pressure of historical events. A very important type of institution is formed by the *frames of interpretation* that people apply. All people frame situations, but scientists are supposed to be aware of their frames, and to explicitly formulate their presuppositions or axioms. In economics we have the orthodox frame, and a series of heterodox frames, such as the Austrian, the post-Keynesian, the radical-economic, the social-economic and the behavioural-economic frame. A different frame means a different analysis, and a different idea of what must be considered costs and benefits. A good example is the wage elasticity of the quantity of labour demanded. When “estimating” the value of that elasticity, it makes a significant difference whether we take the orthodox approach of the neoclassical economists or the post-Keynesian approach.

Another important heterodox determinant is the degree of irrationality of human beings. This phenomenon refers to the inclination to ignore long-term effects. Moreover, irrational persons are inclined to ignore inconvenient information. Both inclinations can be understood as reactions to dangerous situa-

tions: act quickly, otherwise there is no long-term at all. In the class conflict it is dangerous to be open to the enemy. If just one party is open, while the other tends to abuse this openness, it might turn out to be devastating for the open party. If membership of a group is a necessity in terms of survival, people are inclined to adjust to group views, goals and instruments. They receive information only from their own sources, and never talk seriously with members of the other party. But it is irrational to be completely adjusted, always and everywhere. In that case one has no independence *and has lost one's personality*. Strong people always think about their personal strategy, and are able to warn their own group against serious mistakes. They are the natural leaders, whether they are recognized as such or not.

A third important heterodox determinant is the degree of immorality. In a perfectly *social world* all human beings recognize all other human beings as owners of a series of inalienable rights and duties. I have explained that a typical social world consists of groups that fight their status battles with other groups. Members of a group live in solidarity with each other, and consider members of other groups as their rivals. So, their positive morality is restricted to their own group. They feel obliged to behave negatively towards members of the rivalling group; in their own language this is not immoral at all! All human beings have the capacity to sympathise with other people, but almost all people learn during their childhood to talk positively about their own group, and to think negatively about the members of rivalling groups. They have no moral sentiments, but *moral resentments*, to use the words of [Adam Smith \(1759\)](#). In the conflict between UN and EM we can learn to interpret the conflict as a strictly economic one, as orthodox economics does. But if the differences in wealth are large, it is difficult for the relatively poor not to develop moral resentments; we are then entering the social world. The militancy of the strikers will increase. The strike benefits will increase, because of the longer horizon and lower discount rate.

In section 6 I have given a stylized history of European labour relations during the last centuries. In the end of the 18<sup>th</sup> and the 19<sup>th</sup> century militant Austrian oriented employers struggled against militant radical-economic oriented unions. Employers were much stronger, and the effects of the strikes were minor. But at the end of the 19<sup>th</sup> and in the first half of the 20<sup>th</sup> century the threat of a communist revolution was considered real. Moreover, confessional groups of workers and of employers felt a biblically motivated urge to adopt legislation that supports the position of the masses and the unions that defend their interests. It was the beginning of the building of a welfare state, which is a synthesis between a capitalist society and a communist society. The employers became less militant, and moved to neoclassical views: "large unemployment must be considered as a disequilibrium, and therefore as undesirable". The employees became less militant and moved to post-Keynesian views: parliamentary democracy makes progressive evolution possible, and revolution unnecessary and undesirable. In many North-Western European countries confessional organizations of em-

ployees and employers played an important role in the step-by-step development of a tripartite framework of consultation and negotiation about the labour market. It meant co-responsibility of private employers' and employees' organizations for the politics of society, a corporatist element in a parliamentary democracy.

The last few decades have seen increasing globalization and an unprecedented technological progress, especially in the field of information technology. Global business has created institutional competition between countries and regions; a race to the bottom with respect to tax tariffs and other types of rules. Are we going back to the early days of cowboy capitalism? That would be disastrous. Cowboys fought with guns against Indians with their bows and arrows. But technological progress makes it increasingly possible to fight wars on a much higher technical level. Hackers can disturb our systems such as financial systems, weapon systems. Robots with nuclear weapons can destroy big parts of the planet. Small groups of frustrated people can take many people in hostage. So the question is, how to prevent increasing frustration among the losers, and how to educate the people who have the potential to be the wise leaders of tomorrow.

In Section 7 I have discussed the psychological and sociological aspects of the process of communication. Two groups considering each other as the enemy, decide to talk with each other. If both groups adhere to the structural view on society, direct communication is useless. Of course, they can send each other important information, and negotiate about a compromise. But *genuine communication* is something different. In that case participants approach each other as fellow-human beings, including all the rights and duties that belong to being human. It starts with listening seriously to each other in an honest attempt to understand the story of the opponent. This attitude does not come out of the blue, but should be taught and practised at home and in school, from day-care centres to universities.

Communicators are aware of the various components of knowledge. It logically starts with a paradigm about the nature of human beings and their situation. Subsequently, an analysis is made by deriving logical implications from the paradigm. Theories are derived from the analysis. Only if a scientist considers the theory ripe for empirical testing, can empirical indicators of the theoretical concepts be defined and observed (Keizer, 2015: ch.2). The communication process starts with the exchange of texts in which the frameworks of interpretation and their empirical counterparts are formulated. Each participant must have carefully read his own texts, and those of the other party. The discussion takes place under the chairmanship of a neutral person. This discussion between UN and EM about the elasticity of the quantity of labour demanded is pivotal, given the reliability of the information that is offered by EM about the situation. The role of strong personalities who have discovered their own inner world and their own inclination to blame the other party for everything that is bad, is decisive. Such personalities produce mutual trust, making compromises possible and creating support for further peaceful contact.

In the final section the polder model has been presented as a Communication Platform for a rational and moral persuasion of “the other” and of the “self”. The theory as presented in this article explains why communication is more than a simple process of exchange of information. Communication means that participants increasingly discover their own irrationality and immorality. Irrationality means an asymmetric selection of information, and immorality refers to an asymmetric selection of interests that must be served when deciding about the wage increase. When talking about wages we mean the rewarding of labour in the most general sense. So it is much more than just the net real wage rate paid to the employee. The contributions to social funds are a major issue in the negotiations. A capital gain fund can be raised for the employees: shares in the company and money in a collective fund, controlled by the union and meant to finance socially important investments. This fund may also contain money for improving working conditions, increasing sophistication of worker participation, training of the employees, lifelong learning on the job, internships for the unemployed belonging to a particular industry or professional organization, and funds for the maintenance of good relations with a local community, such as sponsorships for sports and music clubs. In this way society will slowly transform from a shareholder society to a stakeholder society.

Literature on wage bargaining can be found in many different specialisations of human science. The orthodox-economic literature analyses the actions of economic man in a competitive market structure. If governments develop legislation, which make collective bargaining possible, the literature suggests that wages being too high to prevent the markets from clearing. The heterodox-economic literature assumes that free markets become concentrated, managed by the Big Firms, setting monopsony wages. If unions are able to develop countervailing power, and governments introduce a legal basis for collective bargaining the result of the bilateral monopoly will be close to that of a competitive market. The orthodox-economic approach offers an elegant analysis, it is far too restrictive. Empirical results are of no value—union economics illustrates this time and again (Keizer, 2015). Heterodox-economics allows more complexity, but the central concept “power” is to “economic and political power”. Most of the time it operates in economic structures, isolated from mental and social-cultural factors. In this article I have introduced these types of factors on the basis of a extensive analysis of the social and the mental world (Keizer, 2015). In this article I started with the orthodox-economic analysis, and have broadened it step by step. Finally the orthodox-economic cost-benefit analysis was transformed into a complex heterodox analysis, in which sociology and psychology are integrated with economics.

Future research should focus on 1) introspective research to refine the multi-motivational basis of the analysis; 2) empirical research to deliver empirical indicators of the relevant variables in the analysis; 3) improvement of the logical consistency of the analysis, ending in a utility function with three ele-

ments and three restrictions; 4) to introduce uncertainty and history into the analysis; 5) making the analysis fit to be extended with other aspects of human behaviour (delivered by neuro-economics, for instance), or to be reduced, if the situation allows it (when analysing the market for bananas the mental aspect can be ignored, for instance).

In this way the analysis of this article has the potential to integrate different disciplines. Moreover, it will become increasingly clear that the experts of the different schools are not rivals of each other—scientists can move from one scientific programme to another. They all construct pieces of the much larger construction. If we all have more or less the ideal at the horizon, we can learn to accept each other as co-workers, not rivals. Finally an end to the ongoing discrimination and status battles between different schools?

### Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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## Appendix Power Model Equations

A simple mathematical model of the relative power of the union (UN) and the employers' organization (EM).

$$\text{Strike costs UN: } w(0) \cdot N \cdot s + \text{FS(UN)}$$

$$\text{Benefit costs UN: } \Delta w(B) \cdot (1-\eta) \cdot N \cdot V(m, j)$$

$$\text{Strike costs EM: } (S+C) \cdot s + \text{FS(EM)}$$

$$\text{Concession costs EM: } \Delta w(B) \cdot (1-\eta) \cdot N \cdot V(n, i)$$

The equation of the indifference line of the UN:

$$\Delta w(B) = \left[ w(0) / (1-\eta) \cdot N \cdot V(m, j) \right] \cdot s + \text{FS(UN)} / (1-\eta) \cdot N \cdot V(m, j)$$

The equation of the indifference line of the EM:

$$\Delta w(B) = \left[ (S+C) / (1-\eta) \cdot N \cdot V(n, i) \right] \cdot s + \text{FS(EM)} / (1-\eta) \cdot N \cdot V(n, i)$$

The solution to the model:

$$s = \frac{\text{FS(UN)} / (1-\eta) \cdot N \cdot V(m, j) - \text{FS(EM)} / (1-\eta) \cdot N \cdot V(n, i)}{w(0) \cdot N / (1-\eta) \cdot N \cdot V(m, j) - (S+C) / (1-\eta) \cdot N \cdot V(n, i)}$$

The formulas are not very transparent. Therefore we give some further explanation of **Figure 5**.

With respect to the indifference line of the UN we see that the autonomous part (OA) is:

$$\text{FS(UN) divided by } (1-\eta) \cdot N \cdot V(m, j).$$

In other words, the higher the fixed strike costs (FS(UN)), the higher the indifference line. In other words, if it is costly for UN to organise a strike, independent of the payments of the UN to the strikers during the strike, this is a barrier for the union to declare a strike at all. It only calls for a strike if the prospects of a good result are realistic. If a particular wage increase has a strong negative effect on the employment level, the wage elasticity ( $\eta$ ) has a negative effect on the strength of a union, which is maximising the wage sum rather than just the wage rate. If the horizon ( $m$ ) is short, the union is inclined to accept a particular wage offer, while in case of a long horizon the union members continue fighting for high wage levels in the future. If the discount rate ( $j$ ) is low, the union attaches low value to consumption now rather than in the future. In case of a relatively high discount rate, the union strongly prefers consumption for their workers now rather than consumption in the future.

The endogenous part of the indifference line of UN, presented by its slope, is:

$$w(0) \cdot N / (1-\eta) \cdot N \cdot V(m, j)$$

In other words, the higher the wage sum, the higher the wage increase must be in order to reach a particular percentage of wage increase. The stronger the negative effect of a wage increase on the level of employment, the higher the wage increase must be to reach a higher level of the wage sum. The horizon and discount rate affects the slope negatively. It means that a longer horizon and a low-

er discount rate gives the union more perseverance.

The autonomous part of the indifference line of EM (OB) is:

$$FS(EM)/(1-\eta) \cdot N \cdot V(n, i)$$

If EM foresees a strike, it takes measures so as to be prepared. The higher the costs of preparation, the more inclined EM is, to concede to the claims of UN. The stronger the negative effect of wage increases on the level of employment, the lower the costs of a particular wage increase, which is negotiated. This effect also leads to a stronger inclination to concede. The longer the horizon, the more perseverance of the EM. The lower the discount rate, the less value is attached to “profits now”, thereby increasing its perseverance.

The slope of the indifference line of the EM is:

$$(S + C)/(1-\eta) \cdot N \cdot V(n, i)$$

The higher the profit loss during the strike, the more inclined the EM is to concede to the claims of the UN. The stronger the negative effect of a negotiated wage increase on the employment level, the more the EM is inclined to persevere.

The intersection of the two lines gives us the equilibrium values of the optimal strike duration and the optimal negotiated wage increase.

The optimal increase in the wage sum, expressed in percentages appears to be:

$$\begin{aligned} \Delta w(B) \cdot N/w(0) \cdot N &= [\Delta w(B) \cdot N/S + C] \cdot V(n, i)/V(m, j) + FS(UN) \\ \Delta w(B) \cdot N/w(0) \cdot N &= [\Delta w(B) \cdot N/S + C] \cdot V(n, i)/V(m, j) \\ &\quad + FS(UN)/w(0) \cdot N \cdot (1-\eta) \cdot V(m, j) \\ &\quad - FS(EM)/(S + C) \cdot (1-\eta) \cdot N \cdot V(m, j) \end{aligned}$$

In words, the percentage increase in the wage sum is determined by the present value of the increase in the wage sum as a result of the bargaining, divided by the present value of the profit loss (1), by the fixed costs of the strike for UN, divided by the loss of the wage sum as a result of the decrease in employment (2), and by the fixed strike costs for EM, divided by the profit loss plus the fixed costs of the EM (3).

The optimal increase in the wage rate, which is the result of negotiation:

$$\Delta w(B) = \frac{FS(UN)/w(0) \cdot N - FS(EM)/S + C}{N \cdot (1-\eta) \cdot V(m, j)/w(0) \cdot N - N \cdot (1-\eta) \cdot V(n, i)/S + C}$$