

THREE ESSAYS AT THE INTERSECTION OF SOCIAL THEORY  
AND POLITICAL ECONOMY

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by  
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University of Missouri-Kansas City, 2022

ABSTRACT

This study revisits classic questions of political economy through an interdisciplinary lens, wedding the insights of modern social theory with heterodox political economy. The first chapter synthesizes the economic and sociological literature on wage determination, developing a conceptual apparatus, which is better situated than previous approaches, to understand the factors animating stagnating wages in the United States since the emergence of Neoliberalism. The second chapter applies reflexivity, a method in the sociology of science, to the Phillips curve. In doing so, the implicit biases within both theoretical and empirical approaches to the Phillips curve are elucidated, recognizing the limitations of traditional labor underutilization measures. Alternative labor underutilization measures are constructed using labor market transition rates, which are then used to estimate alternative econometric specifications of the Phillips curve. The results of these estimations are consistent with a flattening of the Phillips curve, expected as a result of declining institutional bargaining power of workers. The chapter finishes highlighting the limitations of the models estimated, commenting on how the literature should approach the Phillips curve going forward. The final chapter, uses path-dependency as a conceptual entry point to

problematize the instrumental-ceremonial dichotomy, arguing that ceremonial institutions (culture) must be comprehensively considered in theorizing progressive institutional change, moving beyond an understanding of them as purely “imbecile”. A theory of political mobilization for progressive institutional change is laid out, one which systematically accounts for ceremonial institutions. By using rhetoric as a tool, we can play into ceremonial habits of thought, weaving progressive policy through the ceremonial net to implementation, where its instrumentality can be revealed, and a lock-in can form as constituents become accustomed to the material benefits provided. It is here where a progressive path-dependency is formed.

## APPROVAL PAGE

The faculty listed below, appointed by the Dean of the School of Graduate Studies have examined a dissertation titled “Three Essays at the Intersection of Social Theory and Political Economy,” presented by Jacob A. Powell, a candidate for the Doctor of Philosophy degree and certify that in their opinion it is worthy of acceptance.

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For my Grandmother, Marguerite Rosette, a woman who had so little, but who gave so much.

## INTRODUCTION

“What are you?” This was a question that often came up early in interactions between new graduate students. What was really being asked was which school of heterodox economics do you belong to: Marxist, Post-Keynesian, or Institutionalist. I never liked this question, not understanding the need to be pigeonholed. Why pick one? Is there not value in each, an advantage to pluralism, being able to pull on a variety of tools from the proverbial belt, those most appropriate for the heterogenous objects of inquiry? There is a methodological concern raised when one wants to take a pluralistic approach: methodological eclecticism. In being pluralist, there is always the trap of having inconsistencies in your ontology and/or epistemology. These concerns are overblown, and often stem from a place of protecting one’s own silo or singular approach.

Drawing on a number of tools in the process of inquiry is not a new idea. This has been defended by Tony Lawson, promoting triangulation, drawing on multiple methods, while maintaining a consistent ontology and epistemology. Paul Feyerabend, went farther in, *Against Method*, showing the value of a multitudinous approach to inquiry, in developing his anarchist epistemology, not concerned with consistency as long as we learned in the process. Finally, Pragmatic Philosophy, which highlights the inquiry process as never ending, knowing comes from doing, and doing means trying all approaches until something works. A new problem will always be forthcoming whereby the inquiry process starts again. Pluralism gives the researcher a full tool belt to draw from in the “doing” of inquiry.

The training I received at the University of Missouri-Kansas City (UMKC) has filled my tool belt. It is a pluralistic department, where we received explicit training in each major school of heterodox economics. It is what makes the UMKC economic department and

training distinct. This training is underpinned by a pragmatic philosophical approach to inquiry, teaching us to use all our tools, while providing the training in methodology necessary to avoid the pitfalls of methodological eclecticism.

Not only is pluralism at the heart of our training, but also interdisciplinarity. We do not receive a Ph.D. at UMKC but rather an interdisciplinary one, ensuring we have taken a number of courses in a discipline other than our own. Interdisciplinarity is a word that gets thrown around a lot in academic circles, but it is rare to see a truly interdisciplinary approach. However, the value of an interdisciplinary approach is proven, as many of the founders of the academic disciplines in the social sciences all practiced interdisciplinarity. This holistic approach to inquiry is what led Robert Heilbroner<sup>1</sup> to label the founders of economics “Worldly Philosophers”, while reasserting the need of this holistic approach in the face of the increasing disciplinary of academia. The scholars that make UMKC have pushed back against this inertia, and in doing so made our program further distinct from others.

This dissertation is animated by these ideals, the culmination of which, I hope, reflects the uniqueness of our training. Each chapter of this dissertation, is intervening in the literatures of each of the major schools. The first chapter, directed toward a Marxist audience, interrogates the wage determination process showing the limitations of a singular disciplinary approach while offering an alternative couched in interdisciplinarity. The second chapter, directed for an audience of Marxist and Post-Keynesian macroeconomists, interrogates the Phillips curve, using reflexivity a method in the sociology of knowledge. The final chapter, directed toward an audience of original institutionalists, draws on social

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<sup>1</sup> Robert Heilbroner, was a professor of one of our professors, Mathew Forstater, who often told us, “You are all now second generation “Heilbronerians”. I have always taken pride in this and in the footstep of those we follow, often telling my students now, “You are all third generation ‘Heilbronerians’”.

theory to consider the role of culture in theorizing progressive institutional change. Each chapter is informed by pluralism, and as a whole, speaks to each major school of heterodox economics, while demonstrating the value of interdisciplinarity.

The link between each of these chapters is the pluralistic interdisciplinary approach taken to classic questions of political economy, drawing on social theory in forming an interdisciplinary response to these classical questions. The first chapter interrogates what factors are animating the wage determination process, synthesizing the economic and sociological literature in doing so. The second chapter interrogates the Phillips curve through the application of reflexivity, a method in the sociology of knowledge. The Phillips curve, a ubiquitous part of economic training, is revisited, casting a new light on how we should be approaching it going forward. Finally, the third chapter revisits theories of institutional change, centralizing the role of culture in developing a theory of political mobilization.

The first chapter revisits the questions of wage determination, specifically interrogating what are the factors animating this process, factors missed in a singular disciplinary approach. Within the Marxist literature, there are surprisingly few articles which directly investigate wage determination empirically. When it is done, it is often done tangentially, whereby wages are an independent variable in an econometric model investigating cyclical profit squeeze dynamics or the Phillips curve. Within these approaches it is implied that wages are a function of changes in the reserve army of labor, changes which affect bargaining power. These investigations have use-value in their own right, however, there is a need for more explicit work whose main object of study is the wage determination process.

The reason changes in the reserve army of labor have been used, historically, as a proxy for bargaining power is twofold: first, this is the link laid out by Karl Marx in Chapter 25 of *Capital Volume 1*; two, changes in the reserve army of labor are more straightforwardly captured empirically, meaning they are easier to incorporate into econometric models, often seen as the sole method in the economics discipline. However, there have been theoretical advances that have expanded on factors animating bargaining power since Marx's contribution, which need to be incorporated in future empirical investigations of the wage determination process, forces which are not as easily captured quantitatively. Moreover, the correlation between changes in the reserve army of labor and change in wages began to wane in the neoliberal period, which is prima facie evidence of a need for a more comprehensive theory of the wage determination process.

Revisiting more recent theories of wage determination, factors such as the labor market segmentation and labor process are all highlighted. It is shown how the standard tangential approaches to wage determination cannot capture segmentation adequately due to aggregates homogenizing the segmented labor markets, while also highlighting the epistemological difficulties of incorporating the effects of changes in labor processes on the wage determination process. A large portion of this chapter deals with the latter problem, theorizing the effects of labor process on the wage determination while laying out a method to evaluate its affects on bargaining power empirically. To do so, this chapter synthesizes the economic and sociological literature on labor processes and their effects on workers' subjectivity formation. The latter literature is rich in its analysis, but lacks an explicit discussion of the implications on wage determination. This chapter fills that gap, drawing on insights from both literatures, highlighting the need for a non-dualistic approach, accounting



for both objective and subjective factors, in investigating how labor process affects workers' perceptions of their relation to one another and capital, and thus their solidarity or lack thereof. Objective factors mitigate workers identification with one another, forcing identification with management, fracturing solidarity and thus mitigating workers bargaining power, while subjective factors, account for how the practical logic of workers understanding of their relation in social space as well as their actions reify the power inequities undermining their bargaining power.

Given the theoretical insights of a non-dualistic approach, a non-dualistic conceptual apparatus must be constructed and operationalized to facilitate empirical investigations of this phenomenon. To do so Pierre Bourdieu's conceptual apparatus, designed to overcome dualism is laid out and operationalized using Weberian ideal types, thus providing the tools for future empirical investigations of the wage determination process, which can account for a multitude of factors animating this process, beyond those which have been historically relied on, while moving beyond the singular disciplinary tool that is econometrics. This interdisciplinary alternative can explain the current state of wages, whereby changes in the reserve army of labor have become decoupled from changes in wage.

The second chapter interrogates the Phillips curve through the application of reflexivity. The Phillips curve, the inverse relationship between change in price level and change in wages, is one of the first stylized facts socialized into economists. This inverse relationship has become part of the common-sense of economists, something known and to be known. It is the primary mechanism by which inflation is understood, taken as "thee approach", implicitly pointing to rising wages as the sole cause. There is a performativity to this model, insofar as it informs economic policy at all levels of government affecting

people's material well-being. This plays out in the form of push back against pro-employment policies, under the guise that they could lead to inflation. Given that it is taken for granted, common-sense, and is performative, affecting people's lives, it must be critically interrogated.

Reflexivity is a method to facilitate this critical interrogation, specifically designed to take those ideas which are so familiar to us, common-sense, and make them strange. It is a method to undo doxic institutions. A doxic institution is a term Pierre Bourdieu used to identify non-benign common-sense. The Phillips curve is doxic, insofar as it presents as common-sense and is non-benign in its performativity. The performativity of social sciences means we have a responsibility to ensure realism in analysis, and reflexivity is the method by which we can do this, searching for the biases embedded in implicit assumptions.

To start this process, some basic statistics are shown as evidence of the breakdown in the inverse relationship between changes in price level and changes in inflation. The logic of the inverse Phillips curve is then interrogated, highlighting the implicit assumptions of this model, and how these implicit assumptions remove from the table discussions regarding alternative sources of inflation as well as different policy tools to mitigate inflation, pre-policy discussion. The limitations in the empirical approach are then laid out, highlighting the limitations of changes in the official unemployment rate in capturing labor market conditions, as well as recognizing that changes in the unemployment rate does not singularly imply what it is assumed to imply.

Labor market transition rates are constructed, and from them, labor market flows are created as an alternative proxy of labor market conditions. Labor market flows, the number of people moving from one labor force status to another for a given time period, are more

consistent with an understanding of the labor market as segmented and thus better situated to capture the conditions of the labor market. The alternative labor underutilization measures are then implemented in multiple econometric specifications of the Phillips curve, to robustly test if this relationship still exist, with a more efficient specification.

It is shown that there is little to no evidence of an inverse Phillips curve, using the traditional measure as well as the alternative labor underutilization measures. Even in the alternative models constructed, the problems embedded in Phillips curve modelling are highlighted, specifically pointing to factors animating bargaining power which cannot be captured in quantitative linear models. Moreover, the Phillips curve itself, built on tacit assumptions and embedded biases, is questioned as a useful mechanism to rely on going forward when considering inflation. Wage curves are pointed to as an alternative approach, first seeing if there is a correlation between labor market conditions and wages, before implying that relationship in estimating a Phillips curve model.

The final chapter uses path-dependency as a conceptual entry point, in theorizing how to account for the role of culture in implementing progressive institutional change. Path-dependency is typically associated with a “lock-in” which is suboptimal. The sub-optimality of this “lock-in” is attributed, in economic theory, to a degree of ceremonial encapsulation, eroding instrumentality, whereby network effects, technical and/or behavioral, create a state of irreversibility. However, all new ideas and technologies are ceremonially encapsulated to a degree as they are socially embedded. Yet when the term path-dependency is invoked, it often has a negative connotation implying only a purely instrumental outcome with no ceremonial encapsulation as the objective.

What is defined as progressive, by original institutionalist, is argued to be the increasing instrumentality of institutions, implicitly rejecting a role for ceremonial institutions in progress. This definition of progressive, tends to see ceremonial institutions as “imbecile” something to be undone and removed from the progressive path. This tension led to a debate in the 1980s and 1990s among original institutionalist, with one camp, represented by Clarence Ayres, John Fagg Foster, Marc Tool, and Paul Dale Bush, advocating change increasing instrumentality in institutions, and another camp, represented by Wendell Gordon and Anne Mayhew, to push back, reasserting the need for the role of culture in the analysis beyond simply viewing all ceremonial institutions as “imbecile”. The debate was never settled. Furthermore, there exist little in the original institutionalist literature theorizing political mobilization, while many progressive policies are put forward.

This chapter uses path-dependency to problematize the notion of what is progressive, arguing all institutions, instrumental and ceremonial, take the form of path-dependencies. Therefore, a criteria by which those institutions with a degree of ceremonial encapsulation are implicitly labeled non-progressive is too strong. Rather we must recognize ceremonial encapsulation as inevitable, account for culture comprehensively in theorizing progressive institutional change to mitigate the degree of ceremonial encapsulation, while taking advantage of its functionality.

It is argued that by accounting for ceremonial habits of thought we can use rhetoric to frame policy in way that puts the policy into a discursive field that those of the electorate are pre-reflexively wedded too, increasing the possibility of garnering support and legitimacy for a policy. This increases the potentiality of implementation. Once a progressive policy is implemented, its instrumentality will be revealed to constituents through the material benefits

it provides. Over time constituents will become wedded to the policy through these material benefits, and support once founded on ceremonial grounds will shift to instrumental. Then the policy has staying power, whereby it will be difficult to repeal in a democratic context, creating a state of progressive path-dependency. There is a temporality to what is “progressive” thus this process must be continually practiced in mobilizing new progressive institutional change.

Each of these chapters stand alone in their contributions, but together represent one as a whole. This cumulative contribution lies in highlighting the limitations of singular disciplinary approaches to classic questions in political economy. An interdisciplinary lens is utilized in highlighting these limitations, while facilitating the creation of an alternative approach, couched in interdisciplinarity. The application of the interdisciplinary alternatives put forward, highlights the advantages of a more holistic approach.

I started this introduction with a question, “What are you?”. I recently received a similar version of this question at a job interview, “Are you an economist?”. I responded, “I am a political economist”, one who takes and applies the pluralistic interdisciplinary approach I learned and built at UMKC. The fact that I received this question, is evidence, in my mind, that I have been able to carry on the unique tradition of UMKC economics: A tradition which cannot be pigeonholed. What follows represents steps on the path to keep this tradition moving forward.

## CHAPTER 1

### REVISITING THEORIES OF WAGE DETERMINATION IN THE NEOLIBERAL ERA

#### **Abstract**

Historically, changes in wages have been strongly correlated to changes in unemployment. In the Neoliberal period this correlation has broken down. This article argues bargaining power is a function of more than changes in unemployment. Labor market segmentation and labor processes influence bargaining power, and must be accounted for in future empirical investigations of wage determination. Given the epistemological difficulties of addressing the links between labor processes and wages, an interdisciplinary approach is articulated, drawing on the sociological labor process literature. Pierre Bourdieu's conceptual apparatus, developed to overcome the epistemological difficulties of non-dualistic analysis, is operationalized using Weberian ideal types. This provides researchers the tools for incorporating the effects of labor market segmentation and labor processes in future empirical investigations of wage determination.

Keywords: Wage Determination, Bargaining Power, Labor Process, Segmentation

JEL Classification Codes: B41, D20, J31, J50, J60

#### **Introduction**

Wages are rarely investigated empirically in their own right within the Marxian literature. When wages are investigated it is typically done tangentially in studies interrogating cyclical profit squeeze dynamics. Within these models, wages are a function of bargaining power and bargaining power is a function of changes in the reserve army of labor. These investigations, are useful in their own right, however, they have reified the notion that wages are solely a

function of changes in the reserve army of labor. *During the neoliberal period of capitalism, the correlation between changes in wages and changes in unemployment broke down*<sup>2</sup>.

This breakdown in correlation is prima facie evidence that wages are a function of more than changes in the reserve army of labor. Recent work done on wage theory, within the Marxist tradition, consistently implies that bargaining power, and thus wages, are a function of more than changes in the reserve army of labor. Factors such as segmentation of labor markets, labor processes, globalization, and spatialization influence bargaining power and thus wages. These factors need to be incorporated into future empirical studies of wage, filling a gap in the literature, while moving beyond a blunt theoretical understanding of wage determination that animates current empirical investigations. By incorporating these factors into our analysis, we can begin to study wage determination in its own right, rather than tangentially in other studies.

Much work has been done articulating the role of globalization and spatialization in mitigating workers bargaining power (See: Harvey 1982; 1989, 2003; Silver 2003; Olsen 2010; Wallace 2010; McMichael 2016). These effects seem to be concentrated in the Neoliberal period of capitalism in the United States and here to stay. However, segmentation and the structure of labor processes have always been critical factors affecting workers bargaining power, albeit often ignored in empirical studies, irrespective of the time period of capitalism. These are the factors which will be explicitly covered throughout this article.

The role of segmentation and labor processes in affecting wage determination has been consistently pointed to within the theoretical work done on wages. The theoretical literature on wage determination can be separated into two schools: the “Segmentation

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<sup>2</sup> The breakdown of this correlation is discussed extensively in: Leduc and Wilson (2017), Shaikh (2013), Shambaugh et al. (2017), and Wiczer and Eubanks (2014).

theorists”, embodied in the works of Peter B. Doeringer and Michael J. Piore (1971) and David M. Gordon, Richard Edwards, and Michael Reich (1982), and the “Real Marxian Competition theorists”, embodied in the works of Howard Botwinick (1993). Each of these schools have complimentary insights, and represent advances that have yet to be systematically incorporated into empirical investigations of wage determination.

Accounting for segmentation demonstrates wage determination is not primarily an aggregate phenomenon, as implied in the operationalization of cyclical profit squeeze studies. Changes in the reserve army of labor have heterogeneous effects on different segments of the labor market, thus heterogeneous effects on bargaining power. Moreover, different segments are often characterized by different labor processes. The objective factors of labor processes, and their role in conditioning bargaining power, have been highlighted in the literature<sup>3</sup>; however, a comprehensive understanding of the role of labor processes requires overcoming the false dualism of objective and subjective factors.

The sociological literature on labor processes<sup>4</sup>, recognizes the role of subjective factors in reinforcing hierarchies of the work place while reaffirming objective structures, and acts as a starting point for overcoming this dualism. These insights now need to be incorporated explicitly into our understanding of the relationship between labor processes, bargaining power, and wages. Bargaining power is conditioned by how workers see themselves in relation to one another in social space, in other words, solidarity is conditioned by labor processes.

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<sup>3</sup> See: Braverman 1974 & Edwards 1974

<sup>4</sup> See: Burawoy 1978, 1979, 1985



To account for these factors requires a non-dualistic approach, built upon a conceptual apparatus<sup>5</sup> designed to overcome the epistemological difficulties of a non-dualistic approach<sup>6</sup>. Pierre Bourdieu's praxeology and conceptual apparatus provide the tools to account for both objective and subjective factors in labor processes and their effects on bargaining power. Operationalizing Bourdieu's praxeology and conceptual apparatus, through Weberian ideal type analysis, gives a basis for future empirical investigations of wage determination, while mitigating the epistemological difficulties of non-dualistic analysis. Only by accounting for segmentation and labor processes in future empirical investigations of wage determination can we explain the breakdown of the correlation between changes in wages and changes in the reserve army of labor, while gaining a more comprehensive understanding of the continued stagnation of wages in the neoliberal period.

The remainder of this article consist of three sections. First, a discussion explicating how recent empirical investigations of wage determination, have yet to incorporate insights of modern theories of wage determination, which argue wages are a function of more than changes in the reserve army of labor: both segmentation and labor processes condition bargaining power. Given the implied role of labor processes in wage determination and the epistemological difficulties it carries, the following section undertakes an interdisciplinary explication of the role of labor processes in conditioning bargaining power. The paper concludes with a section laying out the theoretical tools at our disposable to help empirically investigate the link between bargaining power and labor processes, while taking a non-dualistic approach.

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<sup>5</sup> Weber (1949; 2013) explicates the necessity of developing a conceptual apparatus with explicit recognition of ontological and epistemological positions, to maintain consistency between theory and empirical work.

<sup>6</sup> A non-dualistic approach to social phenomena is not new to the Marxian literature as evidenced by the work of Resnick and Wolff (1987) and Levins and Lowontin (1985).

## **The Theoretical Stagnation of Wage Determination in Empirical Investigations and the Theoretical Advancements**

Wage determination is rarely investigated empirically in its own right within the literature. Where we do find empirical investigations of wage determination within the literature, it is done tangentially in empirical investigations of cyclical profit squeeze dynamics. The wage theory animating these investigations comes from Karl Marx's ([1867] 1990) argument, laid out in Chapter 25 of *Capital Volume 1*, where wages are a function of bargaining power, and bargaining power is a function of the reserve army of labor<sup>7</sup>. This theoretical link has been operationalized in empirical investigations of cyclical profit squeeze dynamics<sup>8</sup>. These models reify wages as solely a function of changes in the reserve army of labor, moreover, the reliance on aggregate data implies wage determination is a phenomenon occurring at an aggregate level.

A path-dependency in the empirical literature on wage determination has taken hold whereby the theory of wage determination has stagnated, not moving past Marx's articulations in *Capital Volume 1*, yet the empirical methods investigating this theoretical think have advanced. Furthermore, empirical investigations of wage determination are being done tangentially in the work referenced above, but there is a need for empirical work investigating wage determination in its own right, incorporating more modern theoretical insights of the factors conditioning bargaining power and thus wages.

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<sup>7</sup> This work was expanded into the socio-political realm by Kalecki (1943), and later formalized by Goodwin (1967) and Boddy and Crotty (1975).

<sup>8</sup> See: Boddy and Crotty 1975, 1976; Weisskopf 1978, 1979, 1981; Goldstein 1985, 1996, 1999; Bakir and Campbell 2006

These recent theories fall into two schools of thought, the segmentation theorists (represented in the works of Doeringer and Piore<sup>9</sup> 1971 and Gordon, Edwards, and Reich 1982) and the Real Marxian Competition theorists (represented in the work of Botwinick 1993) under the larger umbrella of Marxian economic theory. Each highlights the role of segmentation and labor processes in conditioning bargaining power. Different schools of thought reaching the same conclusions add to the robustness of the claim that wages are a function of more than changes in the reserve army of labor: these factors must be accounted for in future empirical investigations.

### Complementary Theories

Segmentation theorists and Real Marxian Competition theorists are often treated as disparate approaches, due to different arguments regarding the origins of power differentials among capitalist firms: the former relying on imperfect competition arguments and the latter relying on a theory of real Marxian competition<sup>10</sup> developed by Willi Semmler (1982; 1984) and Anwar Shaikh (1980; 2016). The nuances of the advantages and/or disadvantages of a ‘Marxian theory of competition’ in contrast to imperfect competition as explanations of power differentials in a capitalist system are beyond the scope of this paper. However, Botwinick (1993) and Gordon, Edwards, and Reich (1982) both see power differentials emerging in a capitalist system as an endogenous process. Relying on imperfect competition as an explanation does not imply these theorists view imperfect competition as an aberration, nor perfect competition as the norm.

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<sup>9</sup> Doeringer and Piore are not Marxists, nor is the theory of labor market segmentation unique to Marxian analysis, however, the insights of said approach were incorporated into a Marxian theoretical lens by the works of Gordon, Edwards, and Reich.

<sup>10</sup> Arguing, Marx did not have a quantity theory of competition, in other words, increases in concentration and centralization in no way hindered or eliminated competition (Semmler 1984: 23).

Rather, these two approaches to competition are complementary in analyzing the emergence of power differentials in a capitalist system, differentials that animate labor market segmentation and differences in labor processes. Imperfect competition and real Marxian competition should be seen as analytical distinctions<sup>11</sup>, the former emphasizing power over the market with specific reference to mark-up power, and the latter emphasizing power over the structure of production<sup>12</sup>. Approaching these differences as analytical distinctions allows researchers to investigate the relationships between power over the market and power over the structure of production simultaneously, creating a more comprehensive analysis.

Reframing these differences allows the complementary nature of these works to be seen. These works are complementary insofar as Real Marxian Competition theorists rely on a higher level of abstraction in their analysis, which can then be animated by the works of Segmentation Theorists, and what solidifies the complementary nature of these theories is their overarching implications for investigations of wage determination. Each approach recognizes the segmented nature of labor markets, implying empirical investigations must account for these qualitative differences across segments (i.e., wage determination is not an aggregate phenomenon as implied in cyclical profit squeeze investigations), while also highlighting the importance of labor processes in shaping how workers see themselves in relation to one another, conditioning solidarity, and thus bargaining power.

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<sup>11</sup> An analytical distinction is when we separate aspects of a phenomenon as a heuristic, knowing they are intimately intertwined in reality.

<sup>12</sup> Semmler states, "...we have to differentiate in a fundamental manner between market or monopoly power, as defined in relation to market structure, and corporate power, as power not so much over markets as over production processes and production relations" (Semmler 1984: 8).

## Wage Determination and Segmentation

Labor markets are segmented and different segments face heterogeneous effects as the result of fluctuations in the reserve army of labor. In other words, wage determination is not solely an aggregate phenomenon. This analytical lens of labor market segmentation emerges from the work of Doeringer and Piore (1971) on dual labor markets, establishing the two segments as primary and secondary. Primary jobs are characterized by, "...high wages, good working conditions, employment stability, chances of advancement, equity, and due process in administration work rules", and are insulated from market forces<sup>13</sup> (Doeringer and Piore 1971, 82-82; 165). Jobs in the secondary labor market are correlated to entry level jobs subject to the vicissitudes of the market and characterized by, "...low wages and fringe benefits, poor working conditions, high labor turnover, little chance of advancement, and often arbitrary and capricious supervision" (Doeringer and Piore 1971, 165). Changes in the reserve army of labor may be the driver of wages in the secondary labor market, but will have less effect on the primary labor market.

Both Gordon, Edwards, and Reich (1982) and Botwinick (1993) build on this analytical distinction. Gordon, Edwards, and Reich (1982) explicitly building on the earlier work<sup>14</sup>, create a tripartite classification of jobs: independent primary, subordinate primary, and secondary jobs (165). The former two correspond to jobs in the primary market and the latter to jobs the secondary market. Botwinick (1993) implicitly building on earlier work, divides up the labor market by the type of capital they work for, regulating or non-regulating.

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<sup>13</sup> This is a relative claim, the market effects all forms of employment and segments of the labor market, however, jobs in the primary market are insulated from these effects more relative to the secondary market.

<sup>14</sup> Doeringer and Piore's work challenged neoclassical labor market concepts, but still failed to exit that paradigm. Gordon, Edwards, and Reich extend this work beyond the neoclassical paradigm directly linking the emergence of labor market segmentation to worker control, rather than just cost-minimization techniques.

Regulating capitals are firms within industries whose structures of production is most efficient and accessible, and typically more capital intensive (Botwinick 1993, 174). Jobs within regulating capital firms share the same characteristics as primary labor market jobs. Non-regulating capitals are characterized by higher unit labor costs, higher unit labor requirements, and lower profit margins, all linked to labor-intensive production methods (Botwinick 1993, 224). Jobs within these firms share the same characteristics as secondary labor market jobs

Jobs in different segments, and the wages associated with these jobs, are affected differently by fluctuations in the reserve army of labor. For example, an upper level app developer at Apple (primary job) faces different market forces than an entry level job (secondary job), whose wages are more influenced by changes in the reserve army of labor. Confining this to production jobs, those held by people with longer tenure are going to face different effects as a result of changes in the reserve army of labor, due to protection within internal labor markets, relative to someone just starting in an entry level position. Empirical analyses of wage determination that rely solely on aggregate data, homogenize heterogeneous forces, not accounting for the qualitative differences experienced by different segments of labor. To be consistent with theory in empirical investigations, explicit consideration must be given to segmentation in future empirical investigations of wage determination.

#### Role of labor Processes in Wage Determination

The characteristics of labor processes will influence how workers see themselves in relation to one another, solidarity, which conditions their bargaining power, as bargaining power is a function of solidarity. For example, in a classic Fordist production factory where all workers

are standing side-by-side on a production line and the managers/owners are on the catwalk above, it is easier for workers to see that those standing next to them share their struggles and those above them are those who must be countered through solidarity. This stands in contradistinction to more modern firms characterized by large bureaucracies, lots of vacuous job title differentiation, and rules embedded in worker hand books, which veil class antagonism. Under these conditions it becomes more difficult to recognize who shares their struggle and who are antagonistic to their material benefit, all mitigating solidarity. The works of both the segmentation theorists and real Marxian competition theorist recognize this role of labor processes in conditioning bargaining power, by conditioning solidarity.

At a higher level of abstraction, Botwinick recognizes the role of labor processes, but implicitly, arguing that one of the limits to wage fluctuations is that if the cost of rising wages is less than obstructing the wage hike, then capitalists will yield (Botwinick 1993, 178). What will determine the cost of obstruction is going to be unique to capital-labor relations within the firm, which are animated by the labor processes within those firms. Given, the segmentation theorists' lower level of abstraction, specific characteristics of labor process and their influence on capital-labor relations can be accounted for in studying bargaining.

For example, Doeringer and Piore analyzing internal labor markets highlight how they do mitigate costs (their original intent), however, they also increase costs associated with bargaining (1971, 82). Gordon, Edwards, and Reich (1982), drawing on the work of Edwards (1979), analyze bureaucratic control, demonstrating how highly differentiated job structures segment the working class (134). A tripartite segmentation of labor markets emerges with key implications: (1) different segments experience different relations of

production; (2) often these jobs are allocated based on arbitrary characteristics e.g. race and gender creating further divisions among the working class<sup>15</sup> ; (3) workers of different segments experience different political-economic conditions outside of the workplace (Gordon, Edwards, and Reich 1982, 213). Gordon, Edwards, and Reich conclude, “We would argue that labor segmentation retarded the movement toward an increasingly class-conscious working class, with its own political presence, and that it helped create the splintered set of political forces, based on class fractions, that have dominated U.S. politics since the 1940s” (1982, 214). In other words, this shift in labor processes is mitigating bargaining power through divide-and-conquer techniques, lowering the cost of bargaining by breaking down solidarity, creating conditions whereby the cost of obstruction to wage increases is lower than bargaining.

These theories in conjunction, highlight the role labor processes play in the wage determination process. Botwinick implies labor processes will condition costs of bargaining, thus effecting limits to wage fluctuation. Doeringer and Piore’s discussion of an aspect of labor processes, internal labor markets, highlights its implication on cost associated with bargaining, reinforcing the point of Botwinick. Finally, Gordon, Edwards, and Reich point to the role of bureaucratic control in segmenting workers within labor processes, decreasing solidarity, bargaining power, and thus wages.

Future empirical investigation of wage determination must account for segmentation of the labor markets and labor processes to be consistent with more recent theories of wage determination. Accounting for segmentation will encounter the difficulty of data availability

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<sup>15</sup> It is important to note that this arbitrary allocation has been perpetuated by workers themselves, with white-male workers benefiting materially, in the short-term, as a result. See: Mason 1992, 1997a, and 1997b also Williams 1987, 1991, 1993, and 1999



and the theoretical problems of classifying workers into different segments. However, empirical investigations of the role of the labor processes and its effects on bargaining power present greater epistemological difficulties, due to the need for a non-dualistic analysis. Therefore, the remainder of this paper will be dedicated to highlighting the need for a non-dualistic approach to understand the link between labor processes, bargaining power, and wages, while providing tools for such an analysis in future empirical investigations of wage determination.

### **Labor Process, Bargaining Power, and Wages**

The works referenced above recognize the role of labor process in conditioning bargaining power, but fail to take a non-dualistic approach to the phenomenon only accounting for the influences of objective structures conditioning workers, without subjective analysis of the role of workers in reifying these objective structures. A non-dualistic approach to labor processes has been undertaken in the sociological field, but not with explicit reference to the effects on wage determination. This section will draw on those insights, re-centering them into a discussion of wage determination, teasing out the implications for future empirical investigations of wage determination.

#### **Objective Factors**

The quintessential example of a dualistic approach to labor process analysis lies in the work of Harry Braverman (1974), where only objective factors are considered. Braverman (1974) argues that objective forces of capitalism destroy subjectivity through the process of alienation, embodied in Frederick Winslow Taylor's, *Principles of Scientific Management*. In other words, workers are passive, conditioned and determined by these capitalist structures, not implicating the subject, the worker, in the reproduction of systems of

domination, hierarchy, and capitalism. Edwards (1979) expands on the work of Braverman, analyzing the historical evolution of labor processes in the United States, highlighting three periods, each associated with different labor processes, or forms of control<sup>16</sup>: (1) Simple control; (2) Technical control; (3) Bureaucratic control (Edwards 1979, 19-21). This periodization introduces the historical heterogeneity to the study of labor processes, which is an advancement on Braverman, who treats capitalism as a monolith.

Each of these periods animate capital-labor relations, with each iteration further veiling the antagonism of interest between capitalists and workers<sup>17</sup>. Under simple control, the antagonism of interests is apparent (Edwards 1979, 19). Workers are conditioned to recognize their struggle as shared against owners and management, creating a stronger sense of solidarity amongst workers, increasing bargaining power. Simple control is supplanted by technical control, associated with an increased mechanization of production as a way of controlling workers<sup>18</sup>, more than just a substitution of capital for labor (Edwards 1979, 20). Distance between owners and workers is created and filled with managers, helping depersonalize these relationships, mitigating conflict between owners and workers, further veiling the antagonism of interest (Edwards 1979, 20). Finally emerges bureaucratic control, which "...rests on the principle of embedding control in the social structure of the social relations of the workplace" (Edwards 1979, 21). Edwards states, "Rule of law—the firm's law—replaces rule by supervisor command in the direction of work, the procedures for evaluating workers' performance, and the exercise of the firm's sanctions and rewards;

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<sup>16</sup> Methodologically Edwards utilizes Weberian Ideal Types, which is to say that these are the general characteristics in form but not all characteristics are necessary ubiquitous, what is interesting is how reality differs from these classifications.

<sup>17</sup> Lukes argues, "...power is at its most efficient when least observable" (2005: 1). As the antagonism of interest become more veiled, power becomes more efficient.

<sup>18</sup> Marglin (1974) elucidates this point fully; technology isn't an exogenous force, which work is then organized around; on the contrary, certain technologies are developed, with forms of control built into them.

supervisors and workers alike become subject to the dictates of ‘company policy’ (1979, 21). A highly differentiated job structure, fundamental to bureaucratic control, embeds power into the social character of production; antagonisms are veiled, pushing workers to identify vertically with the company rather than horizontally with fellow workers<sup>19</sup> (Edwards 1979, 134; 139; 148). In each iteration, solidarity is progressively being broken down by veiling the antagonism of interests, which overtime undermines workers bargaining power.

Edwards moves beyond Braverman by explicating how different forms of control (objective structure) condition workers, veiling the antagonisms of interest further with each iteration, and in doing so forcing identification of workers vertically, rather than horizontally with fellow workers. This work highlights how different labor processes can affect workers solidarity and thus bargaining power; however, Edwards’ approach, obfuscates the role workers play in reifying the conditions of their own exploitation. Only a non-dualistic approach can yield such insights, and is necessary to understand the full effect of differing labor processes on bargaining power.

#### Moving Beyond: Overcoming the False Dualism and the Role of the Subject

The limitations of the work above lie in its sole concern with how objective structures condition workers, absolving the workers of their subjectivity while reinforcing a false dualism of object/subject. Michael Burawoy<sup>20</sup> (1978) recognizes the contributions of Braverman while demonstrating the need to overcome the false dualism accounting for both objective and subjective factors in labor processes. Specifically, Burawoy (1979; 1985)

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<sup>19</sup> Edwards (1979) demonstrates this by analyzing the criteria which is used to promote workers through job ladders, all of which involve workers identifying with management and owners (e.g. find a cost cutting technique and present it to management).

<sup>20</sup> Criticisms of Braverman’s dualistic approach is not unique to Burawoy. O’Deherty and Willmott (2000-2001), drawing on Foucault (1995), argue both objective and subjective factors are critical in the constitution of the labor process. Sakolsky (2015) is one example within this tradition, analyzing the subjective factors of the labor process.

draws on field work to show the role of consent<sup>21</sup> in the labor process; however, Burawoy's work does not explicate the implications of his insights on wage determination theory. This section will extract Burawoy's key insights, giving us the tool to understand workers' roles in mitigating their own bargaining power.

To overcome this dualism, a redefining of the role of labor processes is necessary, shifting from Braverman's definition as the separation of concept and execution, to the "obscuring and securing" of surplus value (Burawoy 1978, 261). Ultimately Burawoy argues:

... 'obscuring and securing' surplus value can only be understood with reference to the ideological and political as well as the 'economic' realms of work. In other words, Braverman's restriction of attention to the 'objective' elements of work is illegitimate if he is to understand the nature of control since, by definition, control involves what he would refer to as 'subjective' aspects of work and what I refer to as political and ideological processes. (Burawoy 1978, 266)

To account for the economic, political, and ideological processes in our analysis, a non-dualistic approach is required, accounting for the role of the object and subject. Here the object and subject then become analytical distinctions, isolated in theory, but all implicated in the production of reality.

To ensure a non-dualistic approach, Burawoy (1979; 1985) uses game metaphors<sup>22</sup> as the primary analytical tool in his worker participation studies. Game metaphors capture both the role of objective factors, the rules of the game, and subjective factors, the actions taken by workers within the game. Specific to Burawoy's worker participation studies, workers are engaging in the game of "making out"<sup>23</sup> (Burawoy 1979, 51). Burawoy states:

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<sup>21</sup> Burawoy is using the term consent in the Gramscian tradition as it relates to hegemony. Moreover, he sees this consent as manufactured at the point of production, similar to the arguments of Gramsci (2012).

<sup>22</sup> Game metaphors are by no means unique to Burawoy, for example see Elias (1978) & Bourdieu (1992).

<sup>23</sup> "Making out" refers to workers making their piece-work quotas (Burawoy 1979: 51).

We can look upon making out, therefore, as comprising a sequence of stages—of encounters between machine operators and the social or nonsocial objects that regulate the conditions of work. The rules of the game are experienced as a set of externally imposed relationships. The art of making out is to manipulate those relationships with the purpose of advancing as quickly as possible from one stage to the next. (Burawoy 1979, 51)

The rules of the game emerge out of historical struggle, within definite limits set by minimum wages and acceptable profit margins (Burawoy 1979, 80). Workers do not overtly consent to the rules of the game and then begin playing, rather, consent is manufactured through the playing of the game itself (Burawoy 1979, 82). The workers, players of the game, do not question the rules, rather they take them as given, thus obscuring the extraction of surplus value; while simultaneously, through consent, ensuring the securing of surplus value extraction (Burawoy 1979, 82). Workers' participation in the game is not just the result of material interest, rather, "...its dominance in the shop-floor culture emerges out of and is embodied in a specific set of relations in production, that in turn reflect management's interest in generating profit" (Burawoy 1979, 85). In other words, inculcation into the game through subjective factors animates workers solidarity by getting workers to identify with management, undermining bargaining power.

Playing the game also mitigates solidarity through its individualizing nature. Making out is individualizing insofar as the economic reward is individual rather than collective, as well as through the autonomy workers feel in playing within the rules of the game. Both factors redistribute conflict within the firm horizontally rather than vertically (Burawoy 1979, 81). Here the labor process, through the game of making out, is mitigating solidarity by redistributing conflict horizontally, limiting bond formation in those that share a material interest.

Workers develop a vested interest in the perpetuation of the game, reproducing capitalist relations. For example, when workers did become frustrated with management, it was a result of management's role in not allowing them to make-out (e.g. they provided poor equipment) (Burawoy 1979, 80). Workers are reasserting the legitimacy of the game, upset about their inability to continue their own exploitation, which is not recognized by them, as it has been inscribed in the rules of the game. Workers are not questioning the laws of capital accumulation, rather their inability to reproduce these conditions. By accounting for both objective and subjective factors of the labor process, we are able to understand the evolution of the labor process as the "...expansion of choice within those narrow limits" (Burawoy 1979, 94). This non-dualistic analysis allows us to see the role of not only the objective factors in mitigating solidarity, but also the role of the workers (subjective factors) in perpetuating and legitimizing conditions that further undermine their solidarity and thus their material interests.

Labor processes condition bargaining power. The work referenced above demonstrates the role of both objective and subjective factors in conditioning solidarity and thus bargaining power. We must transcend disciplinary bounds and integrate these literatures on labor processes to understand the wage determination process. Toward this end, future empirical investigations must systematically account for the role of labor processes. Burawoy's fieldwork is a start; however, the works of Pierre Bourdieu offers the conceptual apparatus necessary to developing a non-dualistic approach in future empirical investigations.

## Future Investigations: Deploying Bourdieu

Epistemological difficulties of investigating the relations of labor processes to the process of wage determination require a conceptual apparatus designed to overcome false antinomies such as object/subject, structure/agent, etc.<sup>24</sup> Bourdieu developed a conceptual apparatus with the explicit goal of overcoming false antinomies, pervasive in social sciences (Bourdieu and Wacquant 1992, 3-7). Bourdieu, in a short excerpt from *Pascalian Meditations*, explicitly recognized the necessity to investigate both objective and subjective forces in the labor process, as pointed out by Burawoy (2012). Bourdieu's overcoming of these false dualism is embodied in his praxeology which is built upon the concepts of habitus, field, doxa, and symbolic power. These concepts provide the analytical tools necessary for a non-dualistic approach to investigating wage determination. Bourdieu's conceptual apparatus is made up of five key components: habitus, field, doxa, symbolic power, and symbolic domination<sup>25</sup>.

### The Conceptual Apparatus

Habitus represents habits, dispositions, and beliefs which are patterned by social forces (i.e., socialization), animating a sense of reality; they are structuring structures, "...structured by the patterned social forces that produce it, and *structuring*: it gives form and coherence to the various activities of an individual across the separate spheres of life" (Wacquant 1998, 221 [original emphasis]). In Bourdieu's words, habitus represents, "...history inscribed on bodies" (1981, 305). The structure aspect of habitus accounts for the objective factors in

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<sup>24</sup> Weber (1949; 2013) explicates the necessity of developing a conceptual apparatus with explicit recognition of ontological and epistemological positions, to maintain consistency between theory and empirical work.

<sup>25</sup> For a longer explication of Bourdieu's conceptual apparatus see Bourdieu and Wacquant (1992) and for a secondary resource see Swartz (2009). For examples of Bourdieu developing and deploying his conceptual apparatus see Bourdieu (1984; 1988; 1992; 1993; 2014; 2017)

behavior, and the structuring aspects account for the role of the subject, constrained by the structured aspects of habitus.

Fields represent microcosms, patterns of behavior, rules, regulations, and forms of authority that workers tacitly conform to upon entering them (Wacquant 1998, 221). The patterns which govern fields are the result of objective structures, in other words, structured structures; in Bourdieu's words, a "...history of objectified things" (Bourdieu 1981, 305). Within fields there is constant conflict and competition<sup>26</sup> over the boundaries of the field, thus animating the interaction of habitus and the field.

The dialectical relationship between habitus and field is what constitutes reality, and produces doxa, common sense understanding which are non-benign. For example, Burawoy's game of making-out constitutes doxic understandings such that workers' common-sense understandings are produced through the playing of the game and evaluated through the lens of making-out. These understandings underpin workers' actions within the field of labor processes, and are non-benign, such that they reify the rules of the game, their own exploitation, and capitalist structures.

Furthermore, there is a misrecognition of the arbitrary<sup>27</sup> origins of the rules of the game, leading workers to take them as ever-present and unchanging. Power is perpetuated based on the misrecognition of arbitrary conditions, what Bourdieu labels, symbolic power. Bourdieu states, "For symbolic power is that invisible power which can be exercised only with the complicity of those who do not want to know that they are subject to it or even that they themselves exercise it" (Bourdieu 1992, 164). Institutionalized symbolic power leads to

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<sup>26</sup> This conflict and competition is not always overt, often the result of pre-reflexive behavior, encapsulated in the habitus, on behalf of the subjects within the field.

<sup>27</sup> Arbitrary in the sense that these rules are formed under the boundaries of capitalism, a system that emerged from the contingent forces of history.



symbolic domination, domination perpetuated through the misrecognition of the arbitrary allocation of power (Bourdieu 1992, 168). This is emblematic in Burawoy's fieldwork, insofar as workers' frustrations within the labor process are manifested in complaints about the company hindering their ability to make-out. In other words, workers are frustrated when they are unable to perpetuate their own exploitation. This misrecognition prevents workers from true challenges to the arbitrariness of the rules, in other words, the historically contingent nature of capitalism.

Bourdieu's praxeology, supported through his conceptual apparatus, provides an understanding of both objective and subjective forces conditioning workers' bargaining power. Bourdieu's conceptual apparatus allows researchers to create hypotheses regarding the factors conditioning bargaining power, simultaneously accounting for objective and subjective forces. Moreover, this conceptual apparatus can act as an anchor in a sea fraught with epistemological uncertainty.

#### Operationalizing Bourdieu's Conceptual Apparatus

Future investigations of the relationship between labor processes and the process of wage determination must rely on multiple methods, historical, ethnographic, and survey data.

Bourdieu's conceptual apparatus can be operationalized through Weberian ideal<sup>28</sup> types<sup>29</sup>.

Weberian ideal types act as an analytical tool allowing researchers the flexibility necessary to capture a phenomenon wrought with heterogeneity. The strength of ideal type analysis lies in its ability to capture heterogeneity, such that what is of interest is how reality differs from them. Moreover, when multiple ideal types are deployed they are analytical distinctions such

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<sup>28</sup> The use of the word "ideal" implies no normative statement.

<sup>29</sup> For theoretical explication of Weberian ideal types see Weber (2013).

that they are not mutually exclusive; empirical phenomenon may contain aspects of different ideal types.

The works referenced above explicitly relied on Weberian ideal types. Edwards' (1979) forms of control are ideal types. The majority of firms have some aspect of each simple, technological, and bureaucratic forms of control. Ideal types act as anchors to measure reality against, allowing for heterogeneity in analysis rather than forcing empirical phenomenon into an analytical box. Few firms rely on forms of control which are singularly simple, technological, or bureaucratic, and through ideal types we can account for each.

In Bourdieu's conceptual apparatus, ideal types of control represent fields, specifically, the heterogeneity with the larger field of the labor process. Through historical analysis, similar to research done by Edwards (1979), researchers can hypothesize the existence of new fields, in other words, ideal types of control emerging in the neoliberal period. For example, one may hypothesize an Uber ideal type of control, or an ideal type of control founded on contingent labor, which may also contain forms of simple, technological, and bureaucratic control. These examples highlight the possibility of hypotheses attainable through the operationalization of Bourdieu's conceptual apparatus.

Burawoy's analysis of the labor process through the lens of games sets up an ideal type, the game of making-out. Compensation packages today, within the US, are rarely defined by piecework; however, game analogies can still be implemented through alternative ideal types. Through this lens, and the use of ideal types, emphasis is placed on the generalizability of game analogies rather than the specific nature of the making-out ideal type game.

Through ethnographic work, similar to the research done by Burawoy (1979; 1985), researchers can seek to understand the practical logic<sup>30</sup> deployed by workers and founded on doxic understanding that may be different from those specific to the making-out game. By investigating alternative doxic understandings, produced through the playing of the games unique to different labor processes, researchers are able to understand what is underpinning symbolic domination; specifically, the practical logic of actions by subjects that reify power hierarchies and the conditions of their own exploitation. Only through ethnographic research can the characteristics of practical logic, unpinning doxic institutions and thus symbolic domination, be teased out. Through this analysis researchers are able to understand how certain forms of practical logical aid or hinder solidarity and bargaining power.

What is missing from the works referenced above is a systematic investigation into the role of habitus. In Bourdieu's work, *Distinction: A Social Critique of the Judgement of Taste*, he uses survey data from France to investigate the different habituses associated with different classes<sup>31</sup> of French society. Bourdieu finds there are relatively consistent habituses associated with different classes of French society and as these habituses interact with the differing fields of French society, they tend to reify power hierarchies.<sup>32</sup>

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<sup>30</sup> Practical logic as opposed to theoretical logic. Bourdieu is explicit in his work that social scientists must not interpolate the models which organize their understandings of the world into the minds of workers. Rather it is incumbent upon the researcher to investigate the practical logic which underpins how workers rationalize their actions. Only through the investigation of practical logic can we understand the doxic institutions which animate workers actions and reify symbolic domination. To collapse practical logic with theoretical logic would ignore the role of doxic institutions in the perpetuation of symbolic domination. These points are explicated in Bourdieu and Wacquant (1992: 39-40).

<sup>31</sup> Specifically, Bourdieu is investigating the different Habituses associated with different configurations of capital. (Bourdieu explicates three forms of capital; economic, social, and cultural. This presents the challenges of what is not capital. To overcome this issue, one could replace the word capital with asset with regard to social and cultural capital (Garcelon 2018).)

<sup>32</sup> This often leads to the question of what is the mechanism for change if the interaction of habituses and field result in the reification of power hierarchies. Bourdieu argues that changes occur when there is a mismatch between habitus and field. However, the nuances of this process, and limitations to this mechanism of change is beyond the scope of this paper.

Through survey work, similar to the research done by Bourdieu (1984), researchers can seek to tease out the habitus or habituses associated with workers. Through these investigations we can seek to hypothesize if there have been systematic changes to habituses as new historical periods of capitalism emerge, such as neoliberalism. For example, is there a set of dispositions which is relatively consistent across the working class, i.e., an ideal type of working-class habitus? Less abstractly, researchers can begin to ascertain if, as time passes, workers' habituses are characterized as more docile, in other words are they moving farther from being a class for itself, and if not, when interacting with fields are these habituses being neutralized, overriding their class power. Being able to pose these questions demonstrates the possibilities attainable through the operationalization of Bourdieu's conceptual apparatus in ideal type analysis.

Bourdieu offers a conceptual apparatus which can be operationalized through Weberian ideal types. This operationalization must be animated through multiple methods of research: historical, ethnographic, and survey data. By moving beyond quantitative methods, systematic account for the role of labor processes in conditioning workers' bargaining power is made possible. Moreover, given the explicit goals of Bourdieu when he set out to design his conceptual apparatus, the false dualisms which animated previous work are transcended, yielding a more complete understanding of the phenomenon of wage determination relative to the labor process. Future empirical investigations of this phenomenon face epistemological difficulties, Bourdieu's conceptual apparatus offers a starting point.

### **Conclusion**

The correlation between changes in wages and changes in the reserve army of labor has broken down. Bargaining power and thus wages are a function of more than changes in the

reserve army of labor. Recent advances in wage determination theory have implicated other factors, such as, the role of segmentation and labor processes; however, these insights have yet to be incorporated into the recent empirical literature. This paper acts as a reassertion of these insights, while moving beyond them. Earlier work that incorporated the role of labor processes in their analysis of bargaining power only focused on objective factors. Subjective factors have been highlighted in the sociological literature, but without specific reference to wage determination theory. This paper acts as a bridge between these two literatures, explicating the role of subjective factors, emanating from labor processes, in conditioning bargaining power and thus wages. Bourdieu's conceptual apparatus is explicated due to its ability to facilitate a non-dualistic approach to empirical investigation, while mitigating the epistemological difficulties of such analysis. The use of multiple methods, couched in Bourdieu's conceptual apparatus and operationalized through Weberian ideal types allows us to create and test more complex hypotheses regarding wage determination, while accounting for a multitude of factors conditioning bargaining power. We must incorporate these theoretical insights into future empirical investigations of wage determination to better understand the multitude of forces animating this phenomenon.

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## CHAPTER 2

### ALTERNATIVE MEASURES OF LABOR UNDERUTILIZATION AND THE DOXIC

#### PHILLIPS CURVE

##### **Abstract**

This article interrogates the Phillips Curve through the application of reflexivity. Reflexivity, developed by Pierre Bourdieu, is a process of deconstructing the pre-constructed. The pre-constructed Phillips curve is the one all economists learn: the inverse relationship between changes in price level and changes in unemployment (as opposed to an empirical relationship with no functional form). This inverse relationship broke down in the 1970s in the United States, yet the assumed inverse trade-off still informs economic policy. This article, in deconstructing the Phillips curve, elucidates the implicit assumptions and biases embedded in how we traditionally approach the Phillips curve. Following this, the limitations of traditional labor underutilization methods as a proxy for labor market conditions is questioned and an alternative is presented: labor market transition rates. Transition rates are more consistent with theory in attempting to capture labor market conditions, insofar as they account for heterogeneity in labor market conditions expected in segmented labor markets. Phillips curve models are then estimated utilizing traditional and alternative labor underutilization measures; followed by a discussion of the limitations of Phillips curve models, even when the most appropriate labor underutilization measures are implemented.

Keywords: Phillips Curve, Transition Rates, Doxa, Reflexivity

JEL Classification Codes: B41, E31, E64, J21, J30, J64

## Introduction

The Phillips Curve, the inverse trade-off between changes in unemployment and changes in price level, is one of the first stylized facts<sup>33</sup> socialized into economists. This is the Phillips Curve we all know, not an empirical relationship with no functional form, but an assumed inverse relationship. The inverse relationship, between changes in unemployment and changes in price level, broke down in the United States in the 1970s (Leduc & Wilson 2017; Shambaugh et al. 2017; Shaikh 2013; Wiczer & Eubanks 2014), yet we continually socialize future economists to understand our world as zero-sum, inflation or unemployment: choose. Many economists have recognized this empirical breakdown; however, this model still animates policy discussions, often being used to argue against pro-employment policies to fight the specter of inflation.

The Phillips curve lingers on due to its pre-constructed nature. The Phillips Curve, is pre-constructed insofar as it is presented to future economists as something known, and to be known. It is not questioned, but internalized, becoming part of the “common sense” of economists. Due to its pre-constructed nature, we do not go back to critically interrogate it, we assume the relationship and then operate in the zero-sum world it tells us we are living in. In doing so this model becomes performative, insofar as it animates policy discussions, thus affecting policy decisions, and ultimately people’s material well-being.

The Phillips curve has become, what Pierre Bourdieu, would call *doxic*. *Doxic* is the term Bourdieu used to label pieces of knowledge which have become common-sense, not questioned, and non-benign (Bourdieu & Waquant 1992, 168). Its non-benign character is emblematic in its performativity, animating policy decisions around the globe, leading those

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<sup>33</sup> The definition of stylized facts used throughout this paper is the one first developed by Kaldor (1961, 178)

in positions of power to believe we live in a zero-sum world: stable asset prices for capitalist or increasing wages for workers. Under neoliberalism the choice has been the former.

Given the empirical breakdown of the Phillips curve post-1970s, it is time to move past this doxic understanding and to deconstruct the pre-constructed Phillips curve. To do so, this article applies reflexivity to the Phillips curve. As Powell (2021) argues, to undo the doxic character of stylized facts and to ensure they are couched in realism<sup>34</sup> requires the application of reflexivity. Reflexivity is a process, laid out by Bourdieu, where the familiar is made strange, the pre-constructed is deconstructed, critically interrogated to ensure a realism in analysis<sup>35</sup>. In doing so, those aspects of the Phillips Curve, specifically, the implicit assumptions and logic that animate its current “common sense” form are interrogated, as well as the assumption embedded in its empirical investigations.

To interrogate the assumptions embedded in the empirical approach, data from the Current Population Survey is used to construct labor market transition rates. A labor market transition rates calculates the percentage of people who moved from one labor market status to another over a given time period. The rates are then used to construct labor market flows, the number of people moving from one labor force status to another for a given time period. These alternative labor underutilization measures are used to highlight the limitations of the official unemployment rate as a proxy for labor market conditions, which is traditionally used as the labor underutilization measure used in Phillips curve modelling.

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<sup>34</sup> Realism as laid out by Lawson, stating, “realism asserts the existence of the objects of research as independent of enquiry of which they are the object. In other words, according to this doctrine, there is a material and social world that exist independently of any individual consciousness and which is knowable by conscious—true theories of real entities can be obtained” (1989, 61).

<sup>35</sup> See Part Three of Bourdieu and Waquant (1992) for an extensive discussion of reflexivity.

After highlighting the limitations of the official unemployment rate as a proxy for labor market conditions, using these alternative measures, the advantages of these alternative measures are highlighted, arguing that these measures are more consistent with our understanding of labor markets and thus better proxies. A number of these proxies are then used in different Phillips curve model specifications, alongside the traditional approach, to robustly test if there is still an inverse relationship between changes in price level and changes in unemployment. It is shown that there is little to no empirical evidence supporting an inverse Phillips curve, using data from 1998-2018.

The remainder of the article highlights the empirical limitations of estimating a relationship between labor market conditions and price level. Two main limitations are highlighted, the first is the often monocausal nature of the model, as it assumes the existence of wage-push inflation, and the second is aspects of labor market conditions which are not quantifiable, yet crucial to understand the links between labor market conditions, wages, and price level. Highlighting the limitations explicitly, is part of the application of reflexivity. The paper concludes challenging the use-value of continually estimating Phillips curves, while offering up wage curves as an alternative.

### **The Phillips Curve as Doxa**

The origins of the inverse trade-off between changes in unemployment and changes in price level lie in the work of Phillips (1958), who discovered an inverse correlation between unemployment and nominal wages in England from 1861-1957<sup>36</sup>. The more modern Phillips curve, the inverse trade-off between changes in unemployment and changes in price level, associated with the non-accelerating inflation rate of unemployment (NAIRU), lies in the

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<sup>36</sup> Stirati and Meloni, highlight how Phillips' original finding are consistent with a Marxian reserve army of labor and wage dynamics (2018, 494).

work of Friedman (1968). Here Friedman argued that there is a short-run trade-off between changes in unemployment and changes in price level (inverse Phillips curve), but in the long-run there is no trade-off, identifying the natural rate of unemployment (vertical Phillips Curve). This later evolved into the NAIRU, with some changes being made; first, a movement away from the Walrasian foundations of Friedman's arguments (time-varying NAIRU)<sup>37</sup> and second, recognizing the role of distributional conflict in generating Phillips curve dynamics (Stockhammer 2008, 487). This is the theoretical logic which has animated modern approaches to the Phillips curve.

Some economists have pointed out how this approach to the Phillips curve has taken a path-dependent character in the literature (Palley 2018; Stirati & Meloni 2018; Galbraith 1997). This path-dependent approach to the Phillips curve is emblematic in the numerous models developed year after year trying to demonstrate a NAIRU and/or short-term trade-off between changes in unemployment and changes in price level. The path dependence developed as a result of taking a deductive approach to an empirical relationship once discovered through inductive methods (Powell 2021, 369). By taking a deductive approach we forgo questioning whether the empirical relationship exist and rather seek to prove it, even in the face of evidence that it has broken down.

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<sup>37</sup> It is a movement away, insofar as there is no longer theorized to be a time invariant singular "gravitational point" of unemployment at which inflation is non-accelerating.

### Relation Between Inflation and Unemployment 1950-1969



Figure 1 Relationship Between Inflation and Unemployment 1950-1969 (source: Author’s calculation from U.S. Bureau of Labor Statistics)

### Relation Between Inflation and Unemployment 1970-2021

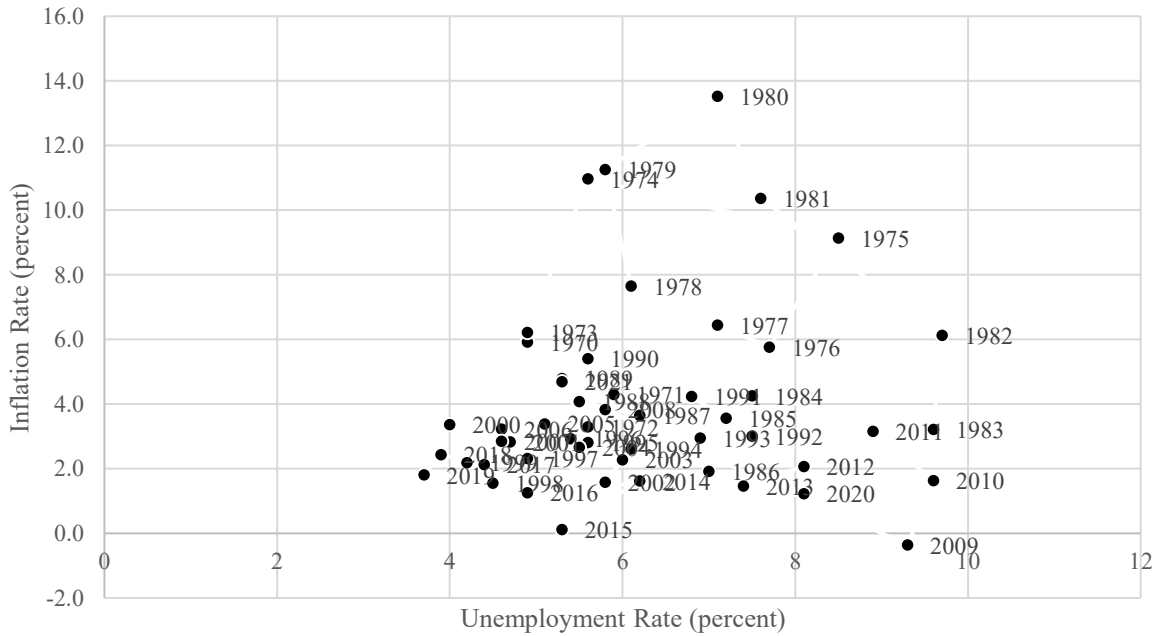


Figure 2 Relationship Between Inflation and Unemployment 1970-2021 (source: Author’s calculation from U.S. Bureau of Labor Statistics)

Comparing Figure 1 to Figure 2 is at the least, *prima facie*<sup>38</sup> evidence of this breakdown, yet through our economic training we are socialized into assuming this empirical relationship is time invariant. We begin to approach this phenomenon by assuming it exists and rotely investigate it through alternative econometric model specifications<sup>39</sup>. When and inverse trade-off is not found the question is often one of model misspecification, rather than, does this inverse empirical relationship no longer exist. Given that we have been socialized to take it as a stylized fact we often do not ask the latter question.

Describing this trend as path-dependent is accurate, however, this description does not go far enough, insofar as it does not explain the origin of this path dependency, nor does it inherently recognize the performative<sup>40</sup> nature of this path-dependency, affecting economic policy. Powell (2021) lays out how a stylized fact can take on a time invariant and non-benign character. This non-benign character is the key aspect missed when solely highlighting the path-dependency in the literature.

There is a performativity to knowledge, which in regard to the Phillips curve is emblematic in the constant reference to a trade-off when considering economic policy. By informing economic policy, this path-dependency takes on a non-benign character, affecting policy choice and thus the lives of individuals. Bourdieu's concept of *doxa*, a common sense held belief that is non-benign, is a more accurate description, highlighting the path-dependency, but going further: demonstrating both the sociological processes that create a

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<sup>38</sup> To be clear, this is *prima facie* evidence, there have been studies that show you can find Phillips curve dynamics in this seemingly random pattern, when looking at movement from point to point over different business cycles.

<sup>39</sup> Deirdre McCloskey, argues, in lieu of conversations regarding the epistemological questions of thresholds regarding model misspecification or an empirical relationship no longer holding, we are left in this infinite, "pseudo-scientific ceremony of hypothesis-regression-test-publish" (1983, 499).

<sup>40</sup> Powell (2021) highlights the performative character of stylized facts.



doxic understanding, and thus path-dependency, while recognizing the non-benign character of such an understanding.

As a doxic institution, the Phillips curve, once constructed, presents to the next generation of economists as pre-constructed, something to not be critically questioned, “common sense”, while affecting economic policy. When crafting policy through the lens of an inverse Phillips curve, policy makers are making choices not just between inflation and unemployment but between class interests. More specifically, policy makers are using the specter of inflation to justify monetary policy which is meant to increase unemployment, and thus hurt working class interest. The Federal Reserve has repeatedly used the justification of possible inflation to push policy in direct conflict with policies which would benefit the working class (Dimitri and Wray 1994, 1). Furthermore, Galbraith points out that wage-push inflation in the US has not occurred since the 1950s, with the exception of 1973; yet the policy approach remained, keeping wages down through economic policy, fighting a phantom that is wage-push inflation with real costs (1997, 99).

### **Reflexivity: Interrogating the Phillips Curve**

Given these consequences it is critical to interrogate the Phillips curve and not operate on assumptions socialized into us while becoming economists. In other words, we need to undo the doxic character of the Phillips curve. To do so, Bourdieu advocated for the application of reflexivity. Reflexivity is the process whereby the familiar is made strange, the pre-constructed is deconstructed, critically interrogating a piece of knowledge. The rest of this article is an effort in reflexivity, undoing the doxic character of the Phillips curve, elucidating the logic that animates the model, teasing out the implicit assumptions and biases embedded

within, and critically interrogating the empirical approach often taken in Phillips curve modelling.

### The Theoretical Model and Implications

The relationship between changes in unemployment and changes in price level is an empirical relationship, without implication, until theoretical insights into the transmission mechanisms generating this phenomenon are articulated, which then yield policy implications. There are a number of logics associated with different schools of thought that generate Phillips curve dynamics and determine the NAIRU; however, contained in each of these approaches, with the exception of those working in the Walrasian tradition, is a role of distributional conflict in generating Phillips curve dynamics (Stockhammer 2008, 487). The logic of each of these approaches is beyond the scope of this article, as well as the specific model closures in determining the NAIRU<sup>41</sup>. What is relevant to this study is the logic used to explain the doxic Phillips curve (i.e. the assumed inverse Phillips curve).

Shigeru Fujita, states the logic simply, “A tight labor market, exemplified by a low unemployment rate, is associated with higher wages, and the higher labor cost pushes up inflation” (2019, 13). More specifically, drawing on a conflict theory of inflation, developed by Dutt (1992) and Rowthorn (1977), a decrease in unemployment leads to an increase in bargaining power of workers, translating into an increase in wages, which increases labor costs, assuming mark-up does not change to offset increased cost, leads to an increase in prices<sup>42</sup>.

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<sup>41</sup> For a study that deals with this explicitly see Stockhammer (2008).

<sup>42</sup> Stockhammer (2008) argues NAIRU dynamics can be generated within a conflict theory of inflation, the difference being these dynamics are the result of real class conflict rather than a quantity theory of money, where inflation is always and everywhere a monetary phenomenon (495-496).

In an effort to be reflexive we must explicate the implicit assumptions, and associated biases, within the doxic approach, to undo the doxic character of the Phillips curve. There are three implicit assumptions: (1) the assumed link between changes in unemployment and changes in wages; (2) the assumption that increased wage cost inevitability leads to increased prices, implying mark-up cannot decrease to offset cost changes, keeping prices constant; (3) singular origin of inflation. To be clear, implicit assumptions two and three are not made in the work of Dutt (1992) and Rowthorn (1977), both consider the role of mark-up power in affecting Phillips curve dynamics as well as the multiple origins of inflation; however, in the orthodox approach these factors are often not considered due to implicit assumptions. It is this orthodox approach where the doxa lies, and is what is under interrogation.

The link between changes in unemployment and changes in wages within a conflict model rests on Marx's theoretical arguments developed in Chapter 25 of *Capital Volume 1* (1897[1990]). Marx argued changes in the reserve army of labor conditions workers bargaining power and thus wages. However, the link between changes in the reserve army of labor and changes in wages broke down in the neoliberal period (Leduc & Wilson 2017; Shambaugh et al. 2017; Shaikh 2013; Wiczer & Eubanks 2014). Real wages have been stagnant in the US for the last forty years. As Powell (2020) argues there are other factors mitigating workers bargaining power in the US, offsetting gains that may be coming from fluctuations in the reserve army of labor. For this mechanism to generate inverse Phillips curve dynamics there must be an inverse relation between changes in unemployment and changes in wages, however, this relationship broke down around the same time as the inverse Phillips curve, which is no coincidence.

In explaining the breakdown of traditional Phillips curve dynamics, some orthodox economists (e.g. Gordon 1997, 30; Fujita 2019, 17) have alluded to the declining bargaining power of workers as the result of changing institutions; whereas some heterodox economists have stated this explicitly as the explanation (e.g. Stirati & Meloni 2018, 489; Pollin 1998, 8). Even with orthodox economists considering the impact of institutional factors on bargaining power, they never take the next step, investigating how these changes have undermined the potentiality of wage push inflation, other sources of inflation, and most importantly, how might we change our policy approach given these changing institutional factors.

Given the changing nature of the relationship between changes in unemployment and changes in wages, our Phillips curve mechanism can no longer rely on this blunt theoretical link, where bargaining power is a function of unemployment. As Stirati and Meloni state, "... the unemployment rate is an incomplete and highly imperfect description of the overall conditions affecting workers' bargaining power" (2018, 511). Going forward we must account for a multitude of factors mitigating workers bargaining power such as the globalization and spatialization of work, the increasing segmentation of the labor market, and changing labor processes, all factors in determining bargaining power and thus wages (Powell 2020). Moreover, we need to consider other potential sources of inflation beyond wage-push.

Another assumption in the logic of the traditional Phillips curve is that wage gains inevitably lead to increases in prices, but as Pollin points out, workers do not set prices in a capitalist economy, and thus have no direct control over inflation (1998, 9). The implicit assumption within this logic, connecting wage gains to inflation, is that capitalists will raise

prices in response to wage gains. In other words, it is assumed that capitalists cannot decrease their mark-up to offset the increasing labor costs. Assuming wage increases must lead to an increase in prices, without considering the possibility of adjusting mark-ups in response to increasing wages, to hold prices constant when making economic policy, creates a concession in terms of class interest. Such an implicit assumption, pre-policy discussion, removes from the table certain policies which could regulate mark-ups to mitigate potential cost-push inflation, rather than assuming the only option is to reduce cost, and thus inevitably wages. Therefore, those who are held responsible for inflation are those who have no direct control over price setting.

By implicitly neglecting mark-up in the doxic approach to the Phillips curve, we are also tacitly ignoring conversations around the implications of capacity utilization, which governs mark-up power and thus another source of potential inflation: demand pull inflation. As Dutt (1992) and Rowthorn (1977) demonstrate in a conflict model of inflation, capacity utilization governs mark-up power of capitalists which directly affects capitalists' price setting abilities. Capacity utilization is governed by demand, which is also another potential source of inflation beyond wage-push inflation. Kriesler and Lavoie (2007), develop a Phillips curve model which accounts for capacity utilization, showing that there are large segments of the Phillips curve, associated with different levels of capacity utilization, which are flat, implying that at certain levels of capacity utilization, wage gains do not have to inevitably lead to inflation. They also demonstrate that only at very high levels of capacity utilization will we begin to see the emergence of demand-pull inflation, implying that policy makers should be focused on increasing demand until that point is reached. The preclusion of a comprehensive discussion regarding capacity utilization eliminates our ability to

understand the policy space we have for both increasing demand and wages without the inevitable occurrence of wage push inflation; in other words, ignoring these models ignores the possibility that we do not live in a zero-sum world.

In conjunction with these implicit assumptions, another blind spot of this model is the failure to account for other forms of cost-push inflation beyond wage-push<sup>43</sup>. There is rarely a discussion of commodity price shocks which could lead to increases in inflation irrespective of wage gains. In other words, as Galbraith points out, we have not come up with a “non-accelerating rate of oil production”, but we always are discussing the NAIRU (1997, 99). By not systematically considering the role of commodity price shocks in generating inflation we also remove from the policy discussion, policies regarding price controls as a tool to mitigate inflation.

The implicit assumptions explicated above point to the most problematic implication of the doxic Phillips curve’s approach to inflation: the implied singular origin of inflation. Within the doxic approach to the Phillips curve there is a singular focus on the role of unemployment and thus wages in generating inflation, leading policy makers to only consider anti-worker policies when considering how to fight inflation. There is no consideration of controlling mark-ups to mitigate inflation, no consideration of capacity and the potential policy space associated with different levels of capacity utilization to promote demand while mitigating unemployment, without experiencing inflation, and no consideration of cost push inflation other than wages. Without these considerations, policy makes are left in a zero-sum world, which does not exist, fighting the specter of inflation

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<sup>43</sup> One might argue that within empirical Phillips curve models there are often control variables which attempt to capture cost shocks beyond those emanating from wages, but the operative word in those studies is “control variables”. Variables in empirical work labelled “control” variables are often those that are not under full consideration in the study.

through anti-employment policies, which not only negatively affects workers, but has larger policy costs, such as mitigating the long-term potential growth of the economy.

### The Empirical Model and Implications

The implicit assumptions and biases do not end with the theoretical logic of the Phillips curve. There are also two implicit assumptions when econometrically modelling the Phillips curve, both with regards to capturing labor market conditions and ultimately bargaining power. First, given the unemployment rate is often the sole proxy for labor market conditions, it is implicitly implied that bargaining power of workers is solely a function of changes in unemployment. As Powell (2020) argues theoretical advances in the wage determination literature, specifically of a Marxian orientation, consistently argues that bargaining power, and thus wages, are a function of more than changes in unemployment. Some of the factors highlighted are the effects of globalization, spatialization, segmentation of labor markets, and labor process; the last of which is embedded with serious epistemological issues in terms of quantifying and/or finding a proxy which could then be used in an econometric model (more on this in the last section highlighting the limitations of econometric approaches to the Phillips curve). Second, the official unemployment rate (U-3) is limited in capturing labor market conditions, let alone bargaining power. This latter issue will be the focus of this section with alternative labor underutilization measures advocated for.

Within Phillips curve models, the unemployment rate is the proxy for labor market slackness or tightness. It is implicitly assumed that changes in unemployment greater than zero implies excess supply and changes in unemployment less than zero implies excess demand in the labor market. However, this assumption only holds if changes in

unemployment are the result of workers being hired into the labor market, and that those who are officially categorized as unemployed are the only stock of people from which employers can draw.

In reality these assumptions do not hold. The official definition of the unemployment rate is the number of workers who have looked for work in the last four weeks divided by the labor force (made up of those employed and those officially unemployed). Given this definition, the unemployment rate will fall when workers exit the labor force<sup>44</sup>. Therefore, a declining unemployment rate does not necessarily imply increasing tightness in the labor market, especially if those no longer counted in the U-3 are ready, willing, and able to work. For example, people could stop their search for employment due to poor labor market conditions, leading them to be reclassified and the unemployment rate to fall, which, based on the assumptions above would be interpreted as a tightening of labor market conditions when the opposite is occurring.

Given the point explicated above, rather than making inferences about the implications of changes in the unemployment rate by comparing stock numbers associated with different time periods, a better measure of labor market tightness or slackness would be to calculate the number of workers flowing to employment. Using Current Population Survey (CPS) data, obtained through the Integrated Public Use Microdata Series (IPUMS), these numbers can be calculated by first calculating labor market transition rates<sup>45</sup>. This will

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<sup>44</sup> Workers moving from being officially unemployed to out of the labor force, will always lead to a fall in the unemployment rate, given the definition of its calculation, the denominator will always be greater than the numerator, therefore people moving from officially unemployed to out of the labor will lead to a decrease in the unemployment rate, because the percent change in the numerator as a result will always be greater than the percent change in the denominator.

<sup>45</sup> There is a large literature that has been developing around transition rates and their ability to capture labor market conditions beyond traditional stock analysis, for examples see: Elsbey, Sahin, and Hobjin (2010), Elsbey, Hobjin, and Sahin (2015), Dotesey, Fujita, and Rundanko (2017), Canon et. al (2014), Fujita and Nakajima



allow us to look at flows explicitly rather than inferring them from changes in stocks. Moreover, this will allow us to account for multiple non-employment categories from which employers are hiring from.

### Transition Rates and Flows

A labor market transition rate captures the portion of people in labor force status  $X$  (e.g. officially unemployed) in time  $t - 1$  who move into labor force status  $Y$  (e.g. employed) in time  $t$ . In other words, the transition rate  $XY$  represents the portion of the  $X$  stock in time  $t - 1$  which transitioned to the  $Y$  stock in time  $t$  (e.g. the percentage of officially unemployed workers in one month who transitioned to employment in the next month). These rates once calculated can then be used to estimate the number of workers flowing from different labor force statuses to other labor force statuses on a monthly basis. The following data work draws on group research done with Research Fellows from the Global Institute for Sustainable Prosperity, applying those insights in a Phillips curve context.

The traditional labor force statuses relied upon when calculating transition rates are employed, unemployed, and out of the labor force. However, to gain a more refined picture of the labor market, we break these three traditional labor force statuses into seven. The labor force statuses which will be used are full-time, voluntary part-time, involuntary part-time, officially unemployed, want-a-job, retired, and other. The definitions of these statuses are defined in Table 1:

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(2016), Fujita and Ramey (2009), Shimer (2008), Shimer (2012), Horstein (2013), and Hornstein, Kudlyak and Lange (2014).

Table 1 Alternative Labor Force Categories (developed in conjunction with a research group with the Global Institute for Sustainable Prosperity)

<b>Traditional BLS Labor Force Status</b>	<b>Subsets of BLS Labor Force Statuses</b>	<b>Classification Criteria</b>
Employed	F (Full Time)	Person employed and working 35+ hours per week
Employed	V (Voluntary Part-Time)	Persons employed and working part-time hours, who do not wish to work full-time
Employed	I (Involuntary Part-Time)	Persons employed and working part-time hours, who wish to work full-time hours
Unemployed	U (Officially Unemployed)	Persons who are not employed, who have actively searched for work in the past four weeks
Not in Labor Force	M (Want-a-Job)	Persons who want a job now, who have not searched in the past four weeks but have in the past twelve months
Not in Labor Force	R(Retired)	Persons who identify as retired, and do not want a job
Not in Labor Force	O (Other)	Persons who answered they do not want a job, are not employed, and do not self-identify as retired

To calculate monthly transition rates first we calculate the level of each of these labor forces statuses monthly. We can then track individuals' movement or non-movement between different labor force statuses. For example, we take the number of people who are in labor force status U in time  $t - 1$  and then count the number of individuals who flowed from U to full-time employment in time  $t$ . Figure 3 below shows the trended monthly transition rate from U to F from 1998-2018:

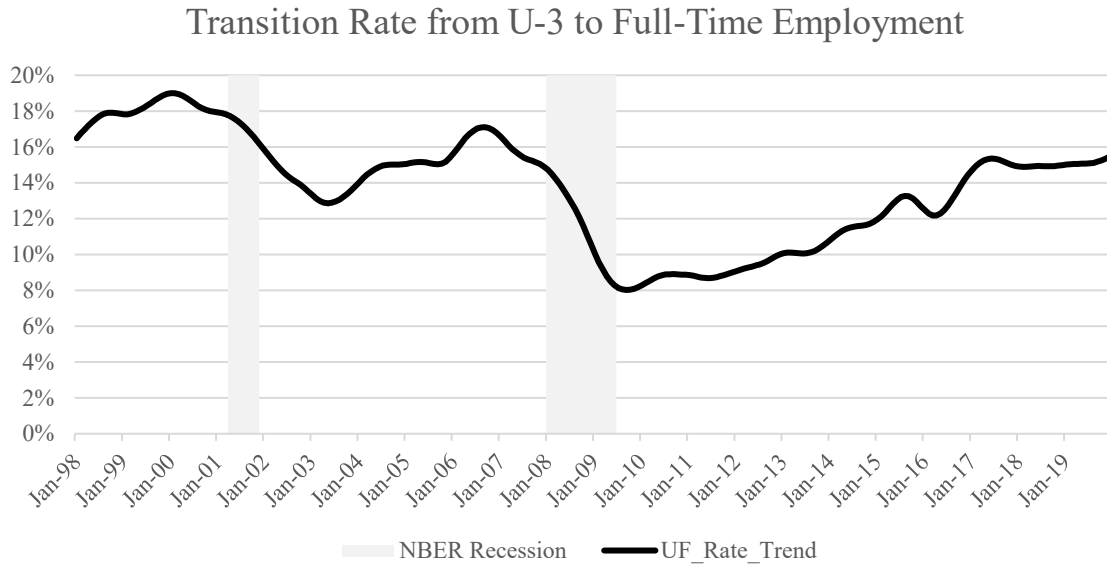


Figure 3 Transition Rate from U-3 to Full-Time Employment (source: Author’s calculations from CPS data, extracted through IPUMS)

We can then use the transition rates to estimate the number of those who flowed from U to F over the same time period, as shown in Figure 4:

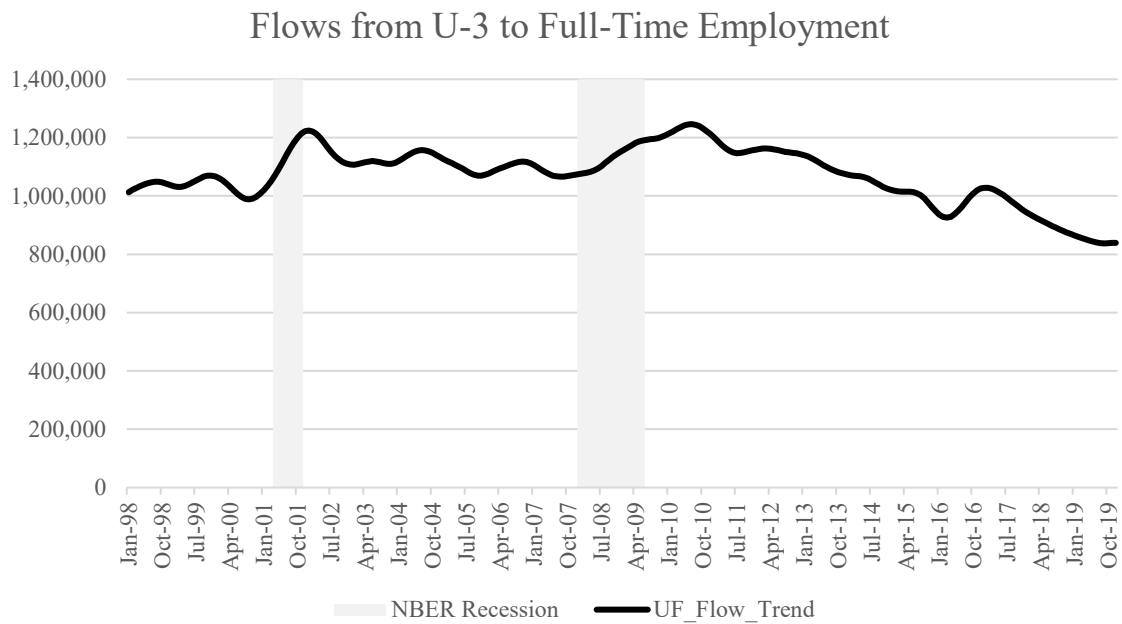


Figure 4 Flow from U-3 to Full-Time Employment (source: Author’s calculations from CPS data, extracted through IPUMS)

We can then use these data series to interrogate the validity of using the U-3 stock as a measure of labor market conditions.

Figure 5 compares the number of unemployed people over time to the number of people flowing from U-3 to a state of employment (meaning they flowed to one of the three labor force statuses F, V, or I).

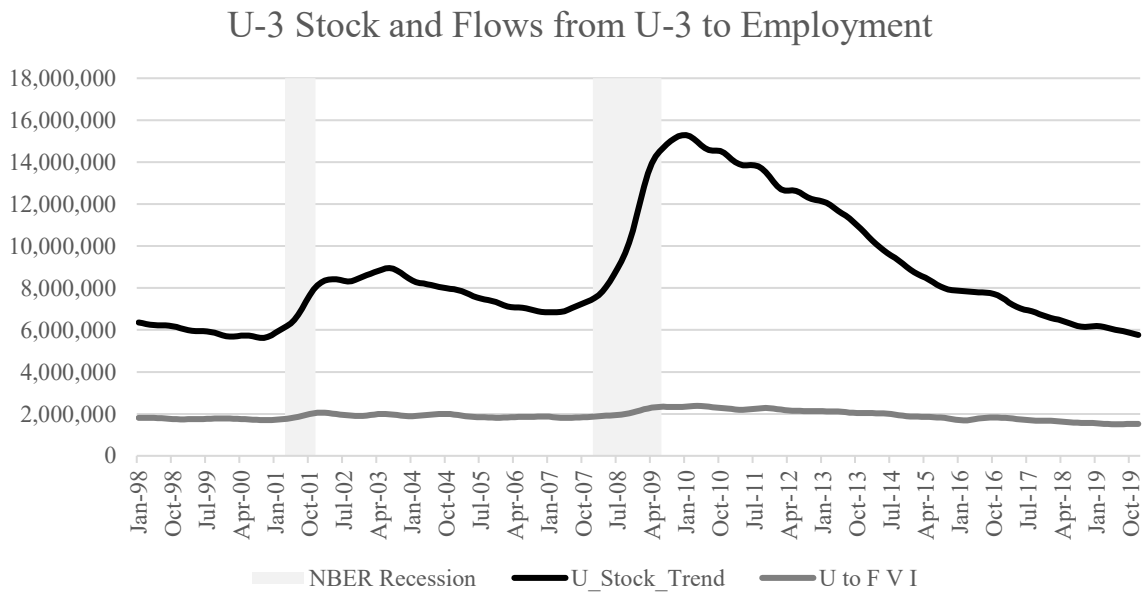


Figure 5 U-3 Stock and Flow from U-3 to Employment (source: Author’s calculations from CPS data, extracted through IPUMS)

In examining Figure 5 we can see that the number of people flowing to employment from 1998-2019 has been relatively constant, yet there have been large fluctuations in the level of unemployed people. Therefore, the changes in unemployment are more than just a function of people being hired and fired. This debunks that first assumption of empirical Phillips curve modelling, pointed out above, that changes in unemployment are solely the result of people being hired and fired, rather than, being reclassified out of the labor force.

Furthermore, standard Phillips curve models tend to only consider the U-3 when modelling the relationship, implying that the labor supply is made up of solely this category.

To test if those becoming employed are solely coming from the state of unemployment, we breakdown what percentages of the flows to employment are coming from all labor force statuses of non-employment:

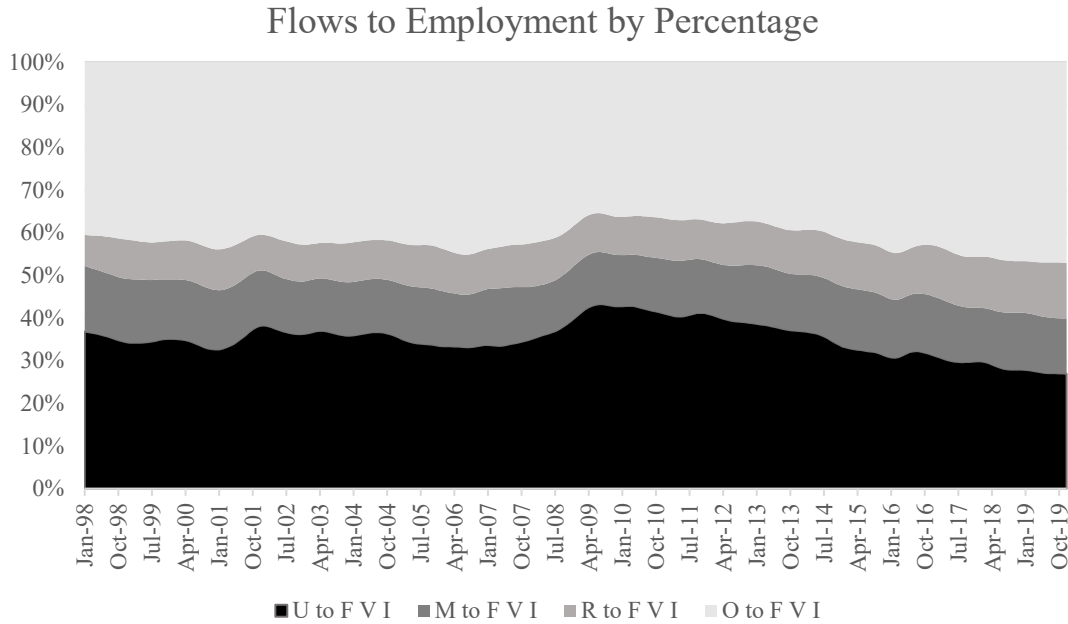


Figure 6 Percentage of Flow to Employment by Labor Force Statuses (Source: Author's calculations from CPS data, extracted through IPUMS)

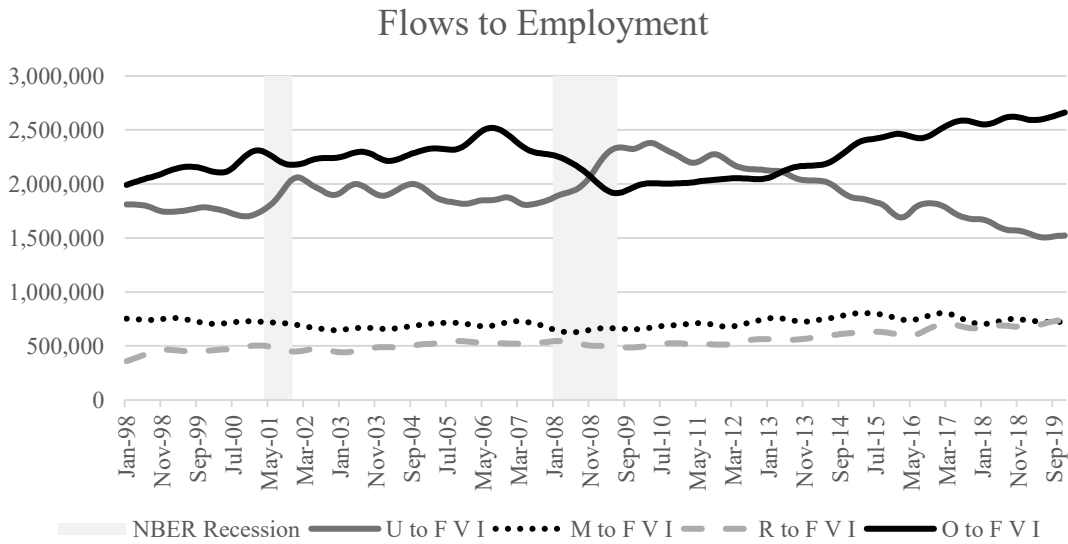


Figure 7 Flows to Employment by Labor Force Statuses (source: Author's calculations from CPS data, extracted through IPUMS)

Figure 6 demonstrates less than half of the people moving to a state of employment are being hired from the U-3 (Figure 7 shows the total number of flows by category). On average 60 percent of the flows to employment are coming from a labor force status other than the U-3, with the largest portion coming from the “other” category. Figure 8 breaks this down further, analyzing the flows to only full-time and voluntary part time employment, in other words, those not seeking more employment.

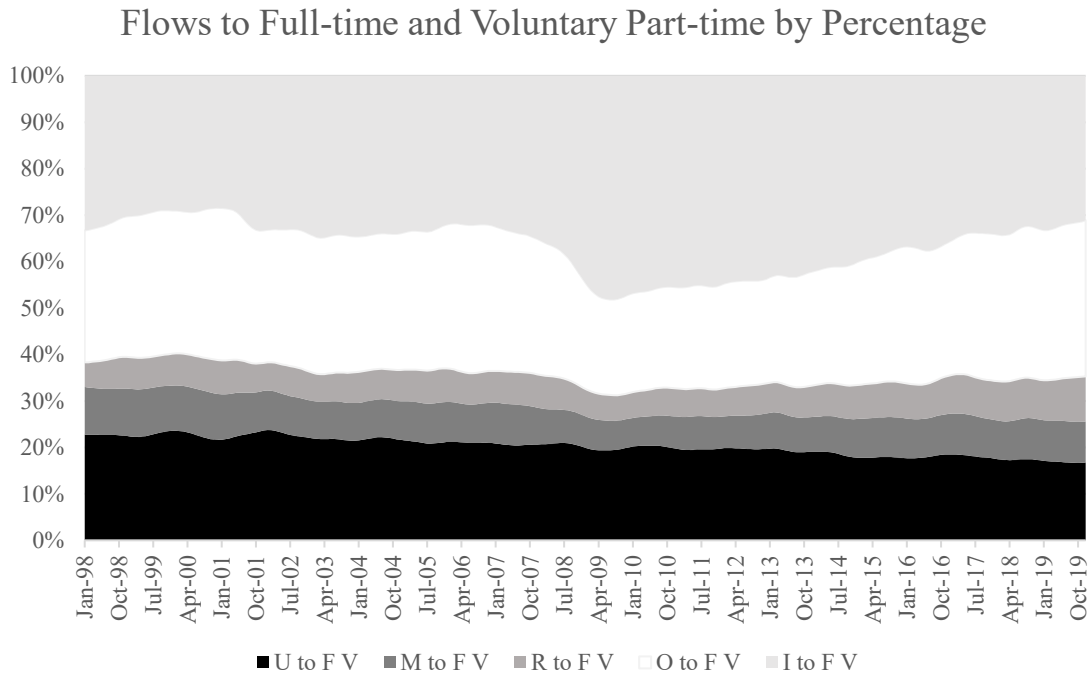


Figure 8 Flows to Full-Time and Voluntary Part-Time from U, R, M, O, and I by Percentage (Source: Author’s calculations from CPS data, extracted through IPUMS)

## Flows to Full-Time and Voluntary Part-Time Employment

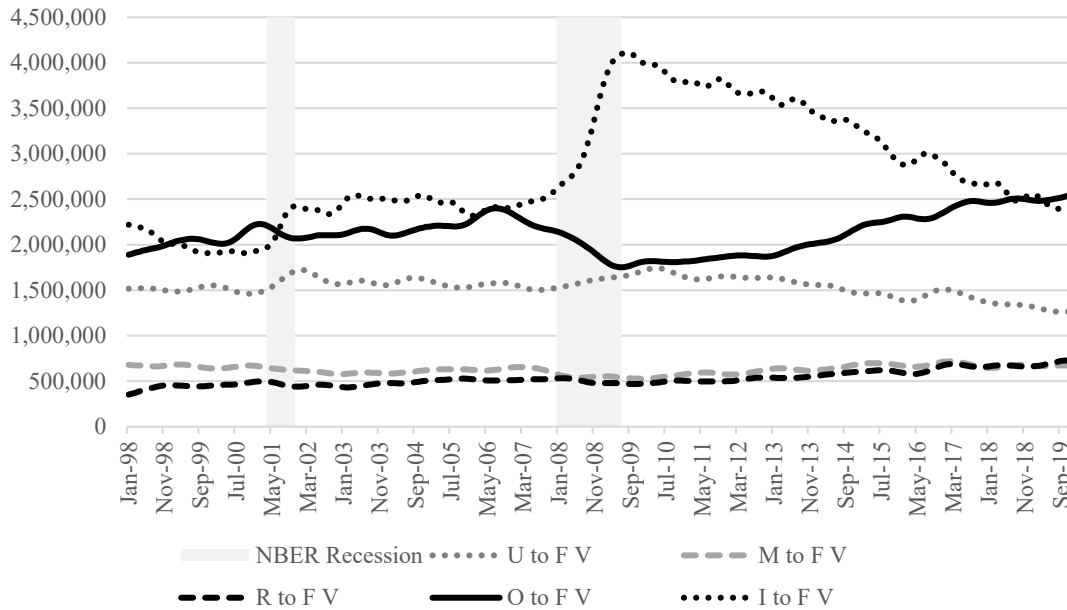


Figure 9 Flows to Full-Time and Voluntary Part-Time Employment (Source: Author's calculations from CPS data, extracted through IPUMS)

From figure 8 we can see that less than 25% those flowing to states of seeking no more employment come from the officially unemployed category (Figure 9 shows the total number of flows by category).

The statistical evidence above demonstrates two points. First, changes in the unemployment rate are not the sole result of those getting hired, in other words, positive changes in the number of officially unemployed cannot be assumed to imply excess supply in labor markets and negative changes in unemployment, cannot be assumed to imply excess demand. Therefore, future models, should not rely on changes in stock numbers and then make inferences about their meaning, but rather, use labor market transition rates to calculate the flows between labor force statuses, eliminating the need for inferences about differenced variables. Second, official unemployment is insufficient to capture the conditions of the labor market. As demonstrated in Figures 5 and 6, the majority of those flowing to a state of

employment each month are coming from a labor force status other than officially unemployed. Recognizing this, highlights the inadequacy of the assumption that the official unemployment rate is a good proximation of labor supply. These insights must be incorporated into empirical investigations of the Phillips Curve.

Beyond their superiority in overcoming the problematic assumptions above, these labor underutilization measures allow us to be more consistent with our understanding of the labor market, specifically as segmented. The segmented character of the labor market was highlighted by Doeringer and Piore (1971) and elaborated on by Gordon, Edwards, and Reich (1982), arguing there is a primary and secondary labor market. The primary market is shielded from the vicissitudes of labor market fluctuations whereas the secondary labor market is determined by them. Therefore, different segments could be drawing on different labor force statuses associated with seeking more work, such as, involuntary part-time, officially unemployed, want-a-job, and other. The primary market will draw from involuntary part-time and officially unemployed. The secondary market will draw on officially unemployed and those categories associated with not being part of the labor force. Therefore, by breaking down, and refining the traditional BLS labor force statuses (employed, unemployed, and not in the labor force) we are able to account for the heterogeneity of labor market segments, accounting for how under different labor market conditions different segments of the labor market will be drawing on different labor force statuses.

When labor markets are at their slackest, they will be primarily hiring from the involuntary part-time category and officially unemployed. As labor markets tighten we see a rise in the number flowing to employment from categories associated with not in the labor



force, specifically the “other” category. Looking at Figure 9 above, we see that flows to full-time and voluntary part-time employment from involuntary part-time is highest immediately following an economic recession, this is most apparent following the 2008 financial crisis. Moreover, we see that flows to full-time and voluntary part-time employment is highest, immediately before economic recessions or in times when the labor market is thought to be at its tightest. In other words, the labor market flows are consistent with economic theory.

### **An Alternative Model**

Mitchel and Muysken (2008), create and estimate a Phillips curve model informed from a segmented labor market perspective. In doing so they use multiple labor force statuses beyond the traditional categories, however, they are still relying on stock labor underutilization measures. Their work is more refined, insofar as it creates a model more consistent with the theory of segmented labor markets, but still runs into the problems, elucidated above, by solely rely on stock numbers they must infer the implications of positive or negative changes in those stocks. This article follows their methodology, but rather than making inferences about what is causing the positive or negative changes in these stock numbers, flows are used from heterogenous labor force categories.

To incorporate these insights the following Phillips curve models will be estimated using different compositions of labor market flows as the proxy of labor utilization, while comparing those results to the traditional model, estimated using the U-3 as its sole labor underutilization measures. The models will be estimated following the model explicated by Mitchel and Muysken (2008). The model is an autoregressive distributed lag Phillips curve model represented as:

$$\dot{p}_t = \alpha + \sum_{i=1}^n \delta_i \dot{p}_{t-i} + \sum_{i=0}^m \beta_i u_{t-i} + \sum_{i=0}^q \gamma_i z_{t-i} + \varepsilon_t$$

Where  $\dot{p}_t$  is the rate of inflation,  $u$  is the vector of labor underutilization measures,  $z$  is the vector of cost shock variables, and  $\varepsilon$  is the error term. Inflation is calculated using the consumer price index. The variables used to control for cost shocks are the import price inflation and the effective federal funds rate. A combination of labor underutilizations will be used. The variables, label, calculations/units, and sources are listed in Table 2:

Table 2 Regression Variables, Labels, Calculations, and Sources

<b>Variable</b>	<b>Label</b>	<b>Calculation</b>	<b>Source</b>
Inflation Rate	Inf	Annualized percentage change in Consumer Price Index (Units: Percent)	US Bureau of Labor Statistics
Import Price Inflation	IPI	Annualized percentage change in Import Price Index (Units: Percent)	US Bureau of Labor Statistics
Effective Federal Funds Rate	FFR	(Units: Percent)	US Bureau of Labor Statistics
Official Unemployment Rate	UR	(Units: Percent)	US Bureau of Labor Statistics
BLS flows from Unemployed to Employment	BLS_U_E	(Units: Thousand)	US Bureau of Labor Statistics
BLS flows from Not-in-Labor Force to Employment	BLS_N_E	(Units: Thousands)	US Bureau of Labor Statistics
Flow from Unemployed to Full-Time and Voluntary Part-Time employment	U_FV	Author's calculation (Units: Thousands)	CPS data retrieved through IPUMS
Flow from Involuntary Part-Time to Full-Time and Voluntary Part-Time employment	I_FV	Author's calculation (Units: Thousands)	CPS data retrieved through IPUMS
Flow from Other to Full-Time and Voluntary Part-Time employment	O_FV	Author's calculation (Units: Thousands)	CPS data retrieved through IPUMS

The data is quarterly and seasonally adjusted, spanning from first quarter in 1998 to the last quarter of 2018<sup>46</sup>, yielding 20 years of data and 80 observations for each variable. Five models are estimated using the autoregressive distributed lag model. The number of lags used for each variable is informed by economic theory, understanding that changes in cost and labor market conditions will take time to translate into changes in prices (if there exist an empirical link); therefore, four lags are included for each variable in the regression, additional lags are included for those variables whereby a partial autocorrelation function shows statistical significance at that lag, in an effort to eliminate serial correlation. All variables used in the regression are stationary and I(1). In other words, all variables are first difference, to ensure stationarity. Each model is cointegrated, their residuals are stationary I(0), meaning we can use these I(1) variables in a regression together without fear of spurious correlations.

Five models are estimated, all models will include lags of the dependent variable, import price inflation, and effective federal funds rate. The coefficients from the control variables, adjusted  $R^2$ , results from tests for heteroskedasticity, and results from serial correlation tests can be found in Table 3. Each model uses a different combination of labor underutilization measure/s. Model 1 is a traditional Phillips curve model, using the official unemployment rate. Model 2 will utilize flows to employment from the officially unemployed category to employment. Model 3 will utilize both flows to employment from officially unemployed, and flows to employment from not in the labor force. Model 4 utilizes flows to a state of not seeking more employment (labor force status V or F) from officially unemployed, involuntary part-time, and other. Model 5 is the same as Model 4, but

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<sup>46</sup> This time period is chosen due to the consistency of sampling methodology over this period.

drops the flows from officially unemployed. The coefficients associated with different specifications, by labor underutilization measures can be found in Table 4 (results for the control variables are in Table 3).

Table 3 Phillips Curve Regressions: Control Variables, 1998:1-2018:4 (Notes: BP Test displays the p-value from a Breusch-Pagan test for heteroskedasticity. SC(4) displays the p-value from a LM test for serial correlation up to order four. P-value of .10 represented by \*, p-value of .05 as \*\*, and a p-value of .01 as \*\*\*)

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
<b>Constant</b>	0.003096	-0.003647	1.742290*	4.074170**	1.147630**
<b>Inf<sub>t-1</sub></b>	-0.021485	-0.026800	0.046717	0.027816	0.044665
<b>Inf<sub>t-2</sub></b>	-0.273326**	-0.347163***	-0.421667***	-0.455953***	-0.464771***
<b>Inf<sub>t-3</sub></b>	0.105052	0.215116	0.199326	0.276681**	0.249123*
<b>Inf<sub>t-4</sub></b>	-0.574875***	-0.594053***	-0.496483***	-0.458608***	-0.526584***
<b>Inf<sub>t-5</sub></b>	0.110553	0.156201	0.160118	0.170502	0.076695
<b>Inf<sub>t-8</sub></b>	-0.516252***	-0.545494***	-0.504683***	-0.491309***	-0.468364***
<b>FFR</b>	0.004745	0.066586	0.159013	0.210485*	0.146001
<b>FFR<sub>t-1</sub></b>	-0.056393	-0.207727	-0.241826	-0.231610	-0.265555*
<b>FFR<sub>t-2</sub></b>	0.146201	0.162768	0.149664	0.036207	0.103349
<b>FFR<sub>t-3</sub></b>	-0.120947	-0.013692	-0.027514	0.040619	0.133223
<b>FFR<sub>t-4</sub></b>	0.231734*	0.129580	0.176092	0.164122	0.153259
<b>IPI</b>	0.183666***	0.172651***	0.179105***	0.171142***	0.167897***
<b>IPI<sub>t-1</sub></b>	-0.009755	-0.012614	-0.035105	-0.034644	-0.040613
<b>IPI<sub>t-2</sub></b>	0.045899	0.073399**	0.089798***	0.096315***	0.095052***
<b>IPI<sub>t-3</sub></b>	0.001651	-0.030191	-0.025095	-0.037791	-0.040306
<b>IPI<sub>t-4</sub></b>	0.089412***	0.096269***	0.076619**	0.063400**	0.071617**
<b>IPI<sub>t-5</sub></b>	0.002146	-0.008924	-0.011169	-0.009596	0.009271
<b>IPI<sub>t-8</sub></b>	0.089234***	0.090213***	0.083338***	0.077915***	0.076479***
<b>Adjusted R<sup>2</sup></b>	0.906692	0.906607	0.907669	0.929107	0.920209
<b>BP Test</b>	0.195500	0.091394	0.234499	0.335062	0.173117
<b>SC(4)</b>	0.768118	0.947841	0.979367	0.097576	0.282512

Table 4 Phillips Curve Regressions: Alternative Labor Underutilization Measures, 1998:1-2018:4 (Notes: P-value of .10 represented by \*, p-value of .05 as \*\*, and a p-value of .01 as \*\*\*)

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
UR	0.298876				
UR <sub>t-1</sub>	-0.379921*				
UR <sub>t-2</sub>	0.0346871				
UR <sub>t-3</sub>	-0.040520				
UR <sub>t-4</sub>	-0.065220				
UR <sub>t-5</sub>	-0.004539				
UR <sub>t-8</sub>	-0.125772				
BLS_U_E		-0.000356	-0.000460		
BLS_U_E <sub>t-1</sub>		-0.000781*	-0.000592		
BLS_U_E <sub>t-2</sub>		-0.000319	0.000227		
BLS_U_E <sub>t-3</sub>		-0.000669	-0.000132		
BLS_U_E <sub>t-4</sub>		-0.000521	0.000519		
BLS_U_E <sub>t-8</sub>		-0.000550	0.000118		
BLS_N_E			-0.000323		
BLS_N_E <sub>t-1</sub>			0.000495*		
BLS_N_E <sub>t-2</sub>			-0.000580*		
BLS_N_E <sub>t-3</sub>			0.000409		
BLS_N_E <sub>t-4</sub>			-0.000278		
U_VF				-0.000518	
U_VF <sub>t-1</sub>				-0.001167**	
U_VF <sub>t-2</sub>				-0.000003	
U_VF <sub>t-3</sub>				0.000050	
U_VF <sub>t-4</sub>				0.000085	
U_VF <sub>t-5</sub>				0.000554	
O_VF				-0.000450	-0.000191
O_VF <sub>t-1</sub>				0.000070	0.000042
O_VF <sub>t-2</sub>				-0.000660	-0.000700*
O_VF <sub>t-3</sub>				-0.000582	-0.000402
O_VF <sub>t-4</sub>				0.000672	0.000861**
I_VF				0.000161	0.000224
I_VF <sub>t-1</sub>				-0.001027***	-0.001144***
I_VF <sub>t-2</sub>				0.000642*	0.000554
I_VF <sub>t-3</sub>				-0.000235	-0.000238
I_VF <sub>t-4</sub>				0.000290	0.000503**

All models estimated have an adjusted  $R^2$  greater than .9, no evidence of heteroskedasticity, and no evidence of serial correlation, controlling for four lags.

Coefficients on lagged change in inflation are statistically significant at lags two, four, and eight; with all coefficients being negative. This result is contrary to the expected positive correlation, assuming there is an inertia to price movements. Coefficients on the change in effective federal funds rate are not statistically different from zero at a p-value of 0.05.

Coefficients on change in import price inflation are statistically significant at lags zero, four, and eight for all models and at lag two for models 2-5, all with a positive correlation, as expected.

The coefficients associated with different labor underutilization measures, with regards to each specification are either not statistically different from zero at a p-value of 0.05, and when statistically significant are of such a small magnitude, will have little effect on change in inflation. Models 1-3 have no coefficients statistically different from zero at a p-value of 0.05. Model 4 has statistically significant coefficients associated with  $U_VF_{t-1}$  and  $I_FV_{t-1}$ , both with a negative correlation. These negative correlations are expected, recognizing that hiring out of the officially unemployed category and involuntary part-time category are expected to be at their highest when labor markets are most slack, immediately following a recession. However, the magnitudes are so small, change in these variables is likely to have little to no effect on change in price levels. Finally, Model 5 has statistically significant coefficients associated with  $O_FV_{t-2}$ ,  $I_VF_{t-1}$ , and  $I_FV_{t-4}$ , with a positive coefficient, negative coefficient, and positive coefficient, respectively. It is expected that transitions from other to full-time and voluntary part-time employment would be highest when labor markets are at their tightest, and thus there would be a positive correlation. Again, a negative coefficient on the flow from involuntary part-time to full-time and voluntary-part time employment is expected. Moreover, the positive coefficient on the

longer lag of this variable is also expected, as we move further away in time from a period of hiring out of involuntary-part time, we would expect a tighter labor market. However, the magnitudes are so close to zero that any effects on change in inflation is negligible.

In sum, the results of the estimations of each of the models are as expected. In other words, in a time in the US where working-class power has decreased significantly, due to a number of changing institutional factors, it is expected that workers would be unlikely to translate changing labor market conditions into wage gains, which could then lead to a general rise in the price level. The results reinforce this conclusion, given that the majority of coefficients associated with the different labor underutilization measures are not statistically different from zero, and when they are, the magnitude is so small that any change in labor market conditions captured by these variables is likely to have a negligible effect on change in prices. This finding is consistent with a “flattening” of the Phillips curve.

### **Limitations**

However, even the models estimated above, utilizing more refined labor underutilization measures, have problems associated with all Phillips curve model. First, as highlighted above, there are limitations to these macroeconomic variables in capturing changes in workers’ bargaining power, insofar as there are factors beyond labor market conditions impacting workers bargaining power, as highlighted by Powell (2020). Moreover, some factors affecting bargaining power, such as changing labor processes cannot be quantified and incorporated into quantitative time-series analysis. Second, these models are still constructed on biased implicit assumptions laid out above, and by continuing to estimate these models, we are reifying these assumptions, reinforcing the doxic character of the Phillips curve.

Moving forward, if undertaking such time-series analysis, it would be better to estimate wage curves (change in wages as a function of changes in labor market conditions)<sup>47</sup>. In doing so, more explicit questions of the relationship between changes in labor market conditions and wage gains could be articulated, without making an implicit assumption that changes in wages inevitably translate in changes in price level. If there is no relationship between changes in labor market conditions and wage gains, then there is no point in estimating a Phillips curve, which implicitly assumes this link. It is time to be more reflexive and move away from the Phillips curve model, as the first model invoked in discussions around the causes of inflation.

### **Conclusion**

Recognizing the Phillips curve as doxic, this article applies the method of reflexivity to this model. In doing so, it explicates the biased implicit assumptions within the theoretical logic of the model, pointing to the model's most significant problem, its assumption that inflation has a unitary origin: wage increases. The implicit biases in empirically modelling the Phillips curve are also laid out. By developing and utilizing labor market transition rates and flows as alternative labor underutilization measures, the limitations of the official unemployment rate as a proxy for labor market conditions are highlighted. Rather than making inferences about the implications of changes in stock numbers, this article has shown how we can use transition rates and ultimately labor market flows as a more accurate proxy for labor market conditions. Moreover, by expanding the three labor force status categories put forth by the BLS, heterogeneity in labor market conditions is accounted for, which is more consistent with a theory of segmented labor markets.

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<sup>47</sup> See Blanchflower (1996) for an extensive discussion of wage curves.



These alternative labor underutilization measures were then used to estimate five different Phillips curve specifications, all finding little to no relationship between changes in labor market conditions and changes in price level from 1998-2018. This evidence is as expected given the changing institutional structure and associated power relations between capital and labor in the US, as well is consistent with the findings in the literature. Even when estimating the models above there are still limitations, insofar as we are not accounting for factors beyond changing labor market conditions which affect workers' bargaining power, as well as reifying the biased implicit assumptions of this doxic model. It is time to ditch the Phillips curve, and rather estimate wage curves first, and only then consider if a Phillips curve model is appropriate. Given the performative nature of economic knowledge and the models contained within, reflexivity must never end, always seeking to take the familiar and make it strange to ensure realism in analysis.

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## CHAPTER 3

### PROGRESSIVE PATH-DEPENDENCY?

#### **Abstract**

Path-dependency is typically associated with a “lock-in” which is suboptimal. The sub-optimality of this “lock-in” is often attributed to a degree of ceremonial encapsulation, eroding instrumentality, whereby network effects, technical and/or behavioral, create a state of irreversibility. However, all new ideas and technologies are ceremonially encapsulated to a degree, as they are socially embedded. Yet when the term path-dependency is invoked, it often has a negative connotation, implying only a purely instrumental outcome with no ceremonial encapsulation as the objective. This implies ceremonial habits of thought are merely there to be overcome. Yet ceremonial habits of thought are ever-present. This article, therefore, theorizes progressive institutional adjustment by considering how we can account for ceremonial habits of thought as more than a barrier, but also something to be utilized to achieve implementation. By using rhetoric as a tool, we can play into ceremonial habits of thought, weaving policy through the ceremonial net to implementation, where its instrumentality can be revealed, and a lock-in can form, as constituents become accustomed to the material benefits provided. It is here where a progressive path-dependency is formed.

Keywords: Path-Dependency, Progressive Institutional Change, Ceremonial Encapsulation, Instrumental Policy, Rhetoric, Reification, Legitimation

JEL codes: B50, E61, H50, I38, O20, Z10

*Behavior norms should not be condemned to the outer darkness because they are eternally more or less obsolescent. Behavior norms are necessary if we are to have some degree of order and predictability in society instead of chaos...It is not useful categorically to*

*stigmatize all institutions and their associated behavior norms as merely ceremonial, imbecile, useless, and bad, and to conclude that they should be abolished.*

*(Gordon 1984, 370)*

## **Introduction**

Path-dependency is typically associated with a “lock-in” which is suboptimal. The sub-optimality of this “lock-in” is attributed, in economic theory, to a degree of ceremonial encapsulation, eroding instrumentality, whereby network effects, technical and/or behavioral, create a state of irreversibility. However, all new ideas and technologies are ceremonially encapsulated to a degree as they are socially embedded. Yet when the term path-dependency is invoked, it often has a negative connotation implying only a purely instrumental outcome with no ceremonial encapsulation as the objective.

The pursuit of instrumental value in society through institutional adjustment stems from those following in the work of Clarence Ayres, specifically John Fagg Foster, Marc Tool, and Paul Dale Bush. The pursuit of progressive economic policy directed toward increasing instrumentality led Wendell Gordon (1984) and Anne Mayhew (1987; 2001) to push back on this research program, reasserting the need for the role of culture in the analysis beyond simply viewing all ceremonial institutions as “imbecile”. These concerns have been taken up and countered in the literature (See: Bush 1989, 1994; Stanfield 1992); however, this debate is still unsettled.

This article acts as an initial step in building a bridge between these two camps within original institutional economics, theorizing how we can pursue progressive economic policy while still systematically accounting for the role of culture and ceremonial institutions beyond seeing them as simply “imbecile” or something to be overcome. In doing so, this

article begins by highlighting how path-dependencies should not be seen as special circumstances, but aspects of the larger process of cumulative causation, divorcing it of a positive or negative connotation. This facilitates recognition that all change is ceremonially embedded to a degree and must be to be consistent with the principle of minimal dislocation.

After recognizing this, the implications are considered on implementing progressive economic policy. To account for culture and ceremonial habits of thought systematically, it is argued that institutionalist economists should not be primarily concerned with trying to change ceremonial habits of thought to instrumental habits of thought to get policy implemented, as this is likely to cause cognitive dissonance and no change; rather, the goal needs to be to account for these habits of thought and use the rhetoric of rights and reciprocity to weave economic policy through the ceremonial net to implementation. After achieving implementation, the instrumentality of the policy will begin to reveal itself through its material effects, whereby the ceremonial behaviors and habits of thought begin to be replaced by instrument behaviors and habits of thought. This revealed instrumentality and the shift in value structure can then create a behavioral lock-in whereby undoing said economic policy will become difficult. This is a state of progressive path-dependency.

The article is organized as follows, the first section lays out Paul David's (1985) definition of path-dependency while couching it into the original institutionalist approach, specifically, by placing it in relation to the process of cumulative causation. By couching it in the larger evolutionary process, the concept of path-dependency becomes destigmatized, as well as the ceremonial encapsulation involved. The next section considers the implications of these insights on implementing progressive economic policy, arguing we need to avoid invoking cognitive dissonance and utilize rhetoric to weave policy through the

ceremonial net to implementation. The article concludes by discussing revealed instrumentality and its ability to create a progressive path-dependency.

### **Path-Dependency, Cumulative Causation, and Ceremonial Encapsulation**

The concept of path-dependency is often associated with David's article, "Clio and the Economics of QWERTY". Analyzing the QWERTY keyboard and its origins, David (1985) highlighted the historical contingencies that led to why we use this keyboard configuration as opposed to other keyboard arrangements deemed more efficient, such as the Dvorak Simplified Keyboard (DSK). David's (1985) contribution lies in demonstrating that history and its contingencies matter, overriding profit maximization and efficiency maximization tendencies associated with the market by orthodox economics, leading to outcomes orthodox models cannot explain.

In defining path-dependency, David states, "A *path-dependent* sequence of economic changes is one of which important influences upon the eventual outcome can be exerted by temporally remote events, including happenings dominated by chance elements rather than systematic forces" (1985, 332); highlighting that our behavior is, "...held fast in the grip of events long forgotten and shaped by circumstances in which neither they nor their interests figured" (David 1985, 333). These contingencies set us on a path of action we become locked into due to three factors, "...*technical interrelatedness, economies of scale, and quasi-irreversibility of investment*" (David 1985, 334). David emphasizes technological and pecuniary incentives animating this path-dependency, while also highlighting, in the latter part of the paper, the role of "irreversibility due to learning and habituation," where he does give brief reference to Thorstein Veblen.



Now these concepts are not new to original institutionalists, however, our focus tends to be more on “irreversibility due to learning and habituation”<sup>48</sup>. Original institutionalists recognize, “all aspects of any socioeconomic system are subject to a process of cumulative and path-dependent change that results from changes in technology and from the socioeconomic conflict that changes in technology cause” (Mayhew 2018, 6). All institutions<sup>49</sup>, with staying power, take the form of path-dependencies in the process of cumulative causation. As Veblen states:

The growth of culture is a cumulative sequence of habituation, and the ways and means of it are the habitual response of human nature to exigencies that vary incontinently, cumulatively, but with something of a consistent sequence in the cumulative variations that so go forward—incontinently, because each new move creates a new situation which induces a further new variation in the habitual manner of response; cumulatively, because each new situation is a variation of what has gone before it and embodies as causal factors all that has been effected by what went before; consistently, because the underlying traits of human nature (propensities, aptitudes, and what not) by force of which the response takes place, and on the ground of which the habituation takes effect, remain substantially unchanged. (1909, 628)

As habit creatures, phenomena that influence behavior forming a habit will have staying power due to the nature of habituation. Habits can be seen as a number of path-dependencies forming a constellation which animates action. Cumulative causation is typically used as a broader term, sometimes separate from path-dependency, however, cumulative causation in the broadest sense is an interlocking of many path-dependencies<sup>50</sup>.

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<sup>48</sup> Revisiting David’s (1985) article, Barnes, Gartland, and Stack (2004) and Hall, Lacasa, and Günther (2011) analyze the phenomenon through an institutionalist lens, arguing the focus needs to be on the habitual factors, while elucidating how an institutionalist lens provides a more comprehensive understanding.

<sup>49</sup> The definition of institutions this paper is using is Veblen’s, defining them as, “settled habits of thought common to the generality of men” (1909, 626).

<sup>50</sup> The line between cumulative causation and path-dependency is unclear in the literature. Sometimes they are used interchangeably, sometimes path-dependencies are characterized, implicitly, as a subset of cumulative causation, sometimes path-dependency is used more when discussing the introduction of technologies and the contingencies that affect the chosen technologies, but not associated with societal institutions themselves. There is not space here, but there is a need to clearly elucidate the relation of these two concepts in institutional thought.

It is our goal to study this process, as Veblen stated, "...evolutionary economics must be the theory of a process of cultural growth as determined by the economic interest, a theory of a cumulative sequence of economic institutions stated in terms of the process itself...to trace the cumulative working out of the economic interest in the cultural sequence" (Veblen 1898, 393-394). Given this is our goal, it is interesting that when the term path-dependency is invoked it often has a negative connotation, due to the sub-optimality implied. This sub-optimality, is attributed to a degree of ceremonial encapsulation, eroding instrumentality, whereby network effects, technical and/or behavioral, create a state of irreversibility. However, all new ideas and technologies have a degree of ceremonial encapsulation due to all phenomena being socially embedded.

The association of path-dependency with a degree of sub-optimality seems to too strong of a criterion to deem a change sub-optimal or not progressive. The definition of progressive institutional change is often attributed to Tool, as change that facilitates, "...the continuity of human life and the noninvidious re-creation of community through the instrumental use of knowledge" (1979, 293). The use of the word *continuity* in this quote harkens back to the work of Foster's principles of institutional adjustment, specifically the third principle of minimal dislocation. Minimal dislocation for Foster meant that, "All institutional modifications must be capable of being incorporated into the remainder of the institutional structure," which implies both ceremonial and instrumental aspects of the institutional structure (1981, 933).

There are two factors of the principle of minimal dislocation. The first regards unintended consequences, trying to minimize new changes from undoing already instrumental institutions; adjustments, in Foster's words, "...must do no violence to the

factors not considered problematic” (1981, 934). The second recognizes that given we are habit creatures, we cannot do what we do not know how to do, thus revolution is ontologically inconsistent with an evolutionary ontology. This means we have to be able to incorporate new changes into existing habits of thought, as Mayhew states, “There is no way to ‘wipe the slate clean’ and start again with completely new institutions” (2018, 7). In other words, we must account for current habits of thought in creating change.

From this perspective ceremonial encapsulation is inevitable. If we adhere to the principles of institutional adjustment, specifically the principle of minimal dislocation, in attempting progressive institutional change, then there must be a degree of ceremonial encapsulation, whereby the change is incorporated into current habits of thought. However, this does not mean progressive institutional change is not feasible. As Bush argues, “Institutional change takes the form of a change in the value structure of the institution. A change in the value structure may be measured theoretically by a change in the institution’s index of ceremonial dominance” (1987, 1099). Therefore, the goal is to mitigate the degree of ceremonial dominance. The lessening of the degree of ceremonial dominance is what Bush identifies as progressive, stating, “Progressive institutional change occurs when, *for a given fund of knowledge*, ceremonial patterns of behavior are displaced by instrumental patterns of behavior” (1987, 1101).

The path-dependency literature focuses on new technologies and the contingencies that influence their implementation. Institutionalists focus on how these new technologies affect the value structure, advocating and laying out the process whereby these new introductions can lead to progressive change. Bush lays out two phases to institutional change: the first phase does not lead to a change in value structure, but regards the

introduction of the new technology; the second phase is when the change in value structure begins, and increasing instrumentality requires that the value structure change, whereby ceremonial behaviors are replaced by instrumental behaviors, thus decreasing the index of ceremonial dominance, however, the index of ceremonial dominance at the time of implementation will influence how progressive the change can be (1994, 652).

What does this mean when thinking about progressive economic policy? Policy is different from technology insofar as, it requires majoritarian support in a democratic institutional context for implementation, and it requires a degree of legitimation for that policy to avoid being overturned in the next political cycle. Technologies, do not necessarily run up against these constraints, as there is no votes before technological advancements are made, and once invented, they do not require legitimation to exist, they just do. Therefore, phase one of institutional change for progressive policy requires a mitigation of the index of ceremonial dominance along with a garnering of majoritarian support if the policy is going to be implemented through non-authoritarian means. This leads many to think that the first step toward progressive institutional change is to undo the ceremonial habits of thought, thereby revealing the instrumentality to the majority, which will then lead to implementation.

### **Weaving the Ceremonial Net: The Use of Rhetoric**

However, when thinking about progressive economic policy we do not need to start by trying to change habits of thoughts, replacing ceremonial with instrumental<sup>51</sup>. Once we recognize all change is ceremonially encapsulated to a degree, and pure-instrumentality, a state of no ceremonial encapsulation, is too strong of a criterion and not realistic, then we must consider how we can co-opt ceremonial habits of thought to facilitate progressive institutional change,

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<sup>51</sup> This does not mean we should not continually try to replace ceremonial habits of thought with instrumental, if I believed this I would not be an educator, however, when advocating policy, we should not start here.

while adhering to Foster's principles of institutional adjustment, specifically, the principle of minimal dislocation. The goal is to use rhetoric to move ideas which are instrumentally feasible and ceremonially non-feasible, to ceremonially feasible.

Now one might counter this by arguing the first barrier to progressive institutional change is vested interest, but as Bush points out, "of equal importance is the resistance of the community at large to changes in habitual modes of thought and behavior" (1989, 456). By accounting for the communities' habits of thought first, we can garner grass roots support, which is the ultimate tool against vested interest in a democratic context.

Again, the goal of progressive economic policy should be those that provide for, "...the continuity of human life and the noninvidious re-creation of community through the instrumental use of knowledge," which will ultimately lead to the replacing of ceremonial behaviors with instrumental behaviors. To do this we have get the policy implemented. Therefore, we should not start by trying to change current habits of thought, ceremonial or instrumental, rather we need to think about how we can co-opt the current habits of thought in implementing change<sup>52</sup>.

If our first goal is to change habits of thought before policy is implemented then we would be violating Foster's principle of minimal dislocation. A key aspect of the second factor of minimal dislocation, implies that in attempting to shape and create change we need to avoid cognitive dissonance. Cognitive dissonance occurs when the exposure of ceremonial habits of thoughts leads the holder of those thoughts, at an individual or institutional level, to double-down on those habits of thought. *Cognitive dissonance is the midwife of the status quo*. If we start by trying to undo habits of thought, or by attacking

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<sup>52</sup> As Gordon argued, "The problem is how to rework eternally obsolescent behavior norms so that they better serve society's needs" (1984, 380).

certain aspects of culture we are likely to generate cognitive dissonance from the onset. Moreover, to start here would be to not recognize the functionality of habits of thought, both ceremonial and instrumental.

It is human nature to create myth structures (ceremonial habits of thought) to rationalize the arbitrariness of our world<sup>53</sup>. As Claude Lévi-Strauss argues in his first chapter of, *The Savage Mind*, myth (ceremonial reasoning) and science (instrumental reasoning) are different in kind, but similar in function, both ordering the constellation of phenomena we experience each day (1966, 13). They help to mitigate the tyranny of arbitrariness we encounter, facilitating action. Habits of thought (both ceremonial and instrumental) form a constellation of beliefs, which provide us with a level of, “ontological security”<sup>54</sup> needed to undertake action and provision. In other words, there is an instrumentality to ceremonial habits of thought<sup>55</sup>. Thus, in attempting to change habits of thought, we must be careful not to evoke cognitive dissonance, a psychological protection mechanism meant to maintain our “ontological security”.

### Rhetoric: Political Mobilization and Legitimation

The goal for progressive economic policy, then, is three-fold: garner majoritarian support, facilitate legitimation for the policy to give it staying power, and decrease the index of

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<sup>53</sup> This is a time invariant aspect of human nature, the need to mitigate arbitrariness, as Pierre Bourdieu stated, “Every established order tends to produce (to very different degrees and with very different means) the naturalization of its own arbitrariness” (1977, 164). This naturalization is done through the formation of habits of thought, which are the foundation of the ontological and psychological security needed to undertake action.

<sup>54</sup> This term comes from Anthony Giddens’ (1990) text, *The Consequences of Modernity*, developed to describe how, in modernity, habits of thought are formed to maintain a level of ontological and psychological security necessary for undertaking action.

<sup>55</sup> This is not a new idea. One of the main arguments of Emile Durkheim’s (1995 [1912]) *Elementary Forms of Religious Life*, is that religion plays an instrumental role in facilitating the group connections needed to provision. Bush also highlights this point, when discussing the Trobriander’s Canoe building practices, specifically highlighting the legitimating role of ceremonial habits of thought and ensuring continuity to the practice which was instrumental (1987, 1085).

ceremonial dominance. Current habits of thought can be co-opted toward this end. By using rhetoric as a tool, we can weave through the ceremonial net, or as Bush put it, “slip through the ceremonial net” (1987, 1093). Instrumentality is lost when changes are instrumentally feasible, but ceremonially non-feasible. We can use rhetoric as a tool to move those possible policies from ceremonially non-feasible to ceremonially feasible<sup>56</sup>.

Rhetoric can be used to create majoritarian support, by reframing policies in a way that play into people’s current habits of thought. For policy to be implemented, we need tools for political mobilization, a space that has been under theorized in the institutionalist literature (Brown 1992, 15). Rhetoric can be this tool, specifically the rhetoric of rights and reciprocity. As Douglas Brown argues, rights discourse is the terrain of modern democratic politics, while recognizing the ceremonial underpinnings of this terrain (1992, 25). Even given their ceremonial underpinnings, we can use this discourse people are pre-reflexively wedded to, and thus predisposed to be sympathetic to, in an effort to promote rights of equal participation while “subordinating corporate profit-rights” (Brown 1992, 27). By meeting people through rhetoric on the field of discourse they are predisposed to, we have a higher probability of getting them to support a policy, rather than attacking their ceremonial habits of thought, likely to cause cognitive dissonance.

William Waller has made similar points on garnering support for instrumental policies by utilizing reciprocity rhetoric (1987; 1988;1989). Similar to Brown, Waller argues that people are wedded to the ceremonial idea of reciprocity, and often when they perceive a policy to be non-reciprocal, they are likely to withdraw support (1987, 777). Therefore, we can frame policies, highlighting their reciprocal nature through reciprocity rhetoric. For

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<sup>56</sup> This decreases the index of ceremonial dominance in the first instance. The second instance will come when instrumentality is revealed and instrumental behaviors begin to replace ceremonial behaviors.

example, a student in my class stated, “I didn’t need my stimulus check,” I responded with, “Sure, but the business you spent it at did”. This type of framing not only highlights the reciprocity embedded in the policy, but also facilitates a level of recognized interdependence, Foster’s second principle of institutional adjustment.

Rights and reciprocity rhetoric cannot only help to garner majoritarian support, while subverting cognitive dissonance, but can also help to create legitimacy for a policy. Legitimacy is necessary for any progressive economic policy, without it there is a threat said policy will be overturned in future political cycles. By couching policies, through the rhetoric of rights and reciprocity, within peoples’ habits of thought, there is a higher probability these policies will be seen as legitimate<sup>57</sup>. This is one of the instrumental aspects of ceremonial habits of thought, they are quintessential in the legitimation process, which is instrumental insofar as it facilitates continuity in human life. If we choose not to facilitate legitimacy for economic policies and divert to authoritarian means, then we are likely to have to continually resort to authoritarian means to keep that policy in place<sup>58</sup>.

By adhering to the ceremonial habits of thought, ceremonially encapsulating these policies, there is a loss of instrumentality<sup>59</sup>. For example, one of the concerns over welfare is the “welfare cheat”, a perceived violation of reciprocity, leading to large bureaucratic apparatuses searching for fraud that often does not exist (Waller 1987, 781). However, if we would not have adhered to these habits of thought would the policy have even been

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<sup>57</sup> Waller (1988) conducts specific case studies of agricultural subsidies and veteran affairs benefits to highlight the role of reciprocity in facilitating legitimacy for these policies.

<sup>58</sup> This is a major point of Brown (1992), specifically he addresses this in the context of Lenin style Vanguardism, arguing the use of authoritarian means, without garnering legitimacy, is likely to lead to a continual reliance on authoritarian means to keep the change in place, ultimately undermining democratic institutions.

<sup>59</sup> Waller highlights the role of ceremonial habits of thought in mitigating instrumental use of fiscal policy in a number of articles (1987; 1988; 1989; 2014; 2015).



implemented? Recall, lost instrumentality lies in the set of policies instrumentally feasible but ceremonially non-feasible. By utilizing the rhetoric of rights and reciprocity, we can begin to move policies from ceremonially non-feasible to feasible, thus garnering majoritarian support, creating a sense of legitimacy around the policy, while decreasing the set of lost instrumentality, and thus the index of ceremonial dominance.

### The Problem of Reification

One problem this approach must address is that of reification. In other words, does playing into current habits of thought, especially ceremonial habits of thought, lead to the reification of insidious institutions such as capitalism, patriarchy, and racism? For example, both Ann Jennings (1992) and Janice Peterson (1992) highlight the reification of patriarchy when governments have implemented welfare under paternalistic rhetoric. This is a real problem, however, there is no such thing as non-reifying action from an evolutionary ontology. All action is reifying to a degree, therefore, our goal must be to utilized habits of thought, such as rights and reciprocity discourse that can be used to facilitated instrumental policy, which leads to the, “noninvidious recreation of community” (Tool 1979, 293). The ultimate goal being to implement the policy to create space for the material benefits of that policy to reveal its instrumentality, leading to the replacement of ceremonial behavior with instrumental behavior over time.

### **Revealed Instrumentality: A Progressive Path-Dependency**

Once a policy does become implemented its instrumental and material benefits will begin to be realized. As the effects of the policy begin to be felt by the larger public, the instrumentality of the policy should be revealed. Then the support once animated by ceremonial habits of thought can be replaced by instrumental habits of thought. This is

consistent with Bush's phases of institutional adjustment: phase one, no change to value structure, using rhetoric to play into habits of thought; phase two, value structures begin to shift, whereby support once founded on ceremonial habits of thought is replaced by support on instrumental grounds.

The progressive economic policy, "changes the objective circumstance of the community; the new set of circumstance alter habits of thoughts and behavior, these habits of thought and behavior are projected into other areas of the community's experience, giving rise to further innovations..." (Bush 1987, 1102). This is a state of progressive path-dependency, where the new policy forms a behavioral lock-in over time, while developing expectations from constituents to maintain that material benefit. As William Barnes, Myles Gartland, and Martain Stack point out, quoting Paul Pierson, "institutions frequently provide incentives that encourage individuals to act in ways that lock in a particular path of policy development creating societal commitments that may be quite difficult to reverse" (2004, 373). Now this path may be sub-optimal as it is ceremonially encapsulated to a degree, but all innovations are ceremonially encapsulated, moreover, if this ceremonially encapsulation facilitates legitimation, this could be seen as an advantage. The key is that over time, as instrumentality is revealed, ceremonial behaviors and habits of thought become replaced by instrumental behaviors and habits of thought, which is the definition of progressive institutional change (see: Bush 1989).

In a contemporary context, a policy like the Affordable Care Act (ACA), and the material benefits it created, have been so difficult to reverse due to a progressive path-dependence. It has been eroded since its implementation; however, it is difficult to argue going back to where the United States was before its implementation would be more

instrumental for its citizens. Moreover, there has been a revealed instrumentality, facilitating a larger conversation about universal healthcare, not thought possible at the inception of the ACA<sup>60</sup>. When the next recession comes, will people expect and/or demand direct stimulus checks, due to how effective the policy was in propping up aggregate demand? If a job guarantee were implemented hiring all those unemployed, but ready, willing, and able to work, would politicians likely be able to overturn the policy leaving millions again unemployed? Can we play into current habits of thought to implement progressive policy which will become locked-in over time? This article argues yes on these fronts.

Now there may be a response that what has been argued is conservative or reformist, but it is not these arguments that are conservative, society is made up of both conservative and dynamic elements: we must account for both. We are habit creatures; change must be incremental and take time: this is an ontological fact. Given the state of reality, this article articulates a method of policy implementation, recognizing the real constraints of ceremonial habits of thought, rather than seeing them as something to be done away with. The alternative is to demand pure-instrumentality, revolution, abolition, all approaches likely to garner cognitive dissonance, thus yielding no change. A radical theory must yield change, as Marx said, “The philosophers have only interpreted the world, in various ways; the point, however is to change it” (1978 [1888], 145).

### **Conclusion**

This article has approached the idea of progressive institutional change through a policy lens with specific focus as to how we can account for and co-opt culture and ceremonial habits of

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<sup>60</sup> A Gallop poll asking the question, “Which of the following approaches for providing healthcare in the United States would you prefer—[ROTATED: a government-run healthcare system (or) a system based mostly on private health insurance]?, found support for a government-run healthcare system move from 35% in November 2010 to 42% in November 2020 (Gallup 2021).

thought through the use of rhetoric to garner majoritarian support and legitimacy for progressive economic policy. In doing so this article begins to bridge the gap between the Ayres-Foster-Tool-Bush camp of instrumental institutional change and the Gordon-Mayhew camp emphasizing the role of culture and ceremonial habits of thought, beyond just “imbecile” institutions to be overcome. Culture and ceremonial habits of thought are a real constraint to action, not to be seen as something to remove, but to be accounted for and adapted to. Culture and ceremonial habits of thought is what separates humans from the atomistic calculators of neoclassical economics and Aldous Huxley’s *Brave New World*. By accounting for culture and utilizing the rhetoric of rights and reciprocity, we are able to implement progressive economic policy, which will then be able to reveal its instrumentality, leading to the replacement of ceremonial behaviors and habits of thought with instrumental behaviors and habits of thought. Overtime constituents become wedded to these policies through their material benefits, mitigating the ability to undo these policies. This then becomes a state of progressive path-dependency<sup>61</sup>.

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<sup>61</sup> There is a temporality to this, which is beyond the scope of this paper, but worth addressing. From the pragmatic perspective any solutions to problems is likely to yield new problems, whereby the earlier solution is no longer “progressive”. Progressive is a context-dependent term, relative to the problem at hand. For example, reciprocity rhetoric was used in implementing and framing social security, however, as Wray (2002) has argued, we are starting to run up against the problems of this rhetoric when people believe the fund for social security is running out, which we know from a Modern Monetary Theory perspective, is not true. This will now need to be addressed by reframing the policy or developing a new policy to maintain the instrumentality social security provided.

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## VITA

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