

Title: The Operational Role of Functional Finance for Labor Market Behavior and Outcomes

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Abstract

The micro-macro compartmentalization of economics is especially limiting with respect to understanding labor market phenomena and behaviors. This paper suggests the usefulness of adopting a systems perspective that views the economy as being comprised of three major subsystems: the production subsystem, the anthropogenic subsystem, and the monetary-financial subsystem. Their relationships are readily visualized in terms of a Venn diagram in which the production subsystem p is represented as one set, the anthropogenic subsystem a as the second set, and the labor market as the union between them. This approach leads in the direction of an aggregate perspective of labor market behavior and outcomes that is broader than the contemporary mainstream approach. Specifically, a systems approach is the basis for establishing that the process of setting wages is exogenous to the labor market; nor does the latter determine the level of employment, which is dependent on the level of aggregate effective demand for output.

An insufficiency of aggregate demand is a possibility, because (à la Kalecki) profits are retained to finance investment, which provides a rationale for functional finance as an operational tool. Government has the power to tax, spend, borrow, and manage its debt as instrumental tools for controlling and giving direction to its macroeconomy, given that a dynamic capitalistic system is inherently unstable. The logic of a policy of functional finance is most clearly envisioned in terms of a systems perspective of the economy.