

Research Article

# Policies for Full Employment in the Context of Capitalism's Crises: Historical Development and the Italian Debate in the 1990s

**Francesco Maria Scanni\*** 

Department of Political Sciences, University of Teramo, Teramo, Italy

## Abstract

This article examines capitalist crises and their effects on labor markets, focusing on the Italian debate surrounding policies aimed at achieving full employment. It analyzes the tension between Keynesian approaches, which emphasize demand stimulation and public intervention, and neoliberal policies that prioritize fiscal austerity and labor market flexibility. The study evaluates various proposals to address unemployment, including reduced working hours, universal basic income, and state-led industrial policies. By engaging with key contributions from Italian scholars, the article underscores the need for innovative labor market interventions to reconcile economic recovery with employment stability. It highlights the challenges posed by structural unemployment, particularly in the aftermath of production crises, and discusses the implications of these dynamics for workers' rights and social protections. The discussion is framed within the broader context of the 2008 financial crisis and its enduring impact on global labor markets. The article argues that achieving full employment requires a balanced approach that considers both the quantity and quality of jobs, ensuring that economic growth does not exacerbate inequalities or undermine social cohesion. By offering a critical analysis of past and present policy debates, this study provides valuable insights for policymakers seeking to address the complexities of contemporary capitalist economies and promote sustainable labor market solutions.

## Keywords

Employment Policies, Technological Unemployment, Labour Market Interventions, Full Employment, Capitalist Crises, Socio-economic Policies

## 1. Introduction: Capitalist Crises and the Theoretical Framework

The term "crisis" refers to a phenomenon that disrupts the reproductive process of society. Like any other system, society has a reproductive mechanism that enters a crisis when the nature of its functions undergoes change; however, this process is not predetermined, and its forms and outcomes are unpredictable. Therefore, the role of scholars is to analyse the

nature of the crisis, its defining characteristics, the reasons for its emergence, and the most effective policy responses. Crises within the capitalist production system are not uniform. Apart from cyclical (or adjustment) crises [30], all major organic crises have brought about radical and profound changes in the organizational and accumulation systems of capitalism, re-

\*Corresponding author: [fmscanni@unite.it](mailto:fmscanni@unite.it) (Francesco Maria Scanni)

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shaping it and altering social cooperation. Through crises, the capitalist system surpasses itself; it evolves, as exemplified by the 1929 crisis, which transformed the competitive system of early capitalism into an oligopolistic system, characterized by the enormous expansion of firms through concentration [21]. This development undermined free competition, the 'perfect' form of private relations, which had been the cornerstone of capitalist relations, where independent production recognized the market as the sole regulator. The new oligopolistic structure, on the other hand, undermines the market's ability to set the relationship between price and demand for goods<sup>1</sup>, as it predefines the relationship between supply and demand. During World War I, the state's massive involvement in the economy led to significant economic and social effects: state investments spurred a new phase of employment growth and increased the participation of large sections of society in the reproductive life of the state. Previously excluded social groups, such as peasants, became citizens of the state [9].

## 2. The Century According to Marx

The new cycle of capitalist accumulation finds a clear analytical reference in the Marxian framework. The industrial revolution enabled the re-utilization of surplus and the recycling of excess by companies, which, thanks to new technologies, managed to significantly reduce production costs [1]. In the social division of labour, workers are far from free, contrary to what natural law doctrine suggests. Workers are subordinated to capitalist property, to which they sell their labour. Therefore, Marx's concept of "abstract labour" is focused on the production of wealth and surplus value, ownership of which belongs to others. It involves the command of money over labour, shifting the cycle from C (commodity): M (money): C (commodity) to M: C: M', where the increase in money is produced by concrete labour. Capitalism requires an initial monetary advance that precedes production and aims to increase the capitalists' profit. This is made possible through wage labour, the only commodity whose use value exceeds its exchange value. When transferred to the commodity, it increases its value [27].

In times of crisis, capitalists risk failing to reinvest part of the surplus value, resulting in what Marx referred to as a crisis of hoarding, or a lack of investment affecting productive organization. Another possibility is financial investment, i.e., the purchase of securities at interest rates, which yields capital gains and profits without passing through productive mediation [3]. In this case, the value shifts from M to M'. Conversely, if wages fall too drastically compared to profit, a crisis of realization (deflation) occurs, leading to a significant decline in income and consumption. Marx's crisis theory integrates all three perspectives, forecasting as an outcome the Tendency of the Rate of Profit to Fall [21], or the gradual and inevitable

decline in enterprise profit. In practice, the history of the production system's evolution has shown that the decline is not linear but cyclical, as the capitalist organization has been able to transition, through structural adjustments and the reorganization of capital's organic composition, from one production cycle to another. This has mainly been achieved through two strategies: a) Extending the working day and increasing the extraction of absolute surplus labour; b) Increasing labour productivity, including through technological innovations that intensify the working day and increase the proportion of relative surplus labour extracted.

Therefore, it is evident that theories predicting the collapse of capitalism [25] as a natural consequence of the development of its internal relations (not only the theory of the falling rate of profit but also the Keynesian "euthanasia of the rentier") should be reconsidered in light of both new heterodox Marxist theory and the historical lessons of the Keynesian era [28], which significantly raised the awareness and power of the working and popular classes.

## 3. Keynes's Policy Insights

In observing these phenomena, John Maynard Keynes, initially a conservative economist who later adopted liberal views [14], recognized the limitations of capitalist relations, the transformations they underwent, and the effects they produced. His analysis of the 1929 crisis led him to develop ideas based on wartime experience and the economic principles of expansive intervention. He came to believe that the state should intervene in the economy and employment: the state should learn to do in peacetime what it does during wartime [15]. Unfortunately, it was war itself that validated Keynes's theory: during World War II, despite producing goods intended for immediate consumption, economic activity increased and the economy grew. This demonstrated that war had revived production and stimulated consumption (hence the famous phrase: Keynes triumphed with the help of Marx). The Keynesian revolution consisted precisely in this: the idea that employment is generated by demand and that public spending challenges the conservative paradigm (dramatically revived by neoliberal doctrine), which claimed that crises require saving. War had proven that there is no inherent shortage of resources requiring saving; rather, in times of recession, it is essential to stimulate and reorganize production. From the post-war period onward, Keynesian policies were adopted by various states, with some of its principles even being incorporated into the republican constitutions of Western nations (a notable depiction of these years is Ken Loach's film "The Spirit of '45"). A new social order emerged thanks to Keynesian policies and the socio-political demands of the post-war period, to the point where, in many countries adopting the Keynesian model, it was not utopian to aim for full employment through the revitalization of public investment and aggregate demand. The years of applied Keynesianism correspond to the economic boom (or "miracle"), dur-

<sup>1</sup> In the form of an oligopoly, supply is no longer fragmented but concentrated in the hands of a few players, enabling entrepreneurs to be less subject to market forces and allowing them to set the price and demand for goods.

ing which, through the fiscal multiplier, demand, investment, incomes, and consumption increased, fueling economic growth. Essentially, the trend shifted: from Repair (related to saving) - Growth - Spending, to Spending - Growth - Repair. This harmonized the cycles of the capitalist economy: during periods of growth, the state would step back into a supervisory role, only to intervene and correct recessive phases through deficit spending.

#### 4. Crisis of the Keynesian Model

In the 1970s, the Keynesian model faced a crisis. As pointed out by Keynes in one of his most famous works [13], the specific form that labour takes in capitalism—wage labour—requires certain economic, social, and political conditions for its reproduction. The ideological counter-offensive led by conservatives argued that public spending diverted productive resources away from businesses and that the increase in public debt was a consequence of reckless expansive policies. Moreover, public spending should not only adhere to budgetary constraints (famously equating it to household economics, where the state is to be managed like a large family), but it should also be immediately covered by taxes. This economic spiral also targeted, in particular, social spending [10]. Public spending was no longer to be financed by central banks, acting as lenders and buyers of last resort, who sold government bonds at low interest, but private investment and borrowing were to be encouraged. If scarcity alone could reproduce the essential conditions for the continuation of the capitalist value relationship, and if abundance disrupted its reproduction schemes, conservative economists argued that it was necessary to return to conditions of scarcity.

In the Italian debate that arose after the war, two main interpretations were offered for the causes behind the crisis of the Keynesian model: a) *Structural Cause*: Keynesianism distances societies from scarcity, making the reproduction of wage labour difficult. Essentially, the Keynesian model collides with, and contradicts, the laws of capitalism. This happens, firstly, because full employment raises wages and workers' demands, removing the opportunity for business leaders to benefit from an industrial reserve army [12]. Secondly, because as state activity grows, so does the share of private profit not reinvested. For this reason, the state would not only accumulate debt and take control of more aspects of production but would, by maintaining capitalist production relations, end up increasing the proportion of uninvested wealth accumulation. Thus, capitalism would become parasitic, with an ever-greater transfer of resources from the state to businesses, mediated by consumerism. In a society increasingly marked by social inequality, this would reduce the propensity to consume and increase the propensity to save, neutralizing the expansive effects of the Keynesian multiplier [5] (a concern also raised by the Beveridge Plan); b) *Socio-Political Cause*: the rise of workers' rights and protections would lead to greater productive control, not only by the state

but also by the workers themselves. The growing social demands of the Keynesian era, as noted by G. Mazzetti in a famous reflection on the theories of Claudio Napoleoni [22], led to a shift in the balance of power, to the point where workers would surpass the role of the entrepreneur in deciding how, what, and for whom to produce [2]. Moreover, this gave rise to new needs within the working class that capitalism could not meet.

The two interpretations, in our view, are neither mutually exclusive nor irreconcilable. The causal relationship could be multifaceted: in essence, if the state exerts too much dominance, it ends up surpassing the wage labour model typical of capitalism. The Keynesian model envisioned spending without an immediate return (such as social rights), which clashed with the value relationship inherent in wage labour. The wage-labour relationship was surpassed not because it had become inherently contradictory, as Marx had argued [20], but due to the consequences of public interventionism. This system required centralized economic management, otherwise, stronger centers would impose an "external technological constraint" facilitated by the concentration of capital. Furthermore, the expansion of workers' rights internally disrupted the capitalist system's ability to maintain its labour-profit relationship.

#### 5. The Neoliberal Shift

In the 1990s, neoliberalism replaced the Keynesian paradigm. Keynes's *General Theory* had radically challenged the monetarist approach, which attributed unemployment to excessive worker protections and voluntary unemployment stemming from the decline in workers' purchasing power. In the 1990s, the conservative mantra re-emerged, positing that the primary goal of economic policy should not be full employment but inflation control, opposing deficit spending [8]. Monetary policy became once again the central constraint, with fiscal policy relegated to a subordinate role, justified only as long as it kept inflation in check. This principle continues to shape economic policy today, having been codified in European Union (EU) treaties and national constitutions (such as Article 81 of the Italian Constitution), under the term "balanced budget." However, despite the rise of neoliberalism, the issue of unemployment did not fade from public debate in the 1990s. Intellectuals' proposals mostly revolved around two main issues:

1. Reducing working hours without a reduction in wages (the slogan was: "Work less, work all");
2. Establishing a minimum hourly wage.

These discussions intersected with the issue of technological unemployment, and reducing working hours was suggested as a way to reconcile workers' rights with innovation [16, 23]. Unfortunately, the anticipated outcomes did not materialize. Technological advancement increasingly contributed to the exclusion of large numbers of workers from productive activities [29]. Today, the neoliberal paradigm

seems to have garnered support from larger segments of the ruling class, and its doctrines have consolidated a powerful hegemony in society. Themes such as austerity, fiscal stability, waste reduction, dismantling worker protections, mercantilist policies (especially from Germany), and the privatization of sectors previously seen as strategic for the functioning of the state have gained prominence. Capitalism thus transforms into a true "Reason" [4], no longer simply a system of production and exchange but a generator of subjectivity. In contrast to these perspectives, the COVID-19 crisis has brought the importance of state intervention back to the forefront, as demonstrated by the Next Generation EU programme and national recovery plans. These measures, inspired by Keynesian principles, illustrate how public investment can stabilise the economy and support employment recovery [24].

## 6. European Initiatives

Since the mid-1970s, Western Europe has been plagued by mass unemployment. The policies adopted by various governments have yielded limited success, mostly focused on neoliberal paradigms such as wage reductions, erosion of workers' social rights, and the flexibilization of labor contracts. In this context, several EU directives (especially the European Directive for Full Employment, DEC) aimed at regulating employment policies of large companies by setting targets for personnel expenses, ensuring a gradual increase in hiring. Through this mechanism, the EU Commission sought to achieve a 20% increase in employment over four years [6]. Large companies could meet DEC requirements through the following strategies:

1. General reduction of working hours and redistribution of paid employment;
2. Expansion investments in existing sites, opening new sites, and creating jobs in EU countries with lower wage levels, driven by the need to increase job opportunities;
3. Investments in staff training, to boost personnel spending (PS);
4. Investments in research and development (increasing PS and positions);
5. Wage increases (increasing PS);
6. Integration of jobs located outside the EU (EU Commission 2011).

## 7. The Italian Debate

In the 1990s, a lively international debate emerged among scholars concerning the interpretation of the crisis, alongside a prolonged discussion on policies aimed at achieving full employment as a solution (for a thorough overview of the debate, see: [33, 34]). In Italy, some of the key contributions came from Giorgio Lunghini [17-19]. Drawing from modern technological developments, Lunghini highlighted the growing disconnection between production and employment: the

increasing substitution of physical labor with technological tools (a topic also explored from a different perspective, focusing on inequality, by [26]) undermines the traditional link between production recovery and job creation after crises. With the "decline of the Taylorist-Fordist-Keynesian model" [8], characterized by standardized production, extensive capitalist accumulation, and the redistribution of productivity gains between capital and labor, economic policies aimed at stabilizing aggregate demand gave way to a new capitalist structure focused on financial speculation and the preference for flexible labor forms. The lack of implementation of social regulation tools led to a worsening spiral between stagnation of demand and increasing unemployment.

Lunghini argued that these conditions make the connection between production growth and employment growth no longer feasible. In response to these structural changes, Lunghini proposed specific policy interventions, including an active industrial policy led by the state aimed at product innovations and the creation of free enterprise, as well as the implementation of forms of "concrete work" (work aimed at producing use value, in contrast to abstract labor in commodity production), supported by a universal basic income funded through taxation. Regarding proposals for a basic income for those without a minimum work income, Lunghini stressed that this tool would be transient and only addresses distribution, without tackling the issue of wealth production when used in isolation.

Wage regulation within the production and accumulation system, through expansionary policies aimed at redistribution, were seen as a remedy for the growing pressures on wages and working hours, as well as the loss of purchasing power among larger sections of the population, including the "working poor." The state's role is therefore considered crucial in a renewed design of public intervention in economic management. Mazzetti's views diverge from Lunghini's in certain aspects. In a 2013 article [11], Mazzetti, while agreeing with the critique of basic income when isolated as a tool that could render the non-wealth-producing portion of society parasitic on the productive class<sup>2</sup>, and recognizing the historical role of public spending expansion in regulating overproduction crises, does not consider Lunghini's second approach replicable. He also offers a more favorable judgment on basic income.

According to Mazzetti, the new contradictions created by the evolution of capitalism are not confined strictly to the capital-labor relationship. The need to consider new social production processes emerging from post-Fordist capitalism is paramount (an insight shared by some advocates of basic income, as Mazzetti notes). Mazzetti's main proposal centers on reducing working hours without reducing wages (a concept Lunghini critiqued, arguing that its implementation would require fiscal incentives for companies to prevent negative

<sup>2</sup> The issue has recently resurfaced regarding the economic divide between Northern and Southern Italy. Implementing a basic income in the underdeveloped regions of the South, without accompanying economic policies aimed at bridging the productivity gap between the two macro-areas of the country, would only deepen the South's dependency on the North.



impacts on productivity, especially relative to international competitiveness, which could be undermined by rising goods prices). This proposal aims to shift the balance in favor of labor and, when combined with a strong expansionary policy, could significantly reduce unemployment. Mazzetti disagrees with Lunghini's view, expressed in his *L'età dello spreco*, that unemployment is a structural and irreversibly ingrained feature of the new socio-economic model. Mazzetti shares Lunghini's recognition of the insufficiency of Keynesian policies and the growing detachment between production and employment due to technological advancements, but he identifies the active role of the state—through regulatory policies aimed at employment conditions—as a primary lever for social transformation and achieving full employment.

## 8. Conclusions and Considerations

The 2008 financial crisis resulted in a dramatic drop in employment levels across several countries. Even those states that had seen significant growth and employment gains in the early 2000s experienced sharp declines in demand and rising layoffs [35]. As unemployment data shows, after a gradual decline that had brought unemployment rates back to 1980s levels by 2007, the 2008 crisis pushed those rates back up to levels not seen since 1960.

In this context, identifying policies to curb the unemployment rise and ensure higher levels of well-being is crucial for economic and social recovery. A recent example of innovative policy is the Citizenship Income introduced in Italy in 2019, which aimed to combine income support with labour market integration. Similarly, proposals such as the Job Guarantee Programme [32] demonstrate how state intervention can address structural unemployment in the context of technological transformations and economic crises. These policies should take into account the evolving context characterized by wage competition and increased automation of production processes.

Active state intervention in the economy may be required to absorb unemployment, which, in a deflationary phase, is difficult to address through traditional public and private employment channels. Proposals put forward by various scholars involved in the Italian debate could serve as a valuable foundation for concrete solutions aimed at addressing the unemployment issue. Achieving full employment in Eurozone countries is not only a critical goal but could also provide a normative framework to guide policymakers' decisions. Simultaneously, it is essential to focus on the quality of employment, creating measures to ensure good job quality for workers.

As Jean-Paul Fitoussi pointed out [7], the trade-off between full employment and social protection for existing workers poses a risk. If policies for full employment are poorly designed, they may fail to prevent and even exacerbate this trade-off. Increasing the number of employed workers should not lead to a deterioration in collective labor conditions.

In light of contemporary challenges, such as the ecological transition and automation, it is essential to adapt employment policies to ensure an inclusive and sustainable recovery. Proposals such as universal basic income and the reduction of working hours represent promising tools to address these challenges [31]. These measures can help reconcile the need for economic growth with the imperative of social equity, ensuring that technological progress benefits all members of society.

Ultimately, policymakers must design policies that consider both the quantity and quality of jobs, avoiding situations where increases in employment worsen living conditions for workers. By prioritizing innovative and inclusive labour market interventions, states can navigate the complexities of contemporary capitalism and build more resilient and equitable economies.

## Abbreviations

DEC	European Directive for Full Employment
EU	European Union
PS	Personnel Spending

## Author Contributions

Francesco Maria Scanni is the sole author. The author read and approved the final manuscript.

## Conflicts of Interest

The author declares no conflicts of interest.

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