

Labour markets and unemployment in Post Keynesian macroeconomics

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The first part of the lecture discusses the role of the labour markets and unemployment in macroeconomics. In Walrasian/neoclassical economics full employment is ensured by Walrasian market clearing and an anchor for economic activity. In Keynesian economics employment follows economic activity determined by effective demand. Today the NAIRU framework has supplanted the traditional Walrasian labour market as the mainstream macroeconomic model of unemployment. The NAIRU model exhibits involuntary unemployment and incorporates (and domesticates) some arguments that Keynesians have made for a long time. A generalized NAIRU model will be used to illustrate differences and similarities between Monetarist, New Keynesian, Post Keynesian and Marxist accounts of unemployment and economic activity.

The second part of the lecture deals with the empirical research on the determinants of unemployment. Following the OECD (1994) Jobs Study the mainstream view regards inflexible labour market institutions as the main causes for unemployment. The OECD (2006) reassessment modifies the analysis (but hardly the policy conclusions). Several studies have in the meantime questioned the explanatory power of labour market institutions and Keynesians have highlighted changes in capital accumulation and monetary policy as determinants of unemployment.

Core readings

- Keynes, John, 1936. Changes in money wages. Chap. 19 of Keynes, John (1936) *General Theory of employment, interest and money* Nickell, Stephen, 1998. Unemployment: Questions and Some Answers. *Economic Journal* 108: 802-816 OECD, 2006. Boosting jobs and incomes. Policy lessons from reassessing the OECD Jobs Strategy. Paris: OECD
- Stockhammer, Engelbert, 2008. Is the NAIRU a Monetarist, New Keynesian, Post Keynesian or Marxist theory? *Metroeconomica* 59(4), 479-510.
- Stockhammer, E (2011). Wage norms, capital accumulation and unemployment. A Post Keynesian view. *Oxford Review of Economic Policy* 27, 2: 295-311
- Stockhammer, E, Klär, E, 2011. Capital accumulation and unemployment in the medium run *Cambridge Journal of Economics* 35(2): 437-457

Suggested readings

- Agell, Jonas, 1999. "On the Benefits from Rigid Labour Markets: Norms, Market Failures, and Social Insurance," *Economic Journal* 109, F143-F164.
- Arestis, Philip, Baddeley, Michelle, Sawyer, Malcolm, 2007. The relationship between capital stock, unemployment and wages in nine EMU countries. *Bulletin of Economic Research* 59, 2: 125-148.

- Baccaro, Lucio, Rei, Diego, 2007. Institutional Determinants of Unemployment in OECD Countries: Does the Deregulatory View Hold Water? *International Organization* 61, 527-569.
- Ball, Laurence, 1999. Aggregate Demand and Long-Run Unemployment. *Brookings Papers on Economic Activity* 2, 1999: 189-236.
- Blanchard, Olivier, Wolfers, Justin, 2000. The role of shocks and institutions in the rise of European unemployment: The aggregate evidence, in: *Economic Journal* Nr. 110, S. 1-33.
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- Howell, Dean, Baker, Dean, Glyn, Andrew, Schmitt, John, 2007. Are Protective Labor Market Institutions at the Root of Unemployment? A Critical Review of the Evidence, *Capitalism and Society*, 2 (1), Art. 1.
- International Monetary Fund, 2003: *Unemployment and Labor Market Institutions: Why Reforms Pay Off.* Chapter 4 in: *World Economic Outlook 2003*, Washington D.C.
- Keynes, John, 1937. *The General Theory of Employment.* *Quarterly Journal of Economics* 41, 2: 209-223
- King, John, 2002. Some Elements of a Post Keynesian Labour Economics. In: Dow, Sheila C.; Hillard, John (eds): *Beyond Keynes. Volume 2. Keynes, uncertainty and the global economy.* Cheltenham, U.K. and Northampton, Mass.: Elgar, pp. 68-87
- Krugman, Paul, 1994. Past and Prospective Causes of High Unemployment. In: *Federal Reserve Bank of Kansas City (ed): Reducing Unemployment: Current Issues and Policy Options.*
- Lavoie, Marc, 2003. Real Wages and Unemployment with Effective and Notional Demand for Labor. *Review of Radical Political Economics* 35, 2, 166-82
- Nickell, Stephen, Nunziata, Luca, Ochel, Wolfgang, 2005. Unemployment in the OECD since the 1960s. What do we know? *Economic Journal*, 115 500: 1-27.
- OECD, 1994. *OECD Jobs Study*, Paris, 1994.
- OECD, 2006. Understanding policy interactions and complementarities, and their implication for reform strategies Chapter 6 of: *OECD, 2006. Employment Outlook 2006.* Paris: OECD <http://www.oecd.org/dataoecd/38/18/38569423.pdf>
- OECD. Persistence of high unemployment: What risks? What Policies? Chapter 5 of: *OECD Economic Outlook 2011/1* <http://www.oecd.org/eco/economicoutlookanalysisandforecasts/47656668.pdf>
- Rowthorn, Robert, 1995. Capital Formation and Unemployment. *Oxford Review of Economic Policy* 11, 1: 26-39.
- Rowthorn, Robert, 1999. Unemployment, wage bargaining and capital-labour substitution. *Cambridge Journal of Economics* 23: 413-425.
- Skott, Peter, 2005. Fairness as a source of hysteresis in employment and relative wages. *Journal of Economic Behavior and Organization* 57, 305-31.