

THE FULL EMPLOYMENT MODEL: A CRITIQUE

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First published: February 1972

<https://doi.org/10.1111/j.1467-6435.1972.tb02572.x>



SUMMARY

Full employment models proliferate in economic journals while excessive unemployment (U. S. and Canada, 1969-71) troubles some major (and many under-developed) economies. As in KEYNES' time, the analytic work is often at odds with reality. PATINKIN, for example, declares that 'the labor market... does not interest us' and that 'its sole function is to provide the benchmark of full employment'. For PATINKIN, and others, full employment exists apparently only by *assumption*. The implicit mechanism assumes that labor market bargains are made in *real* terms and, in describing the 'equilibrium' tatonnement, a fictional change in money wages is imposed while product prices are *assumed* to remain constant.

KEYNES rejected this 'analysis' on the grounds that higher (lower) money wages *must* lead to higher (lower) prices with, at best, limited employment effects ultimately analogous to monetary manipulations. Yet KEYNES' remarks on this vital matter are commonly ignored, even in 'Keynesian' models.

This matter is reopened inasmuch as the analysis has profound policy implications. On the theoretical level it is also demonstrated that on plausible behavioral grounds LANGE's representation of a perfectly elastic labor supply function (over some range) is defensible. PATINKIN's supply points 'off' the supply function really entails a misspecification of the appropriate function.

References



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