

Towards a Unified Economic Theory: A Classical-Keynesian GE Model

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The paper presents a judicious way to unify main conceptual assumptions of the Neo-Ricardian, Keynesian and Neo-Classical economic theories within a same model. Although there might be several ways to motivate the development of such a synthesis, emphases in that paper are laid on the importance to micro-found the dynamics of the Leontief input-output system, and on the necessity to formulate a general equilibrium adjustment process during which, production, trade and consumption necessarily occur.

For instance, aggregate GE models widely used in the macroeconomic profession, have all the particularity of assuming (implicitly) a continuous equality between supply and demand for each consumption and capital good, by considering disequilibrium situations as short run phenomenon rapidly resolved by the market clearing process. It is therefore important to remind that such a simplifying assumption is not appropriate in presence of perfect complement commodities, and that a real multi-sector economy may not be characterized by only gross substitute factors and goods. First, it is well known that the short run market clearing dynamics represented by the tâtonnement process where no transactions occur out of equilibrium, has been shown by Scarf (1960) to be unstable under some examples of perfect complementarity. Second, and independently from this problem, it is clear that in a Leontief input-output model involving technologies with fixed proportions of capital inputs, any set of production factors in the economy cannot be fully employed regardless of price levels. Starting from an exogenous set of endowments means starting presumably from out of equilibrium, in which case input quantities should necessarily adjust to reach a GE position, or in other words, capital accumulation, production, trade and consumption should necessarily occur during the market clearing process (i.e., outside equilibrium.)

In this paper, we propose a more general macroeconomic structure that allows to account for such 'mixed' dynamics. We then use this framework to analyze the important question of potential obstacles preventing from full-employment of labor resources. The analysis shows clearly that persistent unemployment results essentially from a coordination failure, and a lack of information about consumption preferences and production technologies. Abstracting indeed from labor market rigidities by assuming for example perfectly flexible wages, appears to be insufficient for the economy to reach a full-employment equilibrium. Based on this analysis, a policy suggestion of creating growth stimulating labor contracts (GSLC) is finally presented.

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