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Unemployment Policy in the Welfare State

The persistent and widespread unemployment problem has undermined previous optimistic views on the possibilities of avoiding business cycle fluctuations and unemployment in capitalist societies. Pessimistic views flourish, and it is often argued that traditional policy instruments like demand management policies have lost their efficacy. Accordingly, many policy proposals are passive in nature arguing that employment should be shared more equally or that we should learn to live with unemployment.

This pessimistic view takes as a premise that there is an excessive supply of labour. This view is not correct. The current crisis does not have its root in a satisfaction of wants. Hence, there are still unsatisfied wants and we have the resources to fulfil them. Why can we not make the two ends meet?[1]

Attainment of full employment is a primary objective in the welfare state. The primary motivation for this is not efficiency considerations but rather distributional and ethical concerns attaining full employment is a necessary condition for social imbalances to be avoided. To the extent that the government succeeds in attaining full employment, it provides income insurance and reduces social misery. A commitment to full employment can thus be termed an active insurance policy in the sense that the idea is to eliminate the risk of low consumption due to unemployment by creating more jobs. The opposite is a passive insurance policy where transfers not tied to any jobcreating measures are made to the unemployed to maintain their living standard.

Views on unemployment policies in the welfare state have been based on Keynesian economics according to which stabilization policies are both effective and desirable. The single most important policy instrument is demand management policy

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(in the broad sense of fiscal, monetary and exchange rate policy). It was thus perceived to be possible to ensure full employment through appropriate state interventionism and by demand management policies.

This perception has not been vindicated by actual developments from the 1970s and onwards and for this reason, the full employment strategy currently finds itself in a crisis. The effectiveness of demand management policies is accordingly being questioned. However, it is hard to dispute that demand management policies are effective especially in the short run. Hence, we seem to face the paradox that these policies matter, but not enough to make the objective of full employment attainable.

Structural constraints are often taken to explain this state of affairs. This raises the question of how to remove structural constraints and whether demand management policies could be applied to that end. A pertinent problem since remedies for structural problems raise fundamental problems in relation to efficiency and equity.

The basic aim of this paper is to discuss the scope and limitations of demand management policies in regards to unemployment problems in the welfare state. The first part of the paper discusses demand management policies in their rolestabilization, while the second part focuses on the relationship between demand management and structural problems.

Demand Management- Stabilization

Keynesian economics is founded on the idea that through demand management it is possible to stabilize the economy and thereby avoid business cycle fluctuations. A policy which is purported to imply large social gains.

The clearest formulation of Keynesian ideas in terms of rules for policy activism is found in the principles for functional finance (Lerner (1943)). According to these principles, the design of policy was perceived to be fairly simple since contractions could be counteracted by expansionary policies and overheating by restrictive policies. Although a decentralized market economy has an inherited tendency to experience business cycle fluctuations and thus unemployment, remedies are available to avoid these problems.

Keynesian ideas were based on rather restrictive assumptions (or socalled ad hoc models) of which price and wage stickiness or a mechanical adjustment mechanism captured by the Phillipscurve relationship are those which have been most debated. The development of Keynesian economics has passed through many phases including introduction and extension of the Phillips curve as well as fixedprice models(see e. g. Branson (1979)). Although this has improved the models and their empirical precision, the fundamental problem remained that behaviour was often postulated rather than derived from first principles (maximizing behaviour). This problem applies in particular to wage and price formation, and it is at the root of the "crisis" in Keynesian economics.

The criticism of the weak theoretical foundation of Keynesian economics was also important because it pointed to the fundamental weakness that the models were silent about the extent to which economic policy in itself would affect private sector behaviour and therefore the premises on which policy prescriptions were based.

This criticism gained support by the fact that models based on socalled first-principles did not seem to leave any role for demand management policies. The

Keynesian position seemed seriously threatened by Classical and New-Classical viewpoints. Even if fluctuations are driven by aggregate demand, there is not necessarily a role for policy activism since any systematic demand management policy is counteracted by changes in private sector behaviour. Accordingly, demand management policies are ineffective if the private sector perceives the policy (The Lucas-Sargent-Wallace proposition). The classical viewpoints have been strengthened by so-called real-business cycle models according to which business cycle fluctuations are primarily driven by technology shocks rather than aggregate demand shocks. This has led to recommendations for policy-passivism since, according to these view-points, policy is neither needed nor effective. However, models of this type have serious difficulties in matching actual business-cycle and especially labour-market phenomena (see e. g. Stadler (1994)). Moreover, it is by no means a robust result that systematic demand management policies are ineffective (see e. g. Silvestre (1993)).

New Keynesian Models

The revival of classical ideas has spurred an interest in models accounting for failures in the allocation mechanism in decentralized market economies, and thus potentially providing some role for policy activism. A driving force has been the fact that classical models do have problems in accounting for actually observed business cycle phenomena including the effects of policy. Recent business cycle literature includes many examples of why adjustment problems can arise in price and wage setting and accordingly why demand management policies have a potential beneficial role in stabilizing the economy. This conclusion remains valid even when the private sector realizes the incentives underlying policy making (i. e. form rational or "model consistent" expectations), (see Andersen (1994) and Moene, Wallerstein and Hoel (1994) for an introduction and references to models of price and wage rigidity, respectively).

Reasons for imperfections in price and wage adjustment are numerous and include adjustment costs and lack of information. Hence, there is room for policy activism, since policy can work by speeding up the adjustment process which would otherwise be lengthy due to sluggishness in wage and price adjustment. In a decentralized market economy where wage and price decision are taken by numerous agents who do not have the possibility of coordinating their actions, adjustments failures are bound to arise.

Although efficient policy intervention is often informationally demanding and of a more sophisticated form than implied by the original principles underlying functional finance, it follows that at least in principle, policy activism is needed and desirable.

Coordination failures

In most traditional analysis it is a premise that a well-defined unique long-run equilibrium exists to which the economy will converge in due course. Recent work has shown that some of the adjustment problems having important consequences for short-run adjustment may also imply that the economy has multiple equilibria or that there is a very strong path dependence (hysteresis). If the economy has multiple equilibria, it follows that for invariant pre-ferences, technology, market institutions etc.

the economy may end up in different long-run equilibria depending on the historical adjustment path of the economy (see e. g. Cooper and John (1988), Cooper (1994)).

To take an example, there might be two (stable) equilibria, one with a high employment level and another with a low employment level, where the latter is clearly inferior to the former. If the economy after having been in the high employment equilibrium for a period of time is hit by an adverse shock, it may end up in the low employment equilibrium. The increase in unemployment is persistent, and there is no natural adjustment mechanism that will bring the economy back to the high employment equilibrium.

Although this can be taken to capture the permanent increase in unemployment in a number of European countries quite well, two problems should be mentioned. First, it is difficult empirically to test whether we are stuck in a bad equilibrium or whether there is only one equilibrium which due to shocks and structural changes has changed in an adverse way. Secondly, even if it can be established that there are multiple equilibria, the policy implications are not clear-cut. Which types of policies will bring us from the bad to the good equilibrium??

Policy Activism

Hence, the idea stands that external intervention can potentially stabilize the economy and that there are gains from so doing. Views may differ on the size of the potential gains from such policies as well as whether policy makers have sufficient information and react sufficiently quickly to be able to reap these benefits[2].

One central assumption underlying the stabilizing role of demand management policies is that it is a response to unanticipated temporary shocks. The government thus provides an insurance function by an appropriately designed policy intervention. Or to put it differently the government attempts to transfer individual risk into social risk

Demand Management - Structural

Although the starting point underlying active use of demand management policies has been the desire to stabilize the economy, it is also the case that policies have been used in an attempt to cope with structural problems. This is especially a possibility in open economies since an important channel through which demand management policies work is the terms of trade (Marston, 1985). It follows that such policies can potentially affect relative priceseven in the long run and thus the structure of the economy. This is particularly interesting in open economies where policymakers are concerned with the problem of ensuring internal balance without jeopardizing the external balance.

The Basic Argument

The basic idea underlying the traditional use of demand management policies in small and open economies is fairly simple (e. g. see Corden (1977), Söderström and Viotti (1979)). If the situation is characterised by unemployment and trade deficits, it reflects towards foreign rather than domestic products. Hence, if the structure of demand can be changed in favour of domestically produced goods, it is possible to lower unemployment and the trade deficit at the same time. Since the share of foreign goods is higher in private than public demand, a simple demand management policy would solve the problem. If taxes are increased so as

to lower private demand and the proceeds are used by the public sector to demand domestically produced goods (or employ workers), the desired shift in the composition of demand is achieved and it should be possible to translate trade deficits into employment. This policy prescription is clearly very attractive since it does not require painful adjustment and does not interfere severely with distributional objectives.

Crowding out

The basic argument relies on wage inflexibility, but allowing for wage adjustment may release some feedback effects which work in the opposite direction. Take the case where the policy is implemented by increasing public demand for non-tradeable goods[3], the prices of which will increase, and therefore for a given nominal wage lower the real consumption wage. If workers are unwilling to accept such a fall in their real compensation, wages will increase, and this will harm sectors exposed to foreign competition[4]. That is, the tradeables sector is squeezed, something which exarcebates both the trade balance and unemployment (Andersen (1989)). Hence, important crowding-out mechanism is released via wage formation. Note that this wage response could even be strengthened if wages are influenced by tax increases because, say, workers aim at preserving their after tax real consumption wage.

As a consequence, the demand-shifting policy may therefore not work or perhaps even be counter-productive in a medium term perspective where the wage response is released. Clearly, whether this is the case is an empirical question, but it remains the case that wage adjustment releases a crowding-out mechanism.

A demand-switching policy therefore implies a deterioration in the terms of trade by squeezing the tradeable sector and expanding the non-tradeable sector. Hence, the government may be tempted to reconcile its objectives by undertaking devaluations in an attempt to restore competitiveness. A policy which might work in the short run in the presence of nominal wage and price rigidities, but in a medium-to-long-run perspective it will fuel inflationary expectations and thus wages and interest rates and therefore make the situation even more difficult.

Even if employment can be expanded by policies of this type, it does not follow that there is a welfare case for pursuing such policies (Andersen (1995)). Although unemployment is too low from a social point of view and employment can be expanded by demand management policy, the policies may have other effects which harm welfare. In an open economy the value of the production of tradeable goods is crucial to the overall level of welfare. To the extent that the tradeables sector is squeezed by an employment policy, it follows that there is a general decline in income and thus living standards. Hence, a policy which is successful vis-a-vis employment may be bad from a social point of view despite the fact that employment constitutes a problem. Employment policies can be welfare-reducing.

Beggar-thy-Neighbour

A fundamental problem with the demand-switching strategy is that it is basically a beggar-thy-neighbour type of policy. By shifting the composition of demand, the aim is to reap a larger employment share out of the level of demand, but this is achieved at the cost of neighbouring countries facing less

export demand. It might thus be the case that the switching policy works beneficially from a single-country perspective (even taking into account wage responses), but when all countries pursue this type of policy, it turns out to have negligible effects on employment, leaving only the effects due to increasing tax burdens etc. (Andersen, Rasmussen and Sørensen 1995).

It must therefore be concluded that the case for using demand management policies to cope with structural problems is much weaker than the case for using such policies in their role as stabilizers.

Strategic Constraints

The active strategy towards demand management builds on the idea that the economy can be stabilized. However, if the government is committed to such a policy, it implies that incentives in the labour market might change, and this can in itself make it more difficult to pursue this form of policy.

In the absence of unemployment risk, the incentives underlying wage formation may change in a more aggressive direction which, particularly in an open economy, will exacerbate the employment situation. Whether falling employment is due to shocks or rising wages, the unemployment-concerned government will step in with expansionary demand management policies to avoid increases in unemployment. The implied wage increases cause falling private employment which counteracts the effects of employment-enhancing policies (Calmfors and Horn (1985)). Even though the crowding-out effect of private employment need not be one-to-one, this mechanism shows that attainment of full employment can be both difficult and very costly. It is thus possible that the government will succeed in stabilizing employment but at a lower level (Driffill 1985)

This negative incentive effect of employment-oriented policies need not arise if the labour market is very centralized and labour representatives realize that the government's possibilities of attaining full employment depend on wage moderation. (Calmfors (1993a) and Hoel, Moene and Wallerstein (1993)). The attempts in Scandinavian countries to settle "income-battles" based on the scope for wage increases can be interpreted in the light of these theories. The so-called "Scandinavian model of Inflation" provides a norm for wage increases which are compatible with maintaining external competitiveness and therefore employment.

This possible crowding-out mechanism has also led to a heated debate about whether active labour market policies are counterproductive since it reflects a willingness of the government to take on responsibility for the employment situation (Calmfors (1993)).

Structural Constraints

The persistent unemployment problem coupled with the experience in certain countries that unemployment does not fall despite increases in aggregate demand has fuelled the idea that unemployment has a business cycle and a structural component[5]. The former is meant to be the kind of unemployment that is due to a shortfall of aggregate demand and which would disappear in an upturn without releasing substantial wage pressure. The structural level of unemployment is the level of unemployment below which you cannot bring the economy by demand managment measures.

Although this distinction can be

useful, it should be pointed out that it may be misleading if the structural level of unemployment (sometimes labelled the natural rate of unemployment) is taken to be something unchangeable. This is not the case[6]. The term is a useful short hand for the level of unemployment at which the unemployment problem is no longer an economy wide problem in terms of the skill and geographical attributes of the unemployed. This means that a general change in the level of demand would not succeed in bringing down unemployment without releasing substantial wage pressure.

As has been argued above, demand management policies are potentially much more useful as stabilizers than as remedies to structural problems. This is important as demand management policies in e. g. the Nordic countries for extended periods of time have been tied to structural problems (see Andersen 1989)). As it is widely perceived that the current crises is caused by structural problems, it is no surprise that demand management policies are considered to be ineffective.

Passive Insurance

Why has structural unemployment been growing? It is often argued that some unemployment is needed in capitalist societies to discipline the labour force (see e. g. Kalecki (1943)). Current high levels of unemployment do not seem to fulfil this role as unemployment remains persistently high. Does the welfare state imply incentives which eliminate the disciplinary role of unemployment?

The disciplinary mechanism of unemployment has two elements, namely that there is a risk of becoming unemployed and that it has serious consequences. The reason for policy activism based on Keynesian ideas of demand management builds precisely on the idea of reducing the risk of unemployment to avoid its consequences. As noted, this policy has not in the recent past been successful in the welfare states and enhanced passive insurance has aimed at reducing the consequences of being unemployed.

Accordingly, the development in the Nordic countries has seen a tremendous increase in passive insurance transfers as reflected in transfers amounting to half of government outlays in e. g. Sweden and Denmark. It is important to note that this development followed the increase in unemployment, that is, the transfer system has been extended alongside the failure of the active employment strategy. This development can therefore not be the direct cause of the development, but it could be an obstacle to an improvement in the employment situation.

It is also worth pointing out that the extended welfare state of e. g. the Nordic countries has avoided significant deteriorations in the distribution of income despite growing unemployment. This must be seen as one of the great achievements of the welfare state, but does it also signal the dangers of too much insurance and too little incentive? Different channels are possible through which the passive policy can reinforce incentive problems and thus increase structural unemployment. To put it differently, will a policy reducing the consequences of being unemployed inevitably increase the risk of becoming unemployed?

Incentives and distribution

An important problem concerning the incentive effects of passive transfers is the problem of providing income insurance

without reducing labour market mobility and increasing wage aspirations. Generous transfers reduce incentives to search for jobs, educate and to move which in turn lowers the effective labour supply. As a consequence, it increases wage aspirations and thereby the market power of insiders, all of which is detrimental to employment.

Moreover, generous transfers imply an increase in labour supply which is not matched by a corresponding increase in effective labour supply such that official figures may exaggerate the unemployment problem. Although this mechanism is surely present, it is hard to quantify and moreover hardly relevant for large groups of people who have lost jobs. Moreover, many passive policy instruments have implied a reduction in registered labour supply like early retirement, job-offers etc.

Another more important argument against passive transfers is that they do not prevent depreciation of individual human capital while out of work. Active transfers where transfers are tied to job-training, education etc. , may overcome this problem and moreover reduce the moral hazard problem related to exploitation of generous transfers. Such a policy can also be said to have the important incentive effect of forcing people to take responsibility for themselves. Especially for passive transfers of long duration, these incentive problems can be pervasive, as the insurance aspects of transfers are changed into permanent income support.

These problems raise a number of important issues concerning incentive problems in the welfare state as the full employment strategy is intimately linked to distributional concerns. Unemployment is not acceptable because the implied social consequences are unacceptable. Two important questions are i) whether passive transfers have been extended to far and ii) whether it is possible to retain labour market incentives while not causing distributional problems.

It is important to point out that some unemployment may be the inevitable consequence of redistributional goals. Guesnerie and Roberts (1987), Marceau and Boadway (1993) and Maderner and Rochet (1994) among others have shown that e. g. minimum wages can be optimal in a second-best context for a government with redistributional goals even if it causes unemployment. The second-best problem arises when the government cannot perfectly identify the characteristics of agents so as to implement the first-best redistributive policy. Redistributional objectives certainly play a crucial role in welfare states and hence it seems that some unemployment must be accepted. However, using this argument to explain the increase in unemployment as reflecting a "political equilibrium" requires that either distributional objectives have been more ambitious and/or that the problem for policy-makers in identifying those worthy of income support has increased. Neither of these seems to explain the huge increase in unemployment.

Another argument is that even though social policies may create unemployment, they have beneficial effects when seen in a dynamic perspective. This relates e. g. to creating the right incentives for structural adjustment (Agell and Lommerud (1993)) and the accumulation of human capital (Cahuc and Michel (1994), Ravn and Sørensen (1994)). The idea is that e. g. minimum wages also imply a minimum level of human capital needed to attain a job. Hence, individuals with certain characteristics are forced to acquire more

human capital than they would otherwise have done since they are better off doing this than being unemployed. Due to positive externalities, this has beneficial effects from a social point of view. However, for this mechanism to work the state of unemployment must be a threat. That is, unemployment must have consequences in order to induce the right incentive to adjust. These forces are undoubtedly important, but it is also important to note that they presume that the unemployed have an incentive to adjust, that is, either unemployment compensation must not be too high or other means of enforcement are needed. This therefore again points to negative incentive effects of generous passive transfers.

The problem of structural unemployment being primarily concentrated on unskilled workers can also be expressed as indicating that the socially acceptable wage profile does not match the profile of qualifications. Adaption of the wage profile would require either reductions in minimum wages etc. (could potentially be compensated via the tax system) or changing the qualifications of the work force. The latter would be an "education" strategy aiming at increasing the share of the population acquiring valuable skills. Even in the welfare states, the proportion of young people not acquiring any education providing direct labour market competence is large (in e. g. Denmark more than 30%). A dilemma arises since a flat wage profile may leave insufficient private incentives to obtain a qualification, and moreover one must expect that there always will be a significant "residual" group with difficulties in the educational system.

It seems hard to avoid the conclusion that extension of passive insurance policies has contributed to increasing structural unemployment. A dilemma arises here. A dominant argument is that unemployment is a social phenomenon and hence the individual unemployed person is not to blame for being unemployed. Accordingly, it is not fair if e. g. unemployment compensation is too low - we should all be able to maintain a decent living standard. The consequence of this is that individual incentives for adjustment are insufficient and this produces structural impediments at the aggregate level which imply a high level of structural unemployment. The solution to this is either a cut in redistribution which is detrimental to the objectives of the welfare state or tighter individual control implying restrictions on individual freedom and therefore also politically unacceptable.

One possible way of enhancing incentives without giving up the income insurance objective by cutting substantially in unemployment benefits would be to change the unemployment insurance system. One method relates to the financing of unemployment benefits. If financing is a responsibility for wage-setters rather than for the public budget, better incentives for wage moderation would be created, (see e. g. Holmlund and Lundborg (1989)). Unless wage setting is fairly centralized this system can hardly be implemented without losing the insurance aspect which requires possibilities for diversification of risk.

Another route would be to make unemployment support more of the "workfare" type which would strengthen incentives without requiring low compensation rates (cf. Nichols and Zeckhauser (1982) and Besley and Coate (1992)). The basic mechanism is simply that if you have to "work" for your income, you might as well do the best you can. This will

also eliminate social segregation since such a system would build on the principle that "society needs the work of everybody". Redistributional goals and insurance can thus be maintained while avoiding some of the disincentive effects of passive transfers.

Further Constraints

International Integration

It is often argued that increased international integration of in particular capital and product markets has deprived demand management policies of their effectiveness.

As regards capital market integration, it is not clear whether this suspicion is justified. First, increased integration means more efficient capital markets and thus lower interest rates. This implies e. g. that public debt service becomes cheaper. Secondly, the usual crowding-out effect via increased interest rates in the case of expansionary demand management policies is muted or eliminated.

It is often argued that financial markets are adverse to welfare policies. The basis for this presumption does not seem well-founded. Financial investors are basically only concerned about one type of risk, namely, that of exchange rate alignments. If a policy increases the likelihood of a devaluation, investors would naturally be adverse to it, but if it is consistent with the exchange rate target, there is no need to worry. Hence, markets would react to inconsistent policies and not to "consistent" policies. Welfare policies may or may not be "inconsistent" in this sense. There is therefore no reason why capital market liberalization as such has made policy activism towards unemployment more difficult. On the contrary, if a successful unemployment policy is undertaken, the need to take resort to devaluations diminishes and therefore the credibility of the exchange rate can be enhanced.

Surely, capital market liberalizations has dramatically affected the way in which financial markets work, implying in particular that crises develop much faster and more dramatically. "Inconsistent policies" are thus put to a market test much earlier and more strongly than previously. This may imply more volatility but volatile exchange and capital markets were also experienced prior to the recent capital market liberalizations.

As for product market integration, it is the case that the efficiency of demand management policies and in particular switching policies can be reduced. The reason being that product market integration makes prices more dependent on foreign prices, and therefore the terms of trade less affected by demand management policies. The more integrated the product markets, the smaller the scope for pursuing a demand switching policy (see Andersen, Rasmussen and Sørensen (1995)). But the need may also be smaller since enhanced competition may force a faster adjustment process.

It is therefore by no means clear that increased international integration can explain the failure of active employment policies.

Public Debt

The use of demand management instruments is currently constrained in many countries by the high levels of public debt. Levels reflecting long lasting underfinancing and increasing debt servicing caused by among other things the persistent unemployment problem (see e. g. Buiter, Corsetti and Roubini (1993)). Although attempts have been made to outline guidelines for sustainable debt levels, these

are of little use for clarifying whether current debt levels constitute a problem. Public debt is a question of intergenerational transfers- the larger the debt, the more current generations benefit at the cost of future generations. The levels of debt must, however, be evaluated relative to the public capital (infrastructure, schools, hospitals, human capital etc) left for future generations. Only to the extent that debt exceeds the level of public capital is there a de facto transfer from future to present generations.

Even this need not be a problem since, if the economy is hit by an adverse temporary shock, there is a case for allowing public debt to increase since this is a way of implementing intergenerational risk sharing. Something for which there exists no market institutions to take care of (Gordon and Varian 1988). Clearly, if the shock is permanent or moral hazard elements are at stake intergenerational risk sharing should not imply full insurance.

Despite these caveats, the conclusion must at least be that the increase in public debt in recent years has exacerbated the debt situation since it has been due less to increases in public investments in the broad sense of the term and more due to increases in transfers of the passive insurance type. The latter are more costly for future generations than transfers of the active insurance type since they leave output lower and reinforce hysteresis effects etc. Hence, the particular policies which have been pursued make the increases in public debt a problem.

Concluding remarks

Current pessimistic views on the possibilities of attaining full employment are partially created by previous high and over-optimistic views of the potential of demand management policies. The conclusion is not that demand management policies are ineffective. Quite to the contrary, they are effective. Their effectiveness is large in the short run, but if pursued permanently negative side effects are created. Hence, demand management policies are potentially very useful as short run stabilizers towards temporary shocks, but not appropriate in a situation with structural problems arising from permanent shocks. But if they are relied upon as a permanent solution, they may create new problems for economic policy and therefore be unsuccessful.

The reliance on demand management policies as a solution to structural problems has been costly for several reasons. First it has contributed to fostering fallis expectations concerning the scope and costs of structural changes. Moreover it may have contributed to reinforcing structural problems by leading to excessive tax-and debt-burdens.

The challenge for the welfare states is to maintain incentives for flexibility and mobility without jeopardizing distributional objectives. So far a tenable balance between these concerns has not been found. An important conclusion is that transfers do not necessarily create incentive problems if they de facto fulfil an insurance function; the problem relates to passive transfers which easily develop into permanent income support.

A feasible road would be a dual approach which combines policies aiming at lowering structural barriers with an expansionary demand management policy to ensure that the increased supply potential is exploited. Aggressive supply side policies are unlikely to work in a recession.

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Notes

[1] Even accounting for environmental externalities does not provide an argument for an unchanged employment level. Important unsatisfied wants have to do with environmental questions.

[2] This is reflected in e.g. the rules versus discretion debate, see Christensen and Blackburn (1989) for an introduction and references.

[3] Alternatively, the government may employ people directly in which case a wage pressure would develop. This will be reinforced if wage demands are also negatively related to unemployment.

[4] This is stressed throughout in OECD-analyses and also the recent EU White Paper (1993) on "Growth, Competitiveness and Employment.

[5] As a long-run property it holds that real variables are unaffected by nominal changes (classic neutrality).

[6] This property underlies the expectation augmented Phillips-curve, and is often erroneously interpreted as implying that real variables including unemployment are unaffected by any (demand) shocks, see e.g. Andersen (1995).