

## Reality and response: unemployment 1970-2005 in two core journals

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The 1970s presented a dramatic change in many elements of the trends which had characterized the golden Sixties which frequently had been regarded as the beginning of a new era in capitalist development. One sudden and obvious change became visible with the breakdown of the Bretton Woods System. Other elements changed more gradually. One of the most decisive changes was the return of higher and more persistent unemployment after the comparatively low unemployment rates in the US and almost full employment in Europe which had existed in the Sixties. This change was and is particularly noteworthy because all relevant surveys show that unemployment is very high on the list of items which worry the population. It is therefore not unimportant to see whether and how academic economics has reacted to this changed environment.

This is indicated in the following pages first by a quick look at the rapidity and frequency with which the change was taken up in two core economic journals and then by giving a bird's eye view of their main contributions in the course of the last 35 years. The two journals chosen are the *American Economic Review* (AER) and the *Economic Journal* (EJ) as the two outstanding general economic theory journals on both sides of the Atlantic. It is of course realized that American scholars have published in the English journal and *vice versa* but it is a fact that the studies in the two journals show – thought not comprehensive – a certain concentration of US developments on the one side and on England and OECD-Europe on the other.

First I turn to the frequency with which the unemployment theme was taken up in the years after 1970. The frequency of relevant

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contributions, i.e. the question whether and how quickly the changes in the unemployment situation were taken up, is relevant because critics often charge (not only in this field) academic theoretical research to be aloof from real world problems and too much engaged in abstract ivory tower discussions. As will be shown, this was certainly not the case in the response to the changes in the unemployment situation after 1970 and in later years.

This quantitative response is illustrated in tables 1 and 2 and figures 1 and 2 dealing with the AER and EJ respectively. In all cases the relevant contributions are obtained by counting all items (articles, notes, papers and proceedings) whose titles contain the word "unemployment". It is clear that this is not a very satisfactory procedure. Some items containing "unemployment" in their title have little to say about the problem and several articles without "unemployment" in the title perhaps quite a lot. Also the length of articles may play a role. But, in spite of these weaknesses (which of course affect all periods), it can be assumed that this procedure gives a roughly representative picture of the development of the discussion.

Tables 1 and 2 show the numbers of "unemployment" papers for five-year periods stretching from 1971/75 to 2001/05. This division into seven periods is given for a rough overview and also because these periods will be used when the main contents are considered. The figures in both tables show that the changed unemployment situation was comparatively soon and distinctly reflected in the number of journal articles particularly when one takes into account the delays in publication. The change occurred earlier in the AER, while in the EJ the stimulating effect lasted longer than in the AER, due perhaps to the more lasting severity of unemployment in Europe. Figures 1 and 2 give a more detailed picture of the relationship between reality and response by presenting the annual values of unemployment rates and of the numbers of journal articles. US unemployment rates are used in the AER case (Figure 1) and British unemployment rates in the EJ case (Figure 2).<sup>1</sup> While the annual numbers of articles vary considerably from year to year – partly as a consequence of special symposia –, the smoothed three-year moving averages show a remarkable (lagged) cor-

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<sup>1</sup> Using unemployment rates for OECD Europe instead of British rates in figure 2 yields a similar pattern.

response with the unemployment fluctuations.<sup>2</sup> This lag can be easily explained by the delays in publication in refereed journals.

UNEMPLOYMENT RATES AND JOURNAL TITLES

TABLE 1

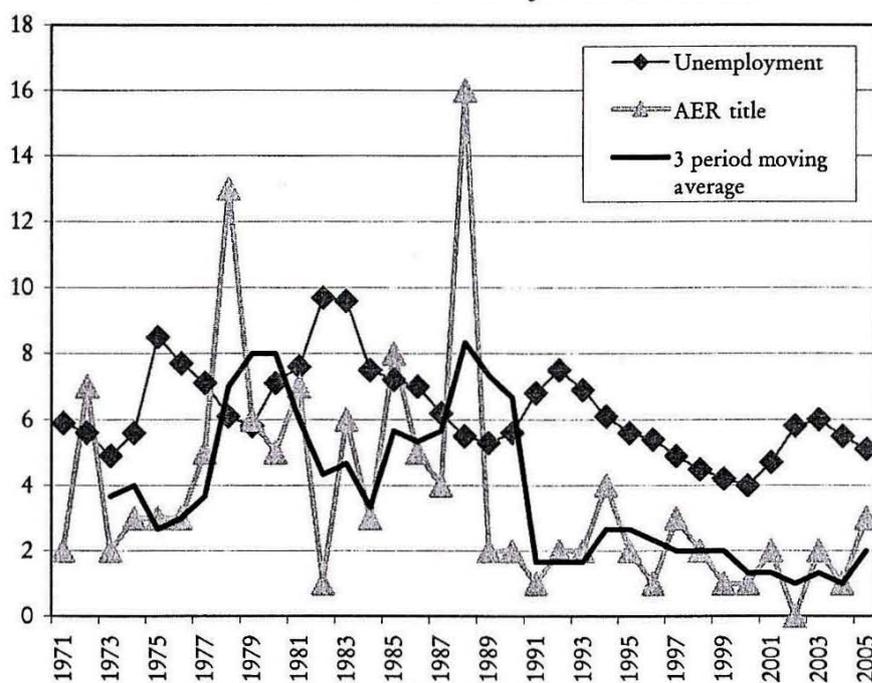
<i>American Economic Review</i>	
Period	Articles
1971-75	17
1976-80	32
1981-85	25
1986-90	29
1991-95	11
1996-2000	8
2001-05	8
Total	130

TABLE 2

<i>Economic Journal</i>	
Period	Articles
1971-75	9
1976-80	7
1981-85	22
1986-90	29
1991-95	12
1996-2000	20
2001-05	13
Total	112

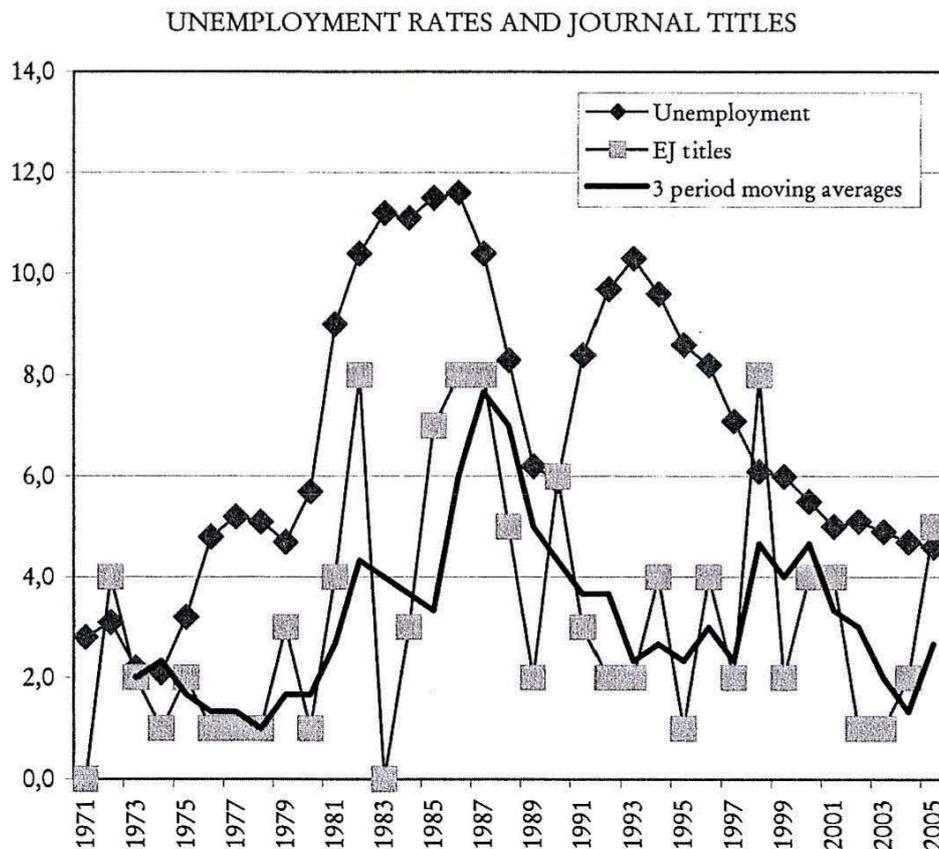
FIGURE 1

UNEMPLOYMENT RATES AND JOURNAL TITLES



<sup>2</sup> Comparisons for other general journals (*Journal of Political Economy*, *Quarterly Journal of Economics*, *Economica*) show a similar though less pronounced pattern.

FIGURE 2



The switch towards a greater presence of unemployment in the journals after 1970 was, however, not only due to the challenges of growing unemployment but also to the contemporaneous changes and conflicts in the theoretical and policy views regarding the causes of unemployment and the means of overcoming it. This discussion – which was initiated by the critical attacks on the dominance of Keynes’s unemployment theory by Friedman, Phelps and Lucas – had a strong influence on the growing literature. It was further supported by a growing and sophisticated expansion of empirical work by labour economists. Some trends which characterize the contributions in the seven five-year periods from 1971 to 2005 will now be presented in a rough fashion by looking at the main contents and highlights in the *American Economic Review* and the *Economic Journal*.

*American Economic Review*

1971-75

This period is characterized by the discussion of the unemployment/inflation trade-off problem inherited from the Sixties<sup>3</sup> and the beginning of deep divisions regarding the micro- and macroeconomic foundations of unemployment theory and policy. The background of this period becomes clearly visible in the presidential address of J. Tobin in 1972 ("Inflation and unemployment", AER, vol. 62, no. 1, pp. 1-18) which deserves to be quoted in length, because its doubts and hopes are just as topical today as they were thirty years ago although neoclassical dogmatism tends to forget this.

"Unemployment and inflation still preoccupy and perplex economists, statesmen, journalists, housewives, and everyone else. The connection between them is the principal domestic burden of presidents and prime ministers, and the major area of controversy and ignorance in macroeconomics" (*ibid.*, p. 1).

After reviewing economic thought on this subject and reflections on the experiences and discussions of the Sixties, Tobin continues:

"Macro-economic policies, monetary and fiscal, are incapable of realizing society's unemployment and inflation goals simultaneously. This dismal fact has long stimulated a research for third instruments to do the job: guideposts and income policies, on the one hand, labor market policies and manpower policies, on the other" (*ibid.*, p. 17).

After finding that hopes in these directions had not been fulfilled, Tobin looks for adequate measures.

"As for macro-economic policy, I have argued that it should aim for unemployment lower than the zero-inflation rate. How much lower? [...] We cannot say. In the nature of the case there is no simple formula [...] for full employment. Society cannot escape very difficult political and intertemporal choices. We economists can illuminate these choices as we learn more about labor markets, mo-

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<sup>3</sup> Five of the 17 papers refer to the Phillips curve in their title.

bility, and search, and more about the social and distributive costs of both unemployment and inflation. Thirty-five years after Keynes, welfare macroeconomics is still a relevant and challenging subject. I dare to believe it has a bright future" (*ibid.*, p. 18).

Apart from the last sentence, which one might dare to believe to have been a bit too optimistic, Tobin obviously recognized the problems and needs facing unemployment research after the breakdown of earlier full employment hopes. A further look at the same problem was provided in this period in a technically more concentrated contribution by J.L. Stein in 1974 ("Unemployment, inflation and monetarism", AER, vol. 64, no. 6, pp. 867-87), who developed a model that should settle differences between Keynesian fiscalists and the newly emerging monetarists with regard to the causes of unemployment and to employment policy.

#### 1976-80

The discussion is now characterized by a broadening treatment of special aspects of unemployment: frictions, women, race, etc. On the theoretical front the relationship between unemployment and inflation remains a frequent subject (seven contributions) with the visible influence of the then fashionable monetarism and the upcoming influence of rational expectations and the concept of the natural rate of unemployment. Special mention could be made of R.E. Lucas ("Unemployment policy", AER, vol. 68, no. 2, pp. 353-57), who rides an attack on the vagueness of full employment targets, and the 1980 presidential address of R.M. Solow ("On theories of unemployment", AER, vol. 70, no. 1, pp. 1-11), who stresses that behavioural and institutional factors of the labour market prevent market clearing and the establishment of an "equilibrium wage". "I believe", he writes, "that what looks like involuntary unemployment is involuntary unemployment" (*ibid.*, p. 3). Economic theory should take such "market failures" into account; there is room for macro-economic policy measures. Altogether a very undogmatic presentation.

*1981-85*

Here two papers deserving attention attempt to establish the possibility of "involuntary unemployment" without relying on Keynesian assumptions and his attacks on (neo-)classical theory. M. Kohn ("A loanable funds theory of unemployment and monetary disequilibrium", *AER*, vol. 71, no. 5, pp. 859-79) obtains involuntary unemployment by substituting a loanable funds theory for Keynes's liquidity preference theory, and J.L. Yellen ("Efficiency wage models of unemployment", *AER*, vol. 74, no. 2, pp. 200-05) presents the fashionable efficiency wage approach to whose history she had decisively contributed.

*1986-90*

This period is characterized by a concentration of unemployment themes in the conference proceedings in the May 1988 (vol. 78, no. 2) issue of the *AER* which contains almost half (13) of the 29 papers which appeared in this five-year period. It may not be mere accident that this cumulation appeared after several years of especially high unemployment with an average of 8% in the years 1980-86 (including a maximum of 9.7% in 1982). The breadth of themes and the prominence of the contributors can be indicated by mentioning just a few of the contributions: "The challenge of high unemployment" (A.S. Blinder); "The persistence of unemployment" (R. Barro); "Long-term unemployment and macro-economic policy" (A. Lindbeck and D. Snower); "Fairness and unemployment" (G.A. Akerlof and J.L. Yellen); "The Un-natural rate of unemployment" (D.M. Gordon); "Is European unemployment classical or Keynesian?" (R.M. Coen and B.G. Hickman); "Fluctuations in equilibrium unemployment" (R.E. Hall).

*1991-2005*

With the decline of unemployment rates after the record levels of the Eighties the supply of papers on unemployment falls rapidly in the period 1991-95 and settles at an even lower level in the following periods. Discussions of the 'big' questions relating to the causes and consequences of unemployment give way to more empirically-oriented

analyses of special aspects of unemployment (sectoral shifts, unemployment benefits, etc.) and to comparisons with Europe and the unsatisfactory performance in some of the European countries. Two contributions with a more general touch are perhaps worth to be mentioned out of the 27 papers which appeared in the years 1991-2005. In 2000 a paper by E. Yashiv ("The determinants of equilibrium unemployment", AER, vol. 90, no. 5, pp. 1297-322) presents a good example for the present tendency to concentrate unemployment research on optimising activities in the labour market (search and matching processes) and the equilibrium unemployment arising from them. A year later a paper by R. Di Tella, R.J. MacCulloch and A.J. Oswald ("Preferences over inflation and unemployment", AER, vol. 91, no. 1, pp. 335-41) shows how the growing studies of 'happiness' research can throw new light on policy evaluations.

### *Economic Journal*

#### *1971-75*

This period is still under the influence of the Sixties when unemployment did not play a major role and was mainly regarded as the consequence of various frictions and irregularities. The papers therefore contain mainly detailed treatments of some special aspects of unemployment: male and female unemployment, urban unemployment, search efficiency, etc. There is no comprehensive concern about unemployment.

#### *1976-80*

A more comprehensive view becomes first visible in this period (with unemployment already more worrying) in the years 1979 and 1980 in two papers by S.J. Nickell which can be regarded as the beginning of a British school of labour market studies which are characterized by theoretical openness with a strong empirical basis. Although the two papers ("The effect of unemployment and related benefits on the duration of unemployment", EJ, vol. 89, no. 353, pp. 34-49 and "A picture

of male unemployment in Britain", EJ, vol. 90, no. 363, pp. 776-94) deal with specific themes, they nevertheless touch many general aspects of the unemployment problem and show a tendency to question wideheld beliefs which rest on unsure assumptions. Thus in his first paper (EJ, vol. 89, no. 353, p. 34) Nickell writes:

"The relation of unemployment benefit and the duration of unemployment is a topic of considerable current concern. Few things are guaranteed to raise the temperature in the saloon bar more quickly than the story about the friend of the wife's brother who knows of someone working as a coach driver during the summer and wintering in the Bahamas on his unemployment pay".

At the end of this paper Nickell comes to the conclusion that the

"results [of his analysis] on the long-term unemployed indicate that there would be negligible efficiency losses from increasing their benefits and such arguments can no longer be used as grounds for not doing so" (*ibid.*, p. 47).

### 1981-85

In this and the following period – a bit later than in the AER – the discussion touching fundamental and special aspects of unemployment explodes, not least of course because the changes in government policies and the recognition of unemployment persistence created new incentives and controversies. To some extent the discussions were carried out in direct confrontations of differing views as in the review article by Nickell of P. Minford's book on unemployment and Minford's reply in 1984 ("Review of 'Unemployment: Cause and Cure'" and "Response to Nickell", EJ, vol. 94, no. 376, pp. 946-53 and pp. 954-59) which concerned Minford's model-based conclusions that unemployment could (should) be reduced through *a*) weakening unions (wages are too high in the unionised sector) and *b*) lowering the replacement ratio of unemployment benefits (to make the unemployed ready to adopt work at any going lower wages which – he assumes – is always available). Minford's arguments are criticized by Nickell on factual, theoretical and social grounds. A year later, in 1985, Nickell is involved in another dispute, this time with S. Price on the possibilities and difficulties of establishing a value of equilibrium unemployment

(EJ, vol. 95, no. 377, pp. 189-95 and pp. 196-98). In addition to these direct confrontations there are numerous other 'deep' analyses of decisive aspects of unemployment as for instance – just to name a few – R.E. Backhouse on Keynesian and neoclassical assumptions in 1981, A.B. Atkinson on the influence of wages and government policy and E. Malinvaud on the role of wages (both in 1982).

### *1986-90*

This five-year period sees a continuation of the intensive treatment of unemployment themes yielding a record supply of 29 papers. There is now more discussion of special aspects of the unemployment question, but more general approaches are still coming forth. Two papers deserve particular mention. The first comes from F. Hahn in 1987 ("On involuntary unemployment", EJ, vol. 97, Supplement, pp. 1-16), the second in 1990 from S.J. Nickell ("Unemployment: a survey", EJ, vol. 100, no. 401, pp. 391-439). Hahn, torn as usual between admiration of Walrasian general equilibrium models and Keynesian real world affinity, presents a theoretical model which strongly defends Keynes's idea of involuntary unemployment which cannot be easily included in rational general equilibrium models (EJ, vol. 97, Supplement, p. 16):

"I do not mean", he writes, "that we should be uninterested in equilibrium. But we should realize that this leaves a great latitude in the manner in which we attempt to understand the world".

Nickell manages – on 49 pages! – to offer an impressive survey of a large area of contemporary unemployment research. His conclusion (EJ, vol. 100, no. 401, pp. 430-31):

"It should be obvious from what has gone before that a great deal has been achieved in the last two decades [...] but we remain a long way from a generally accepted view of the fundamental causes of unemployment".

Other papers deal with the role of education, relative wages, regional differences, increasing returns, structural change, job queues, pre-war experience, etc. A good comparative survey is given by J. McCallum in 1986 ("Unemployment in OECD countries in the 1980s", EJ, vol. 96, no. 384, pp. 932-60).

*1991-95*

The markedly reduced number of contributions deals increasingly with empirical investigations on the influence of several special factors. A more fundamental paper is presented in 1991 by M. McAleer and C.R. McKenzie ("Keynesian and New Classical models of unemployment revisited", *EJ*, vol. 101, no. 406, pp. 359-81) who dive deeply into the econometric aspects of the basic differences between Keynesian and neoclassical models. Using American data and the results of previous studies, they show that data and methodological differences open the way to an acceptance of a model from the one 'school' or another. In 1994 - earlier than in the *AER* (see above) - the happiness perspective is introduced in a paper by A.E. Clark and A.J. Oswald ("Unhappiness and unemployment", *EJ*, vol. 104, no. 424, pp. 648-59). Stressing the policy relevance of the growing happiness research, they come to the conclusion that the research of their paper (viz. the loss of individual well-being connected with unemployment) suggests that "British policy measures aimed at cutting supposedly high levels of voluntary joblessness would be misguided" (*ibid.*, p. 658).

*1996-2000*

The marked rise of contributions by more than 50% over the previous period is mainly due - probably intensified by the persistence of high unemployment levels - to a special Controversy Section in the May 1998 issue of the *EJ* (vol. 108, no. 448, pp. 779-867) dealing with "The macroeconomics of unemployment in the OECD". The breadth of subjects dealt with can be illustrated by the titles of the papers: an introduction by H. Dixon (pp. 779-81) is followed by E.S. Phelps and G. Zoega, "Natural-rate theory and OECD unemployment (pp. 782-801), S. Nickell, "Unemployment: questions and some answers" (pp. 802-16), P. Davidson, "Post-Keynesian employment analysis and the macroeconomics of OECD unemployment" (pp. 817-31), M. Karanasou and D. Snower, "How labour market flexibility affects unemployment: long-term implications of the chain reaction theory" (pp. 832-49), and J.B. Madsen, "General equilibrium macroeconomic models of unemployment: can they explain the unemployment path in the OECD?" (pp. 850-67). In his introductory remarks Dixon summarizes:

“Although the papers reflect wide disagreements which exist among economists, they suggest that the increase in the real interest rate and the decline in the investment ratio are partly to blame for the high unemployment rate in the OECD countries. Further research of these issues would seem to be warranted” (*ibid.*, p. 781).

In addition to the impressive Controversy Section in 1998 a 1996 paper may be mentioned as an example of the growing interest in experimental economics. In an article “Involuntary unemployment and non-compensating wage differentials in an experimental labour market” (EJ, vol. 106, no. 434, pp. 106-21) E. Fehr, G. Kirchsteiger and A. Riedl show what experimental methods can contribute to the efficiency wage theory of unemployment.

#### 2001-05

In addition to predominantly specialized papers there are two papers with a wider perspective. In 2001 N.G. Mankiw returns to the old Phillips curve problem (“The inexorable and mysterious tradeoff between inflation and unemployment”, EJ, vol. 111, no. 471, pp. C45-61). He affirms the general existence of a short-term Phillips curve empirically and theoretically but stresses the difficulties for monetary and price theory to come to terms with long-term effects. The second paper I want to mention presents an appropriate ending for this note. Published in 2005 it deals with “Unemployment in the OECD since the 1990s: what do we know?” (EJ, vol. 115, no. 500, pp. 1-27). In it the authors S. Nickell, L. Nunziata and W. Ochel analyse the trends and national differences in unemployment since the break with the ‘golden age’.

“We are effectively trying to understand the long-term shifts in both unemployment and aggregate demand (relative to potential output). We emphasise this because it is sometimes thought that the fact that unemployment is determined by aggregate demand factors is somehow inconsistent with the notion that unemployment is influenced by labour market institutions. This is wholly incorrect” (*ibid.*, p. 22).

To study the division between demand and institutional influences is a prominent target of this paper. It will probably remain on the agenda for quite a time to come.

APPENDIX  
UNEMPLOYMENT RATES AND JOURNAL TITLES

	USA		UK	
1971	5,9	2	2,8	0
1972	5,6	7	3,1	4
1973	4,9	2	2,2	2
1974	5,6	3	2,1	1
1975	8,5	3	3,2	2
1976	7,7	3	4,8	1
1977	7,1	5	5,2	1
1978	6,1	13	5,1	1
1979	5,8	6	4,7	3
1980	7,1	5	5,7	1
1981	7,6	7	9,0	4
1982	9,7	1	10,4	8
1983	9,6	6	11,2	0
1984	7,5	3	11,1	3
1985	7,2	8	11,5	7
1986	7,0	5	11,6	8
1987	6,2	4	10,4	8
1988	5,5	16	8,3	5
1989	5,3	2	6,2	2
1990	5,6	2	5,9	6
1991	6,8	1	8,4	3
1992	7,5	2	9,7	2
1993	6,9	2	10,3	2
1994	6,1	4	9,6	4
1995	5,6	2	8,6	1
1996	5,4	1	8,2	4
1997	4,9	3	7,1	2
1998	4,5	2	6,1	8
1999	4,2	1	6,0	2
2000	4,0	1	5,5	4
2001	4,7	2	5,0	4
2002	5,8	0	5,1	1
2003	6,0	2	4,9	1
2004	5,5	1	4,7	2
2005	5,1	3	4,6	5

Sources: U.S. Bureau of Labor Statistics and OECD.