

9/1998 *Wages, Unemployment and Conditions for the Existence of Competitive Equilibrium: Socially Useful Economics?*

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The 'orthodox' or neoclassical view of the relationship between real wages and unemployment has it that increases in wages will cause an increase in unemployment and that a reduction in wages, in the face of adverse shocks to the economy, is the only way to achieve significant reductions in unemployment. Such a view relies on the existence of a vector of market clearing prices in wages, something which in turn depends on a number of theoretically arbitrary and empirically vulnerable 'relationship' conditions holding between the primitives which define the economy. The purpose of this paper is to show that a careful examination of the conditions needed for the existence of market equilibrium with full employment reveals plausible circumstances in which reducing real wages will not reduce unemployment. Further it will be argued and that these theoretical conditions appear, on the basis of available empirical evidence from a number of countries, to have been violated in fact.