

Summary of articles

La crise du chômage en Europe: Une interprétation keynésienne, by Franco Modigliani

This article aims at offering an explanation of mass unemployment, as prevailing in Europe in the last decade. Its main cause, it is argued, is the exorbitant long term interest rates produced by a serious shortage of real money supply, together with a too tight fiscal policy. The combination of these two factors lead an insufficient aggregate demand, and, therefore, insufficient numbers of jobs and vacancies, and, finally, mass unemployment. It is argued that these disastrous policies of inadequate real money supply are being imposed by Germany on the rest of the EMS through high interest rates policy and adherence to fixed parities, once required by the EMS but now voluntarily adopted by those that remain members. This choice rests on the notion that it is essential in order to, someday, achieve Maastricht, no matter what its cost in terms of unemployment and waste of resources. But I suggest that more attention should be given to the possibility that the current policy is actually most likely to produce disaffection with the idea of unity, at least of the monetary kind, by giving tangible evidence of how disastrously costly such a policy might prove.

Journal of Economic Literature classification numbers : O30.

L'emploi en Europe, by Jacques H. Drèze

This expository paper addresses the problem of eliminating mass unemployment in Europe. It claims that a full decade of sustained output growth ($> 3\%$) with moderate growth of real wages ($\leq 2\%$) is necessary and should prove sufficient to that end. Output growth requires demand growth, which is not automatic. Persistent demand gaps are associated with decentralised price formation under constant or increasing returns, and with downward rigidity of interest rates. Policy recommendations include demand management through wage subsidies for the labour content of targeted investments (in low income housing, urban renewal, urban transportation and transeuropean networks); and wage cost reductions for unskilled labour through labour tax exemptions. These recommendations are compared with those of the White Paper.

Journal of Economic Literature classification numbers : O30.

Les coûts d'ajustement croisés et le cycle de productivité: évaluation dans un modèle de cycles réels, by Xavier Fairise

The aim of this article is to analyse the labour productivity cycle in the context of a real business cycle model augmented by interrelated adjustment costs. The model is simulated and compared to the labour market stylised facts. More specifically, we evaluate the ability of the model to reproduce the labour productivity cycle. We show that the size of the latter not only depends on the weight of the labour adjustment costs, but is also influenced by the existing complementarities of hiring and investment. Beyond the explanation of the productivity cycle, the model is also able to account for the investment employment dynamics.

Journal of Economic Literature classification numbers: E22, E24, E30.

Investissement irréversible, taux d'utilisation des capacités et coûts de faillite, by Jean-Bernard Chatelain

This two-period model yields an investment function when firms are facing uncertain demand and bankruptcy costs. It links profitability and expected demand to investment, when there is a conflict between lenders concerned on the bottom tail of the demand distribution, and borrowers concerned by the remaining part of the distribution. Two financial regimes are possible for the firm according to its debt/equity ratio, uncertainty, and the strength of bankruptcy costs: first best with no bankruptcy where financial and real decisions are independent, second best with bankruptcy costs. Compared to first best, second best investment decision provides a lower level of investment, a higher degree of capacity utilisation, and a higher rate of interest, as the cost of capital embodies bankruptcy costs, and so is higher.

Journal of Economic Literature classification numbers: E22, D24, G32.

Standardisation, commerce international et duopole mixte, by Marie-Hélène Jeanneret

The various articles about standardisation decisions tend to overlook an important phenomenon, that of the competition between a private and a public company (mixed duopoly). Such a competition occurs essentially in international trade. It is the purpose of this paper to study standardisation decisions made in this context. In a model of vertical differentiation, we show that the competition system in which standardisation is the most likely to emerge depends on the degree of differentiation of the intrinsic qualities. If this degree is high and if the public firm sells

the best product, then mixed duopoly is more favourable to standardisation; otherwise, when products are then relatively similar, it is public duopoly.

Journal of Economic Literature classification numbers : L13, L3.