GEM Project Innovations

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The fundamental message of the GEM Blog is the superiority of the generalized-exchange model class relative to market-centric thinking that dominates the macro mainstream. The former, developed in the GEM Project, takes seriously what everybody knows. Workplaces in large, specialized establishments are characterized by asymmetric labor-management information and routinized jobs. It is well established that, in such circumstances, rational wage determination is not supported by the labor market and must occur inside firms. The Project conclusively demonstrates that exchange generalization uniquely supports macro theory that is simultaneously micro-coherent and stabilization-relevant.

It is instructive, in support of the crucial message, to gather together the Project's powerful and numerous innovations. The incomplete list makes clear what mainstream theorists are missing by clinging to the non-intuitive assumption that all price-mediated exchange occurs in the marketplace:

- Meaningful wage rigidity (MWR), rooted in the large-establishment venue (LEV), is derived from axiomatic model primitives, uniquely enabling adverse nominal demand disturbances to induce continuous-equilibrium involuntary job- and income-loss. Early Keynesians would quickly recognize microfounded MWR to be the crucial innovation. (Chapters 2 & 3)

- Employee reference standards are introduced into the coherent modeling of wage determination, making the economic treatment labor pricing more consistent with broadly documented, ubiquitous business practice. (Chapter 2)

- Substantial, coherent lags in the rational recalibration of worker reference standards in response to changing market conditions are also derived from axiomatic model primitives, enabling both the introduction of job downsizing into rigorous macro thinking and the completion of Bernanke's benchmark model of depressions. (Chapters 3 & 4)

- A micro-coherent, stabilization-relevant model of stagnation, inspired by Malinvaud, is enabled. (Chapter 4)

- Large, specialized corporations are coherently provided a prominent place in macro theory, providing a missing link to the Nobel-Prize honored work of Coase, Simon, and Williamson as well as to the economics taught in business schools. (Chapters 2 & 8)

- The "Great Fact", i.e., the takeoff in the growth path of global living standards from a near zero rate of annual advance (persisting for many millennia) to the neighborhood of 2 percent that began in the second half of the 19th century, is coherently explained and integrated into GEM macrodynamics. (Chapter 3)

- A coherent, stabilization-relevant model of extreme demand instability is enabled. Depressions no longer are constrained to be one-off phenomena. (Chapter 6)

- A trend-employment objective for stabilization authorities, at least coequal with low, stable inflation, is microfounded. (Chapter 10)

- The Wicksell-Wicksteed factor-income distribution model is scrapped in the modeling of the large-establishment venue (LEV), replaced by a more general residual-rent model that provides an important role for pure profit. (Chapter 3)

- The consistent evidence that locates downward labor-price rigidity and chronic wage rents in large, specialized establishments is coherently explained. (Chapters 2 & 3)

- The consistent evidence that locates layoffs and job downsizing in large, specialized establishments is coherently explained. (Chapter 4)

- Keynes's scrapping of his Second Classical Postulate is microfounded, rationally pushing many employees off their neoclassical supply curve and providing room for labor-supply modeling more congruent with observed LEV behavior. (Chapters 2 & 6.) The implications are widespread. For example, a much more insightful analysis of the incentive effects of payroll taxes is enabled. (Chapter 4)

- The consistent evidence that locates the labor pricing that played a critical role in the price-wage-price spiral that characterized the stagflation decade in the LEV is explained. Along the same lines, the GEM Project constructs a continuous-equilibrium model of the stagflation phenomenon itself. The new model is uniquely consistent with available evidence, usefully rejecting the long-established mainstream mythology about the extraordinary, prolonged 1970s-early 1980s market breakdown. (Chapter 5)

- The coherent mainstream reliance on a single representative household and a single representative firm wholly owned by that household is rejected, replaced by a more powerful aggregation methodology. (Chapter 5)

- Coherent growth modeling is substantially enriched, especially by the revival of the Lewis two-sector and the Olson rent-seeking models. (Chapter 3)

- In a particularly pleasing development, the insightful Keynesian fixed-wage general equilibrium (FWGE) school associated in the 1960s and 1970s with Clower, Barro, Grossman, Malinvaud, *et al.* is revived and effectively integrated into continuous-equilibrium GEM macrodynamics. (Chapter 6)

- Generalized exchange microfounds and thereby revives the revival morale-centric efficiency-wage theory, first developed (independently) by Bob Solow (1979) and me (1977, 1980). (Chapter 1)

- The essential workplace venue of rational exchange is introduced (joining the marketplace venue) into macro modeling, filling an obvious void that long made coherent labor analysis dysfunctional. Nash bargaining, inherently arbitrary, is happily excused from the central role it currently plays in mainstream thinking. (Chapter 7)

- Search/match/bargain models are at last relieved of mainstream theorists' ill-considered attempts to reconstruct voluntary joblessness as a viable explanation of countercyclical behavior of actual unemployment. Didn't we always know that ubiquitous research effort, absent rational MWR to suppress labor-price recontracting, could not succeed. (Chapter 4.)

- Generalized-exchange modeling provides, at long last, a sensible specification of the Phillips curve. (Chapter 4)

That list is certainly not humble. If valid, generalized exchange is the biggest macro idea and the GEM Project the most important macro research program since Keynes and the Cambridge Circus. For those theorists reluctant to abandon comfortably familiar coherent market-centric modeling, the list is a challenge that should not be ignored.

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