GEM Project Narrative in Four Hundred and Forty Words

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Generalized-Exchange Macroeconomics bifurcates both households and firms, each of which rationally pursues self-interests governed by axiomatic preferences and technology. Households are constrained by heterogeneous initial endowments of financial assets. For the largest class, earnings from wealth contribute little to household income; in a much smaller share of households, financial assets are the source of income. While heterogeneous households provide background structure, the separation of firms into two venues that reflect size-related heterogeneity, arising from specialization, the nature of workplace information, and routinized jobs, is at the heart of GEM thinking.

Utility-maximizing labor is point-of-hire homogeneous, and Harris-Todaro rational transfer governs inter-venue worker flows. Profit-seeking large-firm labor pricing is located in the workplace, where firms construct exchange mechanisms and pay the continuous-equilibrium efficiency wage (W^{n}) that equals rational employees' reference wage ($W^{\acute{n}}$) that rationally evolves over time. Workplace-exchange microfounds keystone meaningful wage rigidity (MWR), defined by its rational suppression of wage recontracting. Meanwhile, small firms, capable of effective workplace oversight, optimize by paying the market wage (W^{m}).

Macrodynamics are crucially enriched by MWR's unique motivation of involuntary job loss in response to adverse nominal demand disturbances. MWR also rationally pushes workers off their market labor-supply schedule. Keynes's Second Classical Postulate and Wicksell-Wicksteed income distribution are both scrapped in the rigorous modeling of information-challenged workplaces. Income and wealth become the primary determinants of consumption, and expectations of pure profit principally influence investment. Interest rates play secondary roles in each. Coherent hold-up problems are usefully introduced into production-capacity management. Stationary spending disturbances are associated with temporary layoffs, while nonstationary demand shocks generate permanent job downsizing as well as rationally recalibrated worker reference standards ($\mathbf{K}$) and wage givebacks. In all circumstances, unemployment follows a continuous-equilibrium macrodynamic path. Labor is employed in rationed rent-paying jobs or readily-available market-wage jobs, involuntarily or voluntarily unemployed, or voluntarily out of the labor force. Job quits are procyclical and play no significant role in the stabilization narrative. Job-matching efficiency also does not much matter, insignificantly influencing employment fluctuations. (There is more on this next week.)

Rational price-mediated exchange in information-challenged workplaces produces both dominant labor pricing and rationed jobs that constrain optimization in the marketplace, reconciling continuous decision-rule equilibrium and supply-demand disequilibrium. In the simplest two-venue version, all rational exchange, except between large-firm employers and employees, occurs in the marketplace and is largely governed by familiar textbook analysis. The fundamental message is definitive. Macroeconomics that is both stabilization-relevant and consistent with the neoclassical tenets of optimization and equilibrium is not feasible absent microfounded MWR. It requires the generalization of rational exchange from the marketplace to workplaces restricted by costly, asymmetric information and routinized jobs.

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