

Keynes on Involuntary Unemployment

Keynes: *Men are involuntarily unemployed if, in the event of a small rise in the price of wage-goods relatively to the money-wage, both the aggregate supply of labor willing to work for the current money-wage and the aggregate demand for it at that wage would be greater than the existing volume of employment.*

Hazlitt's translation: *Men are involuntarily unemployed if an increase in prices relatively to wage-rates would lead to more employment.*

Justin's Comment: Hazlitt's translation makes sense to me.

Justin's Comment: Keynes wants to perhaps justify government intervention by arguing that government intervention to prices (via inflation) will help reduce involuntary unemployment. Hazlitt points out the flaw in this.

Hazlitt: **Keynes's statement overlooks the fact that such an increase of employment could have been brought about equally well by a *lowering* of money wage-rates, with commodity prices remaining the same.**

Hazlitt continues: **To recognize this possibility, however, would have been to recognize that the unemployment was not in fact involuntary. Keynes tries to dismiss the possibility by pretending, on quite unconvincing grounds, that there would have to be a uniform and simultaneous reduction of wages throughout the entire economic system to make this result possible. But as I have already pointed out, wages never do go up or down uniformly or simultaneously.**

Justin's Comment: Right. More labor will be demanded at a lower wage.