

## The Labour Market

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Labour market is quite different from ordinary markets for goods and services, let alone the well-organized financial market. The coexistence of excess supply (unemployment) and excess demand (vacancy), namely the presence of the Beveridge curve demonstrates that the labour market is segmented by region, industry, characteristics of workers and so on, and is accompanied by imperfect information. Besides, unlike apples and petroleum, workers purposefully move around with their free will. Unemployment is by definition full-time job search.

In economics, for the last forty years, the “labour search theory” has been the main framework that is expected to uncover the complexity of labour market. Most mainstream economists believe that it has made tremendous progress. I take issue with this view. The reason is that the importance of demand constraint facing firms in goods market is curiously forgotten in the search theory. Job matching in segmented markets with imperfect information is certainly very important. However, job matching is fundamentally conditioned by the level of aggregate demand; there is no such thing as job matching problem in gold rush town! The interested person is kindly referred to my paper: “Stochastic macro-equilibrium: a micro foundation for the Keynesian economics,” *Journal of Economic Interaction and Coordination*, Vol.10, 1, 2015, pp31-55, (DOI) 10.1007/s11403-014-0142-4.

Another thing that makes the labour market special is the role of wages. On the market of apples, the price is expected to equal demand and supply. It is well recognized that wages are different. Some economists emphasize that wages are determined by negotiations between unions and management. That much is true for wages of big corporations. In Japan, synchronized wage determination called *shunto* or spring offence is an important annual event. However, wage determination is not the outcome of simple optimization of unions and management. Rather, it is better seen as historical process. A case in point is persistent decline of both nominal and real wages in Japan in the 1998-2013 period. It is important to note that labour productivity has risen during the period although at a slow pace. This wage deflation is best seen in the context of economic history.