Unemployment, wage bargaining and capital-labour substitution.

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Abstract
Many economists believe that capital accumulation, technical progress and labour force expansion have no lasting effect on unemployment. This view
rests on the empirically doubtful assumption that the elasticity of substitution between labour and capital is equal to unity (i.e., production is Cobb–Douglas). Using a simple model based on the work of Layard, Nickell and Jackman, this paper demonstrates that, with a lower elasticity of substitution, the equilibrium unemployment rate is affected by all of the above factors. It considers briefly how capital accumulation may be endogenised and what long-run implications this has for unemployment.

Keywords: Unemployment, Capital, Elasticity of substitution, Bargaining, Technical progress.
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