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Abstract

We consider the role of search unemployment and wage bargaining in determining the relationship between growth and unemployment. While the long-run tradeoffs between unemployment and growth are weak, the short-run tradeoffs are much stronger. Their comovement varies along the transitional path and depends upon the underlying structural change. The consequences of the growth-unemployment nexus for fiscal policy are addressed. The analysis provides insights into the debate regarding the appropriate fiscal policy in light of the increased debt following the initial response to the recent financial crisis. Our analysis strongly supports an increase in government investment as the appropriate fiscal policy.

Key words: Endogenous growth, unemployment, labor market search

JEL Classification: O41, O47, J64

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