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Dissertation Abstract

“Wage Bargaining, Job Matching, and the Great Depression,” (Job market paper).

This paper estimates a series of shocks to a labor matching model with money and sticky prices, using data on U.S. labor markets from the Great Depression. These shocks consist of shocks to the supply and demand for money, to short-run and long-run productivity, to labor supply, and to labor’s share of bargaining surpluses. The estimates suggest that an unexplained rise in labor’s share of surpluses accounts for a 22% fall in employment and a 17% fall in output from 1929 through 1933, and it also accounts for a substantial portion of the slow recovery. Shocks to labor supply explain the rest of the slow recovery but only a small portion of the initial contraction. Shocks to productivity completely fail to explain the behavior of employment during the 1930s. Shocks to the supply and demand for money, taken together, explain some of the contraction but none of the slow recovery. A persistent downward shift in the Beveridge curve and persistently high wages throughout the 1930s suggest that a rise in labor’s bargaining power may have kept employment low through the entire period.

“Can a Labor Matching Model Match Labor’s Share?”

A canonical labor matching model with sticky prices but flexible real wages can match movements in labor’s share rather well. However, it cannot explain much of the behavior of employment and vacancies in postwar data without resorting to additional shocks beyond monetary policy and productivity shocks. Showing a similarity with its New Keynesian cousins, the model suggests that monetary policy shocks can account for only a small portion of postwar fluctuations with the exception of the Volcker episode. Depending on how one treats the data, productivity shocks can account for much of the behavior of labor’s share and employment during the late 1960s and the early 1980s. The magnitude and timing of these effects depend on the exact manner in which the model and data are made to be compatible with balanced growth, but the conclusion that most recessions have been caused by other shocks is very strong.

“A Model of Capital and Labor Utilization,” (In progress).

For the sake of simplicity, most models of labor matching and unemployment omit fixed capital. In order to fully understand the dynamics of factor incomes, however, it is important to model the joint utilization of capital and labor in the presence of matching frictions. I extend a theoretical labor matching model to include frictions in the matching of unemployed capital with unemployed labor. I compare the behavior of factor incomes in this economy to a more conventional one where capital is rented in a spot market.