Dissertation Abstract (Jong–seok Oh)

Three Essays on Labor Market Friction and Business Cycle

In this dissertation, I study the macroeconomic impact of the reduced labor market friction after the early 1980s on the patterns of the U.S. business cycle.

In the first essay (job market paper), “Macroeconomic Stability in a Flexible Labor Market”, I examine the relationship between labor market flexibility and macroeconomic stability from a post–Keynesian perspective. Considering two aspects of labor market flexibility, employment flexibility and real wage flexibility, I adopt the flex–output model (Skott, 2015) to discuss employment flexibility and extend it by incorporating real wage dynamics induced from a wage–price Phillips curve (Flaschel and Krolzig, 2006) to discuss real wage flexibility. The simulation of model explains that employment flexibility increases instability of an economy whereas real wage flexibility reduces it. Empirical results suggest that, during the Great Moderation, real wage flexibility played a major role in the U.S. economy. On the other hand, employment flexibility contributed to destabilize the economy during the Great Recession.

In the second essay, “Changes in Cyclical Patterns of the U.S. Labor Market: From the Perspective of Nonlinear Okun’s Law”, I measure Okun’s coefficients by three phases of a business cycle, recessions, early expansions and the late expansions, to evaluate the recent debate on the validity of Okun’s law caused by observed more cyclicality in aggregate hours and increased responsiveness of the employment rate to output change after 1985. Related findings are as follows: (1) The main determinant factor of increased coefficient for aggregate hours is the increased responsiveness of the employment rate during the late expansions. (2) The increased responsiveness of hours per employee in early expansion is another main determinant factor of more reactive aggregate hours. These findings are not accordance with the flexible labor market hypothesis that mostly focuses on firm’s firing behavior during recessions with reduced costs than before.

In the third essay (co-authored with Deepankar Basu and Ying Chen), “Class Struggle and Economic Fluctuations: VAR Analysis of the post-War U.S. Economy”, we investigate whether a cyclical profit squeezing (CPS) mechanism still exists after the early 1980s. The widely held belief is that this CPS mechanism is weakened since the bargaining position of the working class is impaired recently. Using a vector autoregression (VAR) method, we found that the pattern of dynamic interactions is consistent with the CPS theory for the unregulated (1980–2011) as well as the regulated (1949–1975) capitalism. One possible explanation is that the CPS theory rests on two-way interactions between the reserve army of labor and profit share. One side of this interaction runs directly from depleting the reserve army of labour, leading to increasing bargaining power of labor, to the share of profit income; the other side of the interaction is mediated through the investment decisions of the businesses. While the relative bargaining position of workers has weaken since 1980 and has thereby undermined one side of the interaction, the other side has likely become stronger because of the ability of businesses to keep the size of the reserve army of labor large even during the early recovery phase of business cycles.