Rüdiger Bachmann
Universität Yale

Jobless Recoveries - A Tale of Two Margins

Abstract:

The recent jobless recoveries have puzzled many. Most explanations have focused on structural change. In this paper, I investigate the quantitative contribution of a cyclical mechanism towards generating jobless recoveries. Extending the model by Hansen and Sargent (1988), I calibrate and compute a dynamic stochastic general equilibrium model of heterogeneous establishments that use two margins of labor services: an intensive margin, hours per worker, and an extensive margin, employment. When facing adjustment costs to the latter, aggregate employment at the end of a short and shallow recession is still relatively high and the need for new hires is weak. Moreover, establishments increase hours worked in the early phase of a weak recovery, before they start hiring anew later on. This pattern is consistent with U.S. data. I find that this mechanism can explain approximately half of the differential behavior of aggregate employment in the last two recoveries compared with previous ones.