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Why does unemployment go up during recessions? This question isn’t as stupid as it seems. In lots of other markets prices adjust to keep demand and supply equal; why not in the labor market? Nobody wants a pay cut, but during a recession workers might prefer that to losing their job outright. Yet unemployment nevertheless jumps during recessions; employers choose to fire workers rather than cut their pay. Economists call this the “downward nominal rigidity” of wages. One of the best papers on this subject came from [**Truman Bewley**](https://www.linkedin.com/in/ACoAABiSQ6IBjwBrb4VQwTFnuRFM3ZhBGWhcWkE/), an economist at [**Yale University**](https://www.linkedin.com/school/18043/?legacySchoolId=18043). Bewley was actually a super-technical microeconomic theorist before writing it, but he took the opposite tack with this research - he went out and surveyed employers. The results were extremely interesting - employers don’t want to cut pay because they think that would be worse for employee morale than layoffs! Anyway, I wonder if there’s some parallel story for why wages are growing so slowly today. Someone should pull a “reverse Bewley” and ask employers. Bewley‘s paper: [**https://lnkd.in/efeUAJn**](https://lnkd.in/efeUAJn)