

Report on the thesis:
“The Effect of Expected Demand on Employment
in the United States”
by **Littlejohn Reid**

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The thesis is a 4-chapter manuscript, to which has to be added a general introduction and a literature review. It is written in English, the native language of the candidate, and is well-written. The thesis is coherent, and intends to analyze the determinants of employment in the United States of America in a quite long period, running from 1948 to 2023. It is an econometric work, well-structured and the subject has a clear policy relevance.

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The general introduction is clear and goes straight to the point; as such it does not raise major issues.

The literature review is quite broad. This shows the candidate's willingness to cover large segments of the economics literature, and this makes him a rounded economist. The default of such an approach is that each part of the literature review is small and much less than exhaustive. For example, while the section devoted to “growth” is, rightly, small, the time spent on this literature could have been used to cover in more depth the literature on insiders-outsiders' models, and the matching models in a more general way, that are, in my view really important for the thesis. Typically, if the matching process is not functioning appropriately, how can extra governmental expenditures translate into more jobs?

Chapter 1 bears on the relation between expectations and effective demand. I appreciate the discussion on expectations, and their rationality, as it goes straight to the point where economists often make long digressions. Nevertheless, I think that the relation between expectations and employment is not fully accounted in the rest of the analysis: if the relation is important, why doesn't the empirical analysis include expectations / survey data? This is even weirder as the candidate knows about these surveys, as they are also discussed in another part of the thesis.) The section on the influence of the government on demand is quite frustrating: it only contains examples (for instance, the Clinton experience) and no reference to the important literature on (so-called Keynesian) multipliers. This is even more surprising

that this literature has, since the Great Financial Crisis (2008 ff.), known important developments.

Chapter 2 discusses the determinants of employment, in a more descriptive / empirical way. I doubt that firms have “a mathematical model” (p. 39). They certainly have a behavior, and probably there is a lot of heterogeneity in those behaviors, and the role of the economist is to understand / explain / analyze those. That’s where mathematical models come from, not the other way round. Also, it is stated (same page) that firms are “risk-averse”, but this point is not proven, nor backed by references. It could even be argued that entrepreneurs are risk-lovers. How would this influence the candidate’s analysis? Equation (1) of this chapter does not make reference to the matching process of firms to job-seekers, nor of hiring costs and so on that may impact the relation. Again, how would this influence the rest of the work? It is quite strange that the variables described in Chapter 2 are based on the analysis realized in Chapter 4 (page 40). This kind of “backward-engineering” reduces the relevance of the discussion made in Chapter 2. An important point is the presence of inflation in the variables: why aren’t all the variables deflated? The candidate talks of a double count of inflation as the variable was taken off, but it is precisely the opposite that happens here: inflation is present in, for example, government expenditures or the trade variables, and thus is counted several times, de facto.

Chapter 3 is not informative at all, as it describes the basic econometric techniques that are nowadays part of an applied economist’s toolbox. It could have been skipped without damage. Moreover, the candidate refers to the Eviews reference manual too often, citing it while the manual in fact refers to issues that have been raised in the econometrics literature. The honesty of the candidate is citing the manual may not compensate the fact that authors that have raised the issues, and addressed them, are not cited.

Chapter 4 is the empirical analysis realized by the candidate to test his hypothesis (namely, that: “Firms increase and decrease employment in response to changes in expected demand.”). Quite strangely, the chapter starts with the following: “It is extremely difficult to forecast future employment because future events are often unpredictable and can have a dramatic effect on employment.” But, isn’t this precisely why the candidate has started his research? And why expectations are so important to analyze and include in any forecasting exercise? The analysis covers the Covid-19 period, which is definitely a plus, but it is not fully taken care of: many of the variables that are included in the analysis have suffered a drastic change in their variations (and thus, statistical properties) during this period. How should researchers correct for this? (For an example of research in this direction, see Camacho et al., 2024, Oxford Bulletin of Economics and Statistics.) How can government expenditures and taxes be included in the same model, as there should be, by definition, a (strong cor-)relation between them? I agree with the candidate that outliers should not be removed from a time-series analysis (p. 90, 93-94), but they should be taken care of correctly (by the inclusion of a dummy for characteristic periods, for example, or robustness checks run on sub-samples to test for the stability of the relations). Moreover, I disagree with the candidate about the fact that the variables are not correlated, as some of them clearly show important degrees of correlations (table 19, page 94). The selection of shocks (page 108 ff.) is not well-justified. (Note that this is also the case for policy recommendations made in the dedicated part of the thesis.)

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In my view, the candidate has been serious in his work. All the questions and remarks made in this report are provided in view of improving the manuscript, and its policy relevance. The questions raised are part of the scientific process of evaluation, and will feed the discussion during the defense.

The evaluation carried out allows us to conclude that the doctoral dissertation of Littlejohn Reid in the light of applicable law, meets the requirements for doctoral dissertations. I recommend that the candidate should be admitted to the public defense of the doctoral dissertation.

Made in July, 7, 2024, for what is worth,

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