

Abstract of the paper: This paper finds that rapid de-unionization can explain the sudden vanishing of the procyclicality of productivity in the U.S. during the 1980s. Cross-sectional evidence from U.S. states and industries shows that a lower cost of hiring and firing workers due to the decline in union power prompted firms to rely less on labour hoarding, making productivity less procyclical. In a model with endogenous worker-effort and costly employment adjustment, allowing the hiring cost to change by the same proportion as the change in union density almost perfectly matches the dynamics of the cyclicity of productivity in the post-War U.S. economy.