Discussion: "The Job Ladder, Unemployment Risk, and Incomplete Markets"

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Main Contribution I: Job Search Inefficiency at the EE Margin

- Search theory literature has studied combinations of the following
    1. On-the-job search
    2. Heterogeneous separation risk
    3. Incomplete markets
    - → **1 & 2** Jarosch (2023); **1 & 3** Lise (2013), Hubmer (2018); **2 & 3** Acemoglu and Shimer (1999);

- **This paper:** Develops a search model which studies all the above **jointly**
    - Two other papers which do this: Larkin (2024) and Caratelli (2024)
    - → _Novel focus_: Efficiency of job mobility decisions, aggregate productivity implications

- **Novel insight:** Workers can make _inefficient_ decisions on EE margin
    - Risk-averse workers _overvalue_ job security relative to higher wages (productivity)
    - _"Climbing to safety"_ potentially a source of aggregate productivity losses

Main Contribution II: UI Policy

- <u>Previous literature</u>: How does UI affect *unemployed* search behaviour?
  - Optimal UI literature focuses on trade-off between insurance vs adverse employment effects
    e.g. Baily (1978) Hopenhayn and Niccolini (1997), Chetty (2008), Landais et al. (2018)
  - Others emphasise role UI plays in helping unemployed into 'better' matches on UE margin
    e.g. Acemoglu and Shimer (1999), Marimon and Zilibotti (1999)

- **This paper:** How does UI affect search behaviour of **employed?**
  - Very little (if anything?) in literature studying this channel

- **New role for UI:** More generous UI can *counteract* distortion on EE margin
  - ↑ **UI** reduces "*price of risk*" and incentivises workers to accept *riskier*, more productive jobs
  - **GE effect:** workers happier to take more risks $\implies$ *easier* for firms to hire

Simple two job example: Workers trade-off wages w with job security δ

Figure 2: Indifference curves: Planner vs. market
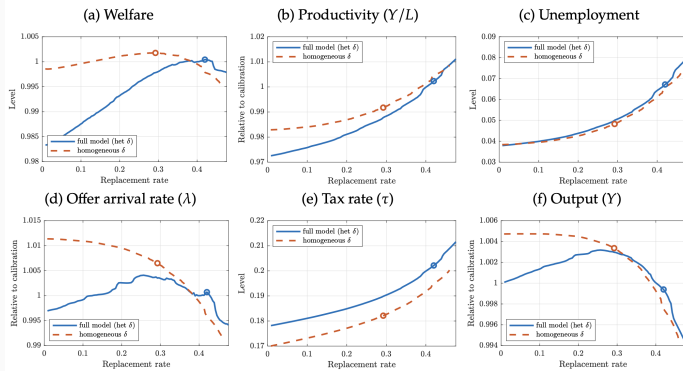

(a) Market with $b_{UI} = 0$

(b) Market with $b_{UI} > 0$
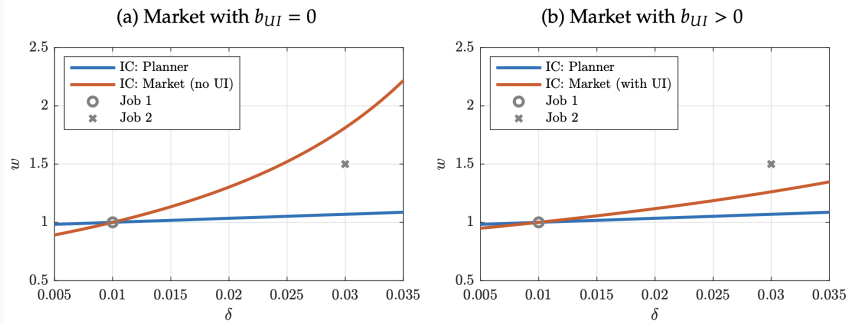
- Worker job acceptance decision *distorted* relative to planner
- More generous UI *flattens* indifference curve slope

Key exercise: Tax-financed changes in UI generosity with GE effects

Figure 9: Effect of varying UI benefits in general equilibrium

- Optimal replacement rate $= \mathbf{42\%} \rightarrow$ roughly equal to US average (40-50%)
- Non-monotonic profile of arrival rate, $\lambda \rightarrow$ novel finding relative to literature

Comment I: Job Risk Heterogeneity

- What drives heterogeneous separation risk across workers?

- **This paper:** Taken as given that some jobs are *inherently* riskier than others
    - Could proxy firm-characteristics e.g. industry, occupation, firm size etc.

- **Conceptual Q:** How **many** desirable EE moves associated with ↑ separation risk?

- Other match characteristics contribute to separation risk
    - **Worker:** Ex ante differences Gregory et al. (2022); Human capital Lise and Postel-Vinay (2020)
    - **Worker-firm:** Mismatch Lise and Robin (2017), Baley et al. (2023), Location Bilal (2023)

→ Factors can contribute to a desirable EE move *reducing* separation risk?

Comment II: Wage Bargaining

- Wage determination choice not innocuous when studying UI in GE
    - **Wage rule:** $w(z) \rightarrow$ no GE effect (by construction) Birinci et al. (2021)
    - **Nash:** $w(z, \theta, b_{UI}) \rightarrow$ strong GE effect from UI Mitman-Rabinovich (2015), Jung-Kuester(2015)
    - **Auction:** $w(z, \theta, b_{UI}, \tilde{w}) \rightarrow$ GE effect depends on job ladder Postel-Vinay-Robin (2002)

- Nash bargaining solution inapplicable in this environment Shimer (2006)
    - On the job search generates non-convex set in plane $\{J(a, z, \delta), W(a, z, \delta) - U(a)\}$
    - **Authors' solution:** Wage rule based on AOB Hall and Milgrom (2008)

$$w(z) = (1 - \psi)\chi + \psi z$$

- Really neat solution, but no GE effect from UI $\rightarrow$ empirically defensible?
    - $\rightarrow$ Disagreement about size of GE effects Chodorow-Reich et al. (2019) vs Hagedorn et al. (2019)

- **Question:** How large would GE effects need to be to recover monotonicity in λ profile?

Comment(s) III

- **Evidence on mechanism:** Do EE flows should respond to UI changes?
    - **Suggestion:** Sensitivity of EE flows to identified UI shocks? e.g. Chodorow-Reich et al. (2019)
    - Direction *ambiguous* $\rightarrow$ depends on current level b_{UI} e.g. Figure 9

- **Calibration:** Job 'riskiness' distribution $F^D(\delta)$ crucial for model but not observable
    - **Authors:** $F^D(\delta)$ pinned down by targeting EU rates by tenure *groups* (quite neat!)
    - Cleaning out worker characteristics will help, but still misses worker-firm characteristics

- **Business cycles:** Job ladder drastically slowed during GFC Moscarini and Postel-Vinay (2015)
    - At same time $\uparrow$ UI generosity, both systematically and from federal interventions
    - **MIT shock:** Use model to study policy counterfactual
      e.g. What would EE flows have been *without* $\uparrow$ UI during the GFC period?

- **Alternative policies:** Arguably not obvious that UI is ideal tool to correct EE distortion?
    - Other policies can also change "price of risk" for employed workers
    - Could (partially) endogenise separation risk and compare UI with alternatives?

Conclusion

- Really nice paper (and a pleasure to read!)
    - Very clearly written
    - Genuinely novel theoretical contribution
    - Interesting quantitative findings, with room for more

- **Key lessons:**
    - Incomplete markets, OJS and separation rate heterogeneity generate *inefficient* EE moves
    - **New role** for UI to play in correcting job ladder distortions