Discussion of

"A Theory of Non-Coasean Labor Markets,"

by Andrés Blanco, Andrés Drenik, Christian Moser, and Emilio Zaratiegui

Christopher Huckfeldt[1]

[1]Federal Reserve Board of Governors

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This paper

- Sticky wages + search frictions in a monetary economy
- Key assumption: wages are allocative for separations
  $\Rightarrow$ Inefficient separations
- Simple (elegant) model + cont's time $\Rightarrow$ analytic expressions for IRFs
- Derives closed form relation of wage changes across jobs + stopping times to worker productivity process

My comments

Great addition to nascent/halting literature on inefficient separations!

- Simple and transparent model conveys clear intuition
- Closed form solutions permits sharp analysis & fixes ideas
- Allow identification of worker productivity process from accessible data

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Questions going forward:

A. When are wages allocative in a search framework?
B. Do inefficient separations have testable cyclical implications? (Yes)
C. Are separations quantitatively relevant at a cyclical frequency? (Yes)

A. When are wages allocative?

1. Classic DMP (e.g., Mortensen and Pissarides, 1994)

- Wages are not allocative for hires or separations
- Present value of wages determined when firm and worker match
- Match continues as long as bargaining set is non-empty, i.e.,

$$R^w \leq R^f,$$

  where R^w (R^f) is the reservation value for the worker (firm)
- But quantitative properties are arguably poor (Shimer, 2005)

A. When are wages allocative? (cont'd)

2. Sticky wage DMP (e.g., Hall 2005, Gertler and Trigari 2009)

- Wage for new hire initiated at some value $\omega \in [R^w, R^f]$
- Now, wages are allocative for hires (controversial!)
- But assume ω adjusts to remain inside $[R^w, R^f]$
- Thus, wages are not allocative for separations
  - Fully efficient separations
  - Considered feature, not a bug
  - Survives Barro (1977) critique
- But what about the volatility of separations?

A. When are wages allocative? (cont'd)

3. Super-sticky wage DMP (e.g., Blanco et al. 2023, Trigari et al. 2022)

- Wage for new hire initiated at some value $\omega \in [R^w, R^f]$
- Wages are still allocative for hires
- But additionally assume ω is fixed and hits boundaries of bargaining set
  - $R^w > \omega \Rightarrow$ worker quits
  - $R^f < \omega \Rightarrow$ firm fires worker

  Wages are allocative for separations!
- Helpful for explaining cyclical behavior of separations…
- But is it worth violating the Barro critique?

B. Can we test for inefficient separations?

- Efficient separations: no difference between quits and layoffs
- Inefficient separations: quits and layoffs are different…
  - Assume $[R^w, R^f] \downarrow$ following monetary contraction…
  - Then, for given volatility of idiosyncratic shocks to match revenue, layoffs $\uparrow$ and quits $\downarrow$
- Can we test this in the data?

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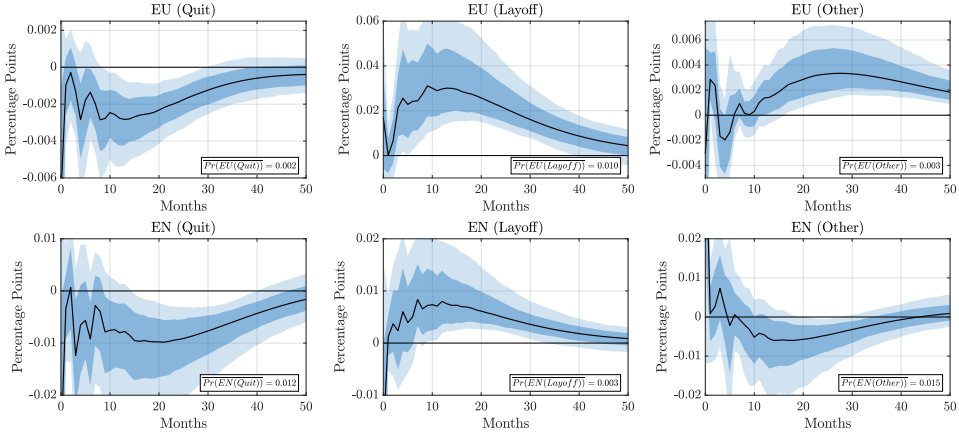
  Yes. Graves, Huckfeldt, and Swanson (2023)

B. Can we test for inefficient separations? (cont'd)

- Theory: monetary contraction $\Rightarrow$ layoffs $\uparrow$ and quits $\downarrow$
- Study IRFs for quits and layoffs to contractionary monetary policy shock, as in Graves, Huckfeldt, Swanson (2023):
- Estimate SVAR w/ external instrument, à la Bauer and Swanson (2022)
  - HFI changes in interest rates around FOMC announcements + Chair speeches, orthogonalized with respect to recent macro/financial news
- Include labor market flows from merged monthly CPS
- Develop new measure of quits to nonparticipation
- Assess importance of various flows to response of stocks

B. Can we test for inefficient separations? (cont'd)

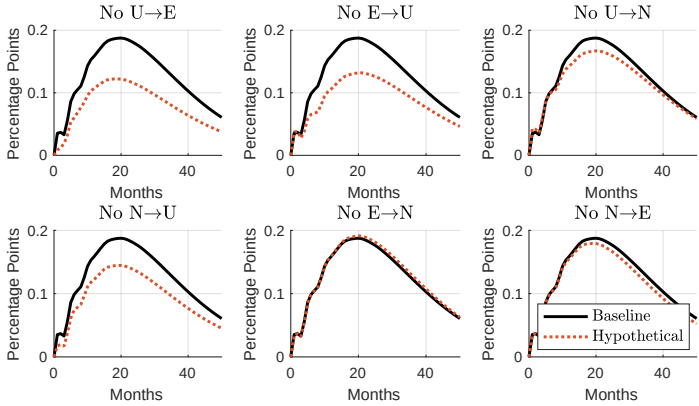


- Layoffs ↑ & quits ↓ in response to contractionary monetary policy shock
- Consistent with theory of inefficient separations!

C. Do separations matter?

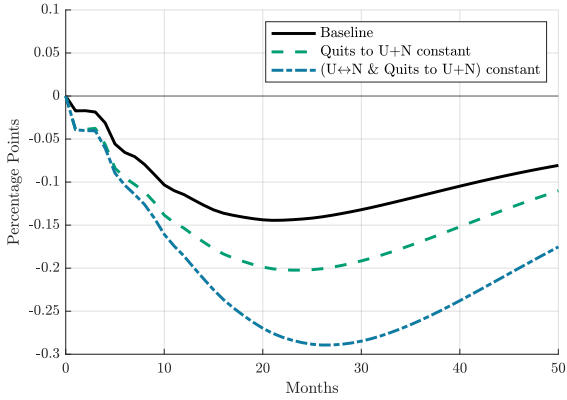
- Difference between quits and layoffs…but should we care?
- Shimer (2012): ignore unconditional cyclicality of separations
  - Controversial, but influential!
- What about conditional cyclicality w/r.t. monetary policy shocks?
- Next: take IRFs of flows as given, construct hypothetical IRFs for stocks, holding target flows at steady state value
- Assess whether target flow is important for shaping dynamics of stock
  - Focus on unemployment & employment-population ratio

C. IRFs of unempl. to contractionary monetary policy shock



- U→E and E→U (≈ layoffs) equally responsible for rise in unemployment
- E→N (≈ quits) does nothing

C. IRFs of e-pop to contractionary monetary policy shock



- Fall in e-pop $\approx$ 1/3 larger absent decline in quits
- Fall is twice as large absent full labor supply response (quits + U$\leftrightarrow$N)

Conclusion

- Fantastic contribution to an important literature
- Inefficient separations allows for distinction between quits and layoffs
- Distinction between quits and layoffs matters supported by data and matters for quantities
- Looking forward to seeing research agenda progress!