Discussion of

"A Theory of Labor Markets with Allocative Wages,"
by Andrés Blanco, Andrés Drenik, Christian Moser, and Emilio Zaratiegui

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This paper

▶ Characterizes equilibrium of directed search model with fixed wages and endogenous separations

▶ Wages within matches set competitively à la Moen (1997), then fixed
   ▶ Wages not allocative for new hires

▶ Worker/firm matches are subject to idiosyncratic shocks to productivity

▶ No wage renegotiation ⇒ large shocks generate inefficient separations
   ▶ Introduces trade-off between wages and tenure

▶ "Expansionary" money shock increases separations

Immediate response

Great addition to nascent literature on inefficient separations!

- ▶ Simple and transparent model conveys clear intuition
- ▶ Elegant closed form solutions permits sharp analysis & fixes ideas

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▶ Describe restrictions that the model imposes upon on the data

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Summary of comments/questions going forward:

- ▶ Ask: Why should we be thinking about inefficient separations?
- ▶ Identify open questions that might be important within the literature

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▶ HANK literature restores focus to sticky wages (e.g. Auclert et al, 202∗)

"There and back again", cont'd

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    ▶ Shimer (2012): sep's account for $\approx 1/3$ of unempl. volatility

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▶ Need to understand how sticky wages might amplify separations

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- ▶ Next: open questions confronting literature

Three open questions:

1. If we accept allocative wage for separations, can we get rid of sticky wages for new hires?

2. Can a "sticky wage" adjust to prevent an inefficient separation?
   - ▶ Need sticky wages imply such strong implications for separations?

3. Are wages allocative for separations in all matches, or just some?

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▶ Tentative assessment: perhaps still need allocative wage for new hires

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▶ Empirical evidence:
  ▶ Grigsby et al (2021a): nominal and real wage cuts (esp. during GR)
  ▶ Grigsby et al (2021b): some wage cuts are reversed (esp. during Covid)

  ▶ Grigsby et al (2021a)   ▶ Grigsby et al (2021b)

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  ▶ Proposes model of Nash bargaining subject to cash-flow constraint
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- How important is heterogeneity for the cyclicality of separations?
  - See also Carlsson and Westermark (2022)

Conclusion

▶ Fantastic, thought-provoking contribution to an important literature

▶ Authors should be clear on empirical implications of model

▶ Looking forward to seeing the paper (and research agenda) progress!

IRFs from model

FIGURE 3. CUMULATIVE IMPOSE RESPONSES IN THE LABOR MARKET
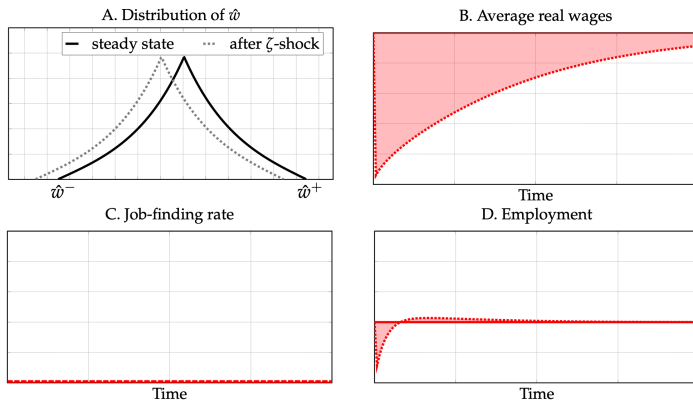
Notes: Panel A shows the distribution of $\hat{w} = \log(W_{it}/(Z_{it}P_t))$ in the steady state and following the monetary shock of size ζ. Panels B to D show the impulse-response function of real wages, the job-finding rate and aggregate employment, respectively. The parameter values are $(\gamma, \pi, \sigma, \rho, \alpha, \bar{K}, \delta, \bar{B}) = (0, 0.001, 0.007, 0.03, 0.5, 1, 0.005, 0.4)$.

IRFs to contractionary monetary policy shock

Source: Graves, Huckfeldt, and Swanson (2022)
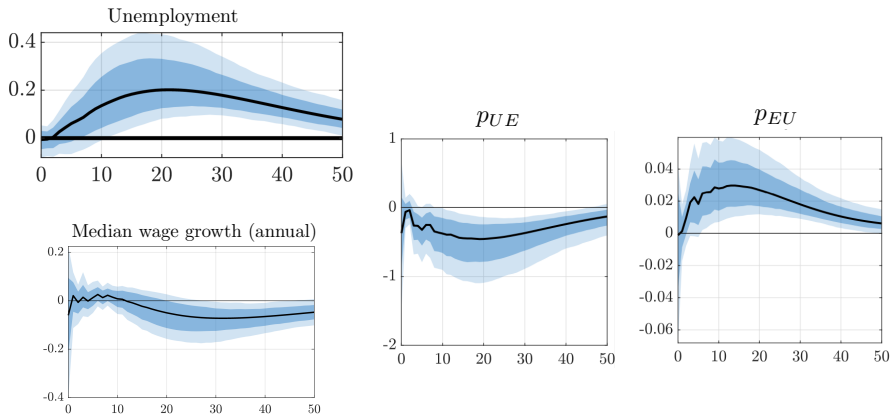
Grigsby, Hurst, and Yildirmaz (2021)

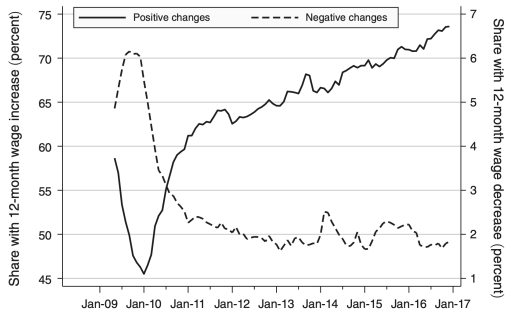Panel B. Has wage change: positive versus negative

FIGURE 6. TIME SERIES OF NOMINAL BASE WAGE ADJUSTMENTS: JOB-STAYERS

Notes: Figure plots the propensity to receive a 12-month base wage change over time for our employee sample of job-stayers between May 2009 and December 2016. For example, May 2009 measures the propensity for a base wage change between May 2008 and May 2009. Panel A measures whether the worker received any base wage change during the period. Panel B separately measures wage increases (left axis) and the propensity for wage decreases (right axis).

Grigsby, Hurst, Yildirmaz, and Zhestkova (2021)

PANEL A; OVERALL BY YEAR   PANEL B: BY INITIAL WAGE QUINTILE (2020)
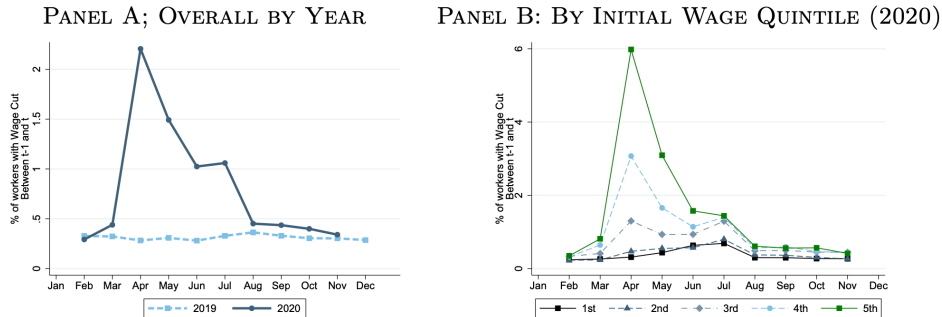
Figure 1. : Time Series of Monthly Nominal Base Wage Cuts

Note: Figure shows the time series of the probability that a worker receives a nominal month-over-month base wage cut, conditional on staying at their firm. Panel A plots the overall time series for 2019 (light blue dashed) and 2020 (dark blue solid), separately. Panel B plots the time series for 2020 across workers' initial wage quintile. Wage quintiles defined using the distribution as of February 2020.

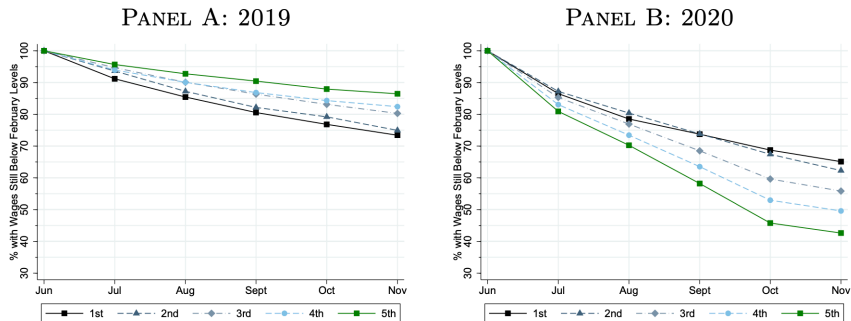# Grigsby, Hurst, Yildirmaz, and Zhestkova (2021), con't

Figure 2. : Permanence of Base Wage Cuts by Initial Wage Quintile

Note: Figure shows the permanence of base wage cuts. The sample is restricted to workers who received a nominal base wage cut between February and June, conditional on remaining at the same firm. The figure plots the share of those workers with wages still below their February levels as of the month listed on the horizontal axis, conditional on remaining at the same firm. This is done separately for each worker's February wage quintile, defined using the February 2020 wage distribution. Panels A and B plot the patterns for 2019 and 2020, respectively.