Thomas Walsh
European University Institute, Dept. of Economics
thomas.walsh@eui.eu / walshthomas.com

Research Statement

Overview I am an applied macroeconomist with interests in labour economics, firm dynamics, and monetary and fiscal policy.

My current research addresses macroeconomic questions using a mix of panel microdatasets and applied econometric methods to understand the dynamic effects of economic policy interventions on the choices and outcomes of households and firms. My two working papers are outlined below, followed by work in progress.

Working Papers My job market paper **"Job Search and the Threat of Unemployment Benefit Sanctions"** contributes to understanding how unemployment insurance sanctions affect jobseeker behaviour and subsequent outcomes, like match quality, through the indirect "threat" effect.

Sanctions (a temporary stop to UI payments) are seen as a way for policy makers to dampen the insurance-incentives tradeoff in unemployment insurance, and act either directly via the budget constraint or indirectly through expectations. I focus on the indirect effect since only a small fraction of jobseekers are ever sanctioned, the relevant population impacted by the indirect channel is potentially much larger. Following a nationwide sanctioning reform in the UK, I exploit between-district variation in per-unemployed sanctioning intensity. I use a difference-in-differences design combined with microdata on individuals' working life histories to identify the effect of sanctioning threat on jobseekers' behaviour and outcomes. I find that while increased sanctioning threat speeds up jobseeker exit rates from unemployment, subsequent spells of employment are less stable, suggesting policymakers faces an intensive-extensive margin tradeoff in unemployment spells, and a focus on just the direct effect of sanctions can understate the total effects of sanctions.

"Sectoral Volatility and the Investment Channel of Monetary Policy" My second working paper, joint work with Ozgen Ozturk, has been submitted to journals twice. In the last instance the paper was rejected but with referee reports at the Review of Economic Dynamics. We plan to submit to a similar quality journal as soon as the suggested work is completed.

In this paper we examine how heterogeneity in "firm risk" affects the investment channel of monetary policy. We call dispersion of idiosyncratic firm-level shocks firm risk. We document significant

dampening of the investment channel of monetary policy due to dispersion of idiosyncratic shocks both in cross-sectional comparisons across sectors, and following sectors as volatility changes through time. Given dispersion of shocks rises in recessions, this result is able to explain why monetary policy is less effective at stimulating investment in recessions compared to booms.

Future Research my plan for the immediate future would focus on preparing my two working papers for submission to journals, alongside developing the third chapter of my thesis.

In "**Government Spending in Firm-level Production Networks: Size v Centrality**" (joint with Wolfram Horn) we examine how large are fiscal spending multipliers within production networks. When firms are heterogeneous in the number of supply-chain connections they have (but are otherwise treated as homogeneous) multipliers can be amplified by the network structure as shocks propagate up and down supply lines. We ask what happens when we account for firm heterogeneity not just in terms of input-output linkages (centrality), but also heterogeneity in how financially constrained are firms which occupy important nodes (where relaxing financial constraints also boosts multipliers). Endogeneously, large, productive, *less constrained* firms will typically be in the most central nodes of the network, and smaller constrained firms in the more peripheral positions. Fiscal authorities can therefore boost multipliers by targeting constrained firms with high responsiveness, or by targeting high-centrality firms, but not both simultaneously.

We build a simple reduced form model of government spending in production networks with distortions due to financial frictions, and our empirical work first documents correlations between network centrality, procurement contracts received, and financial constraints with firm size. We document that procurement spending typically enters the production network via large, unconstrained firms, suggesting potentially small pass-through effects. We capture the dynamic effects of government procurement in a flexible local projections framework, looking at how firms' sales and investment respond to government procurement shocks in competitive auctions. Finally we examine network propagation of these demand shocks and their interaction with financial constraints and size.

Finally, while my job market paper studies how features of social insurance, namely sanctions, affect household outcomes, it is also important to understand what determines these features of public insurance. I am examining the political roots of dispersion in UI sanctioning rates across otherwise comparable areas of the UK in "**Making the Cut: Close Elections and Local Economic Policy**" with colleagues Nikolaj Broberg and Tuuli Tähtinen. A natural question arises when looking at the increase in dispersion in sanction rates across areas post-reform: how is this linked to political control in the area? We use a "close elections" regression discontinuity identification in which we examine constituencies marginally aligned or opposed to the central government.

We find marginally government-aligned seats manage to protect their constituents from some of the negative consequences of the reform - at the cutoff sanction rates are lower in aligned areas, suggesting "pork barrel" politics operates through allocating economic "bads" as well as goods.