A Theory of Non-Cosean Labor Markets

by Blanco et al.

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What They Do
Worker and Firm Meet. Initial Productivity
Lower Bound
Upper Bound
Initial Wage
The Wage is Fixed
Productivity Evolves Stochastically
The Bounds Move with Productivity
The Bounds Move with Productivity
Quit. Wage Can’t Rise (firm would love to raise). “Non-Cosean”
Another Scenario
Layoff. Wage Can’t Fall (worker would happily accept).
“Non-Cosean”
Wage Distribution
Back to Scenario I. So far just one worker
But there are more
In fact, a whole distribution
inflation
Wage Distribution in 2021
Inflation Devalues Real Value of (Fixed) Pay
An Initial Burst of Quits
history dependence

- impact of inflationary shock on initial separations depends on history
- large response if climbing out of a recession
- small response if recent boom
What happens after?

assumption: no further shocks
What happens after?

assumption: no further shocks

- incumbent workers
  - just sit there

if wages are flexible

- just get hired at "normal" pace

so employment recovers, but

don't understand why paper gives overshooting

if wages are sticky

- hiring boom, cheap workers

employment overshoots, grease
What happens after?

- assumption: no further shocks
  - incumbent workers
    - just sit there
  - new hires
    - if wages are flexible
      - just get hired at “normal” pace
      - so employment recovers, but no grease
      - don’t understand why paper gives overshooting
    - if wages are sticky
      - hiring boom, cheap workers
      - employment overshoots, grease
so, grease or not?

- seems to be all about new hires wages
- paper seems to indicate other forces
- would be useful to clarify how these matter
- broadly, framework might still be searching for the right application
some comments
quits to where?

- in the model all quits are to unemployment

- but one might suspect that what really happens after an inflationary shock is that people start moving to other jobs

- the allocative implications are obviously very different
some evidence on EU vs EE

Figure 4: Labor Market Actions

- Pilossof & Ryngart (23)
some evidence on EU vs EE

- St Louis Fed (several research briefs): “provide evidence that job-to-job transitions are the underlying reason behind the recent rise in quits in the leisure industry; this is inconsistent with the presumptions of the Great Resignation hypothesis and instead more indicative of worker reallocation”
some evidence on EU vs EE

- data on EU quits are surprisingly hard to get but

in any case, paper should confront this and clarify
the measurement idea

- idea (imported from monetary): exogeneous vs endogenous separations have very distinct wage (price) change distribution

- can infer relative weights from shape of the distribution of wage changes

- some caution: in the menu cost literature, we are talking about the same firm pricing the same object. here, we are talking about two different employers pricing the same (?) worker

- what if: human capital depreciation, falling off a job ladder, search over dispersed wages,...

- intellectual arbitrage is great, but there are some pitfalls that deserve attention
formalism

- we should be formal and clean in our arguments
- but we should keep the math and formalism at the minimum required to convey the economics
- this paper uses heavy, impressive math (“publication by intimidation” (?))
- yet the ideas at the heart are simple and well understood
- hence not sure whether the current shape is exactly Coasean
- excessive math is a barrier