A Theory of Non-Cosean Labor Markets

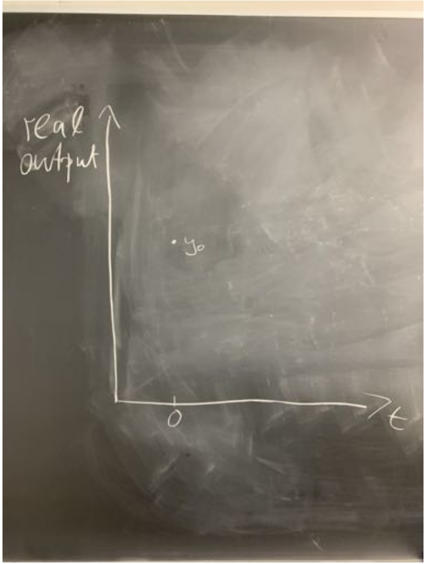
by Blanco et al.

Gregor Jarosch

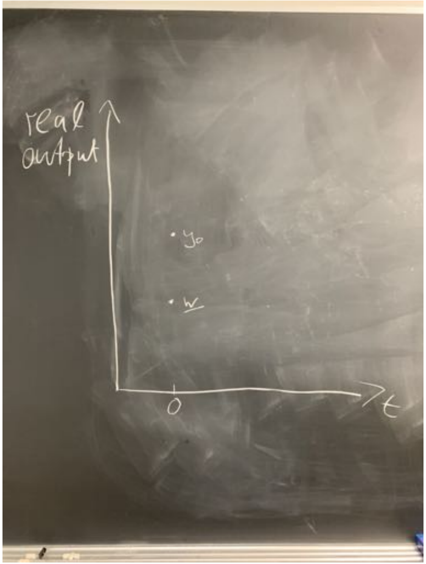
October 5, 2023

What They Do

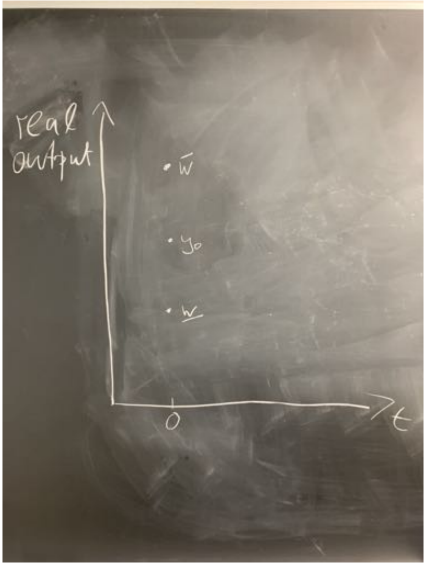
Worker and Firm Meet. Initial Productivity



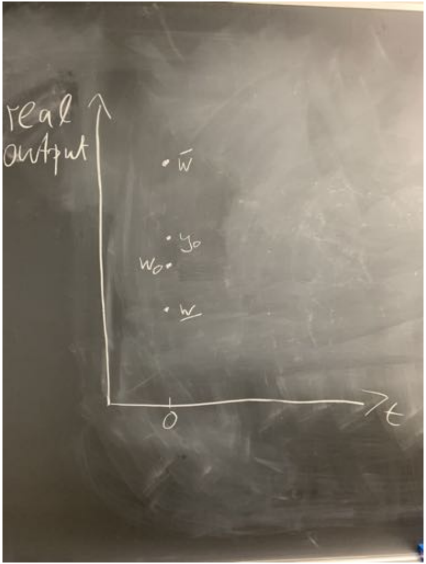
Lower Bound



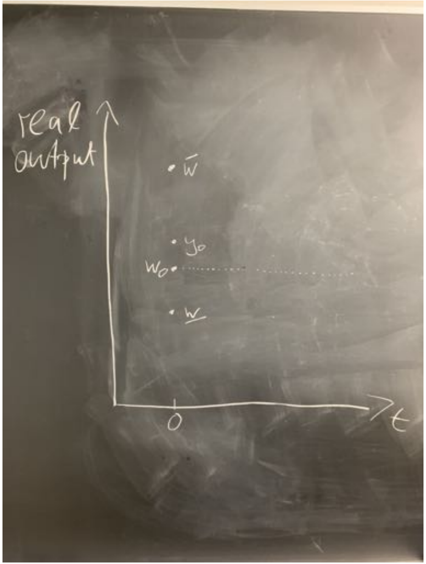
Upper Bound



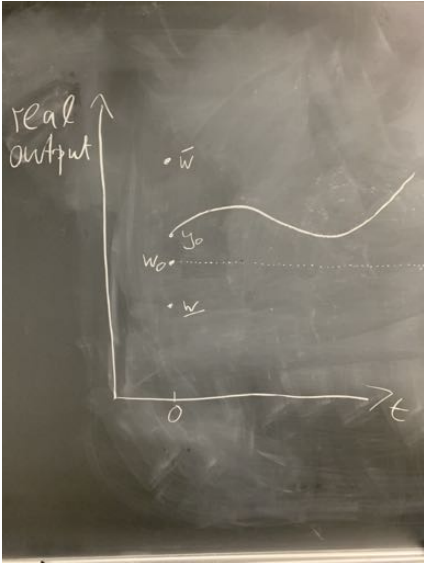
Initial Wage



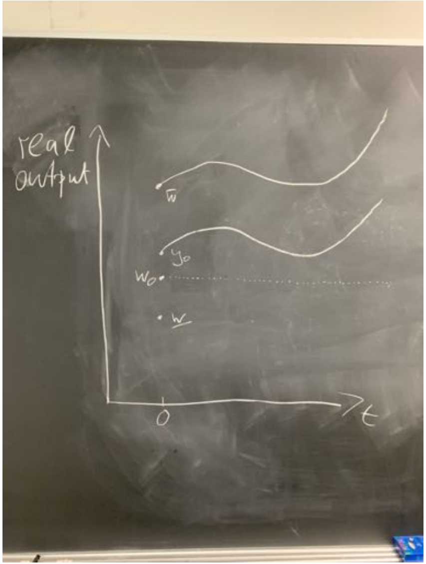
The Wage is Fixed



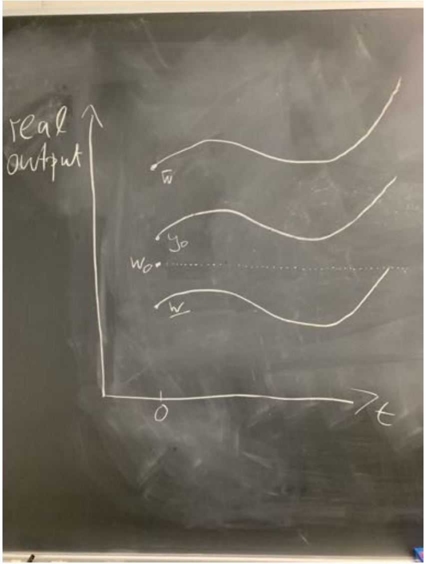
Productivity Evolves Stochastically



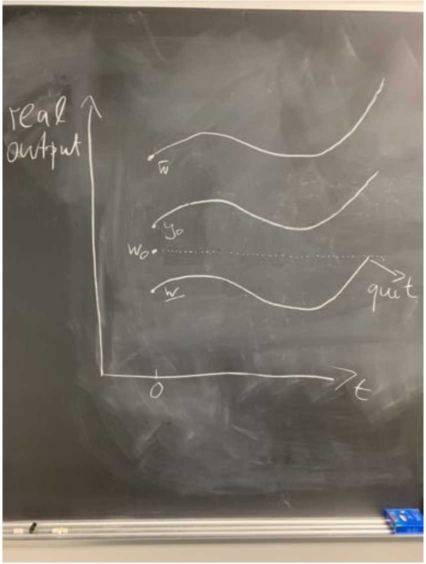
The Bounds Move with Productivity



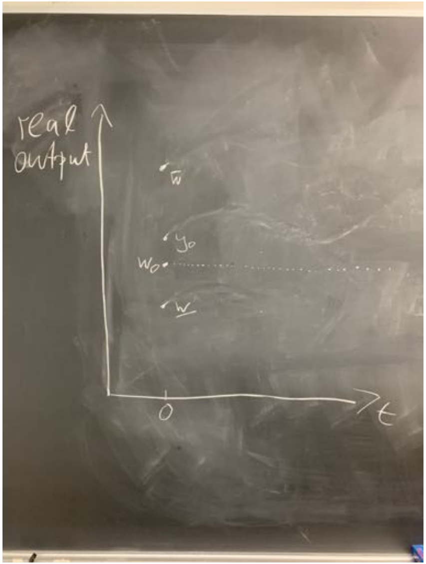
The Bounds Move with Productivity



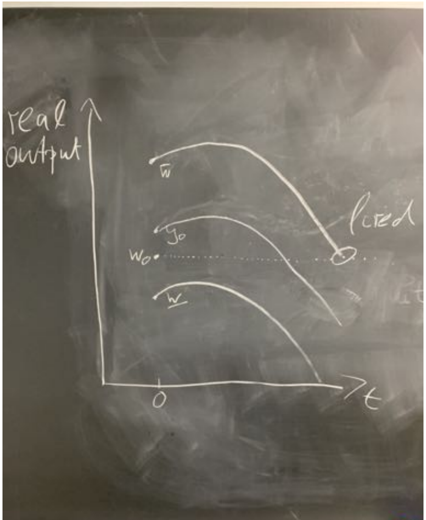
Quit. Wage Can't Rise (firm would love to raise). "Non-Cosean"



Another Sceniaro



Layoff. Wage Can't Fall (worker would happily accept). "Non-Cosean"

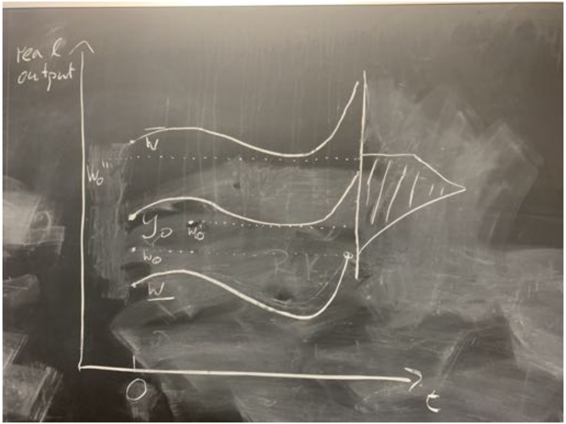


Wage Distribution

Back to Scenario I. So far just one worker

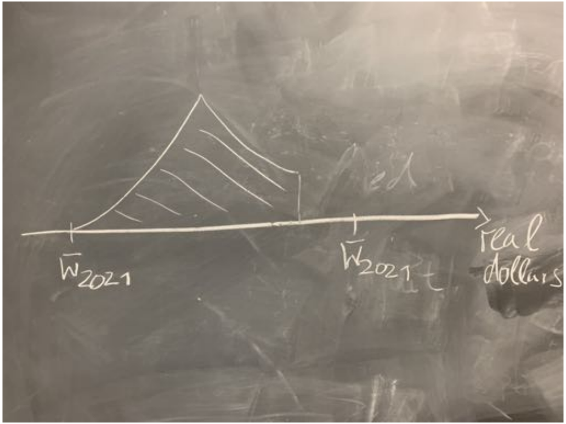
But there are more

In fact, a whole distribution

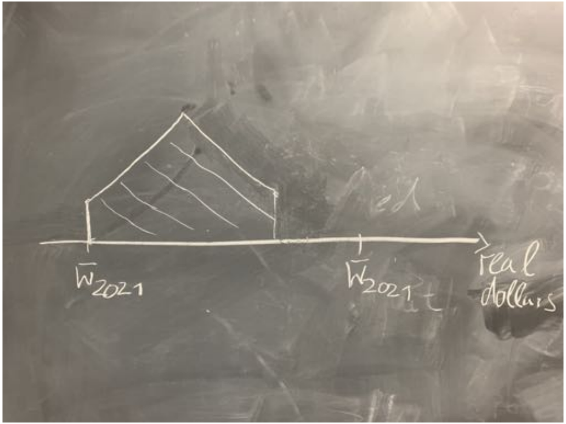


inflation

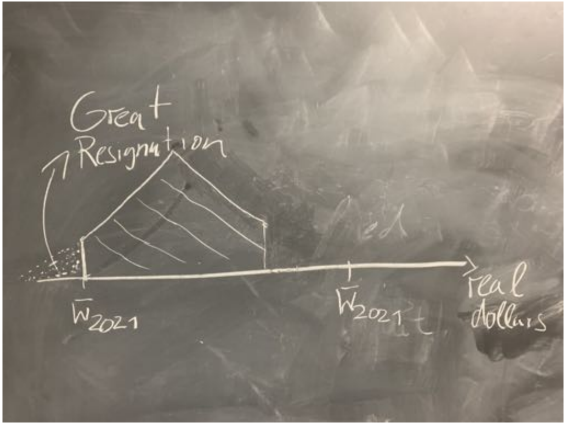
Wage Distribution in 2021



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

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

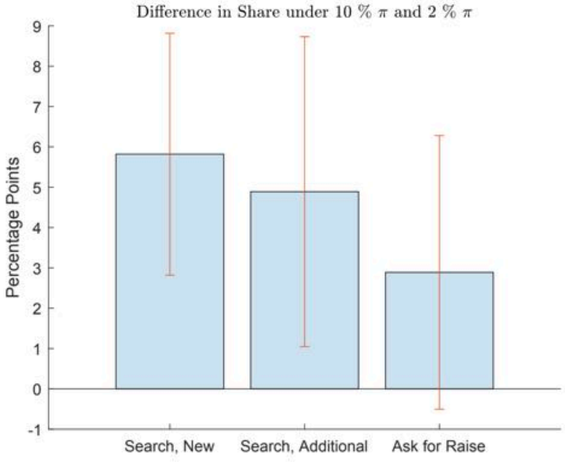


Figure 4: Labor Market Actions

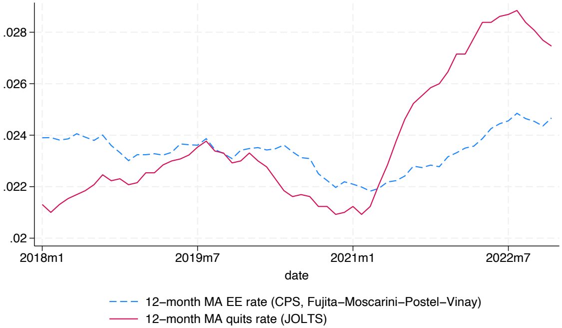
- Pilossoph & Ryngaert (23)

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