

DISCUSSION OF *"Labor Market Shocks and Monetary Policy"* by *Birinci, Karahan, Mercan and See*

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HETEROGENEOUS AGENTS IN MACROECONOMIC MODELS CONFERENCE
CZECH NATIONAL BANK | PRAGUE | MAY 16-17, 2024

THE PAPER

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Employer-to-Employer (EE) transition rate matters for wage and productivity growth Moscarini and Postel-Vinay (2017), Karahan et al. (2017) among others

⇒ Seems to be an important factor for inflation dynamics

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Positive Quantify effect of EE on inflation (post-GR and COVID-19 recoveries)

Normative Quantify the welfare losses of ignoring EE when setting MP

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- **KEY FINDINGS**

Positive EE are important to explain the differential inflation dynamics observed during the GR (**low EE**) and COVID-19 (**high EE**)

Normative MP should respond more aggressively to EE fluctuations

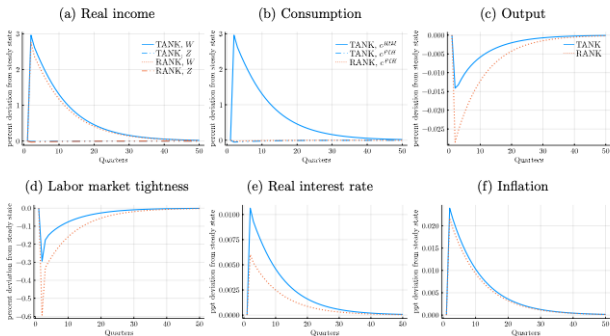
GENERAL MECHANISM: DOES HETEROGENEITY MATTER?

- \uparrow OJS efficiency \uparrow Prob. to meet an employed worker (composition effect)
- \uparrow Poaching opportunities \downarrow matching duration (Duration effect)
- Composition effect + duration effect \uparrow Relative price of service; \uparrow MC \uparrow π

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Figure 2: Impulse responses to a positive OJS efficiency shock: Real rate response



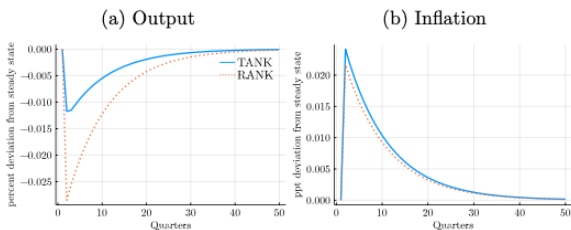
- $\uparrow \pi, \uparrow i, \uparrow r,$

$\uparrow r + \downarrow \Pi > Y/P \Rightarrow$ Output falls \Rightarrow HTMs change the game

COMPOSITION VS SHORTER MATCH DURATION

- Even without a wage increase for OJ transitions, outside options still matter!

Figure 3: Impulse responses to a positive OJS efficiency shock: Without wage increases



WHAT DID WE LEARN FROM LIMITED HETEROGENEITY?

Upon an increase in the EE rate:

- RANK overestimates the decline in demand, output, and labor market tightness
- RANK underestimates the rise in real rate, marginal cost, and inflation
- Not huge quantitative differences in inflation dynamics between RANK and TANK, still important differences in other real variables

Although these results come from a simplified world where:

- All matches are equally productive
- Both unemployed and employed always accept offers if get one

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Questions:

1. Would make sense to do the same exercise making matches with HTM less productive? or
2. Would make sense to assume that PIH households are the one that probably dominates E-E, while HTM mostly jumps from U-E?
3. Would make sense to assume that workers face some switching costs?

WHY LIMITED HETEROGENEITY IS NOT ENOUGH?

" to correctly quantify the macroeconomic effects of job mobility" ...

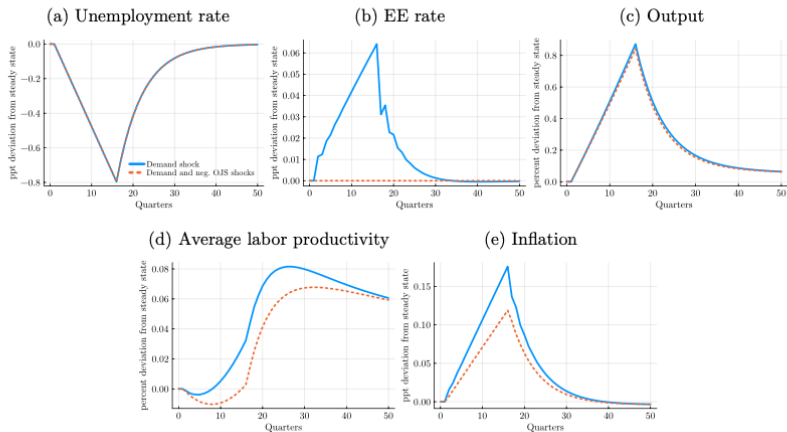
- Need to capture wealth heterogeneity
- Need to get the relationship between MPC and idiosyncratic income risk
- To get the supply-side effects of job switches need productivity differences across matches
- To get wage dynamics for the cross-section of households need to model the evolution of productivity both on and off the job.

HANK - POST-GREAT RECESSION

Once quantitatively well disciplined, the model says that:

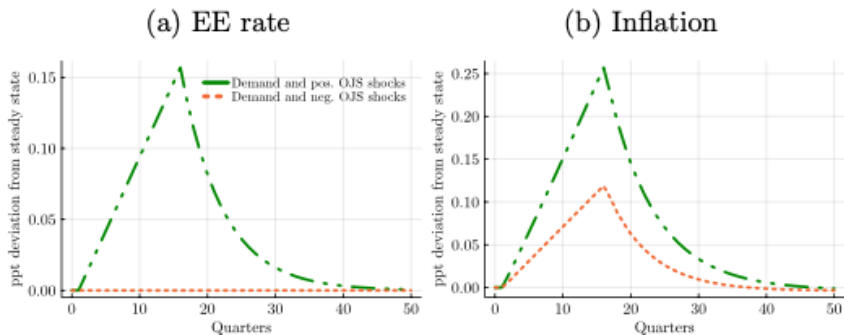
Annual inflation rate is 0.23pp lower due to lower EE.

Figure 6: Effects of muted worker mobility on aggregate dynamics: Post-Great Recession exercise



HANK - POST-COVID

Figure 7: Effects of elevated worker mobility on aggregate dynamics: COVID-19 recovery exercise



After the Great Resignation: annual inflation rate 0.56pp higher due to the Great Reallocation

MAIN COMMENTS

This is a huge step forward in the HANK literature

- Great job on capturing the supply-side effects of job mobility, still some comments:
- If I get it correctly, 97% of the rise in marginal cost is explained by the rise in OJS efficiency (that's huge)

Questions

1. Does it make sense to better spell out how the degree of cyclical labor misallocation matters? (i.e. a worker employed in unproductive matching can be poached at a lower price)
2. Does it make sense to assume some source of ex-ante heterogeneity in labor service firms? (i.e. does it matter by whom and at which price poached workers are replaced?)
3. Does it make sense to assess these results under nominal wage rigidity?

MAIN COMMENTS II

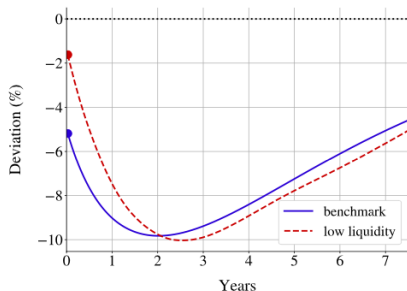
I was looking forward to seeing more on the demand side

- I would like to see how consumption changes in the HANK model both after an OJS shock and after a monetary shock to contain the OJS inflationary pressure
- What is the average MPC in the model?
- How does it change after a worker is poached?
- Which MPC is relevant in the model?
 - OJS is a transitory shock, but it causes (eventually) employed workers to get better off.
 - Is this a transitory or a permanent shock?
 - How does it amplify the demand?
 - How does the average MPC change in the model?

UNCLEAR CONSUMPTION RESPONSE ACCORDING TO MPC

"The fact that low-MPC, workers (conditional on their position in the ladder) reduce their consumption by more in response to the negative financial shock contrasts with the kind of analysis one comes across in HANK papers "

Figure 10: Share of HtM and the aggregate consumption response



Source: Felipe Alves (2020) "Job Ladder and Business Cycles"

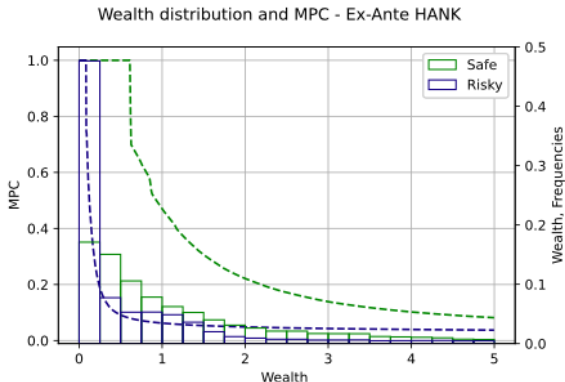
Given the income changes induced by the ladder, low-wage workers are driven by their expectation of earnings growth ...

OTHER COMMENTS I: LACK OF SEARCH EFFORTS

- Would the inclusion of search efforts matter for the results of this paper?
- It is hard to account for the fact that these efforts vary over wealth distribution (Eeckhout & Sepahsalari (2024)), but a discussion seems in order

OTHER COMMENTS II: THE ROLE OF INCOME RISK

- How a higher wage (level) relates to risk is not clear given the duration effect
- The relationship between MPC and idiosyncratic income risk is far from obvious in SIM and thus in HANK (some step forward in Savoia (2023))



WITHIN WEALTH MPC HETEROGENEITY

SAFE = High-income + low-risk RISKY = Low-income + High-risk

CONCLUDING THOUGHTS

- Important paper, technically challenging, well-written, and reporting impressive stuff
- I would focus less on the TANK side and give more importance to the consumption dynamics in HANK
- I liked the normative part, Tab 6 is a first step, and this approach should be used also on the positive side, where redistribution is crucial (Auclert, 2019)
- I would stress more what is reported under footnote 34: "We show that OJS efficiency shocks move inflation and unemployment gaps in the same direction, breaking divine coincidence, and introducing a trade-off for monetary policy"