

# Discussion of “Marginal Jobs and Job Surplus: A Test of the Efficiency of Separations”

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# A Test of the Efficiency of Separations

## **Punch line:**

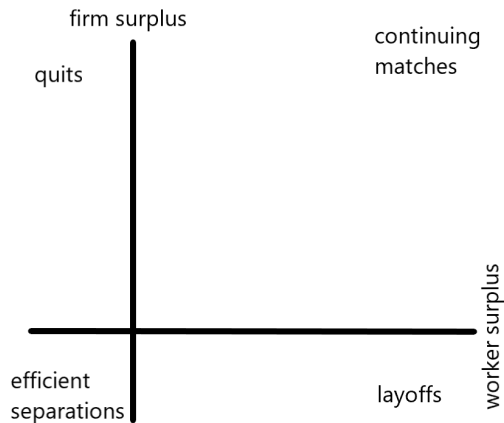
Reject “Coasean” theory of job separations

⇒ Separations are not bilaterally efficient

- 1 Brief summary of the test
- 2 Does the evidence support the conclusion?
- 3 What does it mean? Does it matter?

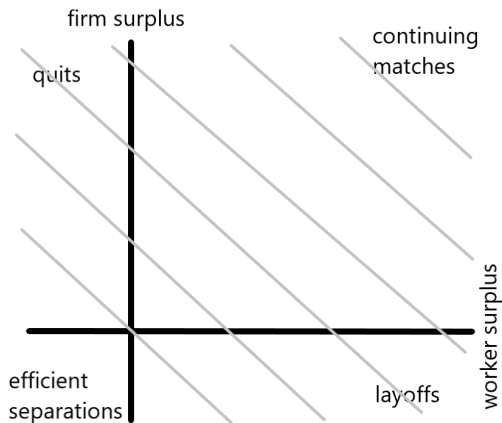
# Test of efficiency of separations

Assumption #1: No commitment (participation constraints binding)



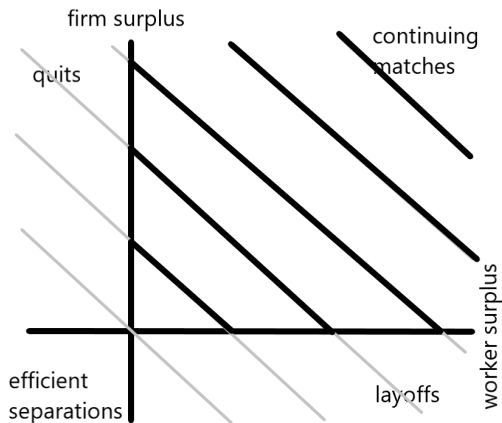
# Test of efficiency of separations

Assumption #2: Transferrable utility



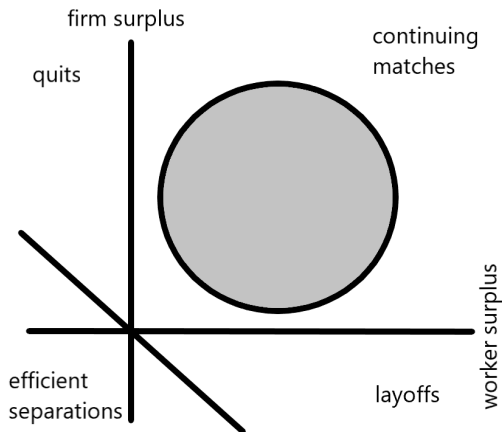
# Test of efficiency of separations

Assumption #3: Wage setting is 'Coasean'



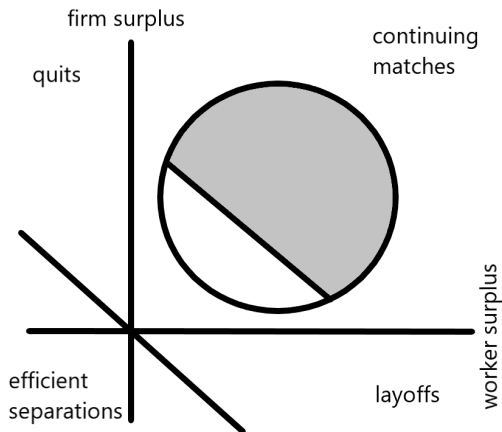
# Test of efficiency of separations

Assumption #4: Heterogeneity in non-wage value of a job



# Test of efficiency of separations

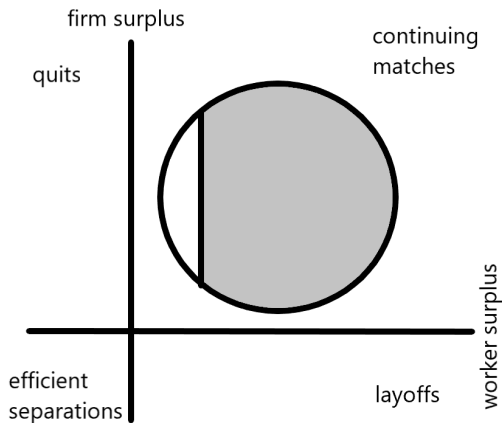
Shock to  $S^W$  (temporary increase unemployment benefit)



$H_0$ : Resilience to further shocks

# Test of efficiency of separations

Same shock under non-Coasean wage setting (fully rigid wages)



$H_a$ : Resilience to further shocks to  $S^W$ , not (so much) to shocks to  $S^F$



# Test of efficiency of separations

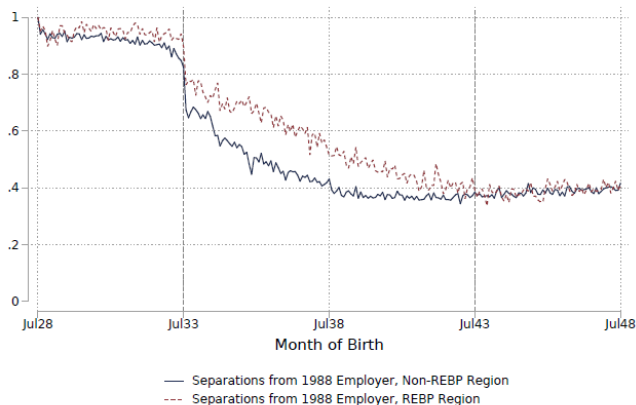
$H_0$ : After any temporary shock, remaining matches resilient to further shocks

- Large initial shock that was reversed: REBP Austria 1988-1993
- Estimate separations: ASSD
  - in response to the shock (treatment)
  - after the shock (outcome)
- Control group: Regions that did not receive initial shock
- DD to control for confounding factors: 49— workers not eligible

# The evidence

A large increase in UI increases separations, ...

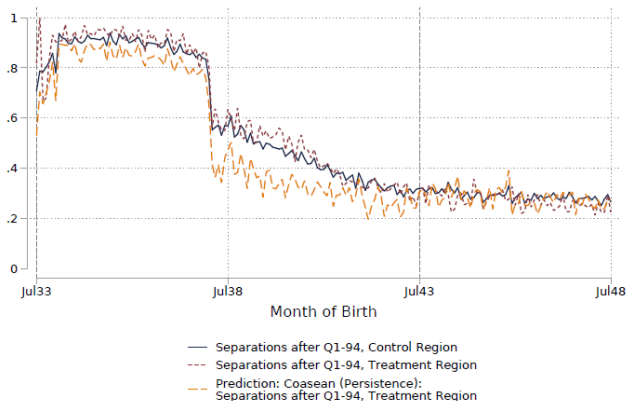
(a) Separations (1988 to 1993)



# The evidence

A large increase in UI increases separations, but no effect after reversal

(d) Through 1998



- Important question
- Clever identification strategy
- Cool data, great natural experiment
- Solid analysis
- Convincing conclusion

# Does the evidence support the conclusion?

- Empirical finding is strong and credible
  - DD important to control for GE effects and endogeneous treatment
  - Document in (too) many different ways  
(different outcomes, complier analysis, structural estimation 'mixed model')
- Finding supports conclusion (test requires few assumptions)
- Issues
  - Persistence
    - Estimate mixed model: perfect reshuffling  $\succ$  perfect persistence
    - Better: mean-reversion surplus (assume stochastic process)
  - Heterogeneous treatment effect (selection bias)
    - Observable proxies for sensitivity to treatment negatively correlated with surplus

# What does it mean and does it matter?

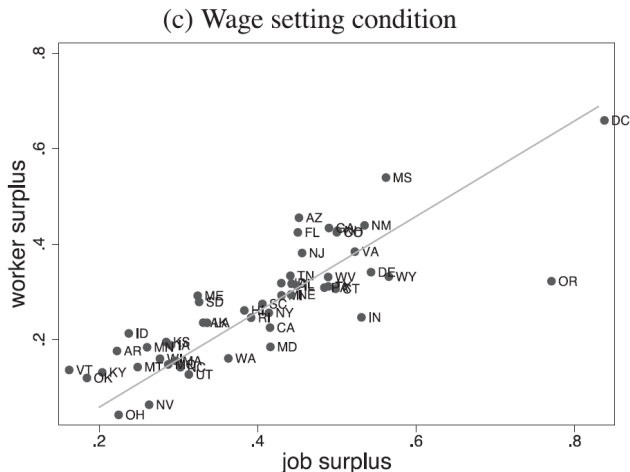
- Reject the Coasean theory of job separations
  - Not all job separations (in Austria) are privately efficient
- Conclusion is much broader than Austrian REBP
  - Most labor market models use Coasean wage setting (e.g. bargaining)
  - “naturally determines the welfare properties of employment adjustment and hence the potential scope for policy interventions.”
- How much this matters depends on:
  - How many separations are non-Coasean?
  - In what way are they non-Coasean?
- Wage rigidity is a natural alternative hypothesis, but
  - Wages are not fully rigid, nor ‘fully non-Coasean’
  - Wage rigidity does not necessary imply non-Coasean wage setting

Table 4: Response of wages to productivity

	Wage per hour		Earnings per person	
	All workers	New hires	All workers	New hires
Elasticity wrt productivity	0.24	0.79	0.37	0.83
Std. error	0.14	0.40	0.17	0.51
Observations	1566161	117243	1566161	117243
Quarters	83	83	83	83

Haefke, Sonntag and van Rens (2017). Wage Rigidity and Job Creation

# Wages are approximately Coasean, across states

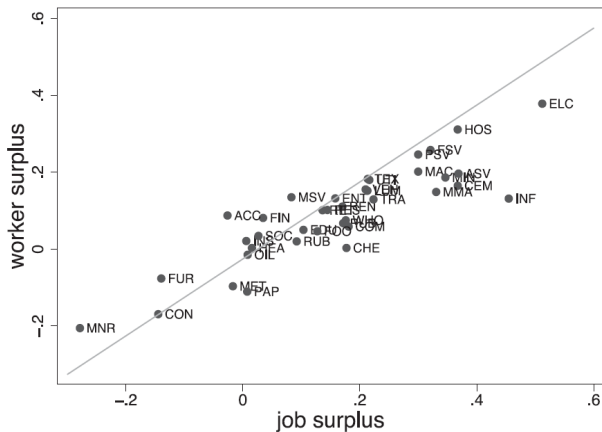


Herz and van Rens (2019). Accounting for Mismatch Unemployment



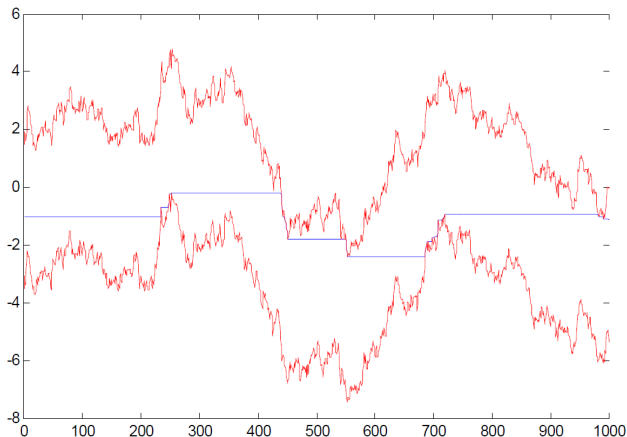
# Wages are approximately Coasean, across industries

(c) Wage setting condition



Herz and van Rens (2019). Accounting for Mismatch Unemployment

# Even if wages are rigid, they can be 'Coasean'



Galí and van Rens (2019). The Vanishing Procyclicality of Labor Productivity (pre 2017 versions)

- You rejected the null of fully Coasean wage setting
  - Can you find support for an alternative?  
Test that there is resilience in response to  $S^W$  shocks but not to  $S^F$  shocks
  - How to quantify the amount of 'non-Coasean-ness'
- Find a good example for why this matters (quantitatively)
  - For welfare / policy
  - For observables  
e.g. Cajner (2011): wage bargaining costs increase unemployment (volatility)