

Discussion:

Labor Market Shocks and Monetary Policy by Birinci, Karahan, Mercan and See

FRB San Francisco Macroeconomics and Monetary Policy Conference

March 2023

Leena Rudanko

Federal Reserve Bank of Philadelphia

Disclaimer: The views expressed do not necessarily represent those of the FRB Philadelphia or the Federal Reserve System

What the Paper Does

Framework for thinking about monetary policy with explicit household heterogeneity

Rich quantitative framework where heterogeneous households face incomplete markets in New Keynesian setting, modeling labor market search with on-the-job search as driver of wage growth and inflation (Moscarini and Postel-Vinay 2017)

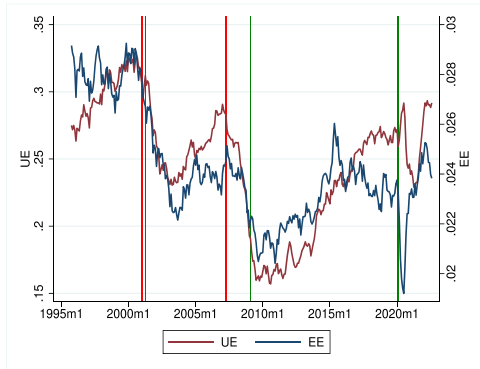
Pushes envelope in computation: heterogeneity with aggregate and idiosyncratic shocks tackled with sequence space Jacobian method

Focus on low inflation period 2016-19, use model to gauge “missing” inflation attributable to slowing job-to-job transitions, understand mechanisms

Gauge role of job-to-job contacts for business cycles and optimal monetary policy

Moscarini and Postel-Vinay (2017): “Job Ladder: Inflation vs Reallocation”

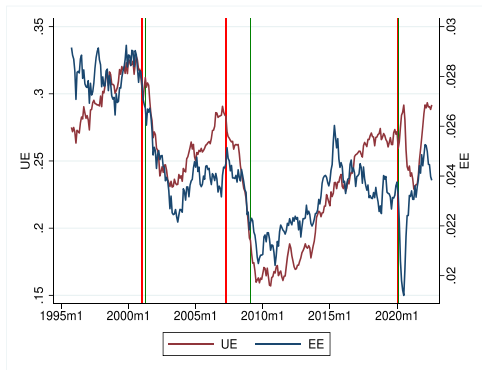
Unemployment-to-employer vs employer-to-employer transition probabilities



(a) Monthly UE (left scale) and EE (right scale) prob.

Moscarini and Postel-Vinay (2017): “Job Ladder: Inflation vs Reallocation”

Unemployment-to-employer vs employer-to-employer transition probabilities

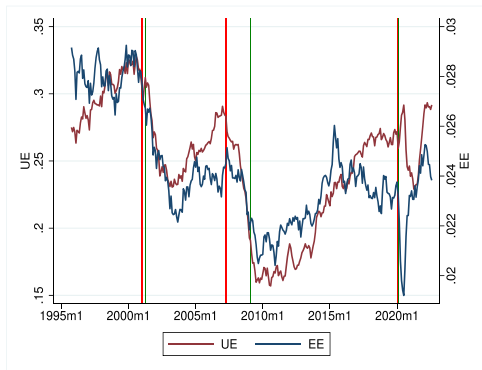


(a) Monthly UE (left scale) and EE (right scale) prob.

Job-to-job transitions slow as expansion matures because new hires done reallocating to better matches, with contacts leading to wages being bid up \rightsquigarrow inflation instead

Moscarini and Postel-Vinay (2017): “Job Ladder: Inflation vs Reallocation”

Unemployment-to-employer vs employer-to-employer transition probabilities



(a) Monthly UE (left scale) and EE (right scale) prob.

Job-to-job transitions slow as expansion matures because new hires done reallocating to better matches, with contacts leading to wages being bid up \rightsquigarrow inflation instead

Here interpret slowing job-to-job transitions as negative shock to contact rate
—What would inflation have been absent this shock?

Concern with Model Mechanism Relying on Counteroffers

Model mechanism relies on firms responding to workers' outside offers

—Is this how wage setting works for the broad majority of workers?

Concern with Model Mechanism Relying on Counteroffers

Model mechanism relies on firms responding to workers' outside offers

—Is this how wage setting works for the broad majority of workers?

Dale T. Mortensen (2005):

“Although the counteroffer wage determination strategy has a certain appeal, problems exist with the specification as a wage determination rule. Unlike in the market for academic economists in the United States, **making counteroffers is not the norm in many labor markets**. More typically, a worker who informs his employer of a more lucrative outside option is first congratulated and then asked to clear out immediately.”

Concern with Model Mechanism Relying on Counteroffers

Model mechanism relies on firms responding to workers' outside offers

—Is this how wage setting works for the broad majority of workers?

Dale T. Mortensen (2005):

“Although the counteroffer wage determination strategy has a certain appeal, problems exist with the specification as a wage determination rule. Unlike in the market for academic economists in the United States, **making counteroffers is not the norm in many labor markets**. More typically, a worker who informs his employer of a more lucrative outside option is first congratulated and then asked to clear out immediately.”

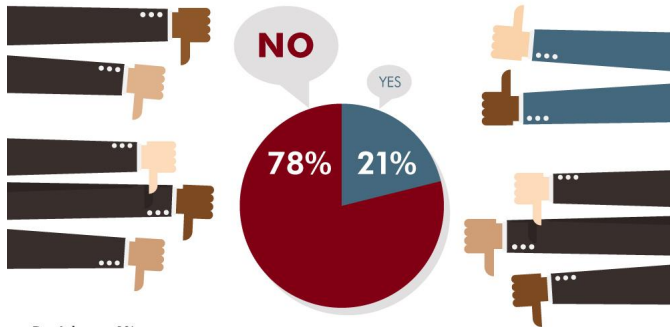
—Evidence?

Evidence? Industry Surveys on Wage Setting Practices

Human resources consulting/staffing firm survey:

JUST SAY NO TO COUNTEROFFERS


Most CFOs don't extend counteroffers to keep employees from leaving



Don't know: 1%

Source: Robert Half survey of more than 2,200 CFOs at companies in more than 20 of the largest U.S. markets

© 2013 Robert Half International Inc. An Equal Opportunity Employer M/F/Disability/Vet.

 Robert Half®

Evidence? Industry Surveys on Wage Setting Practices

Association for human resources professionals survey:

TABLE 2 Frequency Counteroffers Are Made

| | % |
|--|------------|
| Never | 4 |
| Rarely (less than 5% of those who received offers) | 54 |
| Seldom (5% to 25% of those who received offers) | 33 |
| Often (25% to 50% of those who received offers) | 5 |
| Frequently (over 75% of those who received offers) | 1 |
| Don't know. | 3 |
| Total | 100 |

Source: 2017 Counteroffer Survey

Source: Scott and McMullen (2017) "Current Thinking on Counteroffers: Survey of Rewards and HR Professionals" WorldatWork Journal

Counteroffers made rarely or seldom—but virtually all employers make them

Evidence? Industry Surveys on Wage Setting Practices

Association for human resources professionals survey:

TABLE 3 Roles for Which Counteroffers Are Made

| | Very Great/Great | Some Extent/ Little Extent | Not at All |
|----------------------------|-------------------------|---------------------------------------|-------------------|
| Executives | 50 | 42 | 8 |
| Managers | 32 | 62 | 6 |
| Professional and Technical | 30 | 65 | 5 |
| Sales | 19 | 61 | 20 |
| Support Staff | 3 | 67 | 30 |
| Production | 6 | 45 | 49 |

Source: 2017 Counteroffer Survey

Source: Scott and McMullen (2017) "Current Thinking on Counteroffers: Survey of Rewards and HR Professionals" *WorldatWork Journal*

Geared toward executives, managers, professionals, not sales, support, production staff

Association for human resources professionals survey:

TABLE 4 Counteroffer Criteria

| | |
|---|------------|
| Only for employees in key or critical positions and who are outstanding performers | 49 |
| Only for employees in key or critical positions | 20 |
| Only for employees who are outstanding performers | 9 |
| We make counter-offers at the request of the employee's manager based on their discretion | 16 |
| Other guidelines | 6 |
| Total | 100 |

Source: 2017 Counteroffer Survey

Source: Scott and McMullen (2017) "Current Thinking on Counteroffers: Survey of Rewards and HR Professionals" WorldatWork Journal

Reserved for critical positions and high performers

Evidence? Industry Surveys on Wage Setting Practices

Association for human resources professionals survey:

How are base pay increases typically determined?

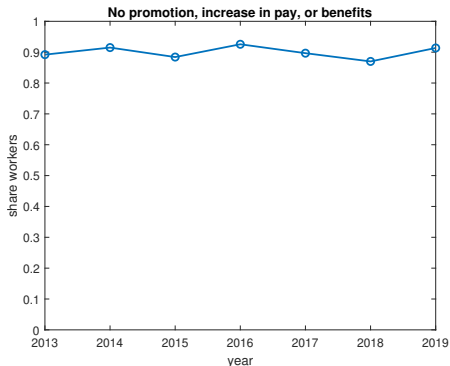
- Education/certifications
- General increase (everyone receives this same increase)
- Individual performance against job standards
- Market value of the position
- Position in range
- Skill or competency acquisition
- Years of service
- Individual performance against management by objectives (MBOs)
- Other

Source: WorldatWork Compensation Programs and Practices Report, June 2022

No mention of outside job offers

Evidence? FRB New York Survey of Consumer Expectations

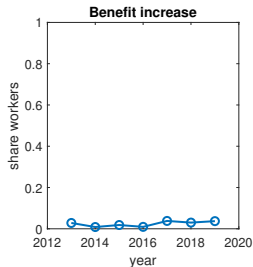
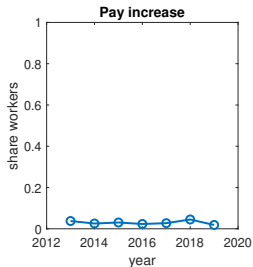
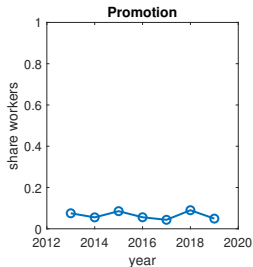
Job Search Survey: “Before you accepted the offer for your new job, were you offered any promotion, pay increase, or increase in benefits by your previous employer as a counter-offer to this outside job offer?”



Source: Survey of Consumer Expectations, 2013-2021 Federal Reserve Bank of New York (FRBNY). The SCE data are available without charge at <http://www.newyorkfed.org/microeconomics/sce> and may be used subject to license terms posted there. FRBNY disclaims any responsibility for this analysis and interpretation of Survey of Consumer Expectations data.

Evidence? FRB New York Survey of Consumer Expectations

Job Search Survey: “Before you accepted the offer for your new job, were you offered any promotion, pay increase, or increase in benefits by your previous employer as a counter-offer to this outside job offer?”



—But small sample and asking only those who accepted offer

Source: Survey of Consumer Expectations, 2013-2021 Federal Reserve Bank of New York (FRBNY). The SCE data are available without charge at <http://www.newyorkfed.org/microeconomics/sce> and may be used subject to license terms posted there. FRBNY disclaims any responsibility for this analysis and interpretation of Survey of Consumer Expectations data.

Search on job gives incentives to offer contracts where wages backloaded even if firms do not counteroffer (Burdett and Coles 2003, Stevens 2004, Shi 2009)

Connects on-the-job search with wage growth:

- As expansion matures, average wages rise leading to inflation?
- If contact rates slow, on-the-job wage growth slows?

Room to think through how ideas carry over

Mechanism Interesting to Think About—but Complicated!

Moscarini and Postel-Vinay (2017):

Job-to-job transitions slow down as expansion matures because scope for reallocation diminishes, leading to inflation → initial match qualities matter for impact of shocks

Reallocation gradual → slow-moving state that matters for impact of shocks

Mechanism Interesting to Think About—but Complicated!

Moscarini and Postel-Vinay (2017):

Job-to-job transitions slow down as expansion matures because scope for reallocation diminishes, leading to inflation → initial match qualities matter for impact of shocks

Reallocation gradual → slow-moving state that matters for impact of shocks

Q: Not consistent with job-to-job transitions declining in mature stage of expansion?

Mechanism Interesting to Think About—but Complicated!

Moscarini and Postel-Vinay (2017):

Job-to-job transitions slow down as expansion matures because scope for reallocation diminishes, leading to inflation → initial match qualities matter for impact of shocks

Reallocation gradual → slow-moving state that matters for impact of shocks

Q: Not consistent with job-to-job transitions declining in mature stage of expansion?

Simple intuition: Limiting contact rates limits initially reallocation, later inflation

Q: Calibration at steady state in 2016—Is this the way to think about it? Or should 2016 correspond to better match quality and possibly bigger impact on inflation?

Mechanism Interesting to Think About—but Complicated!

Moscarini and Postel-Vinay (2017):

Job-to-job transitions slow down as expansion matures because scope for reallocation diminishes, leading to inflation → initial match qualities matter for impact of shocks

Reallocation gradual → slow-moving state that matters for impact of shocks

Q: Not consistent with job-to-job transitions declining in mature stage of expansion?

Simple intuition: Limiting contact rates limits initially reallocation, later inflation

Q: Calibration at steady state in 2016—Is this the way to think about it? Or should 2016 correspond to better match quality and possibly bigger impact on inflation?

More complicated than above intuition because lower contact rate affects steady state reallocation directly: encourages job creation due to longer job durations, despite lower match quality, while price level falls (not to mention HANK structure)

Policy-relevant paper that pushes envelope in computation

Concerns: mechanism relies on counteroffers, non-transparent due to many elements, interpretation of shocks

Rich framework for thinking about monetary policy with household heterogeneity