Discussion of Graber and Lise (2015) "Labor Market Frictions, Human Capital Accumulation, and Consumption Inequality"

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Markets Network Conference on Human Capital and Inequality, 2015
December 16-17, 2015
Wages variation across and within workers: Human capital, frictions, comp diff.

But variation in human capital may itself be impacted by frictions.

Paper nicely emphasizes the link between frictions and human capital accumulation.

- Human capital is accumulated at different rates with different firms.
- Thus, accumulated human capital dependent on realized employment history, and thereby frictions.
- This point also present in Lise and Postel-Vinay (2015) as well as Lentz and Roys (2015).
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human capital and frictions

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▶ Would like to see HC variance decomposition: Worker type, firm type, persistent shocks, covariances.
▶ Inclusion of savings decision gives ability to evaluate consumption variance decomposition.
Pre-step: Identify worker and firm heterogeneity:

- $h_{0i}$: Worker rank obtained by worker’s first wage. Benefits type dependent. Coming out of unemployment, wage does not reflect firm type, only benefits.
- Firm $y$ rank: Poaching rank.
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- Obtain human capital dynamics by comparison of wages between two jobs in worker history (separated by E2E).
  - Assume full rent extraction in first job.
  - Same idea as using worker’s first wage out of unemployment: And indeed, strategy could use this as well, if worker’s have multiple unemployment spells, because benefits \( b(h) = h_{0i}h_{1i} \).
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Side note: Given pre-step, labor market sorting easily identified.

- Model has sorting mechanism through worker type dependent layoff rates, as well as firm type dependent human capital accumulation rates.
I was very pleased to see use of poaching rank.

Bagger and Lentz (2014) - poaching rank:

- For each firm calculate fraction of hires that come directly from other firms.
  Rank firms by this fraction.
- Revealed preference argument.
- Theoretically proper identifier of firm’s rank.
Average firm wage rank condition on poaching rank

\[ E[r_w \mid r_p] \]

Poaching rank \((r_p)\) - decile
Monthly E2E separation rate by firm poaching rank

Separation rate (monthly)

Poaching rank - decile

Lentz, “Discussion of Graber and Lise (2015).”
Monthly E2E separation rate by firm wage rank

Separation rate (monthly)

![Monthly E2E separation rate by firm wage rank chart](image)

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Job-to-job transitions by origin and destination decile

CDF

Origin decile 1

Destination - poaching rank
Job-to-job transitions by origin and destination decile

CDF

Origin decile 2

Destination - poaching rank

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Origin decile 3

Destination - poaching rank
Job-to-job transitions by origin and destination decile

CDF

Origin decile 5

Destination - poaching rank

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Job-to-job transitions by origin and destination decile

CDF

Origin decile 6

Destination - poaching rank
Job-to-job transitions by origin and destination decile

CDF

Destination - poaching rank

Origin decile 7
Job-to-job transitions by origin and destination decile

CDF

Origin decile 8

Destination - poaching rank
Job-to-job transitions by origin and destination decile

CDF

Origin decile 9

Destination - poaching rank

Lentz, “Discussion of Graber and Lise (2015).”
Job-to-job transitions by origin and destination decile

CDF

Origin decile 10

Destination - poaching rank

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- Assumption of full rent extraction in first job and not optimal contracting implies that all between job wage variation must reflect HC dynamics, only - leaving out firm type and employment history variation.
- In particular: In optimal contracting, wages between jobs can fall. Currently, all wage drops must be attributed to HC reduction.
- No Godfather shock or the like: Limits firm type variation in employment history.
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It wasn’t obvious how the reflecting barriers on HC process are identified. Accumulation of persistent shocks are major contributor to variance increase in experience, so the barriers seem important.

- Alternatively, what part of the identification might identify a type of mean reversion in the drift?
Wage contracts in paper are not optimal.

Optimal contracting will muddy waters in following ways (some of these insights in Lentz and Roys (2015) and Lentz (2013)):

● With any degree of risk aversion, optimal contract is not piece rate. Wage is flat across human capital shocks. Wage changes when:
  - worker meets outside employer.
  - participation constraints violated.

● Add hidden search intensity and contract responds to human capital dynamics even in absence of outside offer arrivals.

● With value bargaining:
  - Wage will have a compensating differential component reflecting value of learning by doing. For a given outside value offer, higher value of learning by doing drives wage down with current firm.
  - Caveat: When faced with a stronger outside firm, value of learning by doing makes current firm willing to offer a wage in excess of current output - related to Acemoglu and Pischke (1999) point that with frictions, human capital is always partially specific.