



INSTITUTE FOR EMPLOYMENT
RESEARCH
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DISCUSSION OF "THE FALSE ILLUSION OF WAGE CYCLICALITY"

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- Overview
- Comparison
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LITERATURE

- starting point in the literature Bilts (1985): wages of new hires are more cyclical than of incumbent workers
- this finding is interpreted as wage flexibility for new hires
- Pissarides (2009) argues that the introduction of wage rigidity is not suitable to solve the unemployment volatility puzzle
- recent literature challenges these conclusions, highlighting the lack of proper correction for the composition bias in many empirical models

MATCH QUALITY AND OCCUPATIONS

- compare two other papers that emphasize the role of occupations for match quality
- one is by Gertler, Huckfeldt, Trigari (2020), the other by Bauer and Lochner(2020)

Paper	BF (2022)	GHT(2020)	BL (2020)
country	Portugal	US	Germany
new hire	< 12 months	< 4 months	< 1 month
time span	1986-2019	1990-2012	2000-2014

NEW HIRE CYCLICALITY - OVERVIEW

- all papers find excess wage cyclicality for new hires
- but to a different extent (institutions, wage formation, etc.)

Paper	BF (2022)	GHT(2020)	BL (2020)
U_t	-1.163	-0.147	-1.07
$U_t \cdot newhire$	-0.447	-1.642	-0.45
excess cyclicality	38 percent	1100 percent	42 percent

MATCH QUALITY

- papers try to control for cyclical properties of match quality
- occupations and labor market status matter

Paper	BF (2022)	GHT(2020)	BL (2020)
U_t	-1.125***	-0.145***	-1.04***
$U_t \cdot \text{same, occswitcher}$	-0.194***		-0.61***
$U_t \cdot EE, occstayer$	-0.050	-2.604***	-0.43***
$U_t \cdot ENE, occstayer$	-0.109***	+0.612	-0.35
$U_t \cdot EE, occswitcher$	-0.847***	+1.098	-1.02***
$U_t \cdot ENE, occswitcher$	-0.315***	-1.730*	-0.07

MATCH QUALITY

- coefficient is significant but driven by match quality. BL show that, once controlled for occupation-specific match quality (similar method as Hagedorn and Manovskii, 2013), this excess cyclicality turns insignificant.

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MATCH QUALITY

- left, at least in the German case, is cyclical for employer switchers.
- but occupations also matter for this group: for workers, who switch occupations while switching employers, the coefficient is more than twice as high. This gap is closing, but not vanishing, after controlling for occupation-specific match quality.

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MATCH QUALITY

- the difference in coefficients could have many sources (unemployment vs. nonemployment, school-work-transitions, institutions, etc.)

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NOVELTY OF PAPER

- paper uses interesting proxy for match quality
- explore the power of the match quality indicator even more (distributions, relationship to other variables, other match quality indicators)
- the proxy is symmetric, over- and underskilled persons are pooled in the regression
- estimate richer model by interacting the proxy with the different worker types

MINOR POINTS

- add comparisons to other paper that emphasize occupational dimension
- explain the limitations

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