

# Discussion of: The Job Ladder, Unemployment Risk, and Incomplete Markets

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*The views and findings expressed here are those of the author's and do not necessarily reflect the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System.*

# Paper in One Slide - Basic Idea and Main Results

- ▶ The paper studies a general equilibrium search model with incomplete markets:
  - ▶ Many ingredients: heterogeneous job productivity ( $z$ ), risk aversion (RA), on-the-job-search (OJS), unemployment risk heterogeneity (a.k.a. separation risk,  $\delta$ )
  - ▶ Two parts:
    1. Theoretical  $\rightarrow$  in partial equilibrium and without savings
    2. Quantitative  $\rightarrow$  general equilibrium\* and incomplete markets
- ▶ Main results:
  - ▶ Workers climb job ladder inefficiently slowly:
    - ▶ Stay put at safe but low productivity jobs
  - ▶ New role for Unemployment Insurance (UI):
    - ▶ Speeds back the job ladder, mitigates part of risk behind job mobility

# Strong Suits and Main Contributions

## ► Strong Suits:

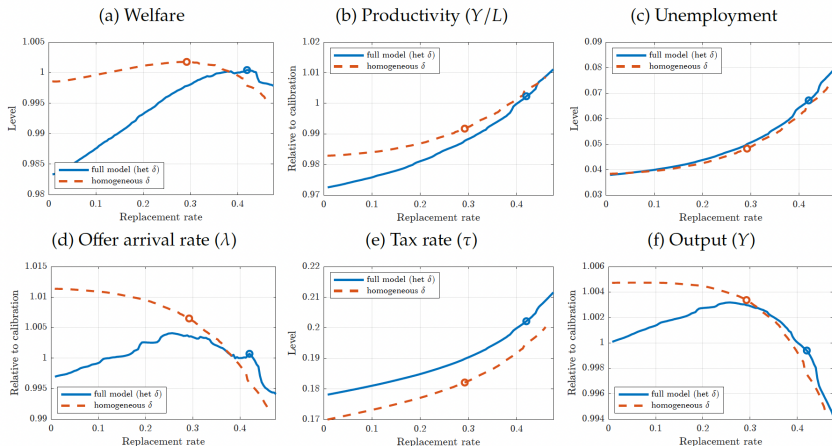
- Ambitious: contributes to an active/crowded literature + clear new theoretical result
- Carefully crafted: result requires combination of all elements chosen
- Policy-relevant: rationale for UI and for high replacement ratios

## ► Main Contributions:

- Literature amalgamator: [Acemoglu and Shimer \(1999\)](#) [no OJS]; [Krusell et al. \(2017\)](#), [Griffy \(2021\)](#) [homogeneous  $\delta$ ]; [Pinheiro and Visschers \(2015\)](#), [Krolkowski \(2018\)](#) [risk neutral]
- Theoretical: heterogeneous  $\delta$  + incomplete markets  $\rightarrow$  risk aversion distorts EE margin
- Quantitative: heterogeneous  $\delta \rightarrow$  welfare-maximizing “high” UI replacement rate

# Main Figure:

- Most interesting mechanism: heterogeneous  $\delta \rightarrow \uparrow b^* \leftrightarrow \uparrow \text{EE} \leftrightarrow \uparrow \lambda \rightarrow \uparrow Y/L$



# Discussion of the Paper: Major and Minor Points

- ▶ Major discussion points:
  - ▶ Wealth distribution and labor market transitions across the wealth distribution
  - ▶ Welfare comparison without transitional dynamics
  - ▶ Absence of complexity of UI:
    - ▶ Duration of benefits
    - ▶ Eligibility constraints
    - ▶ Take-up rates
- ▶ Minor discussion points:
  - ▶ Optimal UI literature
  - ▶ (New) empirical evidence: survey of unemployed, reservation wages

# Major Points - First Batch

- ▶ What is the actual wealth (and earnings) distribution of workers (footnote 38)?

- ▶ Kuhn and Ríos-Rull (2015) with SCF 2013:

Shares of Total Sample (%)												
Earnings	0.7	2.1	2.3	7.6	10.1	13.8	17.7	50.7	10.2	15.9	12.1	
Income	0.7	1.9	2.1	7.4	9.2	12.8	17.3	53.3	9.9	16.1	15.0	
Wealth	-0.3	-0.3	-0.1	-0.7	0.6	3.2	9.8	87.0	12.1	27.4	35.5	

- ▶ Wealth distribution and labor market transitions:

- ▶ Krusell et al (2017), net worth, from SIPP:

Data						Model					
	Q1	Q2	Q3	Q4	Q5		Q1	Q2	Q3	Q4	Q5
<i>EU</i>	1.82	1.15	0.87	0.70	0.54	<i>EU</i>	1.13	1.05	0.97	0.97	0.96
<i>EN</i>	1.15	0.92	0.91	0.97	1.09	<i>EN</i>	4.54	1.24	0.54	0.63	0.72
<i>UE</i>	0.88	1.08	1.04	1.10	1.06	<i>UE</i>	1.05	0.92	1.02	1.03	1.02

- ▶ Birinci and See (2024), net liquid assets, from SIPP:

	Income					Assets					Asset-to-income ratio				
	Q1	Q2	Q3	Q4	Q5	Q1	Q2	Q3	Q4	Q5	Q1	Q2	Q3	Q4	Q5
EU	2.39	1.03	0.63	0.52	0.43	0.97	1.64	1.11	0.76	0.61	1.08	1.22	0.95	0.80	0.94
UE	0.78	0.93	1.05	1.08	1.16	1.14	0.80	0.96	1.05	1.04	1.06	0.93	1.00	1.01	0.98

- ▶ Clymo et al.'s (2023) new evidence might settle this. Griffy (2021) has some too.

# Major Points - Second Batch

- ▶ Welfare-maximizing UI:
  - ▶ Usual critique: steady-state comparisons mask transitional dynamics costs
  - ▶ Different  $b^*$ 's associated to different  $\tau^*$ 's
  - ▶ Productive efficiency finding becomes a bit muddier. What's the role of  $L$ ? And of  $K$ ?
- ▶ UI complexity:
  - ▶ Duration was the name of the game in the post Great Recession literature. e.g.: [Hagedorn et al. \(2019\)](#), [Mitman and Rabinovich \(2024\)](#)
  - ▶ Some papers on eligibility: [Blank and Card \(1991\)](#), [Auray et al. \(2019\)](#), [Forsythe and Yang \(2021\)](#), [Birinci and See \(2024\)](#), [Chao \(2024\)](#), [Chao et al. \(2024\)](#), [Michaud \(2023\)](#), [Kuka and Stuart \(2024\)](#), [De Souza and Luduvic \(2025\)](#)
  - ▶ Eligibility requires tenure and monetary requirements satisfied
    - ▶ Enhances mechanism: job ladder movers at EE margin would be eligible, UI more effective
    - ▶ Other hand: low take-up even for eligible  $\approx 40\%$  ([Forsythe and Yang, 2021](#))

# Minor Points

- ▶ Optimal UI literature:
  - ▶ Mechanism design: repeated moral hazard, principal-agent relationship, UI arises as insuring contract
  - ▶ Classic references: [Shavel and Weiss \(1979\)](#), [Hopenhayn and Nicolini \(1997, 2005\)](#), [Wang and Williamson \(2002\)](#)
  - ▶ Planner has full information: no moral hazard, can distinguish quits from layoffs
  - ▶ High search efficiency of employed,  $s_e$ , also speaks to this literature. High even w/o  $\delta$  (footnote 37).
- ▶ New evidence on reservation wages of unemployed (UI-eligible):
  - ▶ [Davis and Krolkowski \(2024, 2025\)](#)
  - ▶ UI recipients: would take a pay cut to keep job, consistent with new channel of slow ladder