

DISCUSSION OF
"THE FINANCIAL CHANNEL OF WAGE
RIGIDITY"
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WHAT HE DOES

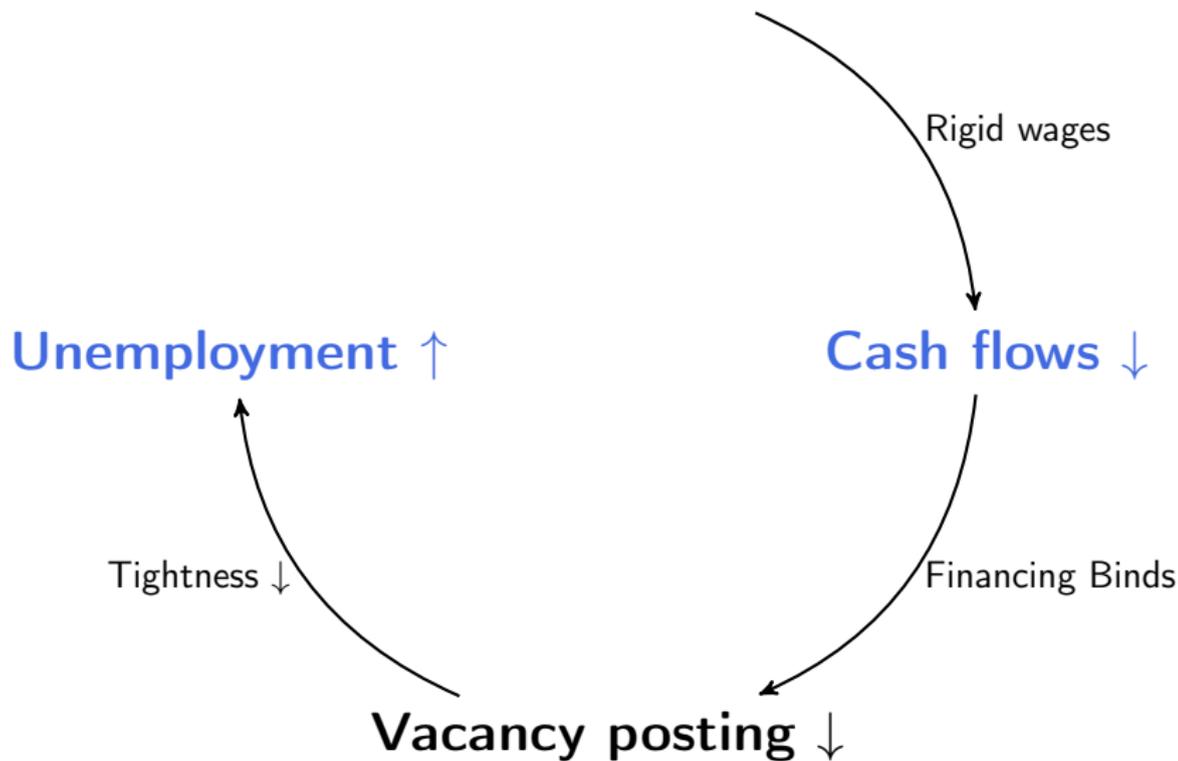
- ▶ Wants to understand how wage rigidity affects firm cash flows and hiring decisions
- ▶ Empirical part:
 - ▶ Shows cash-flows strongly procyclical
 - ▶ Industries with higher labor shares more procyclical
 - ▶ Firms with lower internal funds cut employment more in recessions

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- ▶ Empirical part:
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 - ▶ Firms with lower internal funds cut employment more in recessions
- ▶ Quantitative part:
 - ▶ Adds inframarginal wage rigidity to large-firm DMP model
 - ▶ Financial constraint on vacancy posting
 - ▶ Shows model can generate labor market fluctuations

THE STORY

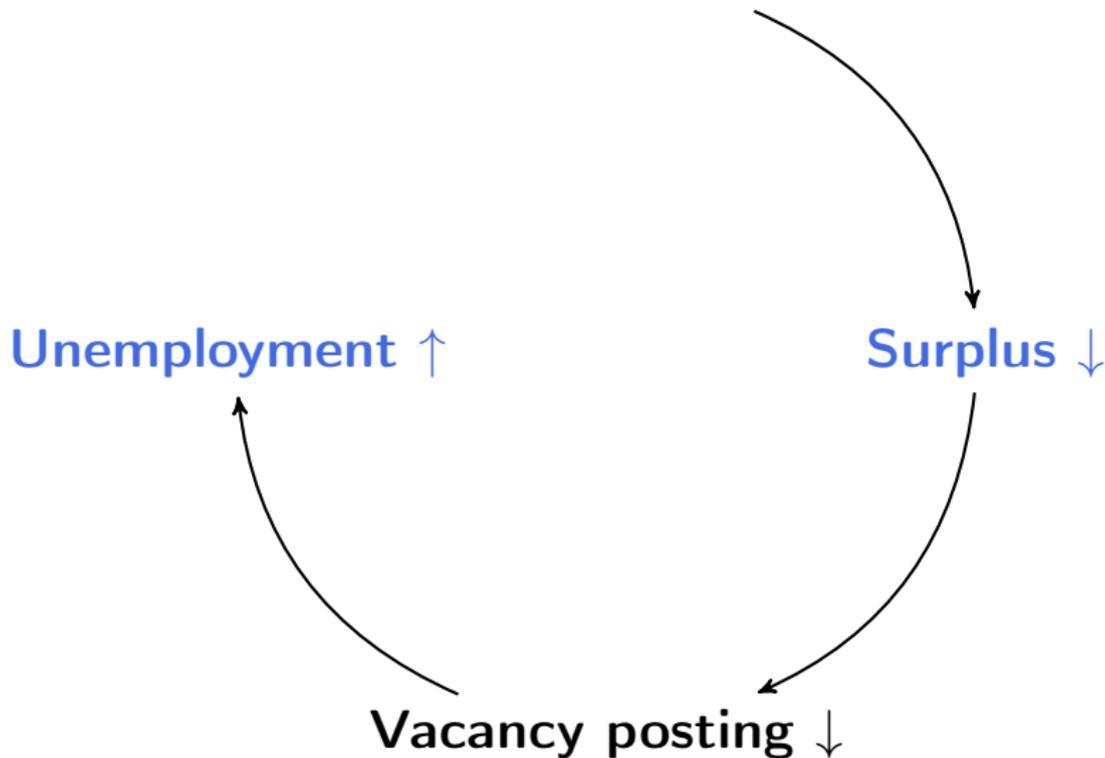
Negative Aggregate shock



Operates via **contemporaneous financial flows** of incumbents

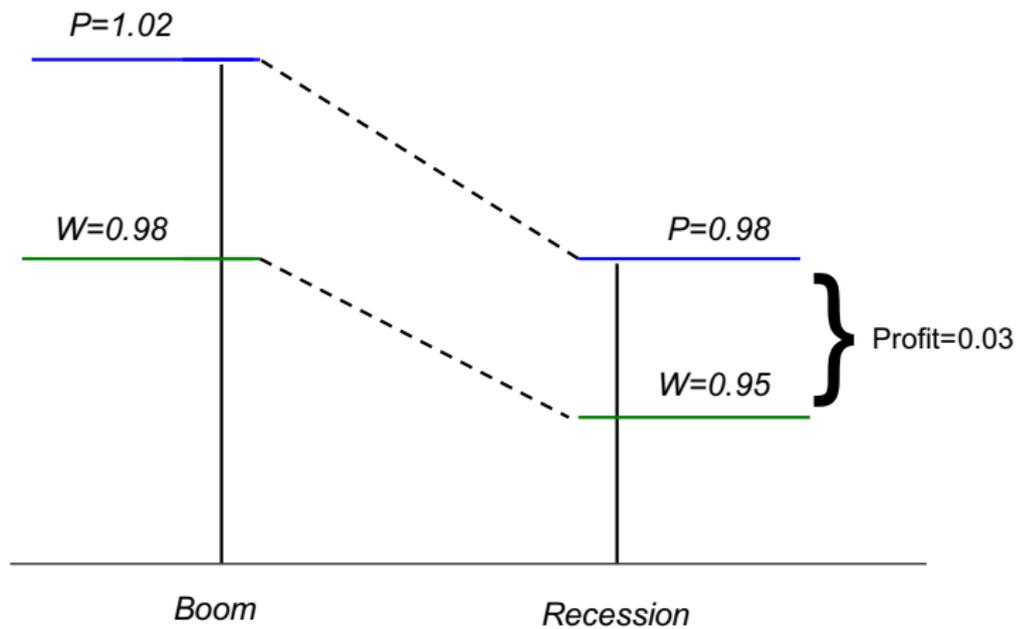
THE TYPICAL DMP STORY

Negative Aggregate shock



Operates via **expected financial flows** of new hires

THE TYPICAL DMP STORY



HOW CYCLICAL ARE NEW HIRES' WAGES?

- ▶ Literature starting with Bils (1985) suggested new hires' wages very cyclical
- ▶ Reinforced in Pissarides (2009), argument used here
- ▶ Hagedorn & Manovskii (2013) using NLSY show cyclical nature of new hire wages reflects cyclical nature of match quality, and controlling for this new hire wages no more cyclical than incumbents
- ▶ Gertler, Trigari and Huckfeldt (2016) show in SIPP that new hires from unemployment no more cyclical than incumbents

WAGE RIGIDITY NEITHER NECESSARY NOR SUFFICIENT TO GENERATE FLUCTUATIONS

- ▶ In simplest DMP model:

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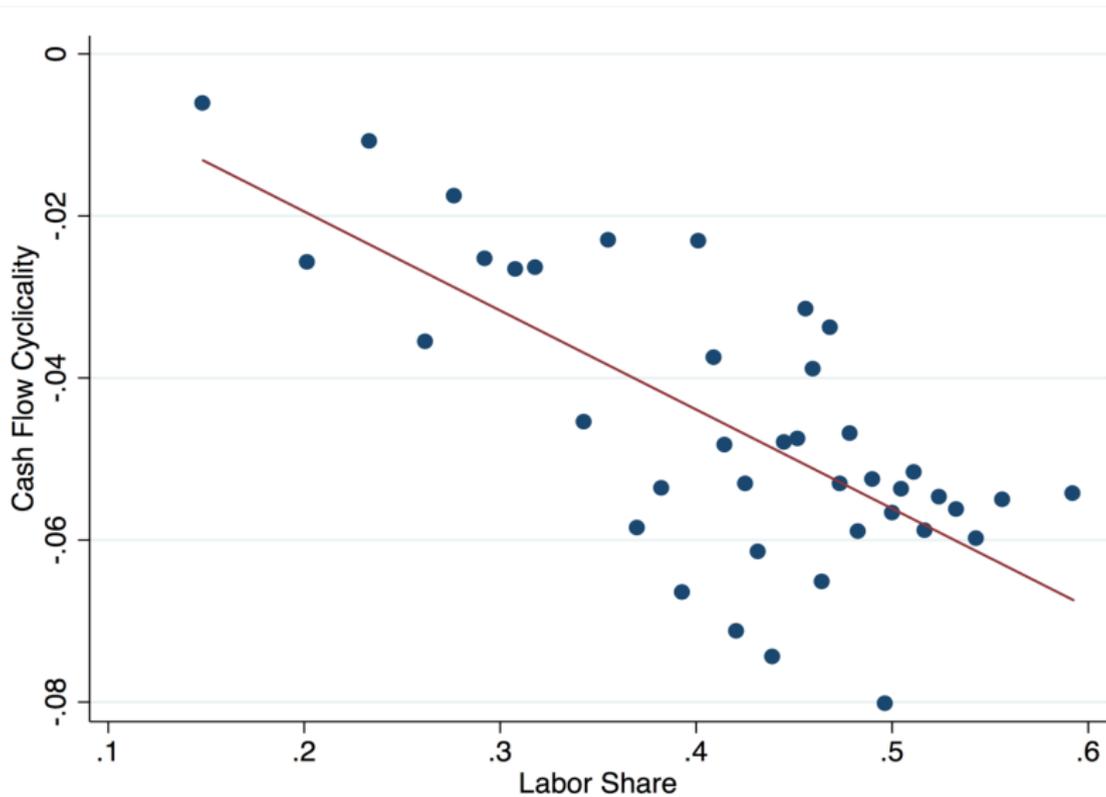
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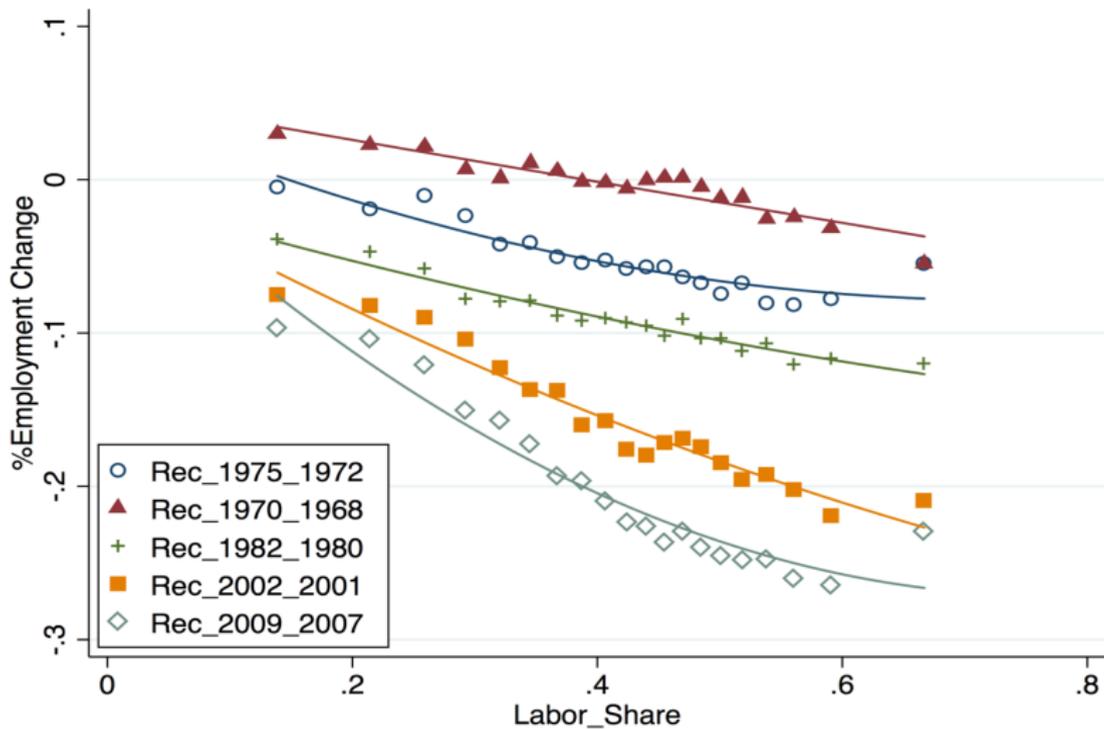
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- ▶ What matters is "fundamental surplus" (Ljungquist & Sargent 2016), $z - b$
- ▶ If $z - b$ small, $\varepsilon_{w,z}$ can be close to 1 and still large fluctuations
- ▶ If $z - b$ large, $\varepsilon_{w,z}$ can be 0 and still have no fluctuations

CYCLICALITY OF CASH-FLOW BY LABOR SHARE



EMPLOYMENT CHANGE BY LABOR SHARE



CYCLICALITY BY LABOR SHARE

- ▶ Driven by wage rigidity or product demand?
- ▶ Nevo & Wong (2016), Jaimovich, Rebelo & Wong (2016) and Alonso (2016) show when employment falls households differentially cut consumption in labor intensive goods
- ▶ $z - w$ may be more volatile because z more volatile
- ▶ Would be nice to have more direct evidence that firms would like to hire but don't have the cash

MODEL OVERVIEW

- ▶ Representative firm DMP model
- ▶ Vacancy costs must be pre-financed out of cash-flows and borrowing up to an exogenous constraint
- ▶ New hires wages perfectly flexible, continuing wages by cohort geometric mean of current prevailing wage and wage when hired
- ▶ Representative firm always constrained \Rightarrow volatility

LARGE FIRMS' EMP GROWTH MORE PROCYCLICAL

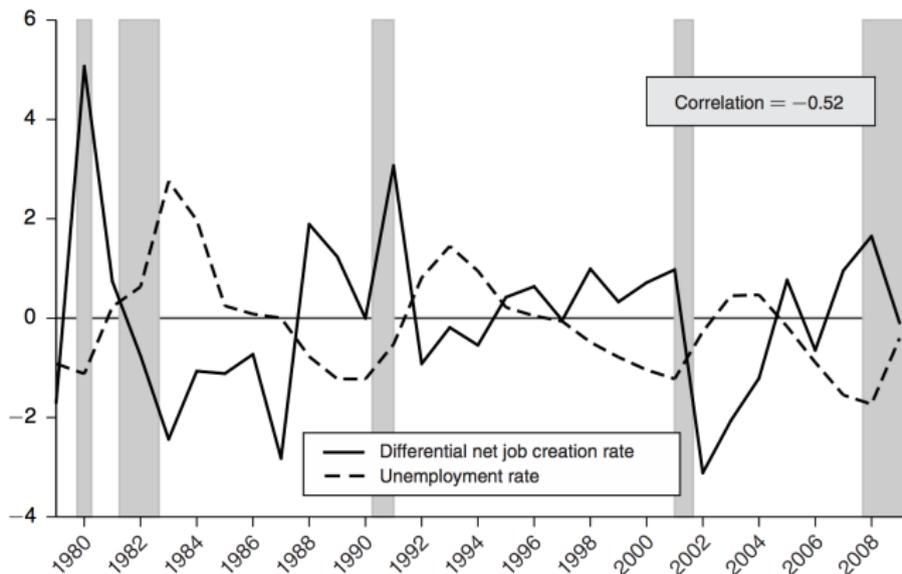


FIGURE 1. DIFFERENTIAL GROWTH AND UNEMPLOYMENT

Postel-Vinay & Moscarini (2013)

COST OF POSTING A VACANCY



COST OF RECRUITING

- ▶ Is it really a large direct financial cost of posting a vacancy?
- ▶ If main costs of recruiting are opportunity costs:
 - ▶ Time of workers diverted from production
 - ▶ Idle capital
- ▶ Other margins to adjust include yield (e.g. offering better contracts as in Kaas & Kircher 2015)

FINAL THOUGHTS

- ▶ Thought provoking paper about firm cash-flows
- ▶ Not sure this is a story of financially constrained hiring, or net employment responding to profits
- ▶ More micro evidence (maybe Saez, Schoefer, Seim?)
- ▶ Probably more relevant when there are heterogenous firms (e.g. Elsby & Michaels 2014, Kaas & Kircher 2015, Schaal 2015, Mongey et al 2016)

EMPLOYMENT GROWTH BY CASH HOLDINGS

