

A Theory of How Workers Keep Up with Inflation

By Afrouzi, Blanco, Drenik & Hurst

NBER Monetary Economics, November 2022

Discussion by Jonathon Hazell (London School of Economics)

Summary of the Paper

5 Facts About the Post Pandemic Economy

As the world begins to emerge from the COVID-19 pandemic, the economy is expected to experience significant changes. Here are five key facts about the post-pandemic economy:

1. **Increased Digital Adoption:** The pandemic has accelerated the adoption of digital technologies across all sectors, from e-commerce to remote work. This trend is expected to continue, leading to a more digital economy.

2. **Shift in Consumer Behavior:** Consumers have shifted their spending habits, prioritizing health and wellness, education, and technology. This shift is likely to persist, influencing the types of products and services that are in demand.

3. **Increased Government Intervention:** The pandemic has led to increased government intervention in the economy, including stimulus packages and regulatory changes. This intervention is expected to continue as governments work to stabilize the economy and address the challenges posed by the pandemic.

4. **Job Market Changes:** The pandemic has led to significant changes in the job market, with many jobs being lost and others being created. This has led to a shift in the types of skills and qualifications that are in demand, with a focus on digital skills and remote work capabilities.

5. **Increased Inequality:** The pandemic has highlighted the existing inequalities in the economy, with those who have the resources to weather the crisis faring better than those who do not. This has led to increased calls for economic reform and policies to address inequality.

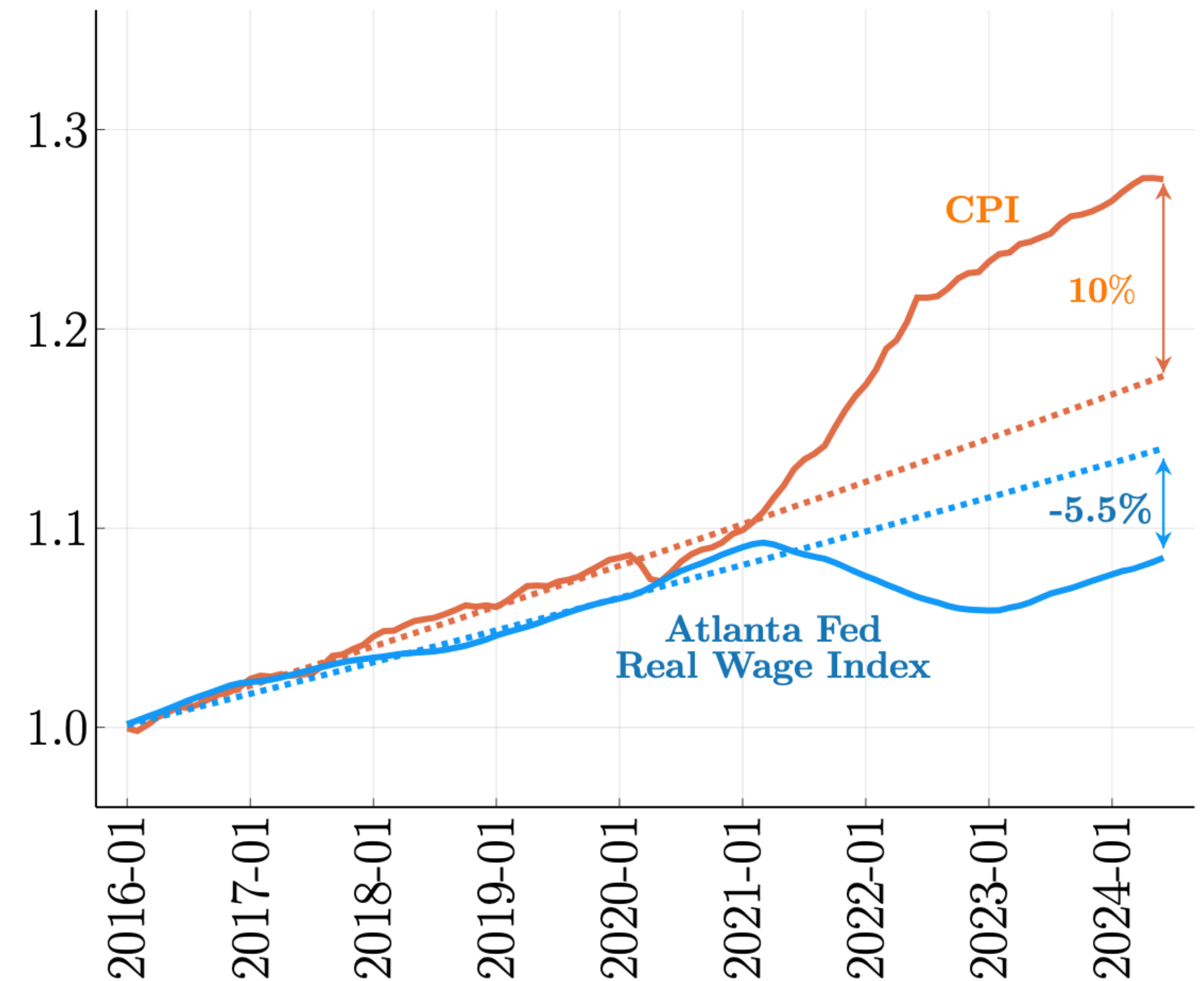
Overall, the post-pandemic economy is expected to be a more digital, health-focused, and government-interventive economy. It will also be a more unequal economy, with those who have the resources to weather the crisis faring better than those who do not.

As the world continues to emerge from the pandemic, it is important to stay informed about the latest developments in the economy and to be prepared for the changes that are ahead.

For more information on the post-pandemic economy, visit [our website](#) or contact us at [info@postpandemiceconomy.com](#).

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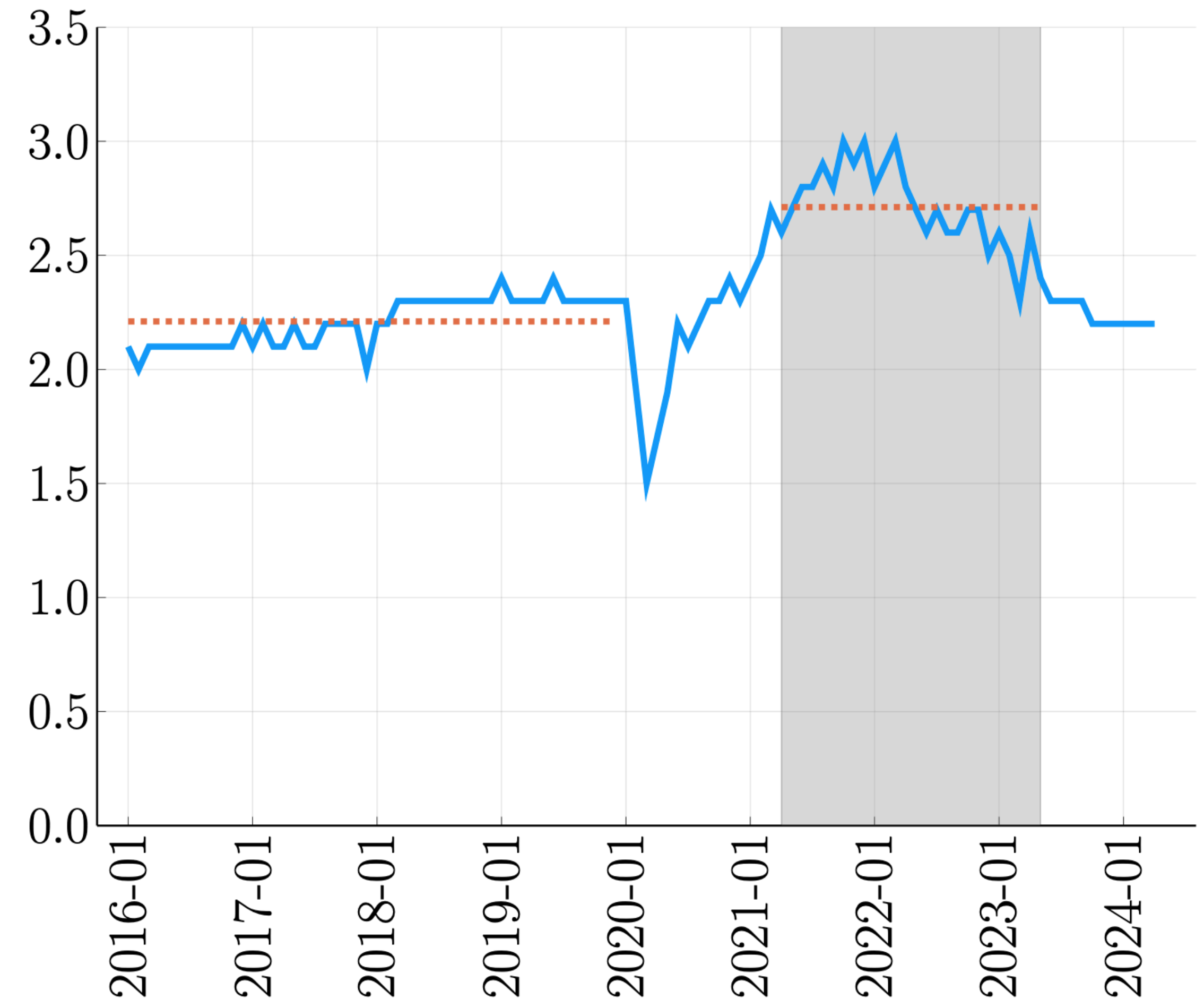
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2. Falling labor share + low real wage growth (“Greedflation”)



PANEL B: CPI AND
REAL WAGES: 2016-2024

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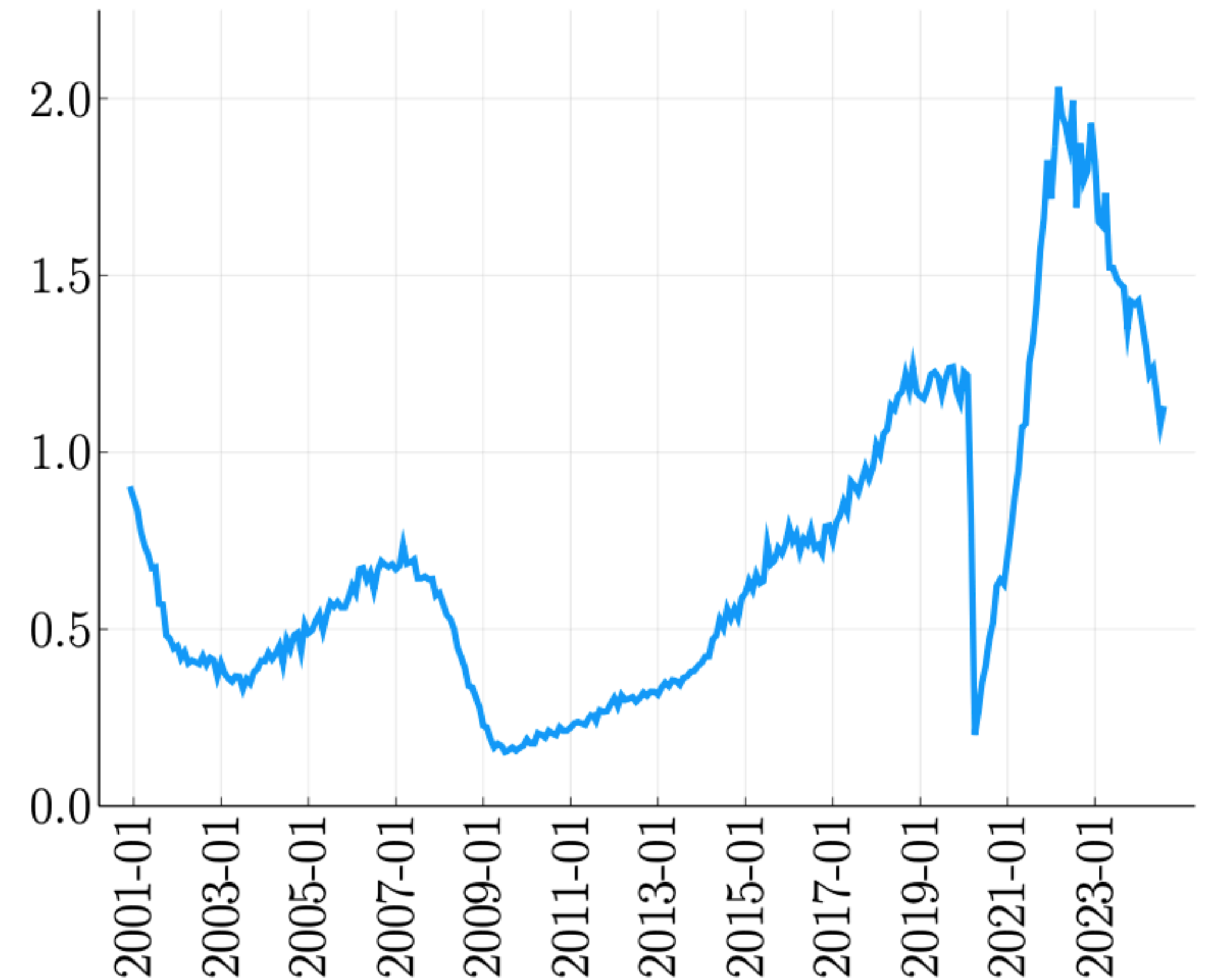
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PANEL B: QUIT RATE

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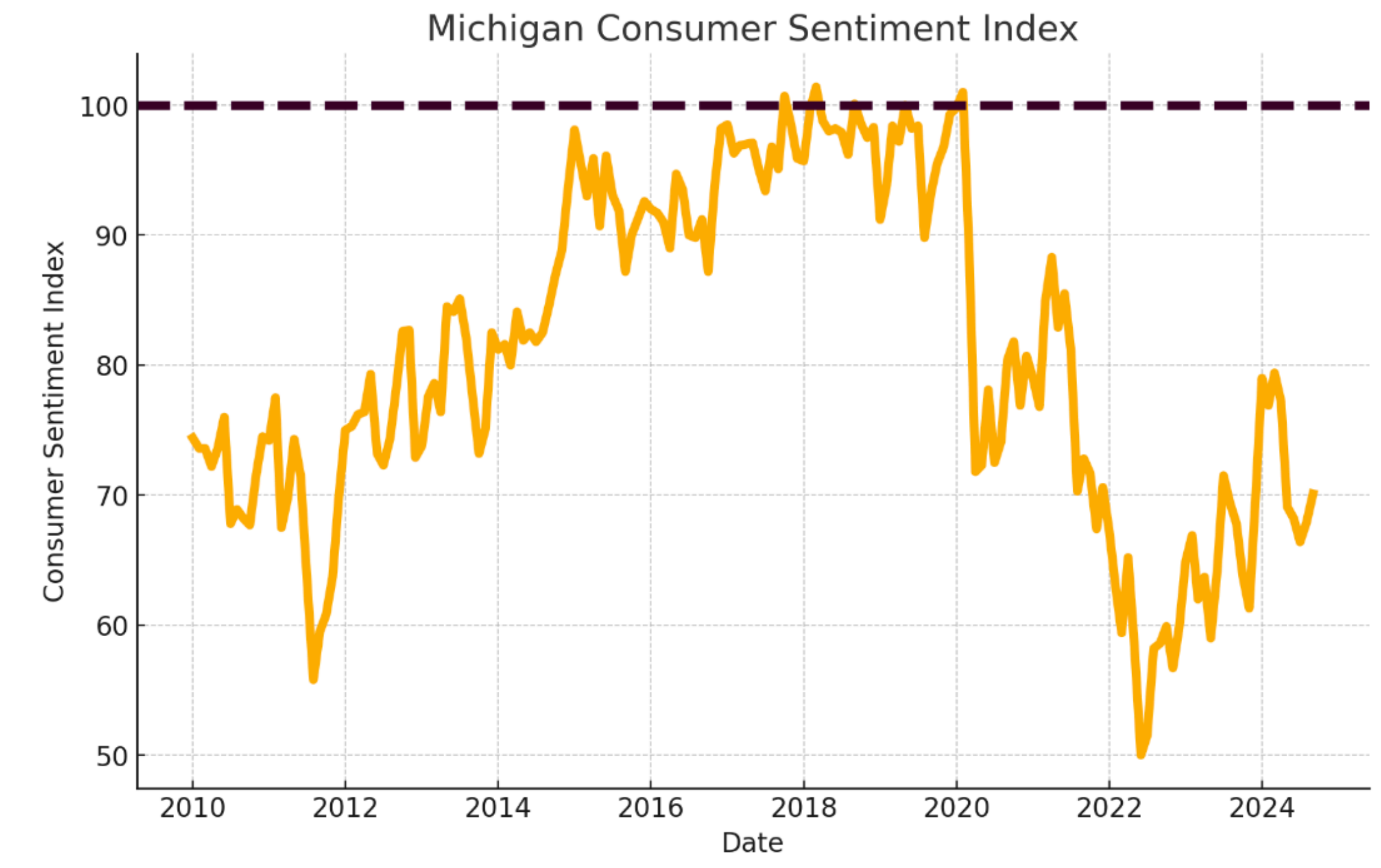
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PANEL A: VACANCY-TO-
UNEMPLOYMENT RATE: 2000-2024

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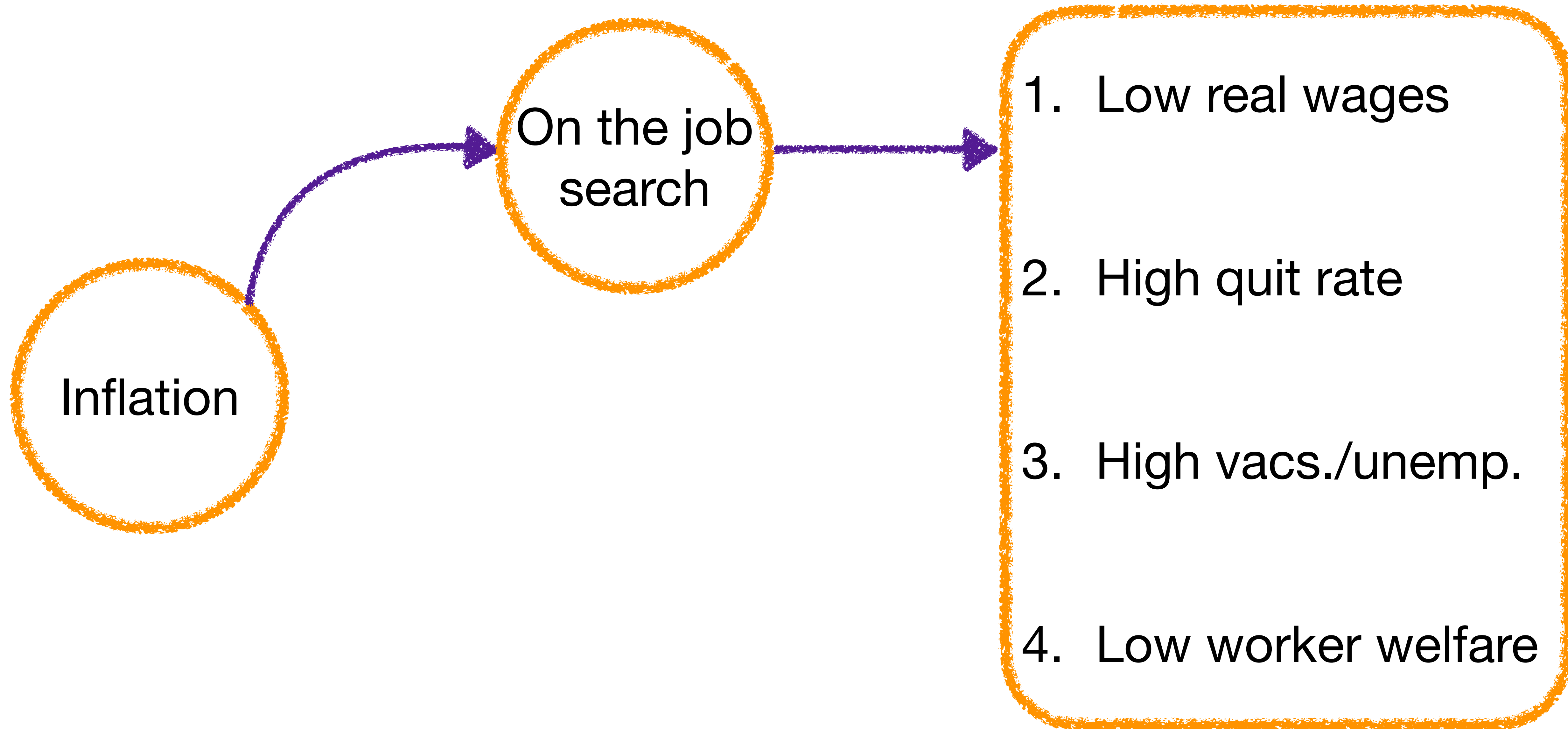
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Afrouzi et al: 5 facts with 1 mechanism

Main Idea: Inflation Causes On The Job Search



Worker's Problem

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Actions

Search for
new job



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Costs and Benefits

- Search cost S , depends on employment status
- Find new job, flexible nominal wage for new hires

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Flexible nominal wage for new hires: motivated by post Pandemic time series



Inflation Causes On The Job Search

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Inflation Causes On The Job Search

 Inflation Up		Cost of action	Effect on real wage	How many workers?
	On the job search	<i>Small</i>		
	Renegotiate old job	<i>Big</i>		
	Do nothing	Zero		

Given internal calibration

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Inflation Up



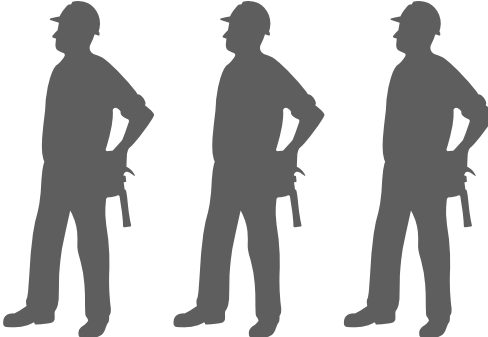


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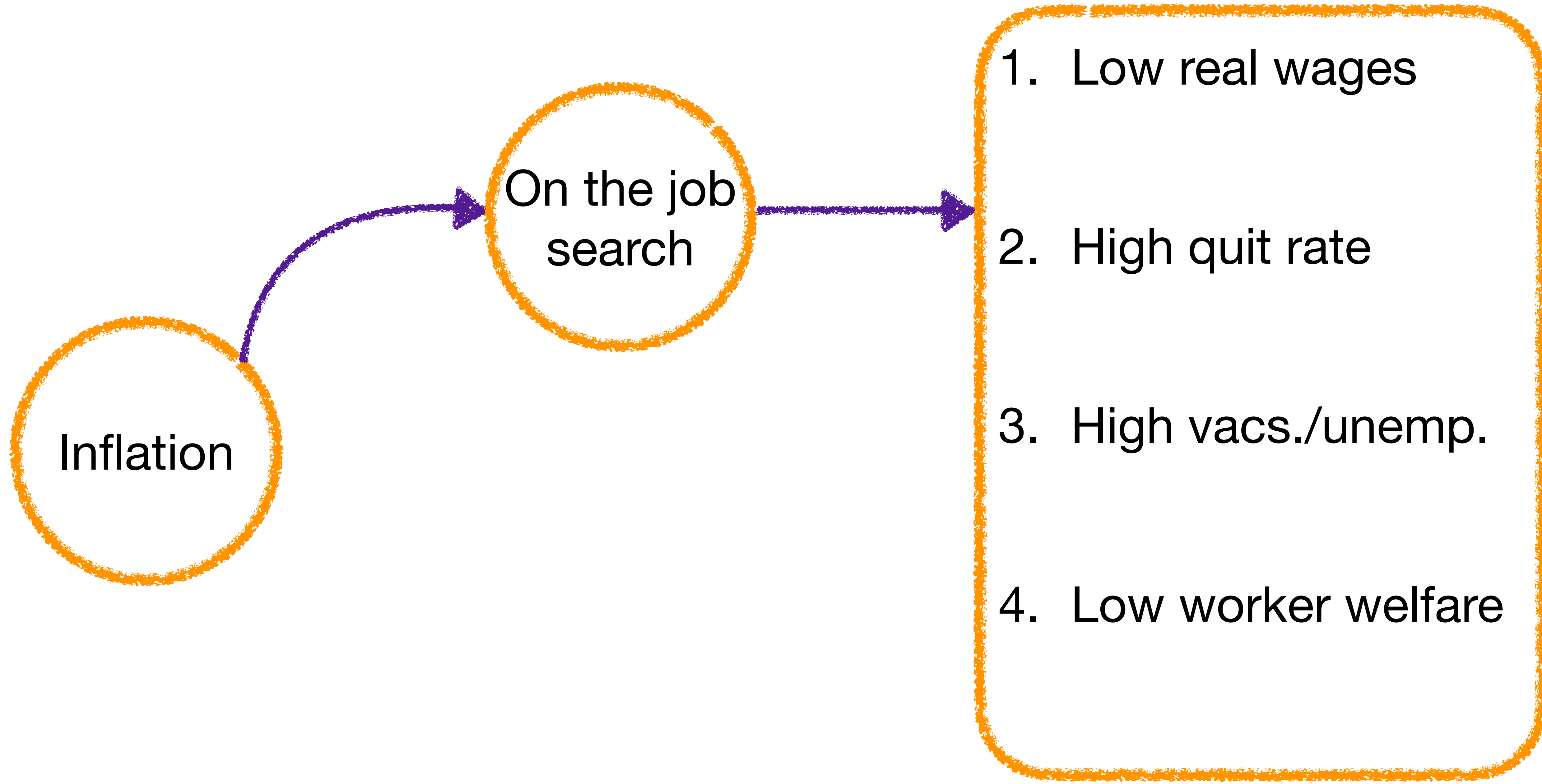
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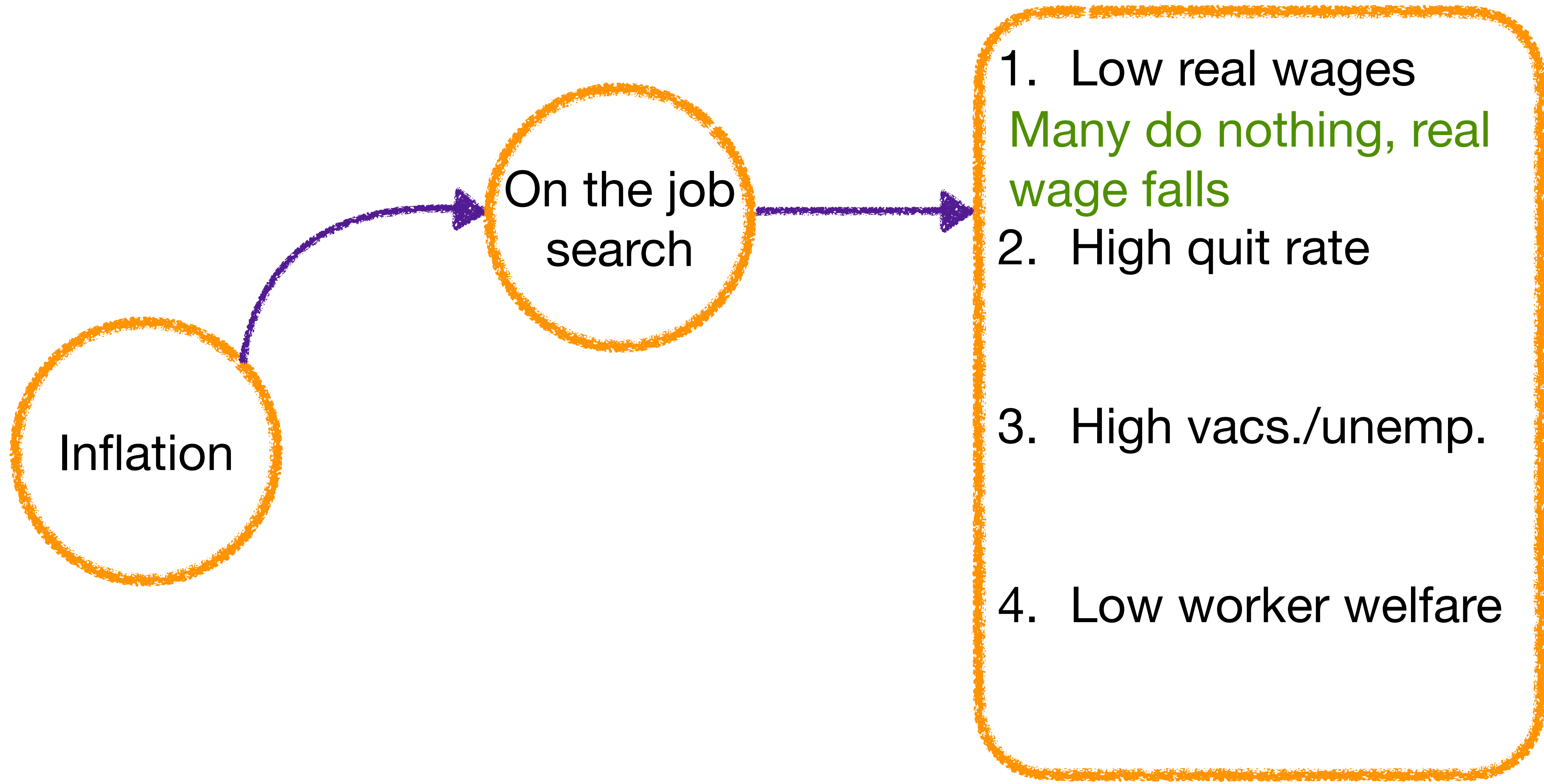
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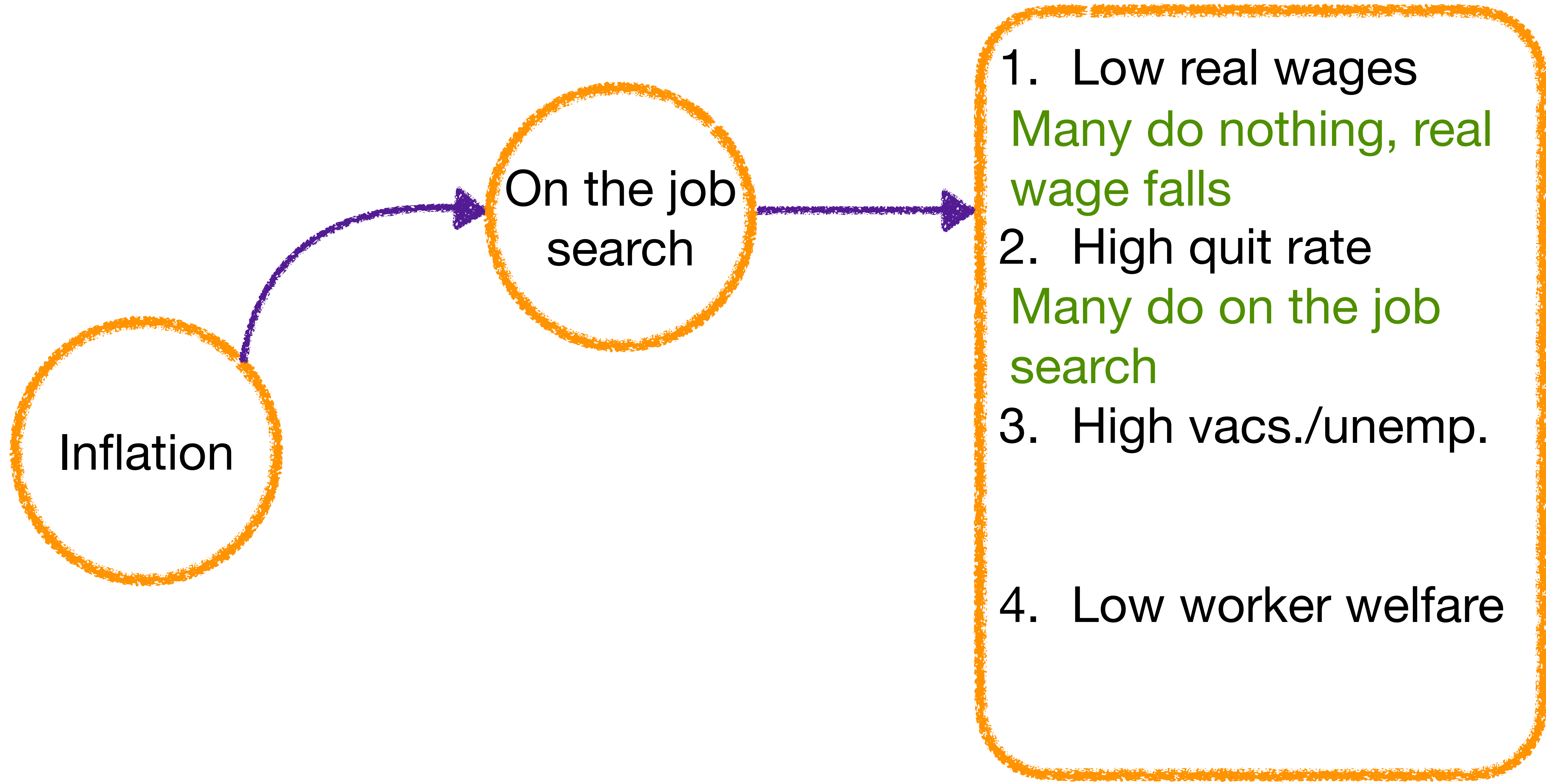
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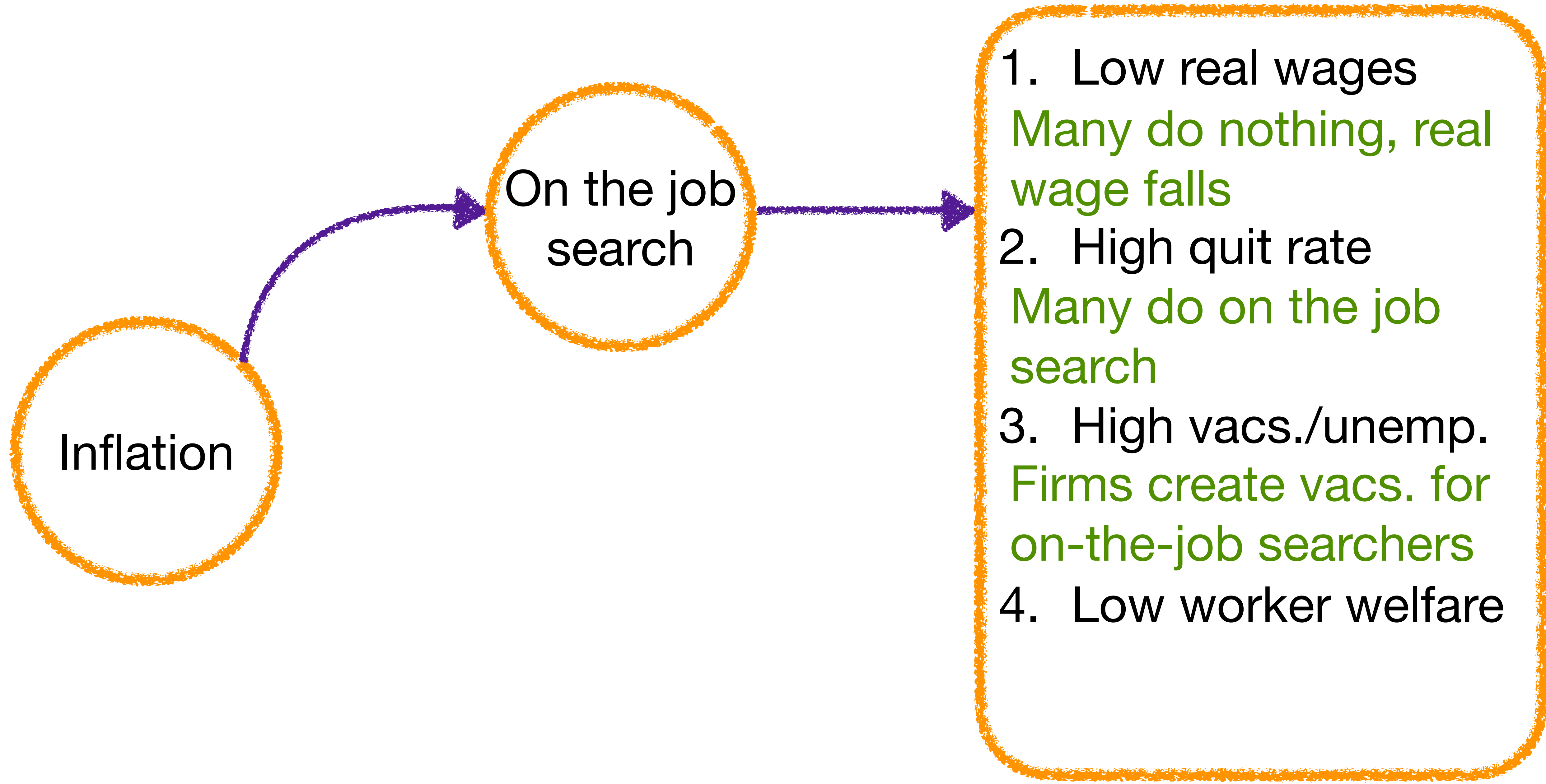
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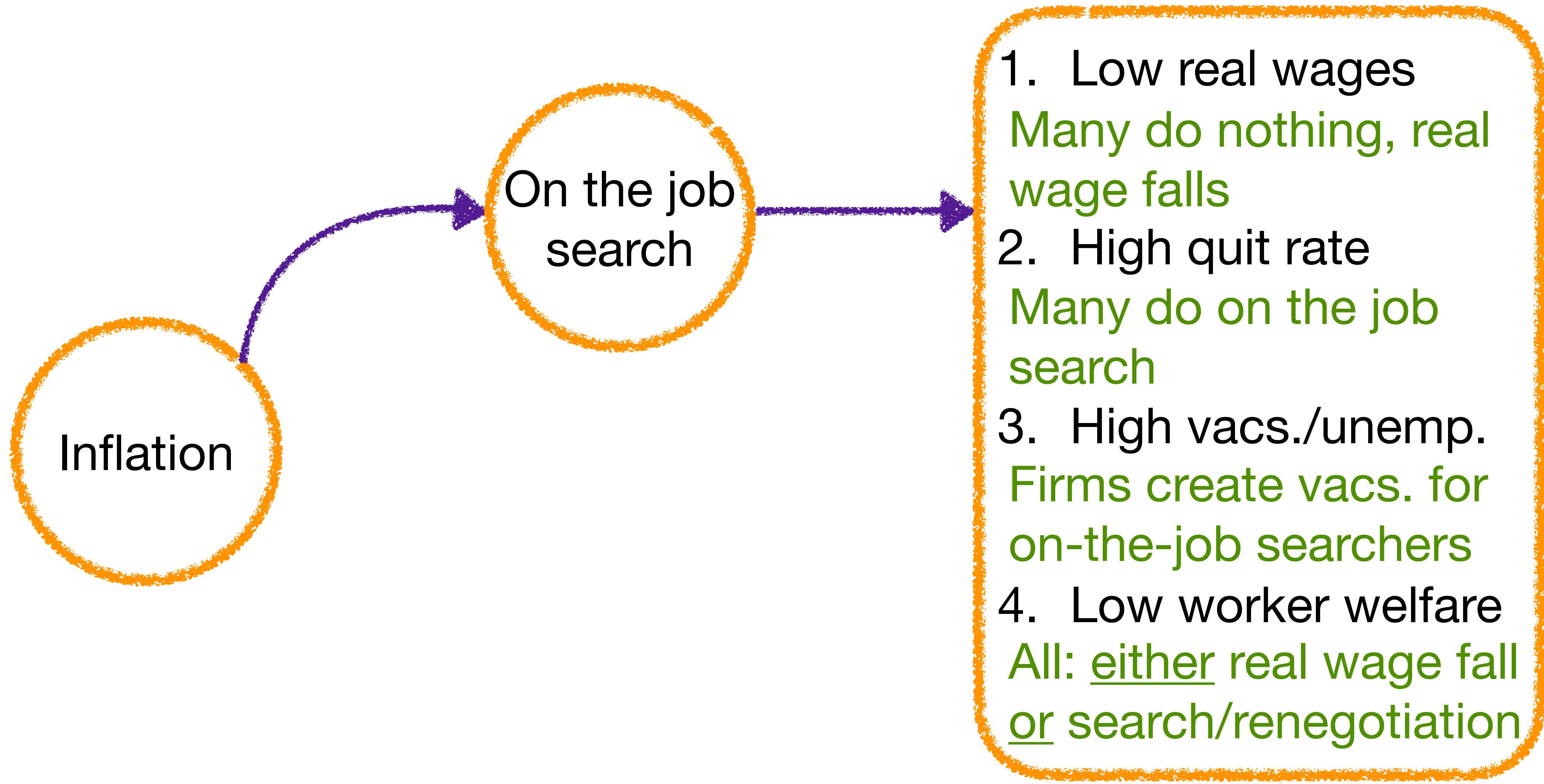
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Evaluation of the Paper

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“Unusual” Separations vs. Job Finding

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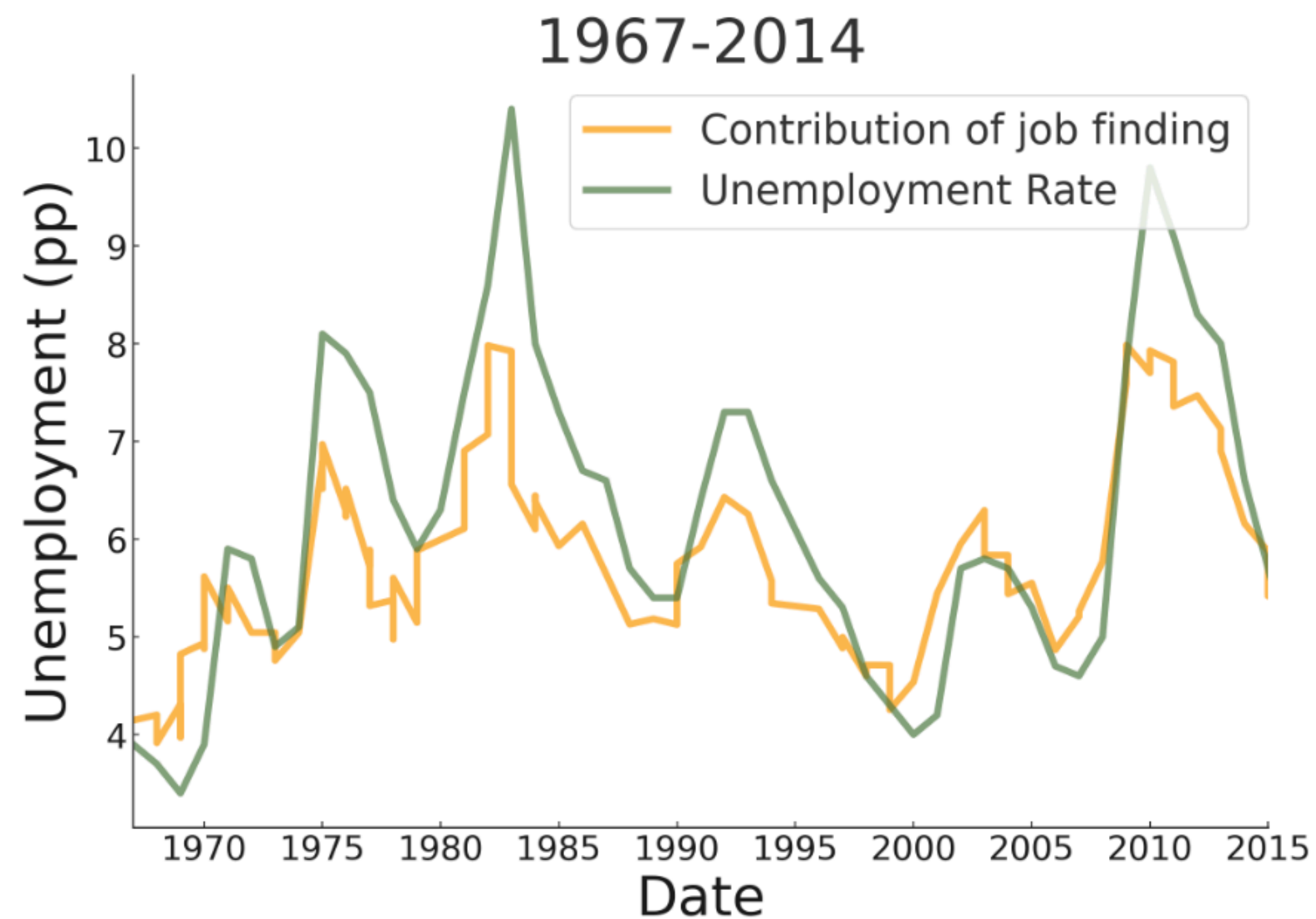
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“Unusual” Separations vs. Job Finding

Typical cycle: job finding mostly accounts for unemployment



$$\Delta \text{unemployment}_t \approx \text{separation rate}_t \times (1 - \text{unemployment}_t) - \text{job finding rate}_t \times \text{unemployment}_t$$

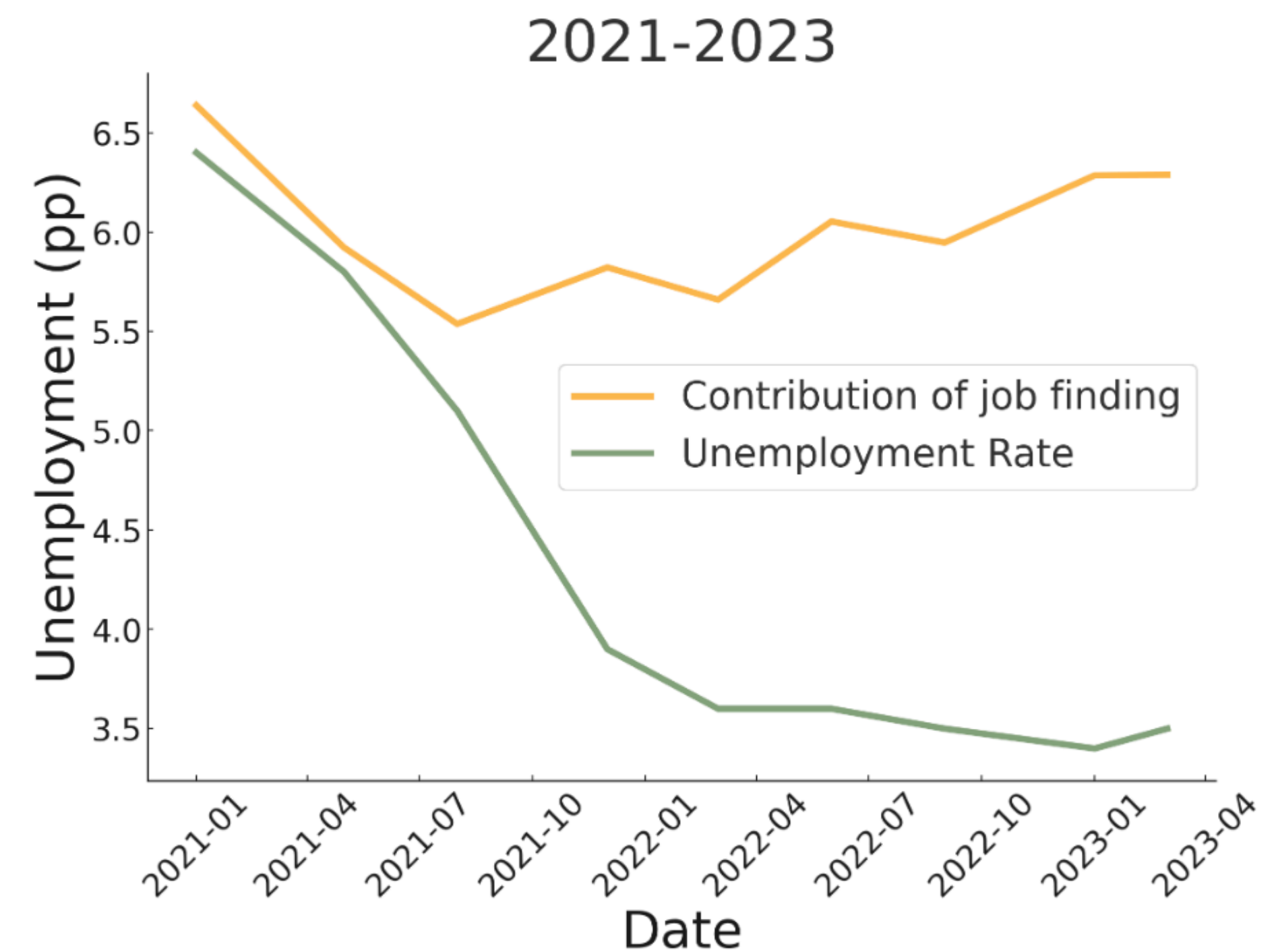
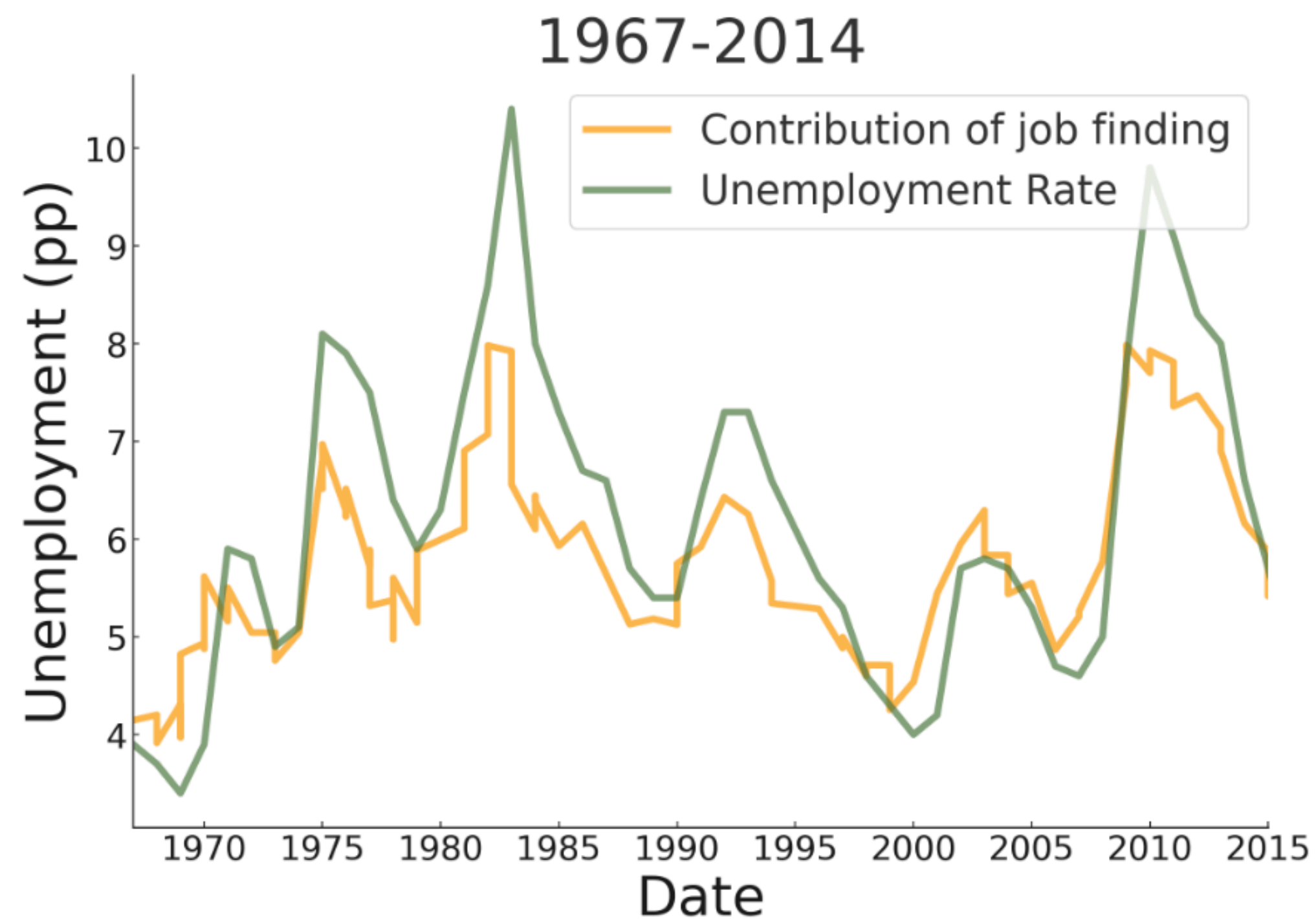
i.e. Shimer (2012)

Thanks to Simon Mongey for an updated series

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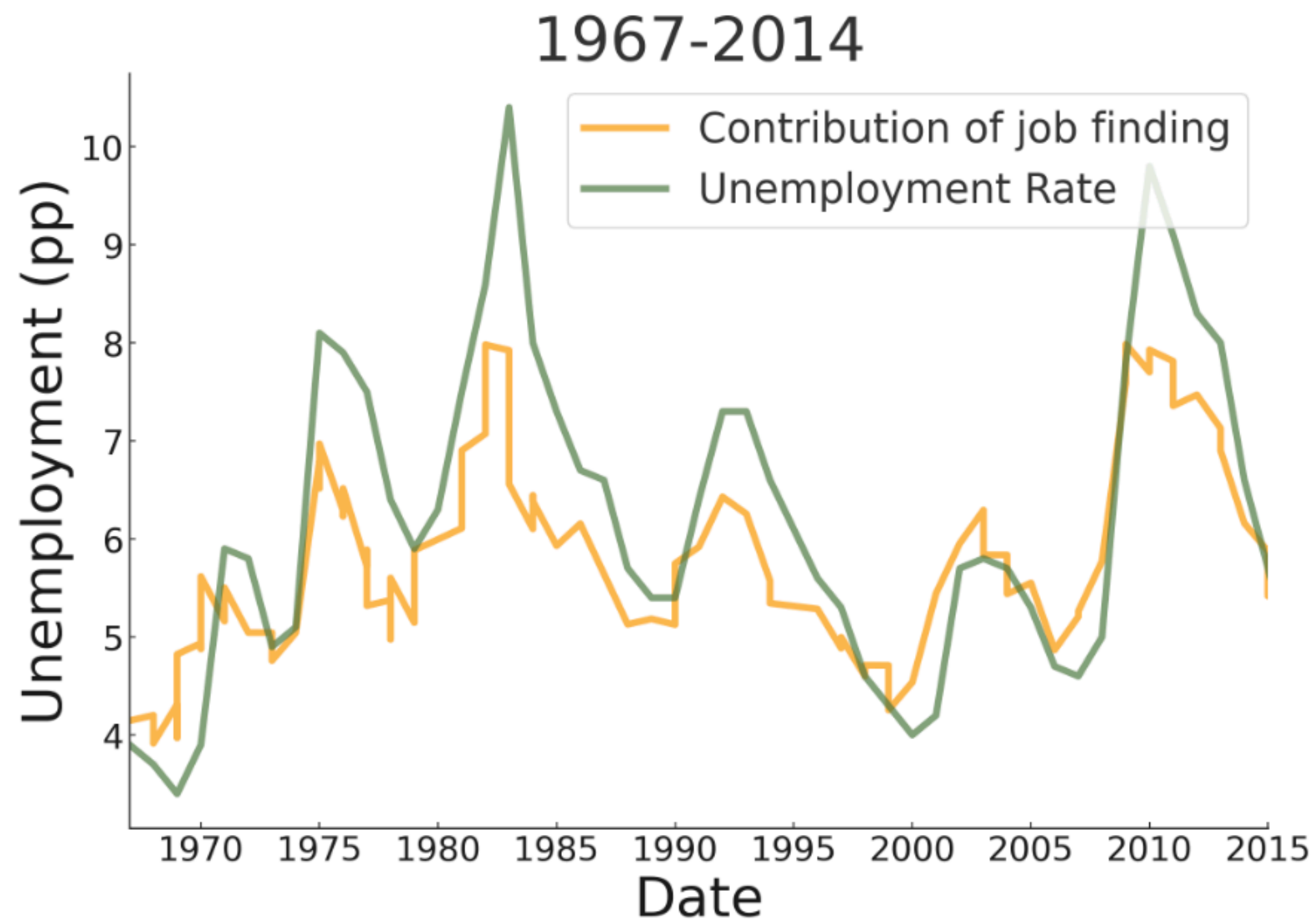


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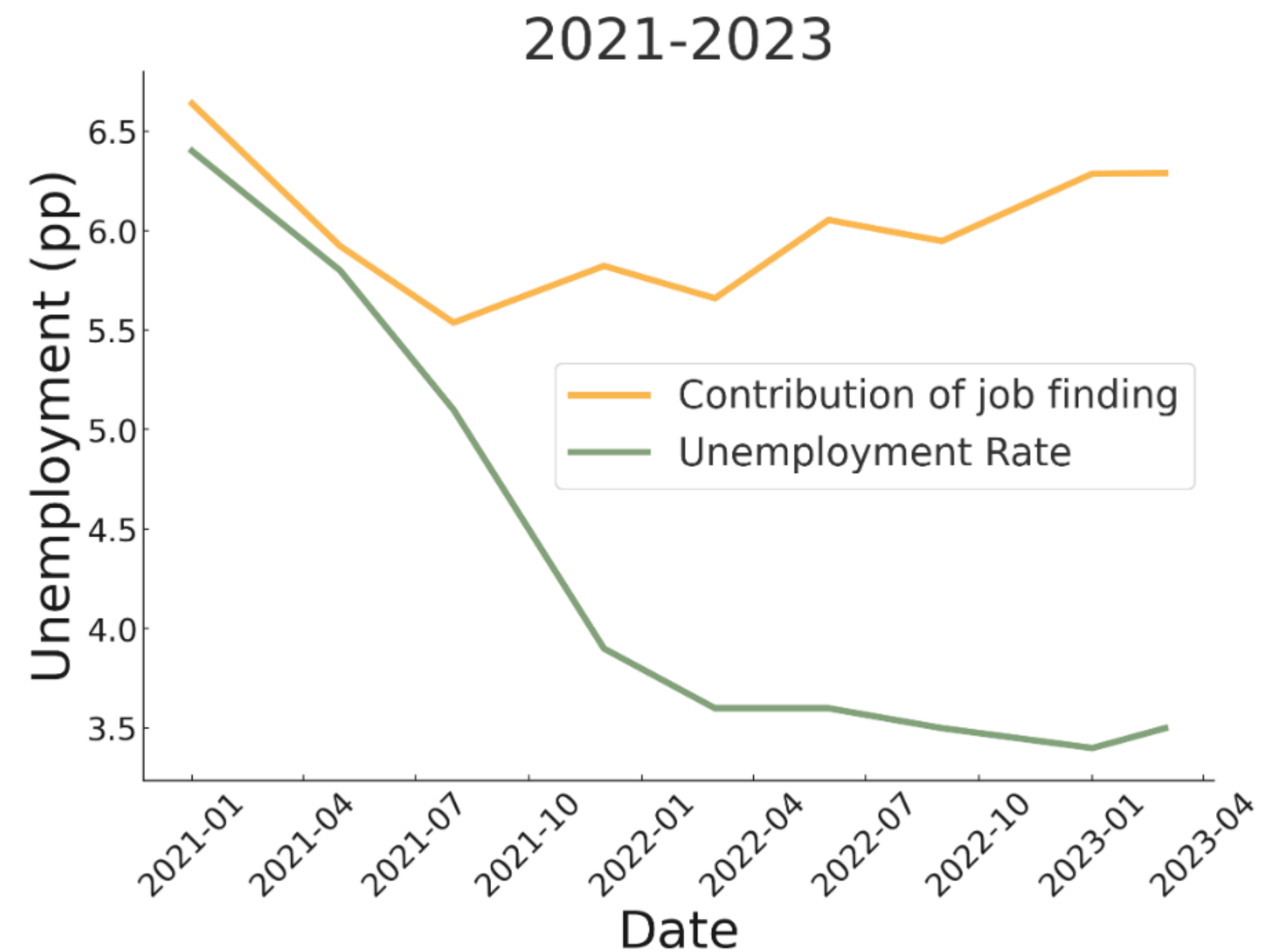
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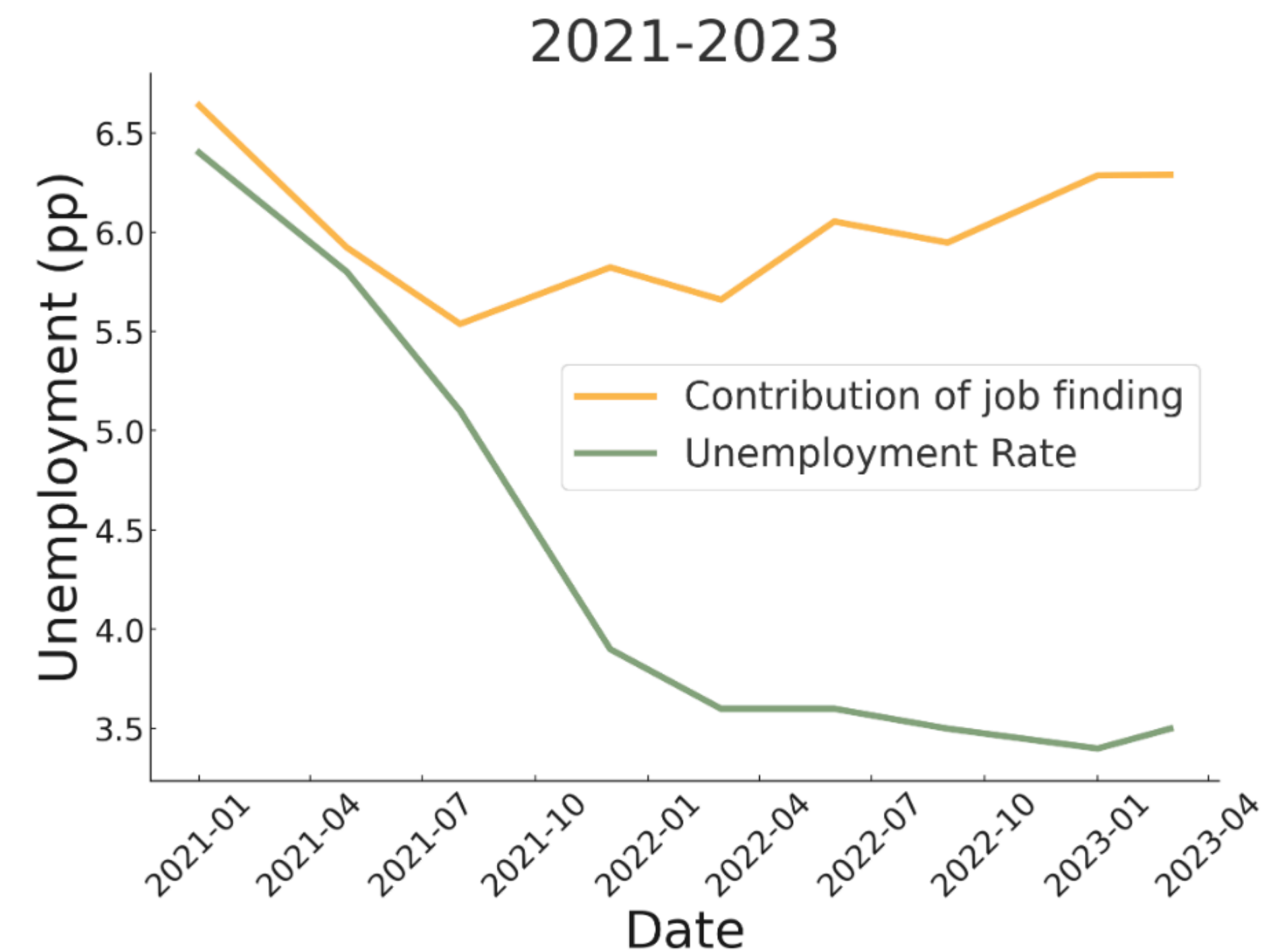
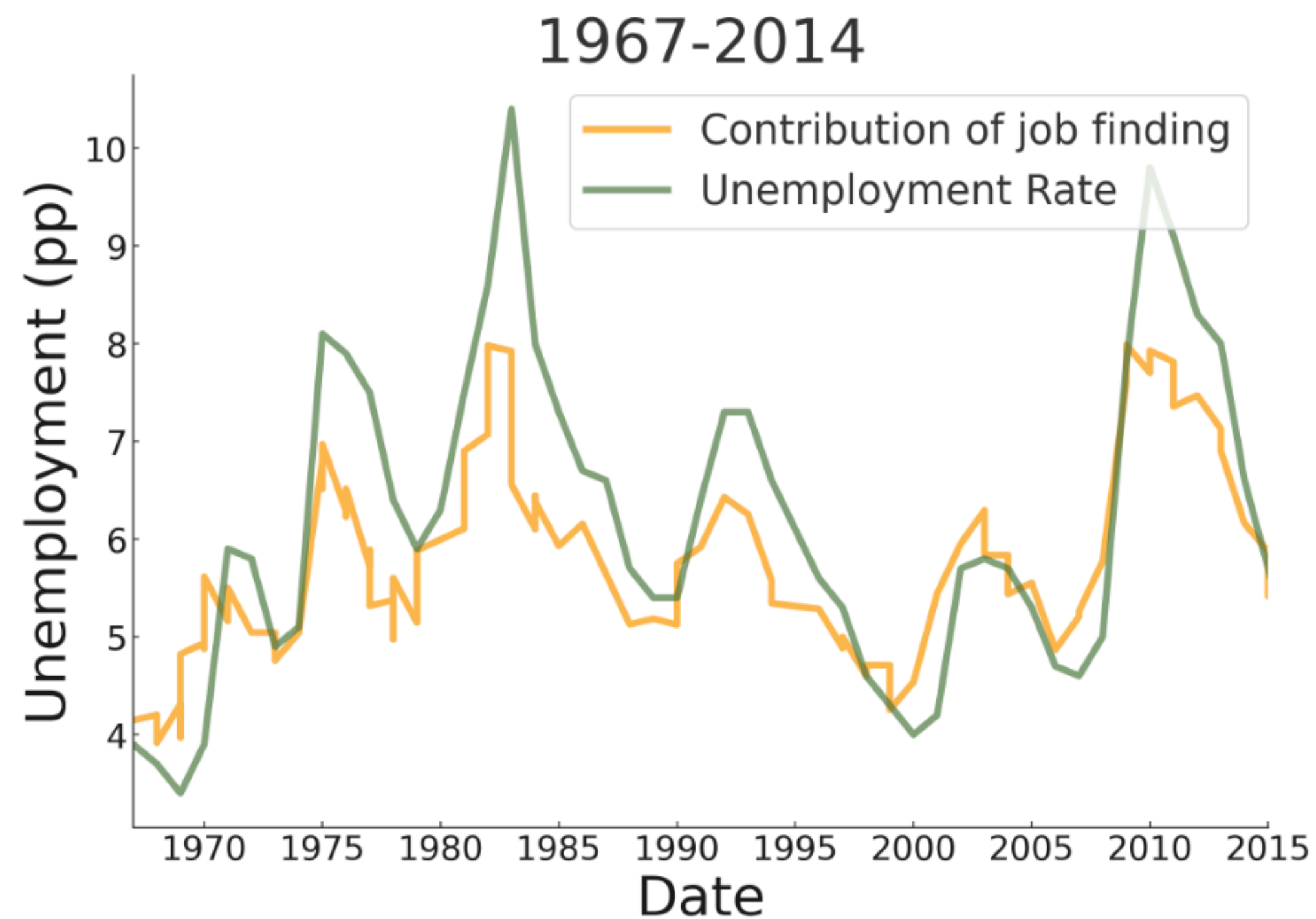


True in model: avg. real wage falls,
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Would be useful for reader!

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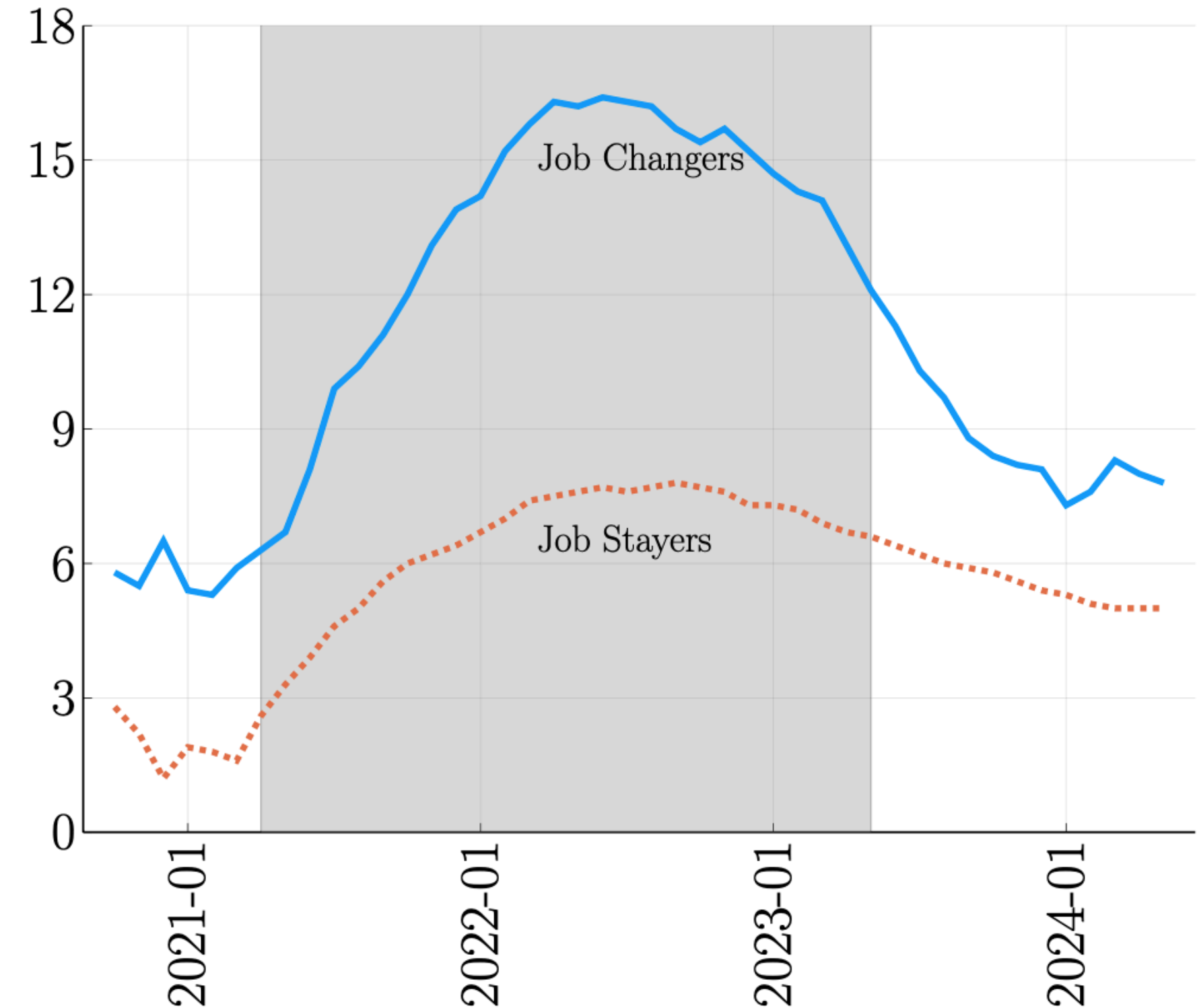
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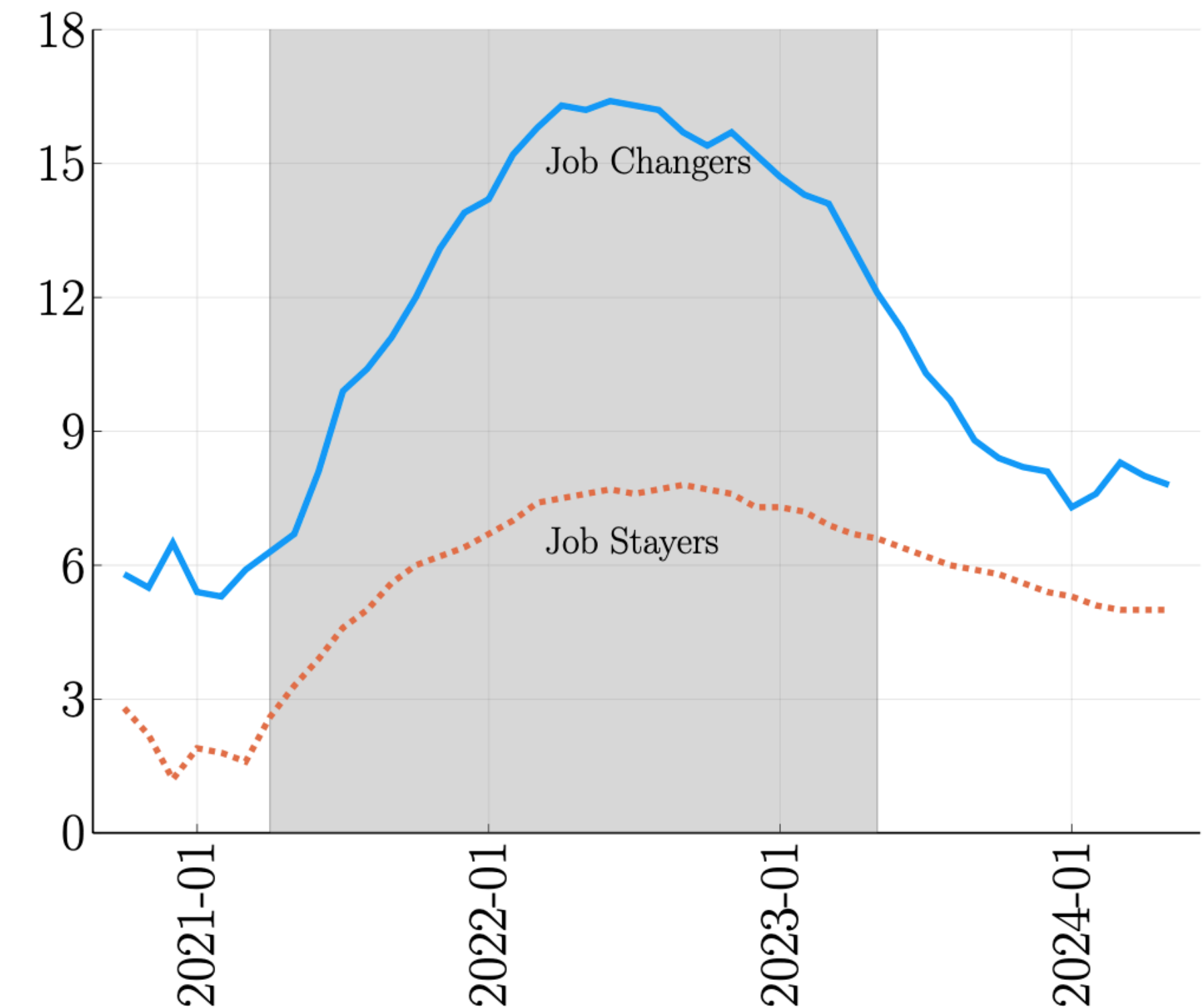
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PANEL A: ADP WAGE GROWTH,
BY SWITCHING STATUS

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 - Avg. wage for new hires seems to be flexible
- Relative consensus: average is hard to interpret
 - Apparent wage flexibility is changing composition
 - Similar nominal rigidity for incumbents vs. new hires adjusting for composition



PANEL A: ADP WAGE GROWTH,
BY SWITCHING STATUS

Average Wage for New Hires and Job Composition

Aggregate Nominal Wage Adjustments:
New Evidence from Administrative Payroll Data[†]

By JOHN GRIGSBY, ERIK HURST, AND AHU YILDIRMAZ*

Using administrative payroll data from the largest US payroll processing company, we measure the extent of nominal wage rigidity in the United States. The data allow us to define a worker's per-period base contract wage separately from other forms of compensation such as overtime premiums and bonuses. We provide evidence that firms use base wages to cyclically adjust the marginal cost of their workers. Nominal base wage declines are much rarer than previously thought with only 2 percent of job-stayers receiving a nominal base wage cut during a given year. Approximately 35 percent of workers receive no base wage change year over year. We document strong evidence of both time and state dependence in nominal base wage adjustments. In addition, we provide evidence that the flexibility of new hire base wages is similar to that of existing workers. Collectively, our results can be used to discipline models of nominal wage rigidity. (JEL E24, E32, J31, J41)

AER (2021)

Unemployment Fluctuations, Match Quality, and the Wage Cyclicalilty of New Hires

MARK GERTLER
New York University and NBER
CHRISTOPHER HUCKFELDT
Cornell University
and
ANTONELLA TRIGARI
Bocconi University, CEPR and IGIER

First version received June 2016; Editorial decision August 2019; Accepted January 2020 (Eds.)

We revisit the issue of the high cyclicalilty of wages of new hires. We show that after controlling for composition effects likely involving procyclical upgrading of job match quality, the wages of new hires are no more cyclical than those of existing workers. The key implication is that the sluggish behaviour of wages for existing workers is a better guide to the cyclicalilty of the marginal cost of labour than is the high measured cyclicalilty of new hires wages unadjusted for composition effects. Key to our identification is distinguishing between new hires from unemployment versus those who are job changers. We argue that to a reasonable approximation, the wages of the former provide a composition-free estimate of the wage flexibility, while the same is not true for the latter. We then develop a quantitative general equilibrium model with sticky wages via staggered contracting, on-the-job search, and heterogeneous match quality, and show that it can account for both the panel data evidence and aggregate evidence on labour market volatility.

REStud (2020)

Downward Rigidity in the Wage for New Hires

Jonathon Hazell Bledi Taska*

July 4, 2024

Wage rigidity is an important explanation for unemployment fluctuations. In benchmark models wages for new hires are key, but there is limited evidence on this margin. We use wages posted on vacancies, with job and establishment information, to measure the wage for new hires. We show that our measure of the wage for new hires is rigid downward and flexible upward, in two steps. First, wages change infrequently at the job level, and fall especially rarely. Second, wages do not respond to rises in unemployment, but respond strongly to falls in unemployment. Job information is crucial for detecting downward rigidity.

AER (accepted)

Caveat: Kudlyak (2014)

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- Key in the model—after inflation shock
 - Marginal cost of renegotiating old job large relative to cost of search for new job
- Valuable to search

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- Useful to know — is calibration of relative costs correct? E.g.:
 - Plot mapping between moments and params. to support heuristic argument
 - Make the case that 5 param. model of wage change distribution works well

Conclusion

- Great paper:
 - Ambitious question about 5 facts of post-Pandemic economy
 - Rich quantitative model matched to detailed micro data
 - **Believable mechanism:** inflation causes on the job search
 - Matches unusual behaviour of separations vs. job finding
- Some useful information to add about core mechanism
 - How to think about **wage flexibility for new hires?**
 - What identifies relative cost of **negotiation vs. search?**