

Discussion of Jared Bernstein's 'Wage Outcomes and Macroeconomic Conditions: What's the Connection?'

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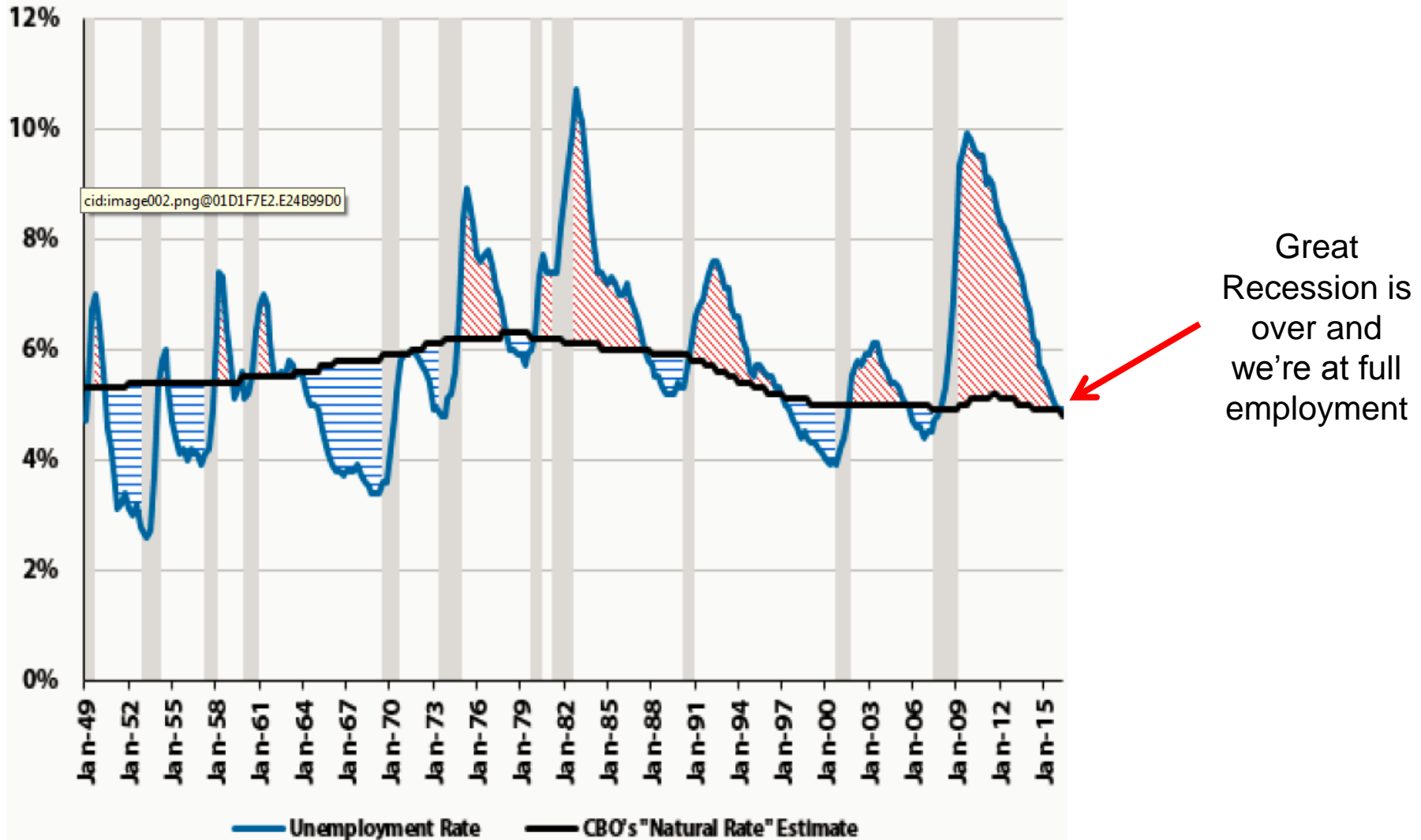
This work does not necessarily reflect the Treasury Department's interpretation of the data.

Key issue: Efficiency of low employment and wages

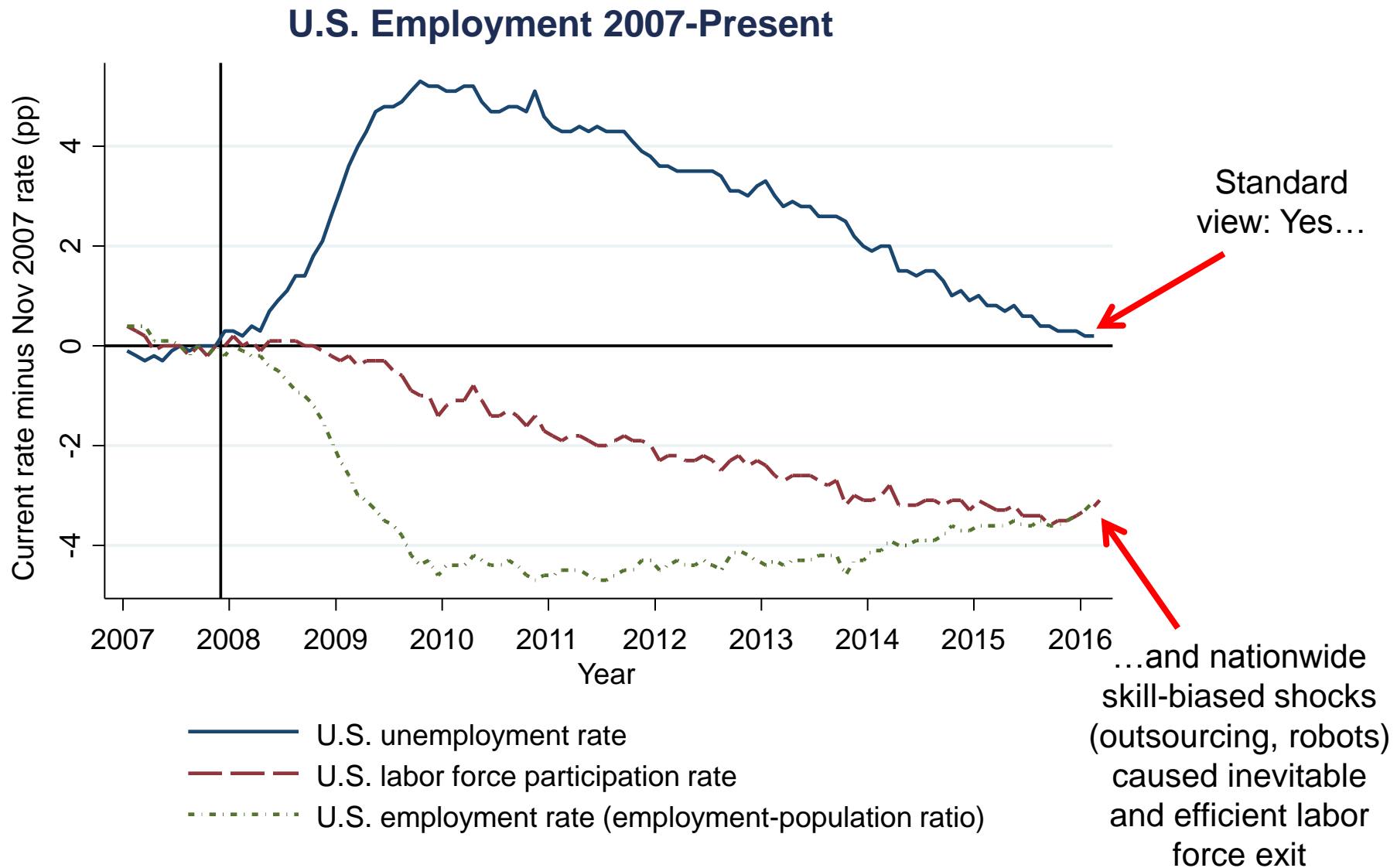
- Three claims
 1. Underemployment is the norm
 2. Underemployment reduces wages
 3. Optimal policy raises employment
- Do-Nothing response: Persistent employment losses are inevitable/efficient
 - Maximizing employment rate does not maximize efficiency/welfare
 - Policies raising employment may be redistributive but not efficient → hard to agree on policy (and standard redistribution done via transfers)
- This discussion: Persistent employment losses not fully inevitable and possibly not fully efficient
 - May broaden scope for policy agreement

Standard measure says full employment is restored

Distance from Full Employment

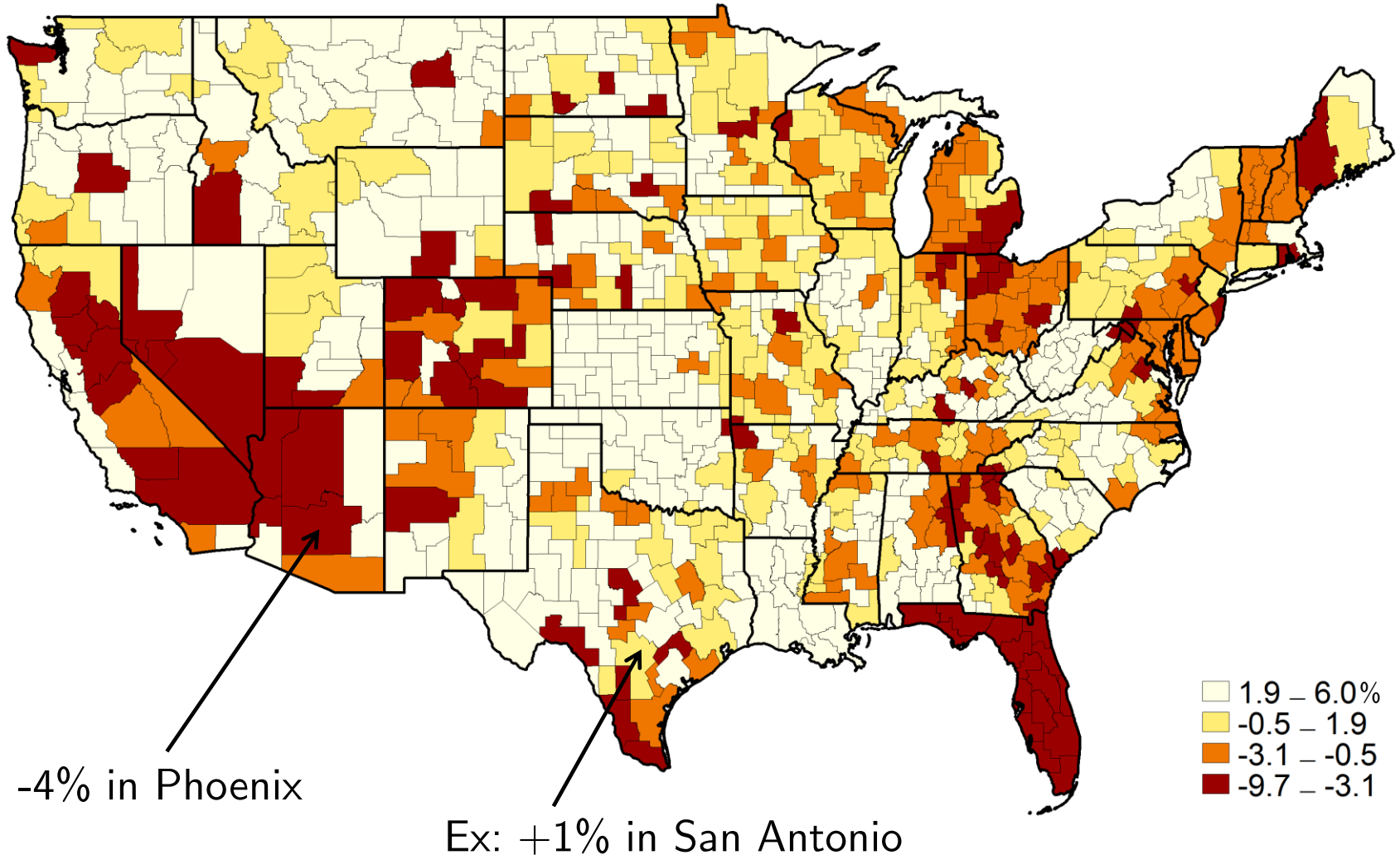


But is the Great Recession really over?



Laboratory: Differently severe GRs across space

Great Recession Local Shocks 2006-2009 local employment changes relative to 2000-2003 trend



New evidence on lasting scars from Great Recession

- National Do-Nothing argument applies, if Phoenix skills simply obsolete
- Hold skill constant by comparing workers at same 2006 retail chain firm



Phoenix



San Antonio

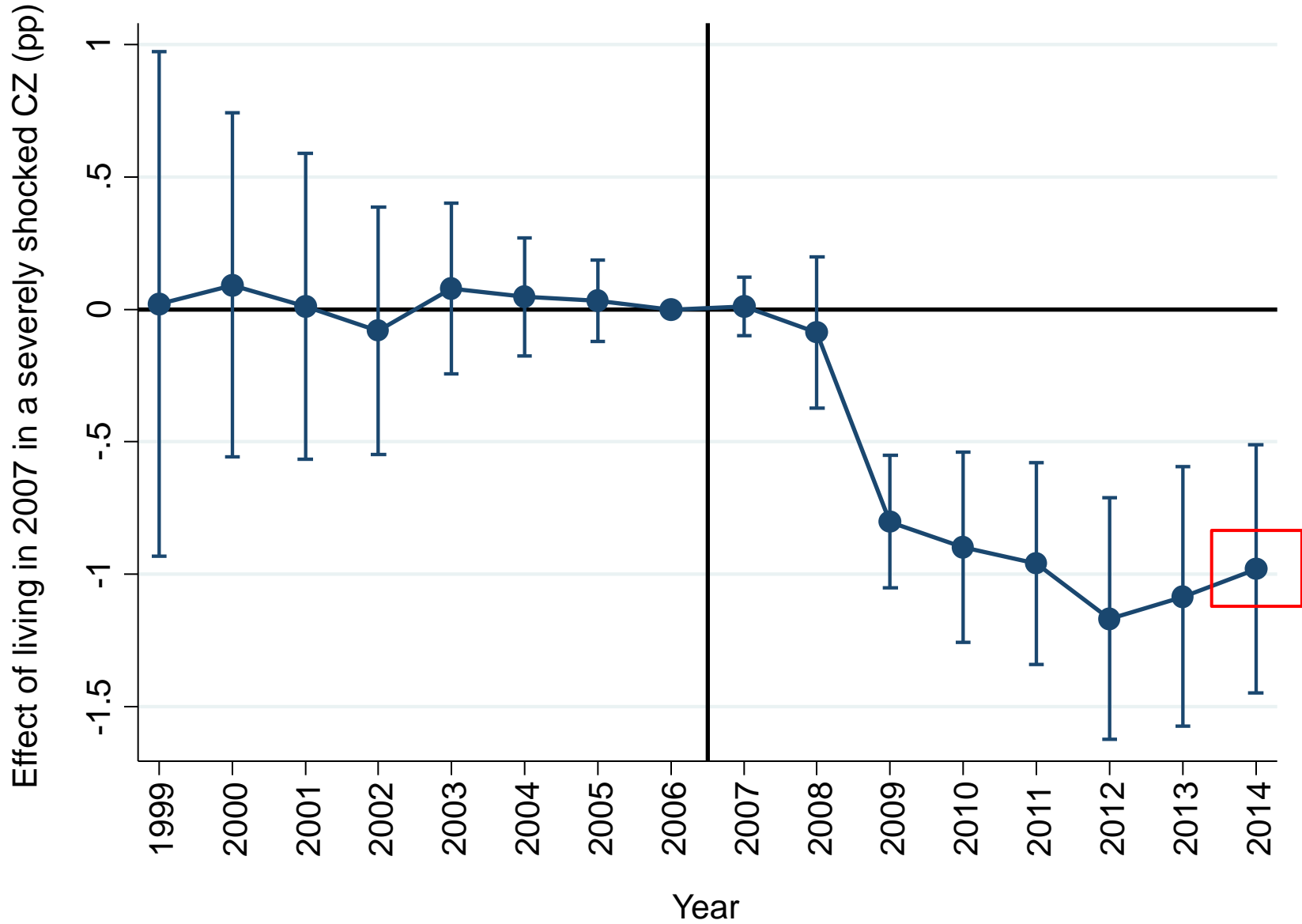
- Assumption: As-good-as-random assignment conditional on 2006 retail firm and amount earned at 2006 retail firm
 - E.g. Workers do same tasks across space and are paid their MPL

Longitudinal data

- Source: De-identified U.S. tax returns 1999-2014
- Employed: Positive W2 wages or 1099MISC non-employee comp
- Location: 722 Commuting Zones (CZ's) based on info return ZIP code [Tolbert-Sizer 1996; Dorn 2009; Autor-Dorn 2012; Chetty-Hendren-Kline-Saez 2014]
- Sample: 2,238,310 workers 25-75 working at 816 multi-CZ retail firms in 2006 who do not live in the CZ of the corporate headquarters
- CZ shock: 2007-2009 log-change in the CZ's employment relative to trend

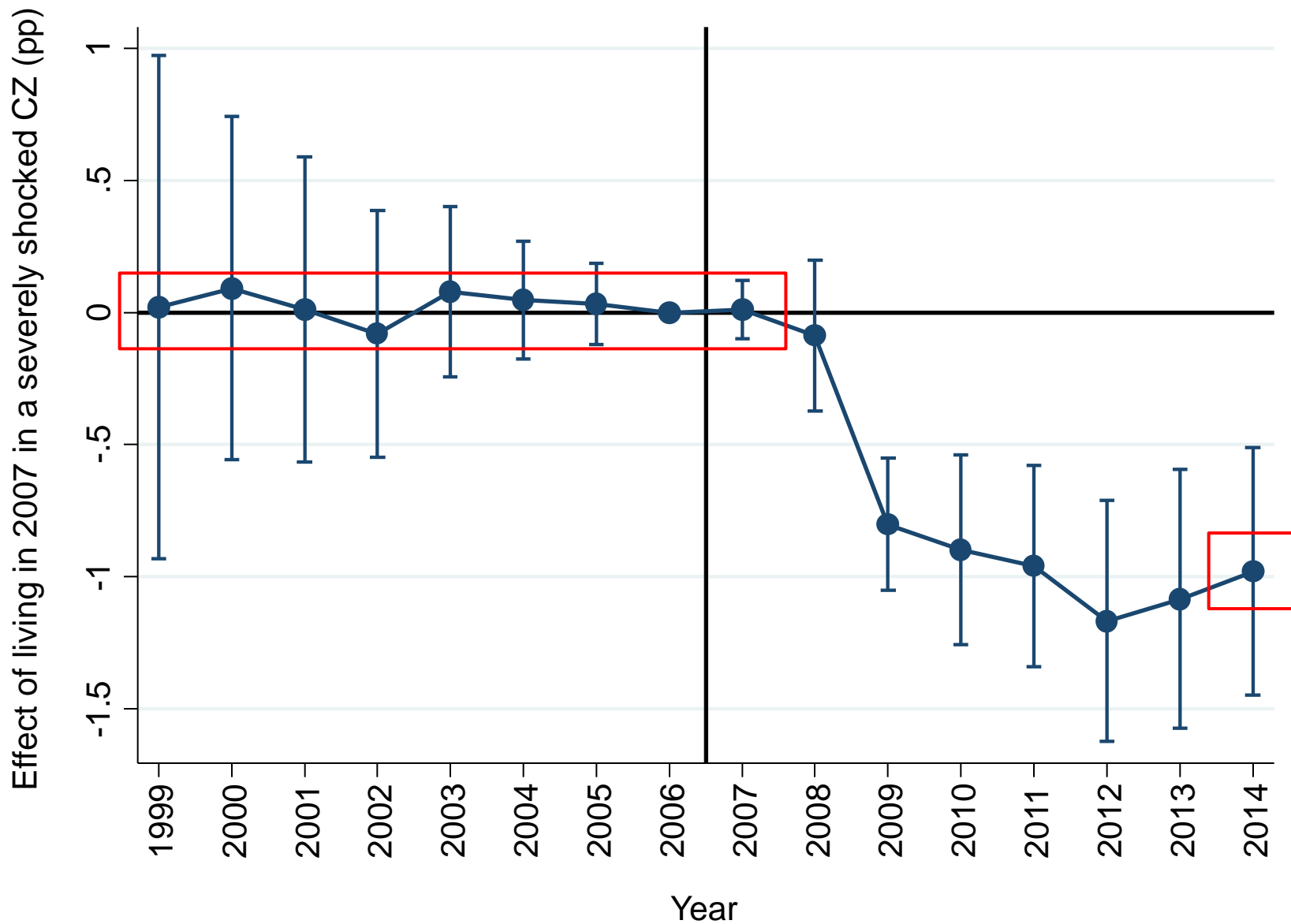
$$SHOCK_c = \ln \frac{E_{c2009}}{E_{c2006}} - \ln \frac{E_{c2003}}{E_{c2000}}$$

Employment Impacts of Great Recession Location



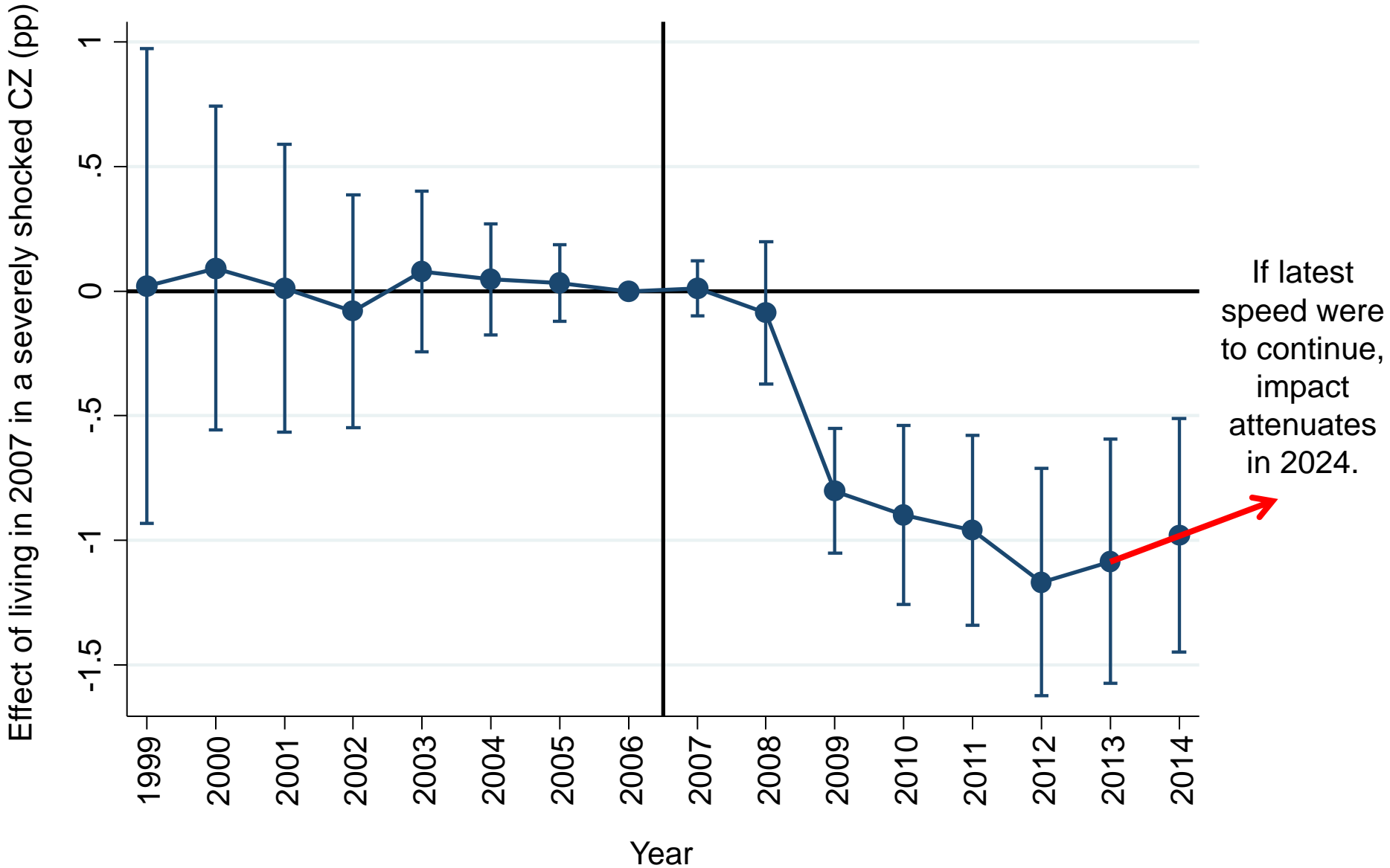
$$EMPLOYED_{it} = \mathbf{X}_{i2007c(i2007)} \hat{\gamma} + \hat{\beta} SEVERE_{c(i2007)}$$

Employment Impacts of Great Recession Location



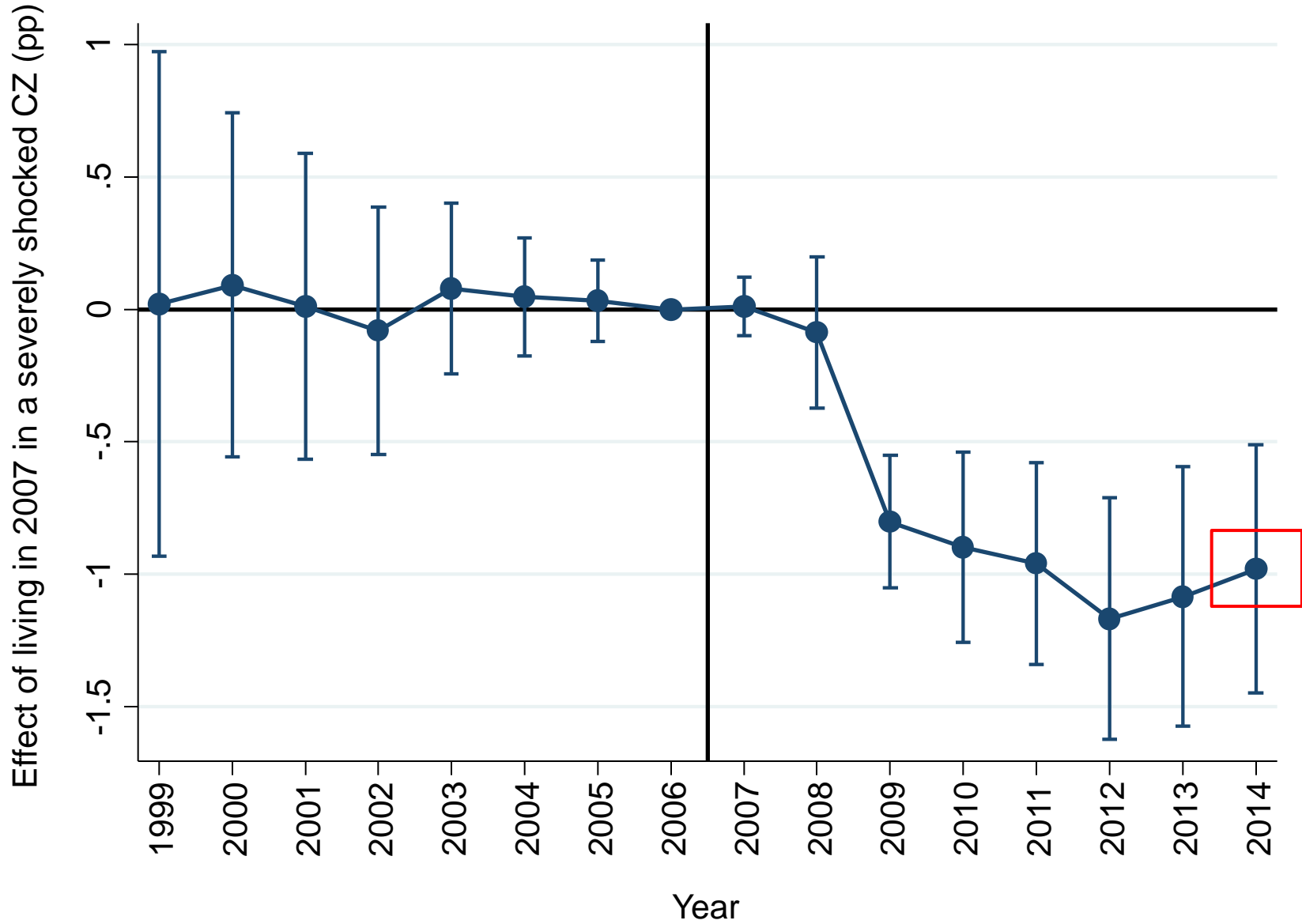
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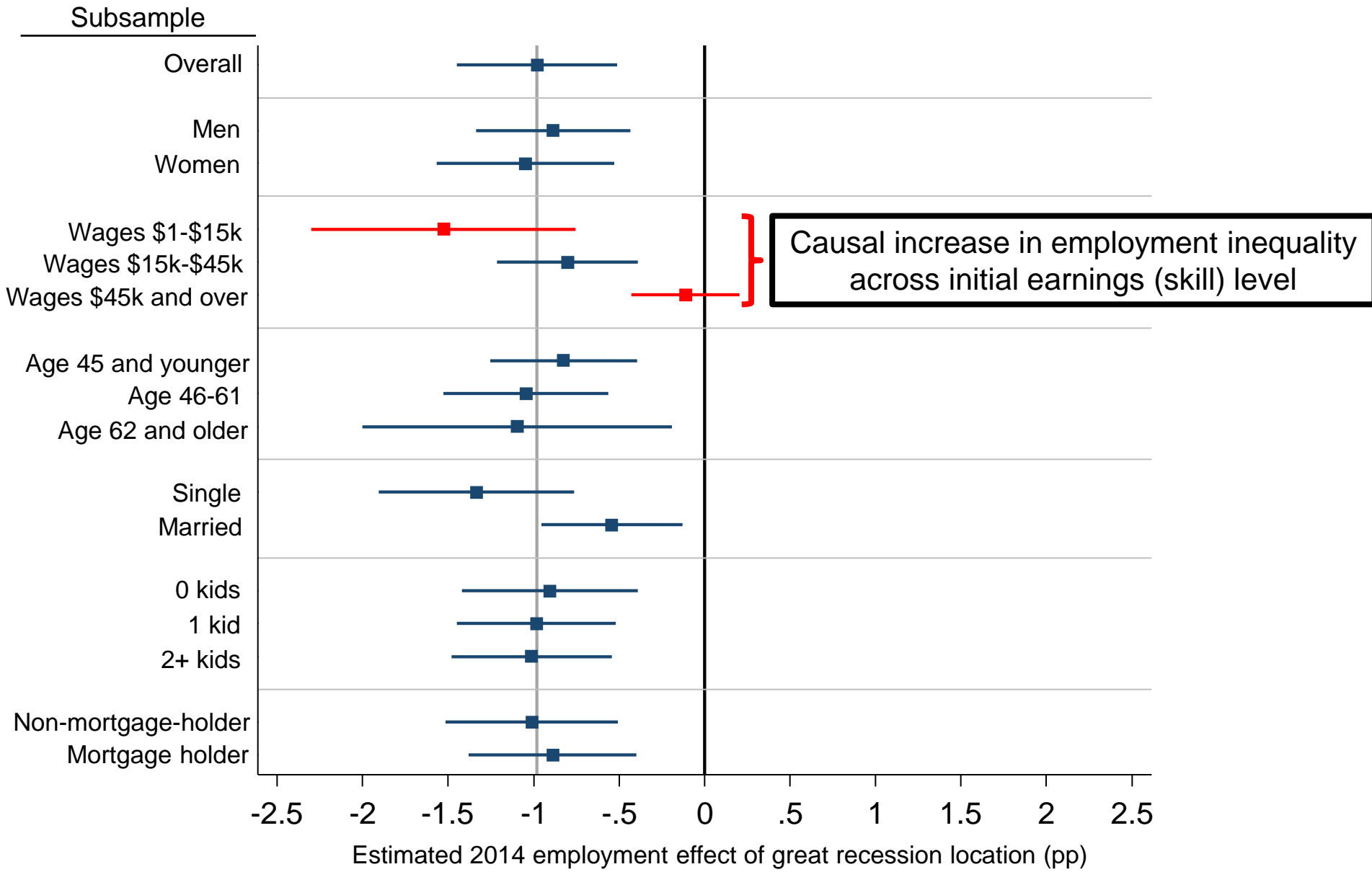
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Heterogeneity in 2014 Employment Impact



$$EMPLOYED_{i2014} = \mathbf{X}_{i2007c(i2007)}\hat{\gamma} + \hat{\beta}SEVERE_{c(i2007)}$$

“Full employment” and efficiency

- Low employment after the Great Recession: not fully temporary, not fully inevitable, and possibly not fully efficient
 - If workers scarred → possibly more stimulus during recessions
 - If places scarred → possibly new stimulus now (e.g. mult. equilibria)
- Generally: Business cycle effects can last longer than typically measured, or else the ‘cycle’ is more than just a cycle around a fixed long-run trend and can affect the trend itself