Parental Wealth and Early Labor Market Outcomes

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Summary

- **Question:** How does parental wealth affect early-career labor market outcomes?
- **Main Findings:** Young adults from the lowest family wealth deciles tend to:
  - have lower earnings & higher income volatility
  - sort into lower-paying firms & have less stable jobs
- **Model:** Aiyagari + McCall + OJS + heterogeneous unemployment risk
  Lise (2013) + Clymo et al. (2022)
- **First Thoughts:** Very nice paper on relevant topic, great potential
- **This Discussion:** Focus on lower-end of wealth distribution
  1. Can we infer the mechanism from the data instead of targeting flows?
  2. Potential issues with measuring labor market flows

1st Comment: Mechanism

Nice, simple model with detailed UI policy and intuitive mechanism

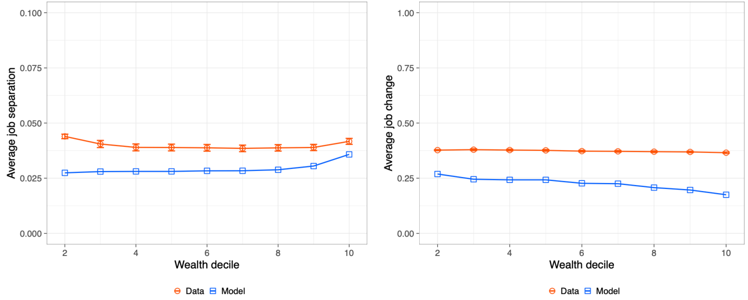
Main Mechanism: Job destruction rate $\delta(w)$ depends on wages:

$$\rho W(w,a) = \max_c u(c) + \lambda_1 \int [W(x,a) - W(w,a)]\, dF(x) + \delta(w)\, [U(w,a) - W(w,a)] + \ldots.$$

where $\delta(w) = \delta^H - (\delta^H - \delta^L) w^{\delta_i}$

Issues with Mechanism

1. Does not deliver job separations decreasing in wealth at low assets
   - why $\implies$ quitting into unemployment increases in wealth (disutility shock)
     direction depends on slope of $\delta(w)$ and that of quits(wealth)
2. Does not deliver job-to-job transitions non-decreasing in wealth
   - why $\implies$ job-to-job transitions are not risky: changing job is always profitable
     low-wealth workers have lower employed reservation wages



Suggestions

Job Separations and Wealth:

- Calibrate $\delta(w)$ from the data instead of targeting flows
- How much does it explain of observed EU transitions by wealth?

Job-to-Job and Wealth:

- To get job changes non-decreasing in wealth: add trade-off for switching jobs
- e.g. involuntary separations decreasing in tenure as in my JMP

Discipline the Mechanism from the Data

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1. **Estimate the AKM model:**

$$w_{ikt} = \alpha_i + \gamma_t + \lambda_k + \beta X_{it} + \varepsilon_{ikt}$$

w_{ikt} = log wage of worker i at firm k in period t
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2. **Regress separations into registered unemployment on firm fixed effects:**

$$\delta_{ikt} = \theta\hat{\lambda}_k + \eta X_{it} + \mu_{ikt}$$

δ_{ikt} = indicator of separation into unemployment of worker i from firm k
θ = how differences in firm pay premium correlate to separation probabilities

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- **Unemployment:** Only observe unemployed workers receiving UI
  - do not distinguish unemployment from out of the labor force
  - composition effect of EU + EN: which one prevails?
  - important for response to unemployment insurance

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  - important for response to unemployment insurance
- **Time Aggregation Bias:** Labor market flows at yearly frequency
  - especially important for job change rate: J2J = EE + E(U)E + E(N)E
  - maybe EE $\uparrow$ with wealth (as in my JMP), but E(U)E $\downarrow$ in wealth?
  - could explain why differences in job changes over wealth deciles are so small

Final Thoughts

Overall Thoughts:

- Very strong paper with great potential
- Liked the focus on family wealth and children earnings
- Interesting new empirical fact on wealth and sorting across firms
- Nice model with detailed UI policy and intuitive mechanism

Suggestions:

- Focus on lower-end of wealth distribution: new and more relevant for policy
- Leverage the richness of matched employer-employee data
- Would like to see evidence of the mechanism in the data
- Calibrate $\delta(w)$ from data and see what this mechanism predicts for flows