Volume Title: NBER Macroeconomics Annual 2015, Volume 30

Volume Author/Editor: Martin Eichenbaum and Jonathan A. Parker, editors

Volume Publisher: University of Chicago Press

Volume ISBNs: 978-0-226-39560-9 (cloth); 978-0-226-39574-6 (e-ISBN)

Volume URL: http://www.nber.org/books/eich15-1

Conference Date: April 17–18, 2015

Publication Date: June 2016

Chapter Title: Discussion of "Declining Desire to Work and Downward Trends in Unemployment and Participation"

Chapter Author(s):

Chapter URL: http://www.nber.org/chapters/c13682

Chapter pages in book: (p. 509 – 512)

Discussion

Regis Barnichon began by responding to several points raised by the discussants, Richard Rogerson and Robert Hall. He agreed with Rogerson's suggestion of developing a structural model to further interpret the trends in the data. The structural model would be useful for determining whether or not the decline in labor participation rates was driven by poor labor market opportunities. He did not believe this to be the case because real wages increased for every single group over the same period as the decline in labor participation.

Barnichon next addressed the comments about the timing of the trends. Both discussants raised the issue that participation and unemployment were almost perfectly negatively correlated over the past three decades. The negative correlation seems at odd with the paper's argument of a single driving force that simultaneously explains decreasing trends in both unemployment and participation. Barnichon acknowledged that the levels of the participation and unemployment rates trended in opposite directions. However, he argued that it is important to look at the flows instead, because the stocks were overwhelmed by the trend toward women joining the labor force prior to 1990.

Barnichon agreed that the authors' employment flow decomposition was an accounting one. It therefore does not take a stance on whether the change in desire-to-work was an exogenous factor, which then caused the trends in participation and unemployment rates, or if it was a response to an alternative driving force.

Barnichon next addressed the comments to expand the number of states of employment status beyond their current eight-state structure. He noted that this is easy to do with their current framework. This will

978-0-226-39560-9/2016/2015-0604$10.00

allow the model to capture more subtle differences between "want a job" and "not want a job," which Robert Hall had argued was important for understanding the factors driving trends in employment. Barnichon also acknowledged that the paper's transition matrix for employment dynamics is based on average transition probabilities, rather than the marginal transition probabilities. He saw the paper as a first step toward understanding the importance of changes in the desire to work for driving the trends in employment and unemployment.

Jonathan Parker made a related comment about the assumptions behind the Markov transition matrices. He stated that it is not possible to identify duration dependence from unobserved heterogeneity except by making assumptions about structures of the observed and unobserved heterogeneity. Therefore, while he was sympathetic toward the discussants' push toward using more observables to discipline the transition matrices, he believed that having more states in the transition matrix is just a different way of cutting the data under specific assumptions.

Robert Gordon spoke next, reciting a number of facts. He noted that the labor force participation rate was 66% in 2000. The rate then declined to 60% at the business-cycle peak in 2007, and is now at around 62.8%. Gordon asked whether the paper provides an explanation for the decline in participation rate since 2007. He referred to Robert Hall's work on labor markets, which found that two-thirds of the decline in labor market participation over this period is unexplained.

Regis Barnichon responded by stating that the paper focuses on the trends from around the mid-1990s to 2007, and therefore cannot say anything about the post-2007 period. For the pre-2007 period, the paper's stylized result is that participation declined by 2 percentage points because of welfare reforms and other events in the mid-1990s. Without these reforms, the participation rate would have been higher than it currently is.

Martin Eichenbaum spoke next, noting that there is a significant difference in the labor force participation rate between Canada and the United States. He asked whether there is analogous data in Canada that could shed further light on the paper's hypothesis that declines in desire to work drove the trends in unemployment and participation rates.

Regis Barnichon acknowledged that looking at Canada and comparing it to the United States would be a useful way of examining these trends. He also noted that the European countries provide another striking contrast to the United States. In these countries, the participation rate has been increasing since 2000.

Chris Sims spoke next, in defense of the paper. He argued that the paper's main hypothesis about the decline in desire to work, which came about due to welfare reforms, was a significant change that he would expect to apply to a large number of individuals, not just those at the margin. Therefore, Sims believed that it is still worth considering the hypothesis, even though the analysis in the paper measures transitions based on the average individual rather than at the margin. Sims did not think that the discussants' criticism of the general approach and advocacy of much richer models necessarily subtracted from the main hypothesis of the paper.

Robert Hall, however, argued that the total amount of welfare paid to individuals after the welfare reform may not have significantly changed if the people previously receiving the welfare payments switched to receiving a combination of SSI and food stamps instead.

In response to Robert Hall's comment, Martin Eichenbaum pointed out that even if the welfare reform was dollar neutral, the reforms may still have had an effect on the labor market. The reason is that different types of welfare create different incentives to work. He gave the example of welfare that requires the unemployed person to be actively looking for work in the market. This can create very different behavior, over long horizons, than the behavior that arises from collecting SSI and food stamps.

Ricardo Reis spoke next, asking about the effects of the young on the participation rate. He thought that at the margin, the decline in the desire to work of the young could have an effect on the participation rate that is as large as the effect of the baby boomers retiring. Reis asked if these 20- to 35-year-olds collected disability insurance and about the extent to which welfare affected their desire to work.

Robert Hall followed up on Ricardo Reis' comment about young workers. He expected that welfare reforms may have an impact on the desire to work of the young. The reason for this is that the SSDI provides benefits to families with disabled children. The standards for judging disabilities of a child are much more relaxed than the standards for adults. As a result, families can lose disability insurance once the child becomes 18. Thus, welfare reforms may have an effect on those 16- to 25-year-olds who were on disability insurance as children.

Regis Barnichon replied that it is not clear how the welfare reforms affected the young, and the paper does not say anything about the employment of 16–24-year-olds. Most of the data focuses on prime-age workers. He suspected that the teens may have been less likely to look for work in the second half of the 1990s following huge wage gains for households overall.

Christopher Foote spoke next, asking if there are any relevant questions that the BLS should incorporate into the CPS to help separate out the effects of preference versus disabilities on the participation rate. He gave the example of asking people who are out of the labor force when their last pay occurred, as well as their last occupation.

Regis Barnichon concluded by stating that we need to think more about how we want to define and measure the unemployment rate.