Ayşegül Şahin opened the discussion by asking how the authors’ model of unemployment in recoveries differs from the existing literature and, in particular, why the mechanisms are interpreted in terms of labor supply rather than labor demand. She argued that the mechanism appeared to be related to labor demand, because it is connected to the response of vacancy creation. The authors responded that, in the traditional literature, unemployment declines slowly in a recovery because the exogenous forces depressing the job finding rate begin to move procyclically. In contrast, the authors’ model can generate a depressed job finding rate purely through negative feedback from high unemployment back to job creation. Higher unemployment can lead to higher cost of job creation as firms need to search within a wider applicant pool. Thus, it is the high unemployment itself which creates a reduction in labor supply via the job finding rate.

The authors further responded that from a more traditional Keynesian perspective, unemployment is interpreted as a demand-determined jump variable. They, on the other hand, regard unemployment as a fundamentally slow-moving state variable, and this carries the distinction between theirs and the traditional view. Şahin agreed with their distinction from that traditional view.

Erik Hurst then asked whether the stability of the results about the speed of the recovery across different time periods, even within the US, imply either of the following: 1. there is not much policy variation across recessions; 2. policy variation does not matter for the speed of recovery. The authors answered by stating that even in the absence of any policies, their model can generate slow self-recovery endogenously. While policies might have contributed to stable uniform recoveries of unemployment, the model does not need policies to generate this pattern. They then discussed the model result that, once unemployment rises to high levels, it is hard to bring it down quickly.
within a year, even when aided by policy. They highlighted that this implies that stabilization policies should be emphasized more during crises rather than recoveries.

Giuseppe Moscarini commented that, along the direction taken by discussants Robert Shimer and Ayşegül Şahin, it is time to move to a five-state model where temporary layoffs and marginally attached workers are included as separate states. Then, any residual left after taking these into account can be interpreted as aggregate demand. While he did not take a stand on the cause of any residual, he argued that many would attribute it to monetary policy and sticky prices.

The authors concluded by responding to comments by the discussants. Robert Hall noted that, while he agreed that the current state of research should push to include more states, these critiques are off point for their paper, as a simple model was purposefully included to illustrate a basic mechanism in DMP. Further, he cautioned researchers on creating matching models based only on monthly transitions, as the labor transition process is of a higher order. Marianna Kudlyak agreed with discussants that temporary layoffs are important and concluded with a discussion on how their work can still apply to the current pandemic recession. She highlighted that almost 80 percent of the 14.7 percent unemployment in the Covid recession was due to temporary layoffs. The pandemic recovery looked different because the nature of unemployment due to temporary layoffs is fundamentally different from the point of view of the matching process. Unemployment from non-temporary layoffs during Covid goes down according to the principles from the previous recoveries.