

Downward Occupational Mobility and Unemployment

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What is it about?

- ▶ Study the relationship between downward mobility along the occupational ladder and unemployment duration
- ▶ Data from the CPS suggests that high-skill workers direct their search towards low-skill occupations as their unemployment spell lengthens
- ▶ Set up a search-matching model to analyze the trade-off between long-term high-skill unemployment vs. low-skill unemployment

I. Empirical analysis

Empirical results

Table 1: Monthly transition probabilities, high-skill workers

	Overall	Short-term U	Long-term U
U → E, high skill	0.122	0.168	0.058
U → E, middle skill	0.048	0.058	0.036
U → E, low skill	0.032	0.038	0.023
Downward mobility	39.6%	36.4%	51.3%

Conclusion: the author writes, “As the duration of unemployment of high and middle skill workers increases, these workers go down the occupational ladder in order to regain a job and avoid the potential stigma effect of long-term unemployment”

Downward mobility?

- ▶ Those facts can be rationalized by a mover-stayer argument
 - ▶ Type I workers who search actively high-skill jobs
 - ▶ Type II workers who search passively in all jobs
- ▶ Potential bias from noisy occupational affiliations of low-skill workers
 - ▶ Low-skill workers account for the bulk of the unemployment pool
 - ▶ In 2 consecutive months, 10% of these worker change skill category
- ▶ What happens to wages?
- ▶ Also, there is a fair deal of upward mobility in the data (Table 2)

Upward mobility?

Table 2: Monthly transition probabilities, low-skill workers

	Overall	Short-term U	Long-term U
U → E, high skill	0.017	0.012	0.007
U → E, middle skill	0.056	0.063	0.030
U → E, low skill	0.125	0.184	0.079
Upward mobility	36.9%	28.9%	31.9%

(the 1st column does not match the average of short and long-term U because of differences in occupational classifications)

External validation

- ▶ Faberman & Kudlyak: longer-term job seekers search more throughout the duration of the search spell (controlling for unobserved heterogeneity)
- ▶ Barnichon & Zylberberg: under-employment is counter-cyclical in CPS data
- ▶ Carrillo-Tudela, Hobijn & Visschers: fraction of unemployed workers who change their occupation declines during recession

Possible fixes

- ▶ Use data covering periods of high and low unemployment
 - ▶ Match occupation with long-term consistent codes such as IPUMS
 - ▶ Alternatively, use Autor et al. (the classification in the paper does not strike me as an improvement)
- ▶ Consider matching individuals over more than 2 consecutive periods to discard spurious transitions
- ▶ Whether a worker is low- or high-skill should be a personal trait (individual fixed effect), not a characteristic inherited from her occupation

II. Theory

The model

- ▶ DMP model, 2 worker types, 2 occupations
- ▶ Matching function within each occupation
- ▶ Long-term unemployment: when hit by a shock, the search intensity of an unemployed decreases from 1 to $s < 1$
- ▶ Nash-bargaining; wages do not depend on unemployment duration

Need for clarifications

- ▶ “model with ex ante heterogeneity” – However, workers re-sample their productivity level
- ▶ “assume that high-skill long-term unemployed always search for both types of jobs” – This should be an equilibrium outcome of the model
- ▶ “flow-value in unemployment is a share of her wage” – when they bargain for wages, workers seem to disregard the impact on future UI benefits

Need for a model?

- ▶ Equilibrium effects of downward mobility: how large?
- ▶ What are the inefficiencies entailed by downward mobility?
- ▶ Can a standard DMP model explain downward mobility?
 - ▶ If mismatch deteriorates output, high-skill workers receive lower wages in low-skill occupations
 - ▶ With random matching, high-skill workers cannot “jump the queue”. Moreover, there is no on-the-job search
 - ▶ By trickling down, they improve the skill composition of low-skill occupations. Vacancies should increase

Conclusion