

NBB Conference 2022

Household Heterogeneity and Policy Relevance

Discussion of “Labour supply of households facing a risk of job loss” by Wouter Gelade, Maud Nautet and Céline Piton

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Summary

- This paper focuses on the [added worker effect](#): when a partner in a couple loses her/his job, then the other partner may increase the number of hours worked, which is a consumption smoothing mechanism.
- [Contribution](#) of the authors is that they recognize that an individual may adjust her/his labor supply when her/his partner fears losing her/his job, without an actual job loss yet.
- The authors investigate this research question by means of [Labor Force Survey microdata](#) from 16 countries over the period 2005-2020.
- The [effects](#) found (both at the extensive and intensive margin) are sizable. Also important heterogeneity with respect to crisis versus non-crisis periods, and with respect to some household characteristics (education level).

- Very **short** panel nature (two consecutive quarters).
 - Longer period might allow you to simultaneously analyze the impact on the partner's labor supply of the increased fear of losing the main earner's job and the actual loss of that job through an **event study**.
 - Effects found might **underestimate** the added worker effect, given that there are only maximum three months between the loss of a job and the increase of the labor supply of the partner.
- **Several consumption smoothing mechanisms** in households: added worker, savings, government transfers, progressive taxation,...
 - Study solely focuses on the added worker to self insure, while potentially **confounding factors** are not taken into account.
 - Could **different policy environments** (e.g., variation in generosity of early retirement schemes, disability schemes, duration and replacement level of unemployment benefits) in the data set be exploited?

Comments (ii)

- It is not always clear **which model** you have in mind.
 - Series of **explanatory variables** taken up, which are not necessarily all compatible with each other (e.g. both partners' ages, sector of partner 1 and previous sector of partner 2) and which might be difficult to interpret without any formal model.
 - A fully fledged dynamic **structural model** may be infeasible with the current data.
 - A somewhat less ambitious though potentially interesting structural model could be a **discrete choice household labor supply model**.
 - Would allow you to tackle **simultaneously** the extensive and the intensive margins of both partners.
 - Would also allow you to account of potentially important **assortative mating** (see, e.g., relatively high frequency of both partners unemployed according to Table 1).
 - Caveat: Is there **earnings information** in the survey?

- Main equations are often re-estimated for **subsamples** (crisis periods versus non-crisis periods, household characteristics).
 - I would work with **interaction terms** instead: more efficient and makes interpretation and statistical inference easier.