"The Macroeconomic Effects of Unemployment Insurance Extensions: A Policy Rule-Based Identification Approach"

by Rubén Domínguez-Díaz and Donghai Zhang

Discussion by
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- Leverages non-linear design of UI policy across U.S. states

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- Leverages non-linear design of UI policy across U.S. states

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- UI extensions dampen the local fiscal multiplier

- Rationalizes the findings with small-open-economy HANK + search & matching

- Uses the model to derive UI employment multiplier + transmission channels of UI extensions

My Take on the Paper

- Very nice paper that sheds a novel light on the effects of UI extensions

- Rubén and Donghai:

  - emphasize the validity of the identification of systematic UI extensions

  - argue that their approach differs from the focus of the literature on exogenous UI changes

- I do believe that their analysis yields evidence on an additional moment that could provide further discipline to our understanding of the effects of UI extensions

- Part of their analysis/narrative could be adapted and move away from the idea of systematic UI extensions

My Comments

1. Identification of systematic UI extensions

2. Measurement of government spending

3. Identification of government spending shocks

4. Systematic UI extensions vs. UI extension shocks

Identification of systematic UI extensions (1/3)

"Consider two identical US states. The unemployment rate is temporarily higher in the first state, Region A, which leads to an extension of UI benefits.

Now, suppose both states are hit by an equally sized positive demand shock that reduces unemployment. Region A, due to its extended UI benefits, reacts by reducing the UI duration in response to the declining unemployment rate. In contrast, UI duration remains unchanged in Region N, which had a regular duration of UI benefits.

Since both states experienced the same demand shock, the difference in the estimated output response between them can be attributed to the systematic reaction of UI extensions."

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- From this perspective, I do not envisage a non-linear design of UI extensions that allow to identify systematic UI extensions

- Yet, combination of unexpected changes in UI extensions + unexpected changes in fiscal policy can still be very informative!

- This is the novel interesting insight that Rubén and Donghai should elaborate further

1. Identification of systematic UI extensions (3/3)

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- Compare the effects of government spending shocks across two states which differ in the extension of UI benefits due to unemployment measurement errors

- Combination of government spending shocks and UI extension shocks

- In this way, UI extensions are unrelated to fundamental conditions:

  states that differ in these extensions due to unemployment measurement errors have different UI duration but same economic primitives

- Now, you can look at the effect of different UI duration on the propagation of fiscal shocks

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- Public employment/public wage shocks in our models can actually increase unemployment!

- Also: your model considers shocks to government purchases

- Rather than using government value added, you should use government procurements

3. Identification of government spending shocks

- Baseline analysis with government spending as covariate is an OLS regression

- Appendix provides the results with some Bartik instrumenting

- Results are barely significant: plots based on 90% and 68% confidence bands

- I would like to see an analysis closer to Nakamura&Steinsson + literature building on that: government procurements + Bartik instrument as baseline

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- Wonder to what extent different UI setups could alter ergodic steady state

Thank you!