

# Precautionary Mismatch

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# This Paper

## Questions

- ▶ How does household wealth affect the labor market sorting?
- ▶ How does the distribution of wealth affect the aggregate labor productivity?

## Framework

- ▶ Random job search model + risk-averse workers + incomplete markets.

## Main Findings

- ▶ Low-wealth workers' job search leads to higher skill mismatch in the labor market.
- ▶ Negative relationship between wealth and labor market efficiency.

## Mechanism

- ▶ Low-wealth worker  $\Rightarrow$  stronger precautionary motive  $\Rightarrow$  want to find a job more quickly (lower wage) & more profitable for a firm to hire a poorer worker of a given skill  $\Rightarrow$  more mutually-acceptable matches  $\Rightarrow$  higher skill mismatch.

## Precautionary Mismatch: Wealth

Sizable share of the U.S. households have low levels of liquid wealth.

- ▶ Housing is the main asset (illiquid!).
- ▶ Between 25 and 40 percent of the U.S. HHs are hand-to-mouth (Kaplan et al., 2014).
- ▶ 1/3 are poor hand-to-mouth (no wealth), 2/3 are wealthy hand-to-mouth (illiquid wealth).

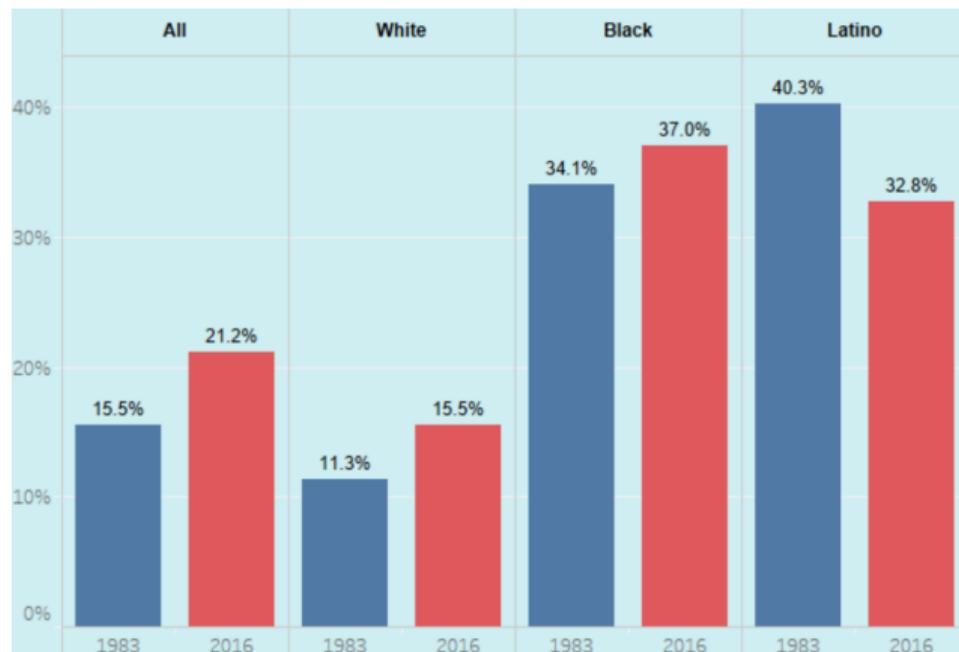
Wealthy households: how important is labor income for them?

$$c + \dot{a} = ra + w(a, x, y)$$

## Precautionary Mismatch: Wealth

Racial wealth gap and labor market efficiency.

Share of households with zero or negative net worth:



Source: Collins et al. (2020).

## Precautionary Mismatch: Skills

Skill upgrading in the U.S. labor market following the Great Recession.

- ▶ Routine-cognitive occupations are most affected (Hershbein and Kahn, 2018).
- ▶ Middle part of the wage distribution.
- ▶ Model exercise: Increase in the skill requirements (perhaps, not uniform).

Asymmetric cost of mismatch (Lise and Postel-Vinay, 2020).

- ▶ Good choice of the skill category: Cost of skill mismatch is significantly higher for cognitive than for manual or soft skills.
- ▶ Cost = output loss + loss of worker utility.
- ▶ Better (several orders of magnitude!) to be over-qualified than under-qualified.

Relationship with the COVID-19 pandemic.

- ▶ Workers in non-teleworkable jobs have higher risk of job loss (Mongey et al., 2021).
- ▶ Non-teleworkable occupations have lower cognitive-skill requirements (Malkov, 2020).
- ▶ Higher skill mismatch in the post-pandemic labor market?

# Conclusions

Great paper, highly relevant question, “top-5” title.

Makes us to think harder about the interaction between wage and wealth inequality.

- ▶ More broadly, between labor and capital markets.

Scope for policy recommendations.