

# Discussion of “Can the unemployed borrow? Implications for public insurance” by J.C. Braxton, K. Herkenhoff, and G. Phillips

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# Introduction

## **To what extent are credit markets and unemployment insurance (UI) compliments or substitutes?**

- Paper has two types of analysis with two different goals
  - 1 Reduced form analysis shows that ex-ante characteristics of unemployed play an important role in determining how borrowers respond to unemployment
  - 2 Heterogeneity motivates a structural model that in counterfactual experiments shows that unemployment insurance is an important policy that allows banks to more efficiently extend credit
    - Essentially, relying on private credit is not an efficient way for agents to insure themselves against negative employment shocks

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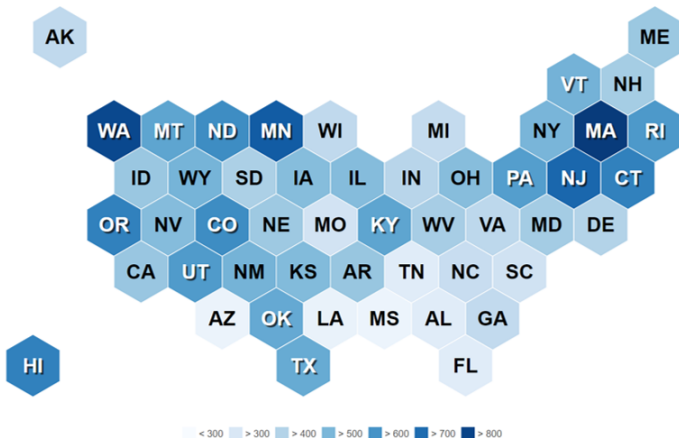
## Discussion will touch on three topics

- 1 Heterogeneity in UI in US
- 2 Consumption
- 3 Other sources of heterogeneity (mostly in agents)

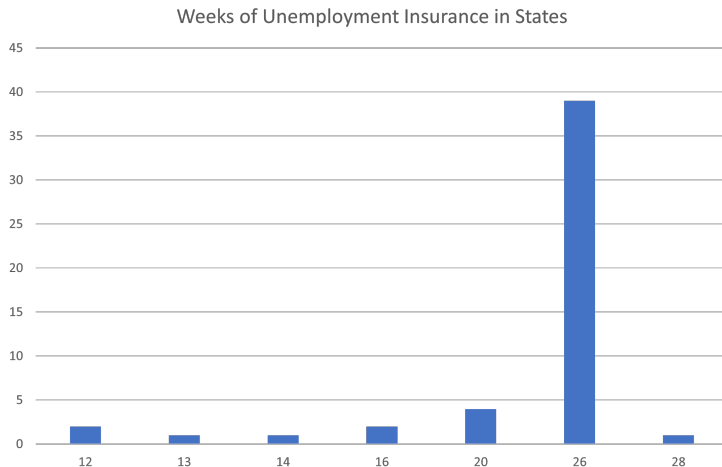
# Heterogeneity in UI terms across states [1/3]

## Generosity of benefits differs by state

Unemployment Benefits by State 2022



## Heterogeneity in UI terms across states [2/3]



- Duration and amounts have a positive correlation, so policy dimensions not substitutes

# Heterogeneity in UI terms across states [3/3]

- Authors' sample uses 11 states
  - No heterogeneity in duration of benefits
  - Similar distribution in maximum amount of benefits

	Mean	Median	St. Dev	Range
LEHD states	467.64	450	141.21	550
All states	474.44	465.5	140.42	588

# Integrating heterogeneity into analysis

## How do credit market conditions differ in different UI regimes?

- Reduced form (and correlational) analysis of how credit markets (or credit access) differs in different states would help set the stage for the complementarity conclusions that you want to draw
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## Does benefit generosity play a how often consumers default or take on new credit?

- Reduced form analysis of how much benefit generosity matters for credit usage or defaults in the layoff sample would provide more context for results as well



# Consumption

## Can you bring more nuance to the consumption dynamics?

- Reduced form analysis highlights that households respond differently to unemployment in borrowing behavior; does not study consumption responses
- Households in model borrow to smooth consumption; consumption is jointly estimated to target consumption after unemployment spells from PSID (level is 94.7%)

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- Butler, Demirci, Gurun and Tellez (2022) have recent work that merges microdata from Nielsen with Equifax/CCP to study whether households change the products that they purchase when in financial stress
  - Potentially a rich dataset to refine reduced form results which can lead to extensions of structural estimation
  - If infeasible, use PSID to identify heterogeneity in rate of decline of consumption following unemployment?

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- Race?
  - Probably not directly observed in the data, but I suspect that you can observe Census tract (or bloc). Research in households that studies credit access among disadvantaged groups uses majority-minority areas (e.g., Brown, Cookson, and Heimer (2017); Akey, Heimer and Lewellen (2021))
- Skill level?
  - Do more highly skilled (paid?) workers respond differently?
- Industry risk?
  - Are workers in riskier/safer industries more or less likely to be constrained?
  - Are they more or less likely to change borrowing or consumption behavior?
    - One proxy (among probably many others) is industry cashflow volatility
- At will employment status?

# Conclusion

## **Paper highlights the importance of labor policy on the functioning of credit markets**

- Main suggestions:
  - ① Provide more observational context for how UI policies and credit market outcomes are correlated
  - ② Study consumption patterns in more detail
  - ③ Further study factors that cause heterogeneity in credit usage following unemployment
- Good luck with the paper!