“Older Americans would work longer if jobs were flexible”

by Ameriks et al.

Discussion by
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Why do older workers don’t work?

• Demand issues
  • Job opportunities don’t come along

• Supply issues
  • Preferences for leisure

• Hard to disentangle the two

• This paper: Use subjective hypothetical questions that “anchor” demand, so that supply issues can be isolated
General assessment

• This is a clever paper

• Creative way of using subjective question data for identification purposes

• My comments
  • General context
  • Infer the value of flexibility from observed choices
  • Neglected dimension of “supply”
  • Various model enrichments
Main findings of the paper

• Supply considerations are unlikely to explain low participation among older workers

• As the title suggest, if jobs with the right amount of flexibility were available, older workers would get back to work
Main findings of the paper

- If last job was available, 35%-45% would go back to work; 55%-65% if some flexibility was added
- Rates willing to work decline with the size of wage cut
Main findings of the paper

- Supply considerations are unlikely to explain low participation among older workers.

- As the title suggest, if jobs with the right amount of flexibility were available, older workers would get back to work.

- Translation of demand/supply factors to structural model of consumption/labor supply choices subject to frictions:
  - Fixed costs of work
  - Production non-convexities
Using subjective expectations to pin down structural parameters

• I like a lot the broad idea of the paper
• Indeed, I used it in my JOLE paper (2003) to estimate the same parameter this paper focuses on (labor supply EIS); see also Wolpin and van der Klauuw (2008) and Lancaster and Chesher (1983) for other applications of the same broad idea
• Typical labor supply specification:

\[ \Delta \ln h_{it} = X_{it}' \beta + \gamma E_{t-1} \Delta \ln w_{it} + \epsilon_{it} \]

• In most of the literature \( E_{t-1} \Delta \ln w_{it} \) has to be obtained by projecting realized wage growth on instruments (to “recover” information set)
• Problem in the literature: Very low power and debatable IVs (i.e., education, age, etc.)
• Results: low EIS estimates and low precision
• Pistaferri (2003): Use subjective expectations of future wage growth (contained in a panel data survey of Italian workers)
  • Workers know more about the evolution of their future wages than the econometrician can ever predict on the basis of observables

• Power: Not an issue anymore

• Preferred estimate of the EIS is 0.70 (s.e. 0.09)
  • Not too far from what found in this paper

• If traditional approach is used, the EIS estimate is 0.32 (s.e. 0.32)
Trends in work past retirement?

- The paper would benefit from providing more context
- In data, participation is increasing – is it because more flexibility is being offered?

Source: CPS data (my elaborations)
Pr(Working part-time | Working)

- It does not seem the case (at least in these highly aggregate data)

Source: CPS data (my elaborations)
Reservation wage

- The paper recovers the reservation wage from self-reports
- Lancaster and Chesher (1983) is an early attempt to use this idea
- Here the novelty is to recover the r.w. under different scenarios
Some comments

• Do people choose option B because of job characteristics that are *not* reflected in the wage?
  • (i.e., absence of flexibility)
  • Value of non-pecuniary aspects of job (at least, value attached to schedule flexibility) could be inferred from those who switch from option B to option A when flexibility is offered
  • And it could be “quantified” by using:
    \[ V(w,F=0) < V^U, \quad V(w+e,F=0) = V^U \]
    \[ V(w,F=1) > V^U, \quad V(w-u,F=1) = V^U \]

• In fact, couldn’t production non-convexities (\( \theta \)) possibly be identified from changes in reservation wages as people move from option A to option B?

• In general: What makes certain individuals more picky than others?

• Does the reservation wage distribution estimated in the paper shift with the asset position? Portfolio composition? Does it depend on time since last job? Whether a spouse is at work?
  • Wealthier individuals should be more “picky”
  • Background risk
  • Skills depreciate
  • Spouse enjoy leisure together (or they provide cross-insurance)
“Anchoring”

• The survey question serves each individual with a job offer
  • No demand issue. Workers have an offer at hand
• Asks then if people would take that offer
  • Most people say they would, especially if more flexibility is offered
• Hence it must be lack of offers explaining low participation among older workers

• However, one may wonder what workers are doing to generate job offers with flexible work options (or any offer at all, for that matter)
  • “Labor supply factors”: preferences for leisure and search effort
  • The SSQ’s don’t seem to account for the latter (and the model doesn’t have a search effort option either)
  • When asked about actual search behavior, 89% of workers report that they did not search for a job opportunity (are the all “discouraged” workers?)
Why do older workers transition abruptly from full time work to retirement?

• “Smoothing leisure” considerations would predict a more gradual phasing out
  • Full-Time → Part-Time → No-Time

• Two explanations:
  1. EIS is large – people are less reluctant to large swings in hours
     • But then are large EIS people also those who experience more volatile careers?
  2. Production non-convexities
     • Wage increase with hours

• Use the SSQ’s to pin down the identification issues
Key identification idea

• The (static) problem of the consumer is to

\[
\max U(c) + V(1 - h - e\bar{h})
\]

s.t.

\[
c = \omega h + A
\]

• (I’m ignoring for simplicity the “consumption” fixed cost of work – it seems to drop out anyway (typo in your equation [6]?)

• An individual is offered two scenarios: a fixed working schedule and a flexible working schedule
The individual reports the earnings at which he’s indifferent between working on a fixed schedule and remaining unemployed, i.e.:

\[ \gamma_{fix}^* \cdot U(c_{fix}) + V(1 - h_{fix} - \bar{h}) = U(c_u) + V(1) \]

Using a Taylor approximation:

\[ V(1) - V(1 - h_{fix} - \bar{h}) \approx U'(c_{fix}) \gamma_{fix}^* \]  

The individual also reports the earnings at which he’s indifferent between working on a flex schedule and remaining unemployed, i.e.:

\[ \gamma_{flex}^* \cdot U(c_{flex}) + V(1 - h_{flex} - \bar{h}) = U(c_u) + V(1) \]

= \[ U(c_{flex}) + V(1 - h_{fix} - \bar{h}) \]

Using a Taylor approximation:

\[ V(1 - h_{flex} - \bar{h}) - V(1 - h_{fix} - \bar{h}) \approx U'(c_{fix}) (\gamma_{fix}^* - \gamma_{flex}^*) \]
• Using [1] and [2] gives:

\[
\frac{y_{flex}^*}{y_{fix}^*} = \frac{V(1) - V(1 - h_{flex} - \bar{h})}{V(1) - V(1 - h_{fix} - \bar{h})}
\]

• Subjective expectations give the LHS

• Once \(\bar{h}\) is calibrated, it is possible to recover the curvature of \(V\), and hence the EIS

• Issues: This is under a static scenario

• Non-stationarity: In these models the “reservation wage” changes with the level of assets
  • In general, with age: a flex schedule may be preferred if leisure has more value when the worker is less healthy, say
• The trade-off between EIS and production non-convexities depends on the size of the fixed costs
• The paper could discuss more the role of these two parameters – how does the curve below shifts when these fixed costs change?
• These costs are “calibrated” – but one may argue they are themselves equally uncertain parameters to pin down
Joint retirement

• In more complex models, the problem of the household is defined over consumption and the hours of both husband and wife

• Empirical observation: There is a lot of joint retirement (spouses want to enjoy leisure together → complementarities in utility)
  • According to HRS data (“Do you expect your spouse to retire at about the same time that you do?”), lots of couples (48%) plan and implement joint retirement decisions

• What are the consequences of omitting this?
  • Is low participation a coordination problem?
Non-separability b/w consumption and leisure

• Most papers document that preferences over (c,l) are non-separable
  • Hall (2009), Blundell et al. (2016)
  • Indeed, several papers proposed non-separability as an explanation for the “fall of consumption at retirement”

• If (c,l) are complements, an abrupt retirement (a large increase in l) is accompanied by an increase in consumption
  • Vice versa if (c,l) are substitutes

• This means that a FT-NT transition also imposes a “cost” in terms of consumption smoothing

• How does this affect the identification strategy?
Conclusions

• Very nice paper

• Solves creatively a thorny identification problem – distinguish low aversion to intertemporal fluctuations in hours (preferences) from non-convexities in production (wages increase with hours) (i.e., supply vs. demand issues)

• It solves it using subjective questions that “anchor” demand and pin down preferences

• Estimated EIS is in a very reasonable range

• Some questions about “context”