

Recall and Unemployment

Shigeru Fujita¹ Giuseppe Moscarini²

¹Federal Reserve Bank of Philadelphia

²Yale University

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- ① Large number of workers return to the same employer after job separation
 - In SIPP, more than 40% of workers separating into U are recalled
- ② Recalls and new hires are quite different in terms of:
 - Individual labor market outcomes
 - Cyclical sensitivity of job finding (or rehire) probabilities
- ③ Recalls impact empirical matching function
 - Recalls do not require the matching process
 - Excluding recalls from the estimation \Rightarrow significant changes in elasticity estimate and time series of matching efficiency
- ④ Develop a MP matching model with recall option
 - Match cross-sectional and time-series facts (at least qualitatively)

Comparison to Katz (1986), and Katz and Meyer (1990)

- Many of our cross-sectional facts are documented by Katz (1986) and Katz and Meyer (1990)
- Our results are based on nationally representative sample over a much longer period
- Our business cycle facts are entirely new

- CPS only identifies Temporary Layoffs (TL)
 - Recall is ex-post outcome and TL capture ex-ante expectation
- Diminished role of TL (?)
 - 1 Small share in stock
 - 2 Much larger share in flow
- Bottom line
 - 1 TL are still important for flow analysis
 - 2 TL are fairly common even outside manufacturing and construction

SIPP: Recall Rates (Shares)

Panel	Separations in waves	<i>EU</i>		<i>EU...UE</i>	
		Recall rates	Counts	Recall rates	Counts
1996	1–6	0.408	3,725	0.45	3,388
2001	1–3	0.402	1,764	0.45	1,555
2004	1–6	0.422	1,610	0.49	1,369
2008	1–3	0.414	2,669	0.53	2,096

SIPP: Recall Rates (Shares) by Reason

Panel	Separations in waves	Temp. Layoffs		Perm. Separations	
		Recall Rates	Counts	Recall Rates	Counts
1996	1-6	0.845	1,482	0.172	1,906
2001	1-3	0.867	679	0.167	876
2004	1-6	0.864	663	0.177	706
2008	1-3	0.873	997	0.232	1,099

- Punchline: about 20% of permanently separated (PS) workers are recalled

SIPP: Recall and Individual Outcomes

- 1 Mean duration
 - Recalls are quick
 - New hires take time
- 2 Duration dependence
 - Exit to recalls becomes less likely as duration gets longer
 - Exit hazard to new job is flat
- 3 Firm tenure
 - Workers with long firm tenure: much more likely to be recalled
 - More than 60% of workers recalled if tenure ≥ 3 years
- 4 Occupation switch after job separation
 - Recall: no occupation switch
 - New job: most of the time ($>70\%$)
- 5 Wage change after job separation
 - Recall: no wage change
 - New job: significant wage decline after long U duration

Estimation of Matching Function: Standard Procedure

- Cobb-Douglas specification

$$\ln \left(\frac{UE_t}{u_t} \right) = \mu + \alpha \ln \left(\frac{v_t}{u_t} \right) + \varepsilon_t$$

- α = elasticity
- ε_t = matching efficiency

Estimation of Matching Function: Our Procedure

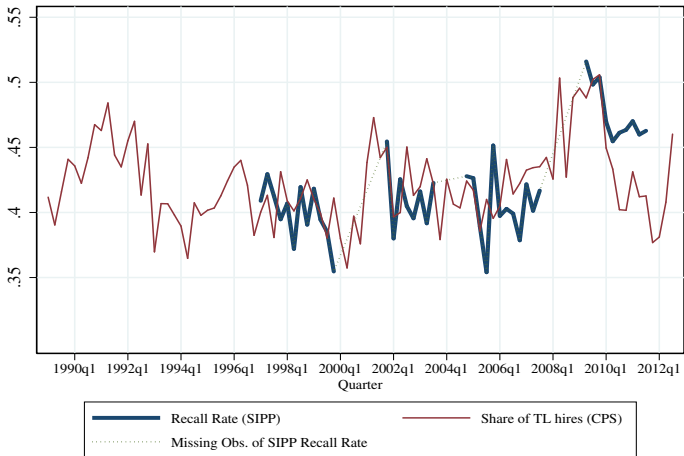
- Cobb-Douglas specification

$$\ln \left(\frac{UE_t - recalls_t}{u_t} \right) = \mu + \alpha \ln \left(\frac{v_t}{u_t} \right) + \varepsilon_t$$

- Share $recalls_t/UE_t$ countercyclical, negatively correlated with job market tightness
- Estimates of elasticity α and matching efficiency ε_t biased in standard procedure

Time Series Variations of Recall Share

Figure : Share of Recalls in UE flow



Estimation Results

Table : Estimation Results With and Without Recall Adjustment

Estimated Equation	Adjusted Eqn	Standard Eqn	Adjusted Eqn	Standard Eqn
Elasticity	0.47 (0.019)	0.40 (0.018)	0.54 (0.018)	0.42 (0.014)
Constant	-5.25 (0.146)	-4.29 (0.139)	-5.77 (0.136)	-4.43 (0.104)
Adj- R^2	0.86	0.84	0.93	0.93
Sample Size	95	95	42	42
Measure of s_t	CPS TL hires	n.a.	SIPP recall	n.a.

- Significant downward bias in the elasticity of the standard matching function estimation

Matching Efficiency

Figure : Implied Matching Efficiency Series



Brief Summary of the Model

- 1 Extension of the Mortensen-Pissarides model with endogenous separation
- 2 Idiosyncratic productivity evolves stochastically even after separation (the worker is attached to a certain employer)
 - Changes in idiosyncratic and aggregate conditions generate recalls
- 3 Recalls do not go through the matching function
- 4 Workers waiting for a recall can look for a job elsewhere; new hire is mediated by the matching function
- 5 Once the worker is hired by a different firm, the recall option is lost

Key Results

- Negative duration dependence for recalled workers through selection
- New-hire job finding rate ($\text{New Hires}/U$) is procyclical as in the standard model
- Recall probability ($\text{Recalls}/U$) is nearly acyclical. In a recession:
 - 1 Firm's demand for recalling worker drops; BUT
 - 2 Larger separation flows \Rightarrow larger pool of "recallable" workers
 - 3 Workers are more likely to be available for recall
- Share of recalls out of all hires is countercyclical as in the data

Conclusion

- A large portion of observed hiring flows does not involve labor reallocation
 - Countercyclicality of of recall share \Rightarrow “mismatch” in the labor market may be more severe in a downturn (e.g., GR)
- Future work: implications for the relative importance of firm- and occupation-specific human capital, loss of “recall capital” due to plant closings, etc.