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

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Motivation & Idea

- **Question:** Are the macro effects of positive government spending shocks different in regions with systematic UI extensions?
- **Novelty:** Use non-linearity arising from the UI policy
  - If unemployment is above some threshold, US states can extend UI duration.
  - UI extensions respond endogenously to demand shocks.
  - Fiscal multipliers depend on the pre-existing level of UI duration.
  - UI extensions dampen regional-level shocks.
- **Empirical Approach:** State-dependent local projections (Jorda, 2005).
  - Spending multipliers conditional on pre-existing UI duration.
- **Model:** Small-open economy model + household heterogeneity + search and matching frictions.
  - Recover UI multiplier of 0.11 (one-quarter UI extension increases the employment rate by 0.11 pp).
  - Quantify transmission channels.

Summary: Transmission Channels

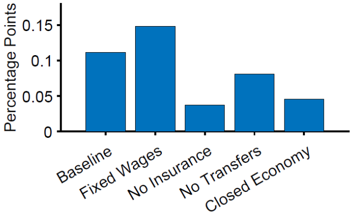

Figure 11: Cumulative UI Multiplier

1. Wage increase dampens the UI multiplier.
2. Most important channel: precautionary savings.
3. Dampening effect if households expect UI to change, change never happens (no redistribution to high MPC HH).
4. Endogenous response of central bank to inflationary pressure dampens the UI multiplier.

Comment I: Systematic Differences of States extending UI

Important step: The authors use the measurement error approach of Chodorow-Reich et al. (2018).

Convince me (more) that there are no **systematic time-varying differences** between states extending UI duration and keeping UI duration fixed.

- Political leadership (democratic states more likely to extend UI)
- Legislative Factors
- State Budget Constraints
- Industry composition/volatility
- Higher cost of living
- Systematic Differences in the distribution of wealth

Examples of Systematic Differences

- **States Extending UI Duration**
  - **California, New York, New Jersey, Massachusetts, Pennsylvania**
    - Higher UI benefit levels and longer durations
    - Progressive political leadership
    - Built-in legislative provisions for extensions
- **States Less Likely to Extend UI Duration**
  - **Southern and Midwestern States (e.g., Florida, Texas, Alabama, Mississippi)**
    - Lower UI benefit levels and shorter durations
    - Conservative political leadership
    - Focus on lower taxes and limited government intervention
    - Tighter budget constraints and balanced budget requirements

My suggestion

Add further controls: fiscal stance, a dummy for political leadership, etc.

Systematic Differences: HtM Consumers and MPCs

- How about the asset/net wealth distribution of households in extending vs. non-extending states?
- Does the share of hand-to-mouth consumers systematically differ for UI-extending regions?
- Worry: Is the lower government spending multiplier driven by lower MPCs?

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My suggestion

Control for the share of HtM consumers in your empirical model.

Comment II: Specifics on UI Extensions

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Interaction of Benefit Level & UI Extensions

- Interaction between UI level and benefit extensions as part of the **non-linear effects**?
- Important for precautionary savings.

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Announced vs. Unannounced Cuts in UI

- Smoother adjustment of consumption behavior for announced cuts.
- Sudden change in consumption behavior in response to an unannounced cut in UI.

  ⇒ This may alter the response to a demand shock.

Comment III: Regional vs. National

- Which kind of shock triggers UI extensions (via higher unemployment)?
  - Local: reasonable to assume no policy reaction
  - National/global: endogenous reaction of fiscal and/or monetary policy. $\Rightarrow$ calling into question the assumption of a small open economy.

Comment III: Regional vs. National

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  - Local: reasonable to assume no policy reaction
  - National/global: endogenous reaction of fiscal and/or monetary policy. $\Rightarrow$ calling into question the assumption of a small open economy.
- Local government spending shocks? Complementary instruments or substitutes?

Comment IV: Model - Labor Market

Overall, I think you could do more with the model. Two suggestions:

- **Search effort:** Micro vs. Macro effects of UI extensions (see Karahan, Mitman, Moore 2022, Hagedorn et al. 2019)
  1. Micro effect: lower search effort.
  2. Macro effect: improved outside options of workers, higher wages, lower vacancy posting, higher unemployment.
     $\Rightarrow$ The role of search effort?

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     $\Rightarrow$ The role of search effort?
- **Wage reaction:** How do wages react w.r.t. changes in UI benefits? Model vs. Empirics?

Summary

Assessment: Recommended Paper

- **Novel aspect:** thinking of non-linear effects arising due to states who extend UI benefits.
- **New finding:** Cushioning effect of government spending shocks.
- **I especially liked:** Inspection of the transmission channels in an incomplete markets model.
- **Going forward,** you could make the empirical exercise more compelling and expand on the model.