

Discussion of: «Quits and Optimal Unemployment Insurance», by Cai and Heathcote

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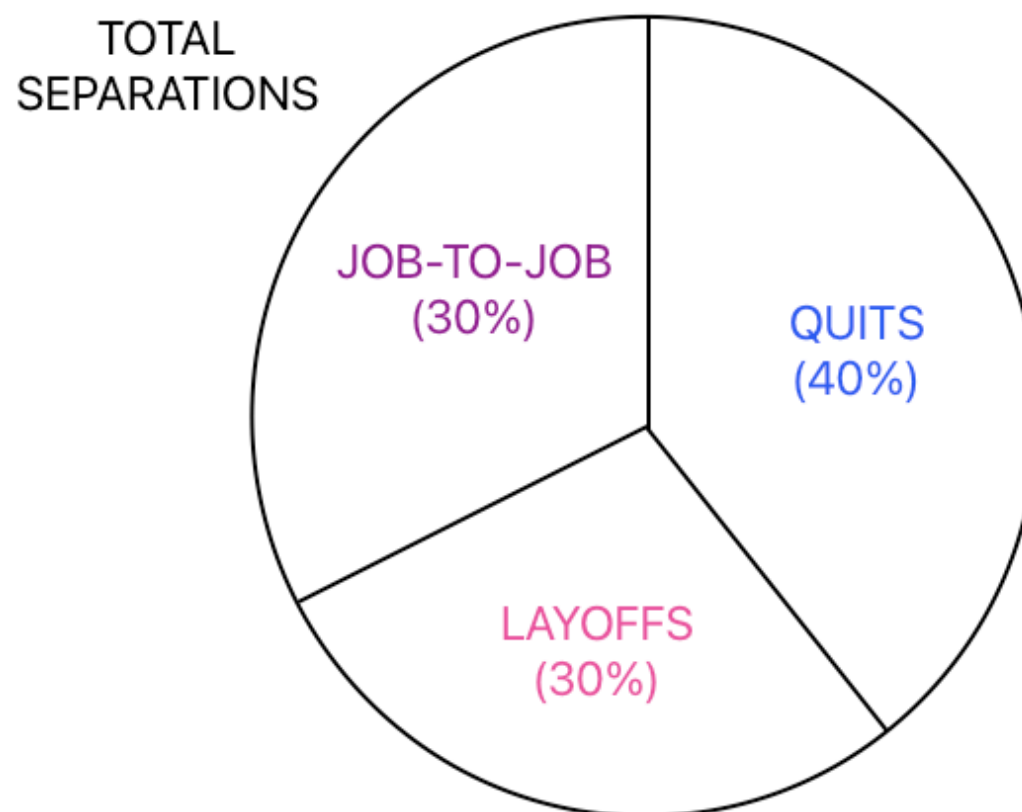
Summary

The paper analyses optimal unemployment insurance in a model of the labor market with job quits

- Basic setup: model of directed search and wage posting
- In the model, quits are driven by shocks to the disutility of work
... that are privately observed by the worker
- The equilibrium features an inefficiently high mass of quits
... since employers cannot offer wages contingent on the disutility shock
- Unemployment insurance exacerbates the quitting inefficiency
... unless the government can offer different replacement rates to laid off workers and quitters

Main takeaway: Adding the quitting margin is important for labor market policies, in particular, for the design of unemployment insurance

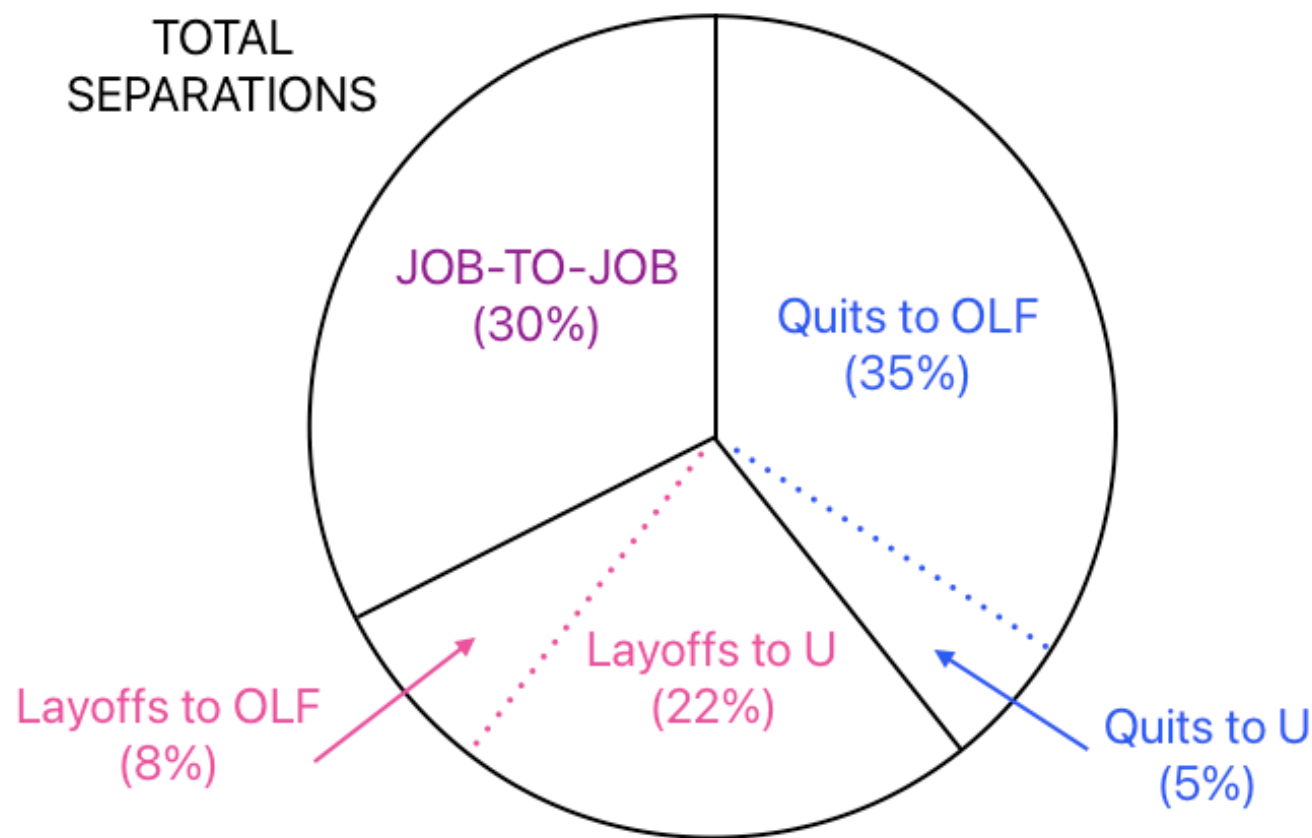
Three types of separations



Layoffs + **Quits**: transitions from employment to non-employment

- Models of unemployment insurance treat quits as layoffs
... sometimes adding on the job-search (Delacroix and Xi, 2006)

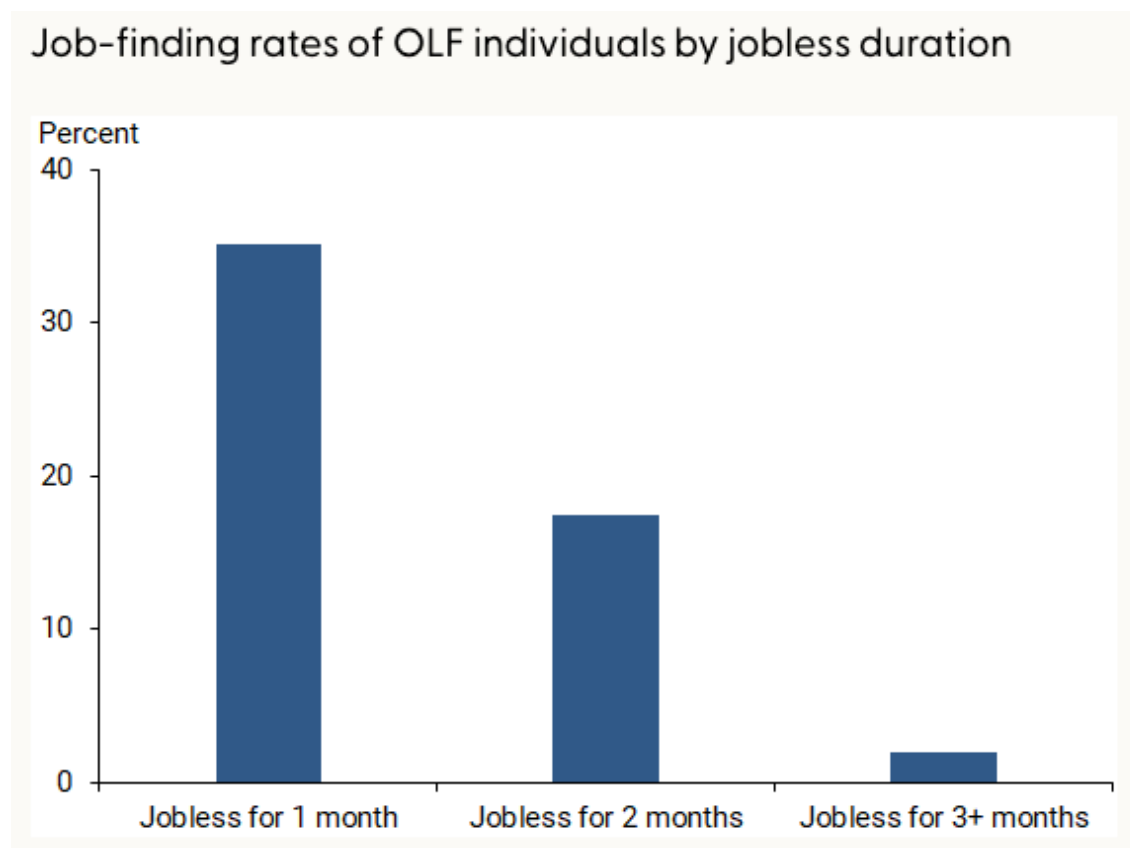
Where do laid off workers and quitters go?



Layoffs to U + Quits to U: transitions from employment to unemployment

- Most quitters do not search for a job immediately
... some of them join the labor force later

Likelihood to get back to employment



(Kudlyak and Lange, 2018)

- Notice that some of those OLF might have been laid-off
... Still, more than half recently employed remain OLF

Who are the quitters and why do they quit?

Quitting rates are higher for:

- Younger workers (18 to 29)
- Non-college or college drop-outs
- Women

(Michaels, 2024)

⇒ Low attachment to the labor force?

Reasons for quitting:

- Job conditions (wages, career prospects)
- Child care
- Lack of flexibility in hours
- Reallocation to a different area

(Pew Research Center Survey)

Modelling separations

The model allows for three types of separations, decided within a period in a sequential order

- ① Layoffs: occur at an exogenous rate
- ② Job-to-job transitions: workers receive random offers
... at a rate which depends on search behaviour and market tightness
- ③ Quits: remaining workers can quit

Two shocks determine endogenous separations

- A (permanent) match quality shock
... affects job-to job transitions (reallocation)
- A job disutility shock to the worker
... determines quitting

This last shock is key to generate quits and its properties shape the optimal unemployment benefits trade-offs

Job disutility shocks

The job disutility shock is assumed to be

- Transitory (i.i.d.); it does not affect search behaviour after separation nor on-the-job search in the next period

Hence, laid-off workers and quitters are identical in the period after separation and thereafter

... making unemployment benefits equally relevant for both

- Unobservable by the firm

This precludes wages to be contingent on this shock, generating inefficient quits

... providing an additional role for unemployment benefits

Under these assumptions, the shock maps better into the job dissatisfaction motives for quitting (not so much for other motives, as child care)

Alternative modelling assumptions

Shocks to the value of home production (as in Eleroth and Michaud, 2024)?

- Also generate quits, some of them leaving the labor force
... with different implications for the design of unemployment benefits

(This mechanism might be potentially relevant for developing countries with a large informal / self-employment sector)

What happens if both quitting and layoffs are endogenous?

- Additional policy tool: severance payments

Are there better policy instruments to deal with excessive job turnover?

- Quitting taxes are a more direct instrument, equivalent to lowering unemployment benefits for quitters
... but less dependent on quitters coming back to the labor force
⇒ Probably unfeasible
- Other instruments:
 - Taxing additional sources of income / home production
 - Contract flexibility (hours)
 - Minimum wages (?)

Conclusion

Great paper!

- Highlights an important margin for labor turnover (quits)
- Uncovers a new inefficiency which sounds reasonable
- Addresses the inefficiency using a well-known policy instrument

For its quantitative results, the paper could benefit from a more detailed exploration of the heterogeneity of workers quitting their job
... and their employment paths after separation