

Discussion of
“Sources of Inequality in Earnings Growth over the Life Cycle”
by Karahan, Ozkan, and Song

Makoto Nakajima

FRB Minneapolis and FRB Philadelphia

May 10, 2018

System Applied Micro Conference

Cool Paper

- Cool data
 - U.S. Social Security Administration (SSA) records
 - Employer Identification Number (EIN) → can identify E2E
- Cool model
 - Job-ladder model of Bagger, Fontaine, Postel-Vinay, and Robin (2014)
 - With heterogeneity in productivity growth rate (β)
- Cool question
 - What are the sources of lifetime income inequality?
 - Huggett, Ventural, and Yaron (2011, HVY)
 - 60%: initial (age 23) conditions, 40%: luck after age 23.

Comment 1: Clarify the Punchline/Contribution?

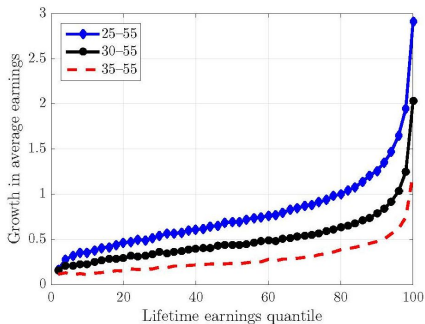
- Novelty?
 - Almost the same job-ladder model as Bagger et al. (2014)
 - Minor differences: Heterogeneity in labor productivity growth rate.
 - But estimated using U.S. data not Danish data.
 - No data on education attainment.
 - Are U.S. data superior in any dimension?
- Had better make a convincing case that the data-model combo yields a better answer to an important question.
 - Refinement of the answer by Huggett, Ventura, and Yaron (HVY, 2011)?
 - Adding job ladder to human capital accumulation model of HVY.
 - Does it matter for initial condition (60%) vs luck (40%) decomposition?
 - Possibly, novel/different policy implications? → then, worth emphasizing.

Comment 2: Is Earnings Growth Worth Emphasizing?

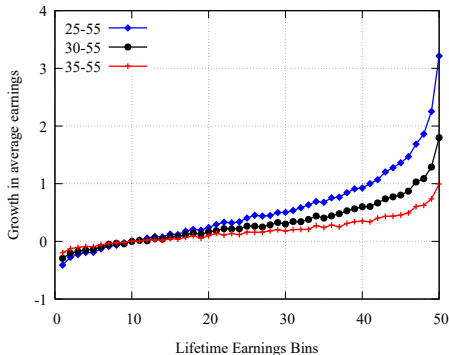
- Authors emphasize heterogeneity in earnings growth.
 - Personally, I think lifetime income inequality is more important.
- Importance of earnings growth in explaining lifetime earnings inequality is well understood/documented.
 - Storesletten, Telmer, Yaron (2004): increasing variance of earnings.
 - HVY: importance of heterogeneity in human capital accumulation.

Comment 3: Is Figure 1 Worth Emphasizing?

FIGURE 1 – Heterogeneity in lifetime earnings growth



(a) Figure 1

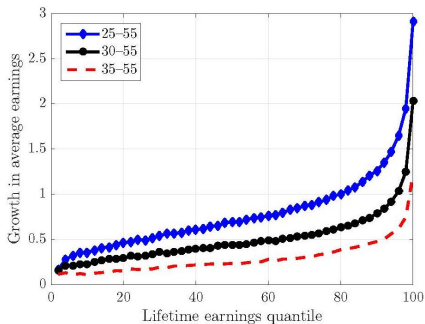


(b) Storesletten, Telmer, Yaron (2004)

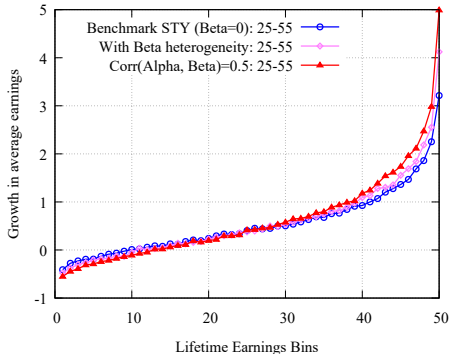
- What is Figure 1 (motivating figure) telling us?
- A standard earnings shock without any bells and whistles can do fairly well replicating Figure 1.

Comment 3: Is Figure 1 Worth Emphasizing?

FIGURE 1 – Heterogeneity in lifetime earnings growth



(c) Figure 1



(d) With β

- What is Figure 1 (motivating figure) telling us?
- Adding β heterogeneity helps replicating the top end of Figure 1 but does not change the picture significantly.

Comment 4: Find a Better Way to Present/Organize Data

- Heterogeneity of a lot of variables are shown against lifetime earnings.
 - Labor market status transition rates.
 - Earnings growth rates.
- A bit tautological.
- Better to organize data against something other than highly endogenous variable like lifetime earnings.
- How much the initial earnings (α) matter in the data?
 - Model: α matters a lot for everything.
 - Is it true in the data?