Discussion of "Can the Unemployed Borrow? Implications for Public Insurance" (Braxton/Herkenhoff/Phillips)

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Do Credit Markets Matter for Optimal UI Policy?

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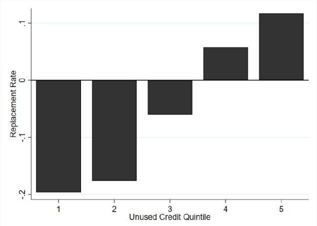
- **Surprising Result:** They don't!
- Optimal public insurance almost the same with and without credit.
- Replacement rate $\approx 50\%$.

Empirics

- Large sample of credit reports linked with matched employer-employee data.
- Event study: After job loss, credit limits and borrowing (on average) hardly change.
- But vast **heterogeneity**: Individuals close to the credit limit tend to deleverage and default, while others replace lost earnings with credit.



Theory and Policy

- Equilibrium model where individuals search for jobs and for credit.
- Credit contracts (non-contingent credit limit and interest rate) reflect default risk which depends on labor market state of the worker (upon signing) and on public policy.

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- Credit contracts (non-contingent credit limit and interest rate) reflect default risk which depends on labor market state of the worker (upon signing) and on public policy.
- Gov't insurance and private credit are **complementary**.

  If UI generosity decreases

  $\Rightarrow$ more borrowing **and** default after job loss

  $\Rightarrow$ less credit supply

  $\Rightarrow$ fewer people sign revolving credit contracts ex-ante

Praise

- Very polished and elaborate paper.
- Great data, empirics and theory!
- Interesting and surprising policy results.

Comments

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  - If it is, more information on transition rates for consumer debt and their determinants would be useful.
  - How prevalent are multiple credit contracts?

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- Why is search for credit first-order?
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  - How prevalent are multiple credit contracts?
- Search intensity margin should be important for optimal UI policy.
- Utilize time and state variation in UI policies to validate model implications regarding borrowing & default after job loss.

Further comments

- Post bankruptcy, individual cannot borrow for one quarter. But credit score deteriorates with prolonged difficulties to obtain credit.
- Are piece-rate wage contracts ex-post individually rational? I.e., would workers (with low human capital and/or high assets) quit? Endogenous retirement?
- Empirics: Liquid wealth is proxied by past earnings and used as controls. Some results how this variable impacts borrowing/default after job loss would be interesting.