

“DELETING A SIGNAL: EVIDENCE FROM PRE-EMPLOYMENT CREDIT CHECKS”

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SUMMARY

Deleting a signal

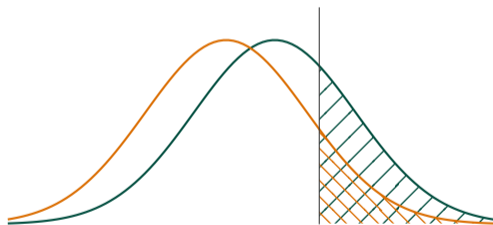
- Question: What happens when a labor market signal is removed, who are affected and when?
- Rare combination of:
 - Theoretical results (relative information precision)
 - Policy-relevant empirical findings (including new results on job separations)
 - Quantitative exercise (screening tools generally much less precise for Black jobseekers)



Deleting a signal: Stylized example

Signal is worse for Orange—but Orange benefits from having the signal

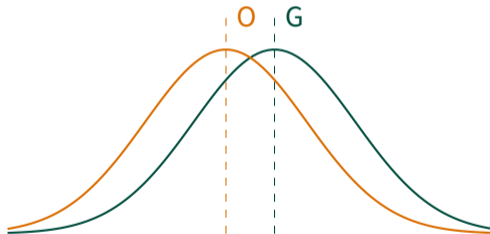
“a group can benefit on average from an information source being available even if the information appears to disfavor that group in absolute terms”



With signal:

Hire both

(All G and O above threshold are hired)



Without signal:

Hire only G

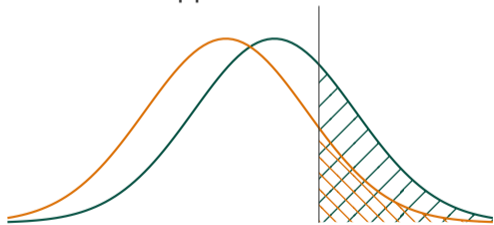
(G expected to be better than O ex ante)



COMMENTS

Signal: Pre-employment credit screening

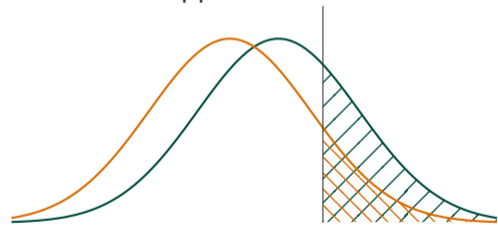
“desired number of successes is small enough that receivers select matches from the right tail of perceived match qualities...an employer hiring less than half of the applicants whom it sees”



Model:
Cherry picking

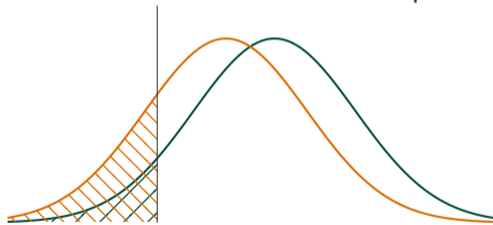
Signal: Pre-employment credit screening

“desired number of successes is small enough that receivers select matches from the right tail of perceived match qualities...an employer hiring less than half of the applicants whom it sees”



Model:
Cherry picking

“Household survey evidence suggests that 10 percent of low- and middle-income job-seekers recall being told they were denied a job on the basis of information in their credit report”



Application:
Lemon dropping

Signal: Pre-employment credit screening

share of applicants hired “is small enough relative to the share of successful signals that employers do not choose to hire applicants for whom no signal was successful.”

Most workers are employed at some firm even without their credit report, suggesting another dimension of sorting across workers and firms that may need to be taken into account



Model:
Cherry picking



Application:
Lemon dropping



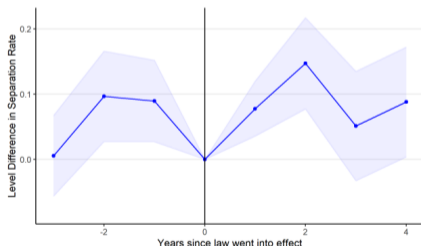
Novel empirical result: Increase in job separations

After banning Pre-Employment Credit Check (PECC)

Figure 4: Event-Time Analysis of the Effect of PECC Bans on Involuntary Separations: New Hires

State-Race/Ethnicity FE, Time-Race/Ethnicity FE

(a) Black



- Consistency of magnitudes (much lower, ranging from 2.7 to 7.9 p.p. in Table 5 when pooling pre- and post-periods)?
- Improve DD specification by using two-step approach (see Thakral and Tô 2020) to cleanly estimating state and time FEs independently of the causal effect of interest



Quantitative model

The paper:

- Moments (12): hiring and firing decisions for Blacks, Hispanics, and whites, with and without the additional signal (Pre-Employment Credit Checks)
- Parameters (11): prior means for Blacks and Hispanics; common prior precision; precisions of the baseline and banned signals for Blacks, Hispanics, and whites; firing cost (pre and post signal deletion)
 - Separately add one parameter at a time for taste-based discrimination, biased priors, or biased signals

Suggestions:

- Could also include **biased belief updating** (e.g., confirmatory bias)
- Why allow firing cost to change before and after PECC? Model might otherwise be overpredicting firing rate post-PECC, perhaps because adverse selection of applicant pool is assumed away
- Advantage of constant firing cost would be the ability to incorporate multiple forms of bias



CONCLUDING REMARKS

Concluding remarks

- Clear intuition: Even if

$$\text{Prior}_1 < \text{Prior}_2$$

and

$$\text{Signal}_1 < \text{Signal}_2,$$

we can still have

$$w_1 \text{Prior}_1 + w_2 \text{Signal}_1 > w'_1 \text{Prior}_2 + w'_2 \text{Signal}_2,$$

since weights depend on relative **signal precision**

- Possibility of understanding **bias** in more detail
- Policy relevance and **broad applicability**: occupational licensing, parental leave, etc.

