

ECB FORUM ON CENTRAL BANKING

29 June-1 July 2026

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**Wealth and the Geography of
Job Ladders**



EUROPEAN CENTRAL BANK

EUROSYSTEM

Wealth and the Geography of Job Ladders

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Overview

Motivation

- Wages 30%+ higher in big cities (static + dynamic premiums)
 - Dynamic gains account for ~1/3 of the between-city wage gap
- But big cities are also more expensive
 - Unemployment spells are especially costly
 - Workers need savings to afford waiting for dynamic gains

How does liquid wealth shape the spatial job ladder workers climb?

This Paper

- Theory
 - Dynamic model: job search, location choice, wealth accumulation
 - Workers' wealth shapes sorting across jobs & locations
- Data
 - The spatial job ladder is steeper for low-wealth workers
 - Financial constraints limit upward mobility
- Quantification
 - Financial constraints reduce by ~30% the share of low-wealth workers in productive cities
 - Model explains ~1/3 of residual wage inequality; ~70% comes from heterogeneous job ladders

Model

Environment

- Cities differ in local productivity
- Frictional labor market: *directed search*
- Risk-averse workers, heterogeneous in wealth & skills
- Homogeneous firms within location
- Local living costs are endogenous

Key Takeaways

- Workers' sorting across jobs and locations driven by **self-insurance motives**
- In expensive cities:
 - Low-wealth workers sort disproportionately at the **bottom of the ladder**
 - As they climb the ladder, they experience **faster wage growth**

Unemployed Workers

- Consumption-Saving Choice:

$$V_{k,\ell}^u(x, a) = \max_{c,h,a'} \underbrace{u(c_\ell^u, h_\ell^u)}_{\text{Stone-Geary}} + \beta \mathbb{E} \left[\underbrace{\max_{\ell'} \{R_{\ell,\ell'}^u(x, a') + \nu^s \epsilon_{\ell'}^s\}}_{\text{Across-Cities Search Problem}} \right]$$

$$\text{s.t. } c_\ell^u = b + (1+r)a - a' - \tau^m \mathbb{1}_{\ell \neq k} - p_\ell h_\ell^u, \quad a' \geq \underline{a}$$

- Within-City Search Problem:

$$R_{\ell,\ell'}^u(x, a') = \max_w \underbrace{s_{\ell,\ell'}^u m(\theta_{\ell'})}_{\text{Finding Rate}} \underbrace{[V_{\ell,\ell'}^e(x, w, a') - \tau_{\ell,\ell'}]}_{\text{Employment}} + (1 - s_{\ell,\ell'}^u m(\theta_{\ell'})) \underbrace{\bar{V}^u(x, a')}_{\text{Unemployment}}$$

$$\text{s.t. } \theta_{\ell'} = \theta(y_{\ell'}, w, a', x)$$

$$\bar{V}^u(x, a') = \mathbb{E} \left[\max_{\ell'} \{V_{\ell,\ell'}^u(x, a') - \tau_{\ell,\ell'} + \nu^m \epsilon_{\ell'}^m\} \right]$$

- Wage Policy Function $\tilde{w}_{\ell,\ell'}^u(x, a'_\ell(x, a))$
- Low-wealth workers search for lower wage jobs, disproportionately so in the most expensive cities**

Data

Heterogeneous Job Ladders & Wealth

$$\log w_{i\ell t} = \alpha_\ell + \sum_{\ell=1}^L \gamma_\ell \sum_{\tau=\ell}^t J2J_{i\ell\tau} + \sum_{\ell=1}^L \delta_\ell \text{exp}_{i\ell t} + \beta_X X_{i\ell t} + \varepsilon_{i\ell t}$$

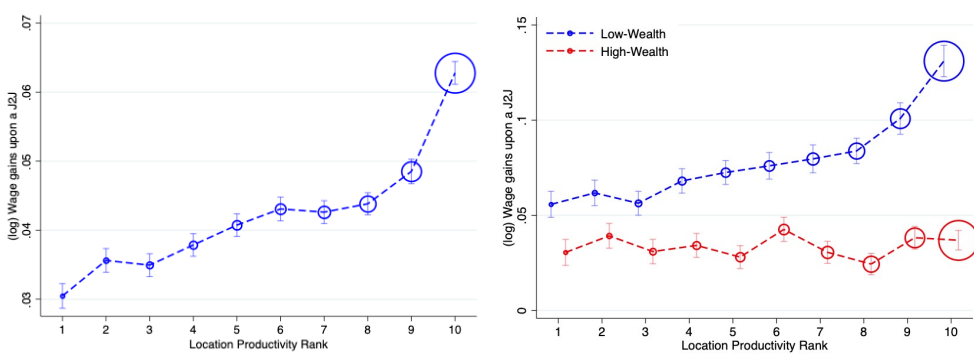


Figure 1: Local Wage Growth from J2J

Effect of a Positive Wealth Shock on Mobility

$$Pr[\text{MoveUp}_{it}] = \sum_{q=1}^5 \sum_{s=0}^1 \alpha_{qs} \mathbb{1}_{Q_{it}=q} \times \mathbb{1}_{S_{it}=s} + \beta_X X_{it} + \varepsilon_{it}$$

	(1)	(2)	(3)
			Pre-Shock
Shock × Q1	0.0968** (0.0417)	0.0800* (0.0426)	0.0600 (0.0497)
Shock × Q2	0.0162 (0.0576)	0.0301 (0.0587)	-0.0813 (0.0543)
Shock × Q3	-0.0028 (0.0531)	0.0018 (0.0540)	-0.0210 (0.0537)
Shock × Q4	0.0020 (0.0457)	-0.0095 (0.0464)	-0.0716 (0.0493)
Shock	-0.0067 (0.0276)	-0.0220 (0.0281)	0.0402 (0.0361)

Controls			
Age, Sex, Skills, Income, Home-ownership, Commuting distance, Transitions	✓	✓	✓
Fixed effects			
Year × City	✓	✓	✓
Occupation × Industry	✓	✓	✓
Observations	15,106	14,932	12,254
R ²	0.380	0.424	0.443

Table 1: Effects of a Positive Wealth Shock

Results & Policy

Financial Constraints & Inequality

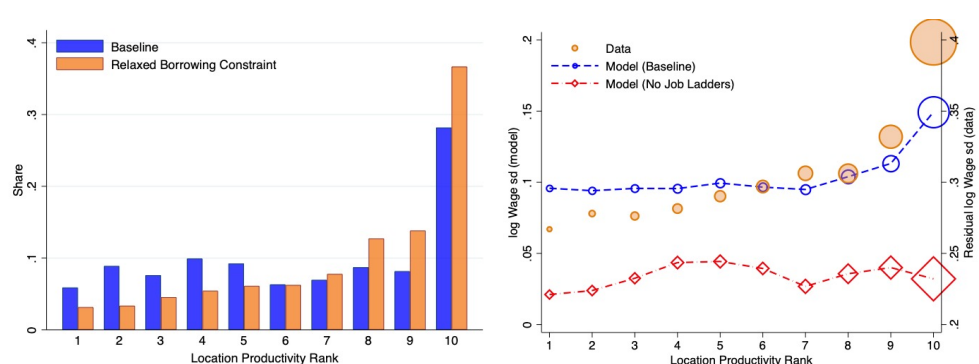


Figure 2: Financial Constraints & Spatial Inequality

Policy Analysis

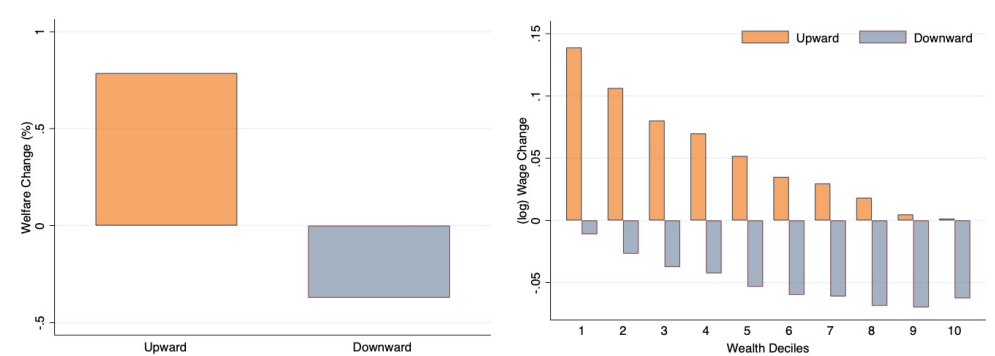


Figure 3: Changes in Local Unemployment Benefit

Conclusion

- Financial frictions limit workers' access to better job opportunities, driving wage and wealth inequality
- Wealth shapes not just where workers live, but which job ladder they climb
- Better unemployment insurance in expensive cities is a powerful tool to expand opportunity for low-wealth workers