Discussion: Labor Market Asymmetries in a Monetary Union: Implications for Optimal Policy

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The views expressed are those of the author and do not necessarily reflect those of the Bank of Greece.
Research question/paper’s contribution

• What are the implications of differences in labour market regulation between countries of a monetary union?

• What are the implications for optimal monetary policy?

• The paper uses a micro-founded DSGE model and considers asymmetries in firing costs, wage bargaining power, the efficiency of matching process and replacement rates.
Brief description of the paper

Two scenarios

a. Keep the average regulatory asymmetry in the union constant and vary the regulation in each country in opposite directions

b. Change regulation in one country keeping regulation in the other country fixed

Results

c. Deregulation increases output and consumption in the reforming country in the steady state.

d. Deregulation in the home country depresses foreign production

e. Regulatory alignment between countries tends to increase output and consumption and reduce unemployment at the union level
General comments

- Analysing the impact of regulatory asymmetries in a monetary union is important.

- It is widely documented that labour market institutions are rather diverse in EU (see survey evidence from the various WDN waves)

- To my knowledge the paper is technically well-implemented.

- Too many results are presented in the paper. The paper could benefit a lot if the analysis becomes more focused.

- For instance, reform effort during the recent years focused on firing costs and decentralization of wage bargaining.
More specific comments

- Wage bargaining power can be endogenous and depend on the regulation on other parts of the labour market.

- Reducing employment protection regulation may reduce the bargaining power of workers.

- Workers may demand lower wages when they know that firing has become easier.

- Evidence becomes available showing that recent labour market reforms had an impact on wage determination.
More specific comments

Parameters of the calibration

- Some intuitive interpretation of the parameters would be helpful.

- For instance, vacancy cost over wage is set at 0.13. Does this relate to some kind of administrative cost?

- Exogenous worker separation rates. Does this capture also employees that voluntarily quit in order to find a new job?
More specific comments

- Also, total separation rate is set at 0.026 and exogenous separation at 0.025.

- Values for the separation rate differ a lot across studies. How sensitive are the results to the choice of different values?