

Discussion of  
'Quantifying the benefits of labor  
mobility in a currency union'  
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# Monetary union

- ▶ Optimal currency area (Mundell, 1961): the costs
  - ▶ Relinquish independent stabilisation policy
  - ▶ Factor mobility precondition for monetary union
- ▶ Uncommon arguments (Mundell, 1973): the benefits
  - ▶ Risk sharing and efficiency gains
  - ▶ Credibility
- ▶ Cost benefit analysis much more than 'Mundell trade-off'
- ▶ But few formal studies of labour mobility in a monetary union

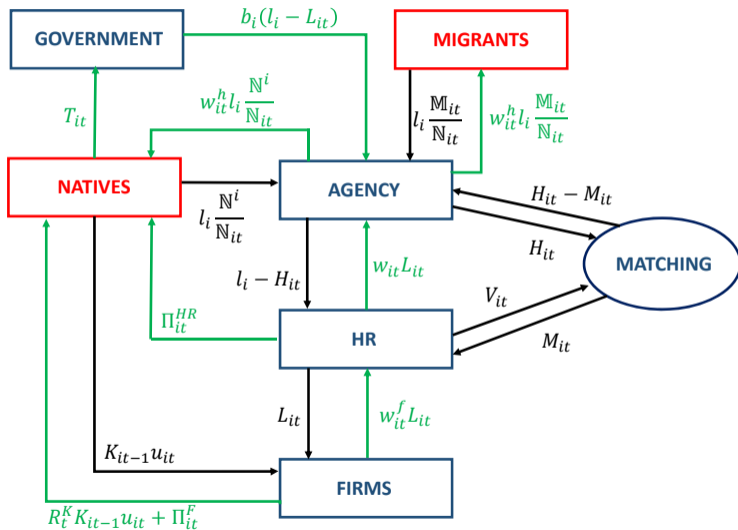
# This paper

- ▶ Empirical comparison of European Union with United States
  - ▶ Unemployment differentials larger and more persistent
  - ▶ Migration rates smaller and less sensitive to unemployment differentials
  - ▶ More persistent effects of migration on population
- ▶ DSGE model of EU29 with labour mobility
  - ▶ Endogenous migration flows driven by income prospects
  - ▶ Search and matching in labour market leaves unemployment
  - ▶ Business cycles driven by a reallocation of demand across countries
- ▶ Substitutability of labour mobility and independent monetary policy
  - ▶ Labour mobility works to reduce unemployment differentials in the EU
  - ▶ But US levels of migration would reduce them more than flexible exchange rates
  - ▶ Low trade elasticity and high wage rigidity favours labour mobility

# Comments

1. The model
2. Welfare

# 1. The model



## 2. The model

- ▶ ‘Conventional’ surplus derived as partial derivatives of value functions
- ▶ Complicated by employment agency and HR firm
- ▶ For the agency, my intuition would suggest

$$\mathcal{E}_{i,t} = w_{i,t} - b_i + \beta \mathbb{E}_t [\Psi_{i,t+1} (1 - d_{i,t+1}) \mathcal{E}_{i,t+1}]$$

$$w_{i,t}^h = f_{i,t} w_{i,t} + (1 - f_{i,t}) b_i$$

- ▶ Similarly for the HR firm

$$\mathcal{J}_{i,t} = w_{i,t}^f - w_{i,t} + \beta \mathbb{E}_t [\Psi_{i,t+1} (1 - d_{i,t+1}) \mathcal{J}_{i,t+1}]$$

- ▶ Where do surplusses come from?
- ▶ A simpler structure may be more transparent

## 2. Welfare and monetary policy

- ▶ Positive analysis with normative conclusions
  - ▶ Welfare metric is unemployment differentials
  - ▶ Business cycles entirely driven by reallocation of demand
  - ▶ Monetary policy follows a simple instrument rule
- ▶ Monetary policy in practice involves trade-offs
  - ▶ Monetary policy has a price stability mandate
  - ▶ Business cycles are driven by a variety of disturbances
  - ▶ Policy deliberations focus on achievable outcomes
- ▶ Leaves relevant normative questions unanswered
  - ▶ Do monetary policy trade-offs change with more labour mobility?
  - ▶ What are the costs of getting it wrong?
  - ▶ How is the 'Mundell trade-off' affected by the conduct of monetary policy?

# 'Labor mobility in monetary union'

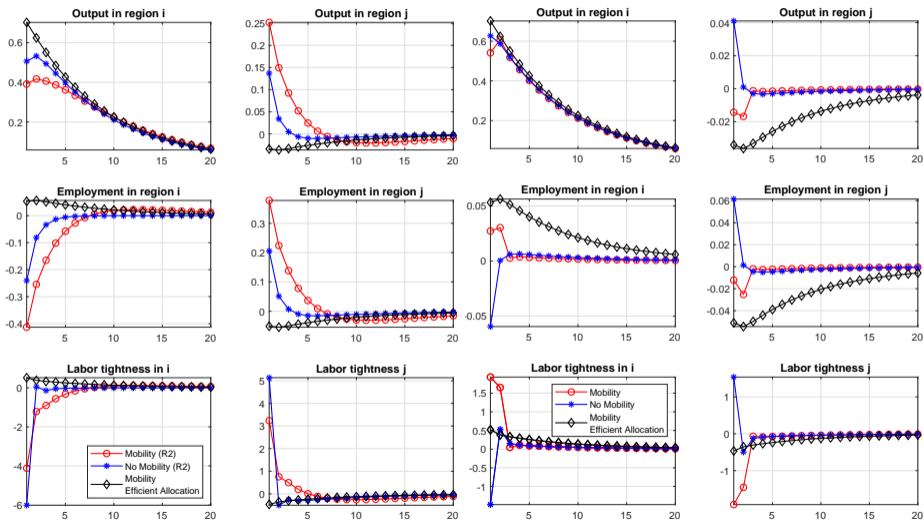
Hauser and Seneca (2019): Bank of England Staff Working Paper No. 786

- ▶ Study optimal monetary policy in monetary union
  - ▶ Workers allocated to equalise expected net benefits each labour market
  - ▶ Linear quadratic approach to optimal monetary policy
- ▶ Labor mobility complicates the setting of optimal monetary policy
  - ▶ Price stability remains most important concern
  - ▶ But trade-offs with real economy and aggregate labor market conditions
  - ▶ ...and regional labor market disparities (direction and size of migration flows)
- ▶ Labor mobility justifies a higher 'lambda'
- ▶ But reduces regional imbalances in labour markets for given policy



# 'Labor mobility in a monetary union'

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# Conclusion

- ▶ Understanding the costs and benefits of monetary union important
- ▶ Significant contribution to formally quantify Mundell's intuition
  - ▶ Barriers to labour mobility burden in Europe
  - ▶ Labour mobility as good as independent monetary policy
  - ▶ Trade-offs differ across heterogeneous countries
- ▶ May support structural policies to reduce migration costs — but does not provide argument for breaking up the euro area
- ▶ Summary of comments
  1. Complexity of labour market costly in terms of transparency
  2. Welfare metric ad hoc and monetary policy suboptimal