

Discussion of “A DSGE Model for Labor Market Reforms Across EA Countries”

5th ECB/CEPR Labor Market Workshop

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December 11, 2008

- The paper builds a fairly standard DSGE-search model to look at the impact of labor market institutions on short-run and long-run economic performance
 - Four countries: DE, ES, FR, IT
 - Parameters of interest: cost of vacancies κ , worker's bargaining power η , separation rate ρ , replacement rate r , and firing cost Γ
 - Model predictions: (i) $d \log \bar{u} / d \log r$, (ii) u and y impulse response to a technology shock
- Results
 - Labor market institutions have a significant influence on long-run outcomes
 - They also influence the short run dynamics of unemployment and output

- The paper studies an important question, using a relatively new tool (labor DSGE)
- It would be important to discuss what this methodology adds to previous findings (e.g. Layard-Nickel-Jackman 2005, Ljungqvist-Sargent 1998)
 - There is a sister paper by Thomas and Zanetti (2008), who look at inflation volatility in the same setup
- The results are interesting, but quite preliminary: I have the feeling that the authors really want to do something more comprehensive, but haven't gotten around to it yet

General comments (2)

- Be careful with the policy implications and loaded statements:
 - (i) a more homogenous labor market is not necessarily a good thing (as opposed to flexibility)
 - (ii) the IRF results should not be interpreted as welfare statements, since there is no welfare metric (“smooth” vs. “fast” responses)
- Provide more details on the data you use for stylized facts and calibration
- The model is quite complicated considering the simple exercises you carry out
 - Capital utilization and/or hours, capital and investment, internal habits, price rigidities?
 - If you do need them for future purposes, explain why
- There is only one structural shock, do you plan to add more?

- Table 1,2
 - What is the time unit, a quarter?
 - Job finding rates are very different in Hobijn and Sahin (2007)
 - What is the scale of the index measures?
- Table 3
 - Wage bargaining power is distinct from union coverage and depends on many institutional details
 - Perhaps better to channel all differences to the outside option b
 - What is the definition of the centralization measure?

- Do you need the effort parameter (e) in addition to ψ_n and ψ_u ?
- Do you assume efficient bargaining? How about right-to-manage? Or just dropping hours?
- Notation: r is the interest rate and also the replacement rate; λ_t in the value functions should be $\lambda_{c,t}$?
- Monetary policy reacts to domestic inflation, but the economies studied are in the Eurozone

- Calibrate some parameters to country specific values: capital's share (α), Calvo parameter from IPN (ω)
- How do you calibrate ψ_n , ψ_u (disutility of work and search)?
In particular, do you match steady state hours to data?
- Table 6: I am not convinced by turning the indexes into cardinal measures
 - Firing costs: at least compare with US, micro evidence
 - Bargaining power (η): US (0.2) vs. Europe difference seems unrealistically high (~ 0.5)
 - What determines the vacancy cost (κ), why do they differ?
 - Do you use the labor market outcomes to match any of these parameters?
- I do not understand footnote 8 - do you mean you do not take some of your data seriously for Italy?

- How should we evaluate the importance of EPL based on Table 5, which Δu_t is more credible?
- Are the unemployment rates in Table 6 from the model or data? If the former, how do they compare to data average?
- The interpretation of the IRFs
 - A larger and more “prolonged” output response is not “better”, since the you also get it when the technology shock is negative!
 - It is kind of obvious that labor market institutions influence labor market outcomes, but the challenge is to relate them to non-labor variables (such as inflation, Thomas-Zanetti)
 - Again, what do we learn from the comparison of EPL vs. non-EPL results?

- Sharpen the question you ask, and tailor the model accordingly
- Differentiate your work more clearly from the literature
- Be more careful with the calibration, or at least explain in more detail what you are doing
- Depending on the question, you may want to include more shocks (demand, cost-push, monetary policy)
- Reserve judgment about your findings until you have a more clear metric for this purpose