Discussion of: "Left for dead? The French Wage Phillips Curve and the Composition of Unemployment"

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21 September 2023

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Overview

- **Motivating fact:** Wage Phillips curve appears to have flattened since the Great Recession
  - Evidence for both US and Euro area
  - 'Flatter' WPC has important implications for monetary policy design

- **This paper:** Workers are heterogeneous in their importance for wage growth
  - Workers with greatest labour market **attachment** are most important
  - **Key assumption** $\Longrightarrow$ Labour market attachment proxied by **job finding rate**
  - Job finding rate (attachment) decreases with unemployment duration

- **Key finding:** Short-term unemployed have largest impact on wage growth
  - Strong relationship between short-term unemployed and wage growth
  - Long-term unemployed & inactive have very little effect

What this paper does

1. **Heterogeneity in job finding rates (attachment)**
   - French micro-data on workers: *Enquête emploi e continu* (EEC), 2003Q1-2019Q4.
   - Document substantial heterogeneity in job finding by labour force status, adopting Hall and Schulhofer-Wohl (2018) approach
   - Significant 'negative duration dependence', in line with US literature (e.g. Kroft et al. 2016)

2. **Reduced-form WPC estimates**
   - Estimate with different measures of unemployment using standard specification (e.g. Galì and Gambetti 2019)
   - Significant but small coefficient on aggregate unemployment
   - Estimate for marginal effect of STU around **3 times larger** than aggregate effect

3. **Conditional WPC estimates**
   - Endogeneity concern: Need to control for sources of wage growth variation
   - Condition on labour supply shocks identfied from SBVAR with sign restrictions
   - Results consistent with reduced-form estimates

Discussion: Summary

Overall: Very nice contribution to an important research question

Comments:

1. Framing of the paper $\Rightarrow$ Link back to resolution of "wage puzzle"?
2. Contextualising results $\Longrightarrow$ Other studies look at this using US data
3. Conditional WPC exercise
4. Theoretical framework: Slackness and wage growth

1. Framing the paper: Resolving "wage puzzle"

- **Narrative:** Wage "puzzle" simply reflects shifting composition of searchers
  - Composition changes generate endogenous fluctuations in PC slope
  - Job searcher pool shifts towards long-term unemployed (less attached) in recessions
  - No longer a "wage puzzle" if we take composition effect into account

- Do we see this in the EEC data for France?
  - How does composition of job searchers shift during the Great Recession period?
  - Kroft et al. (2016) document this pattern for US labour market
  - Additional information in EEC about previous labour market experience?

- Narrative implies attachment falls during Great Recession
  - Employed have lowest finding (job switching) rate, but presumably high attachment
  - Empirical work accounting for flows during recession highlights role of *increase* in attachment (Elsby et al. 2015)
  - Alternative measures of attachment (worker histories?)

Unemployment composition during the Great Recession: US

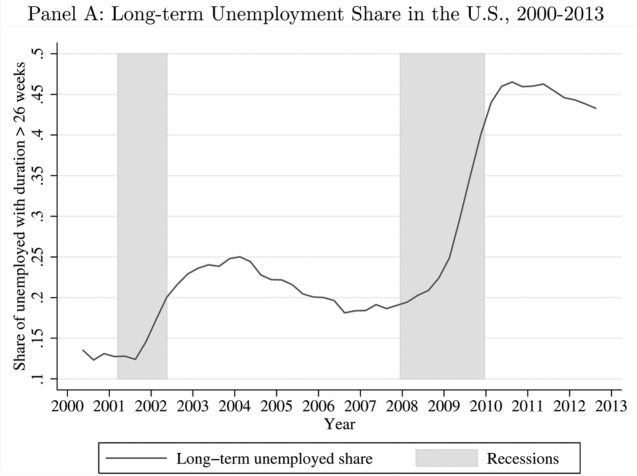

Figure (1) Source: Kroft et al. (2016)

2. Contextualising results: US evidence

- Theory that unemployent duration matters for wage pressure developed after experience of 1980s (Layard et al. 1991, Blanchard and Diamond 1994)

- Large empirical literature assessing this theory using US data
  - Stock (2011), Gordon (2013), Council of Economic Advisors (2014), Krueger, Cramer and Cho (2014), Watson (2014), Rudebusch and Williams (2014), Smith (2014), Blanchflower and Posen (2014), Kiley (2015), Ball and Mazumder (2011, 2019)

- **Takeaway:** Evidence is mixed
  - Some studies find significant differences - Gordon (2013), Council of Economic Advisors (2014), Ball and Mazumder (2019)
  - Smith (2014) and Kiley (2015) exploit cross-state variation in CPS data, find no significant difference between STU + LTU on wages

3. Conditional WPC estimates

- Re-estimate WPC specification using time-series purged from labour supply/wage markup shocks following Galí and Gambetti (2019)

- Some key differences which might be concern:
  - Allow for more shocks (productivity, monetary policy)
  - Longer time series

  $\Longrightarrow$ Are we *only* capturing wage markup shocks?

- Tension between conditional WPC exercise and empirical findings
  - Galí (2011): Unemployment only exists because of wage rigidities
  - No role for differences in job finding rate/unemployment duration
  - Search theory more natural fit, consistent with evidence on labour market flows

4. Theoretical framework for interpreting results

Develop theoretical framework as lens to interpret data

- Why does wage growth depend on slackness?
  Two main theories:
  1. **Worker market power:** Wages set as time-varying markup over *MRS*
     - Wage markup responds to shocks due to Calvo (1983) rigidity, increasing in slackness
     - e.g. Erceg et al. (2000), Galí (2011)
  2. **Search frictions:** Wages increasing in search costs
     - Search externality means search costs *fall* when slackness increases
     - Slackness determined by job creation/destruction
     - Unemployment not sufficient statistic for slackness
     - e.g. Krause et al. (2008), Gertler and Trigari (2009), Christiano et al. (2016)
- Why might short-term unemployed exhibit greater pressure on wages?
  - Search intensity declines with duration (Krueger and Mueller 2011)
  - Discriminate against high unemployment duration as bad signal (Kroft et al. 2012, Gyhad 2013)

Takeaways and conclusion

- **Key contribution:** Evidence using French data that job searchers with higher finding rates affect wage growth more

- Raises interesting & important questions at interaction of macro-labour and monetary policy

- **Thank you!** Very much enjoyed the opportunity to discuss