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Session on Labour Markets

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Labour market | How strong is the correlation between unemployment and growth really? (1/2)

Purpose of the paper

Motivation: The paper examines Okun's Law in the context of the WWWforEurope project.

Fact: financial crisis has led to a strong increase in unemployment and one of the main issue is now how to reduce it under the new low growth perspectives and the inclusion of sustainability

Aim of the analysis: in order to propose how employment could be generated in a low green growth scenario (WWWfor Europe project) the paper tries to answer the question: how strong is the correlation between employment and growth

Main findings

1. Okun's Law is still valid but, as the evidence is mixed, the author proposes a new estimation ...
2. ... a large heterogeneity across countries is found
3. growth thresholds that has to be reached in order to reduce unemployment vary substantially across countries, and this depends on productivity growth and labour force participation, whereas the Okun coefficient is mainly influenced by labour market institutions and flexibility
4. Because the exclusion of environmental impacts and social welfare effects is no longer an option, the author presents solutions based on the redirection of technological progress towards resource-saving technologies

Labour market | How strong is the correlation between unemployment and growth really? (2/2)

Comments and suggestions to improve the paper

The paper is quite long and it could gain in efficacy if some parts were omitted (i.e. the definition of unemployment at the beginning can stay in an annex)

There are several repetitions and the structure of the paper looks circular: Okun's law is presented before from an empirical point of view and then in its theoretical background and then empirical issues are discussed again For instance, the issue of productivity can be moved at the end of the paper (for policy implications) and not in the middle before the empirical part

It is not clear how the results differ from others in the literature (IMF paper cited among others). Several findings of the paper are declared but not clearly explained and supported: i.e. differences in Okun's law depend on labour market institutions and flexibility (it can be true but the link is not so obvious and is disputed in the literature). In general, the paper can be more focused on the main issue, the Okun's law and how it is changed, if any, during the financial crisis, commenting more deeply differences among countries.

In summary

1. The paper focuses on a crucial issue that is how much growth we need to reduce the very high unemployment that the financial crisis has produced...
2. ... but the paper enlarges its view to consider several issues (linked to productivity growth), in order to propose measures to improve it
3. Many issues are touched, both from a theoretical and empirical point of view
4. In doing that, the paper risks to loose in clarity and deepness

Labour market | Labour mobility in the euro-zone during the Great Recession (1/2)

Purpose of the paper

Motivation: The paper examines the role of labour mobility as an adjustment mechanism in the Euro area

Fact: Euro area countries were hit by a common shock during the financial crisis and by an asymmetric shock during sovereign debt crisis. Macroeconomic adjustment have been slow and painful

Model predictions: following Pissarides and McMaster (1990) and Eichengreen (1993) migration flows respond to a change in relative unemployment and wage rates

Aim of the analysis: Focusing on labour mobility as an adjustment mechanism into the Euro area, the paper studies if it reacts to national labour market disparities

Main findings

- 1) Data analysis shows that labour mobility has changed its pattern during the crisis
- 2) Migration reacted to unemployment differentials among countries but not to wage differentials

Labour market | Labour mobility in the euro-zone during the Great Recession (2/2)

Comments and suggestions to improve the paper

The use of data on working age migration among euro area countries, if on the one hand improve the accuracy of the analysis, on the other limits the possibility to make a comparison with other studies and, especially, with the period before the financial crisis. A good question to answer could be: Has migration increased over the last seven years? It is not clear to me if the comparison with other studies can be properly done in this respect.

One of the issue is to verify the correlation among migration and wage differentials, and evidence is mixed. Because during the financial crisis fiscal policy were really different among countries, wages can be a inaccurate measure and some improvement could be achieved using data on per-capita disposable income. For instance, if you look at the Italian data, during the crisis wages remained fairly stable (because of composition effects) but disposable income strongly decreased.

There is an interesting part on problems linked to migration... looking at the UK (and in Italy as well) debate on low productivity growth and the role of skills composition of employees, the paper could consider also this implication of migration

In summary

1. The paper focuses on a interesting issue that is migration as a shock absorber when other adjustment mechanisms (ie the exchange rate) are no more disposable
2. The paper is totally focused on this particular issue but is very clear and well organised in its discussion
3. The novelty of the paper is on the empirical investigation, as it applies an existing theoretical model. It builds on using data directly on migration, on focusing on migration among Euro Area countries and on considering most recent years, so that to study what has happened over the last seven years

Labour market | The impact of growth on unemployment in a low and high inflation environments (1/2)

Purpose of the paper

Motivation: The paper focuses on the effect of growth on unemployment. It draws motivation from the intent to reconcile model findings with the experience (and empirical evidence) of the 70s

Fact: many OECD countries during the 1970s experienced both a slowdown in productivity growth and a rise in unemployment

Model predictions: are mixed, as standard search models of unemployment predict that faster growth leads to higher unemployment (under certain assumptions) but also the opposite can be true under other assumptions

Aim of the analysis: to reexamine the effects of growth on unemployment remembering that during the 1970s low growth was associated with high unemployment and high inflation. Introducing inflation into the model, the paper is able to reconcile model findings with the experience of the 1970s

Main findings

- 1) in the presence of nominal price rigidity, the effect of growth on unemployment is non-monotonic: positive at low levels of inflation and negative at high levels of inflation
- 2) therefore, faster growth leads to lower unemployment only if the rate of inflation is high enough
- 3) the threshold level of inflation below (above) which faster growth leads to higher (lower) unemployment depends on labor market characteristics (such as job destruction rate, workers' bargaining power, opportunity cost of work and hiring efficiency)
- 4) different calibrations lead to different threshold levels of inflation for US and Europe: the threshold level for Europe is higher than that under US calibration (this reflects an higher labor market wedge for Europe)

Labour market | The impact of growth on unemployment in a low and high inflation environments (2/2)

Comments and suggestions to improve the paper

the paper moves from the experience of the 70's but this is not discussed further along the paper. Instead, I would suggest to frame the paper more into the present situation, in which we will have to reduce unemployment with low growth and low inflation

at the beginning of the paper, the author states the important role played by what he calls the *markup effect* but it is not enough stressed in the results. Moreover, the price markup when inflation rate is zero is set equal for US and Europe. Calibration may be improved as regards price markups (for markups estimates for different sectors and countries, see OECD (2005a), OECD (2005b) and Christopoulou and Vermeulen (2008))

In the concluding remarks, the author lists some possible extensions of the model (endogenous growth, introduction of capital, feedback from unemployment to growth) that could improve the analysis. We agree, but another potential extension could include the analysis of the monetary policy with endogenous inflation – as in Blanchard and Galí (2010) – to be applied to current period in order to assess the implications of different labor markets for monetary policy

In summary

1. The paper well combines the literature oriented to growth considerations – namely, the effect of inflation on steady state output - and the literature oriented to unemployment considerations - that is, the effects of nominal frictions on unemployment
2. The strengths of the paper are in its clear message and results:
 1. the reader is easily driven into the message of the analysis from the beginning of the paper
 2. the paper provides a very detailed analytical description of the essential equations and their implications and useful intuition underlying the results
 3. results take account of different calibration for US (with equilibrium unemployment rate relatively low and the job finding rate relatively high) and continental Europe (the opposite) that allows for interesting comparative analysis
 4. the sensitivity analysis to key labor market parameters allows for an evaluation of the effect of growth on unemployment in different labor market

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