Discussion of “The Return of the Wage Phillips Curve”

Per Krusell
IIES, Stockholms Universitet

May 2010
The New Zealand version:

$$\pi w = a - bu.$$  

Problems: Pretty soon did not match data so well. Hard to come up with theory for it ($$\pi w = a - bu$$ may be rationalizable).

The Catalan version:

$$\pi w_t = \beta E_t (\pi w_t + 1) - \lambda w\varphi (u_t - u_n).$$

or, with an additional term due to indexation,

$$\pi w_t = \alpha + \gamma \bar{\pi} p_t - 1 + \beta E_t (\pi w_t + 1 - \gamma \bar{\pi} p_t) - \lambda w\varphi (u_t - u_n).$$

News:

Greek letters (structural parameters).
Forward-looking.

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The theory behind it

Monopolistic labor supply (EHL).

The flex-price version is:

\[ w_t - p_t - mrs_t \equiv \mu \]

\[ w_t = \theta w_t - 1 + (1 - \theta) w^* t, \]

\[ w^* t = \mu w_t + (1 - \beta \theta) \sum_{k=0}^{\infty} (\beta \theta)^k E_t (mrs_t + k + p_t + k) \].

This gives the fundamental of wage inflation (EHL)

\[ \pi_w t = -\lambda w_t \sum_{k=0}^{\infty} \beta^k E_t (\mu w_t + k - \mu w_t) \],

or

\[ \pi_w t = \beta E_t (\pi_w t + 1) - \lambda w_t (\mu w_t - \mu w_t) \].

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\[ w_t = \theta w w_{t-1} + (1 - \theta w)w^*_t, \]

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Now we are “almost” there.
The theory behind it, cont’d

EHL get mrs from representative household with log

\[ C - \chi t \int_0^1 N_t(i)1 + \phi_1 + \phi_i \phi \]

Mr_i is a “specialized yeoman farmer” with monopoly power.

Here, in contrast: indivisible labor i stands for “sector”; within each sector a continuum of workers j who differ in cost of effort ϕ_j, assignment efficient =>

\[ \int N_t(i)j \phi = N_t(i)1 + \phi_1 + \phi_i . \]

As in EHL, perfect consumption insurance.

But now we can define unemployment of individuals j (due to high monopoly wage): those between \( N_t(i) \) and \( L_t(i) \), where

\[ w_t - p_t \equiv mrs_t(l_t) = c_t + \phi_l + \xi_t . \]

Define \( u_t \equiv l_t - n_t \).

This delivers \( \mu w_t = w_t - p_t - mrs(n_t) = \phi u_t \), and \( \mu w_t \equiv \phi u_t n_t \).

Done.

High current markup (when \( u \) is high) => adjust wages up.
EHL get \textit{mrs} from representative household with

$$\log C - \chi_t \int_0^1 \frac{N_t(i)^{1+\varphi}}{1 + \varphi} \, di;$$
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Cho, Mulligan, Chang and Kim also consider distribution of effort costs but less nifty.

Is $j$ permanent? Then transfers across workers really a necessary story, and hard to believe. Also, unions would split up.

Perhaps $i$ is stochastic? Then it is more like “lottery model”; can use buffer saving as motivation.

Should the union interpretation be taken seriously? If so, look at cross-sectoral data.

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The empirical specification seems to work pretty well, has structural interpretation.

Labor-market theory. Here I am not convinced of the micro story.

Calvo fairy. Bewley? May need inefficient unemployment but for U.S. hard to swallow union story (for Europe it works perhaps for countries with very decentralized unions).

Active labor-market (search) policy not needed. I think search is important.

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...THIS is the special one

Mourinho podría entrenar al Real Madrid

El fichaje de Mourinho por el Real Madrid, «prácticamente arreglado»

Mourinho considera “un desafío, un aliciente” entrenar al Real Madrid y aseguró: “pienso que se va a consumar”

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