G. Felbermayr, G. Impullitti, J. Prat
"Firm Dynamics and Residual Inequality in Open Economies"

Giuseppe Bertola, Discussion

Frustra fit per plura quod fieri potest per pauciora
(Occam, 1327)

Very nice paper:

- Good technique,
  - interesting data,
    - important issue.

Discussion:

- Theory ingredients
- Empirical information
- How might improve theory-data-issues link:
  - concentrate better on current targets…
  - … or move the targets.

Theory:

Literature-driven model mixes

- labor markets: wait unemployment “directed search”
- international markets: Heterogeneous productivity / fixed access cost

Dynamic interpretation of wage inequality as snapshot of reallocation-related wage dynamics:

good idea; risk matters a lot, for all.

Implications

Rich model of everything, with Laffer curves:

- Firms that are good enough to hope to export offer higher wages and grow faster.
- … structure determines size of that group, and employment dynamics and wage dispersion within groups…
- …composition effects: U-shaped residual wage inequality as trade gets easier.

Cheap shots on theory

Model explains wage inequality, but

- very many non-constant wage profiles would also satisfy EPDV conditions (spot wages are not allocative).
- wage (and profit) inequality means little given that risk neutrality/complete markets, and free entry, unexpected one-time shocks to parameters.

…like in many other papers, so OK.

Empirics:

German data good, from suitable country with both trade and regulation developments.

Disentangle theoretical effects? Usual issues:

- Calibrate constant parameters, but structure as well as policy may change.
- Follow dynamics after shocks, but changes may be expected and related to each other.

…again, cheap to say, can learn.

Results:

- Trade matters much less than labor market regulation for residual wage inequality (dwi) . **OK: reallocation drives dwi**
- Product market structure also influences (size of firms and) dwi. **NEAT, and novel;**

  also affects trade ?
- Interaction can be important, **YES…**

  … **very quick in current draft.**

On hitting current targets:

- International theory, fits **OK:** firm distribution changes as predicted by the model, **novel when looking at deregulation**
- Labor theory: more productive firms
  - grow faster … **depend on lifecycle stage?**
    receive more applications per vacancy?
    - higher new hire wages… **incumbents …?**
- **Any information from looking at firms that (are going to, more or less unexpectedly) become exporters?**

On changing targets:

Maybe, *Fit a fancy model* of labor and trade with time variation in key parameters?

- interesting for "which are the right theories" purposes: as in physics or astronomy, convincing if parsimoniously combines realistic assumptions and non-obvious implications.

Currently there but…

slightly lost in the end.

On changing targets:

Maybe, *Explain Germany?*

Perhaps do not need so much detail,

- If want unemployment, similar wage implications for continuous re-bargaining random matching with DRS vacancies
- In fact, any worker reallocation costs rationalize job-related wage inequality across similar individuals:

Wage differential

$$w_g - w_b = k - \frac{1-2p}{1+r}(W_g - W_b). \tag{25}$$

If $p < 1/2$, shocks to demand are persistent and mobility needs to be rewarded:

$$W_g - W_b = \kappa \tag{26}$$

$$w_g - w_b = \frac{2p+r}{1+r}\kappa. \tag{27}$$

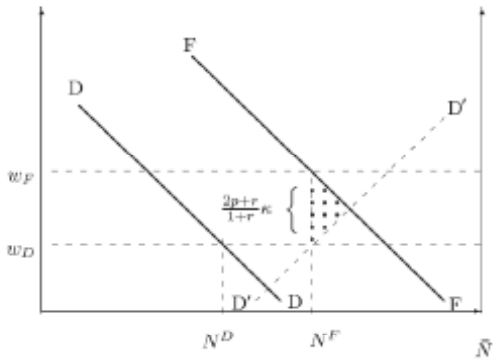

Figure 3.6. Dynamic supply of labor from downsizing firms to expanding firms, without employers' adjustment costs, if mobility costs κ per unit of labor

job-specific wage dispersion, from shocks and mobility costs.

For some targets, esp. *policy analysis*,

simpler but esp. deeper models may be better:

Ex post,

- wages are allocative and shocks matter for consumption and welfare if labor income is uninsurable.

Ex ante,

- people are different and choose policies, differently if trade changes labor demand and supply elasticities.

…next paper…