Discussion of:

"Goods and Factor Market Integration: A Quantitative Assessment of the EU Enlargement"

by **L. Caliendo**, **L. D. Opromolla**, **F. Parro** and **A. Sforza**

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Quantifying the impact of the EU Enlargement

- **Large literature about trade agreements**
  - including Caliendo and Parro (2015)
- Yet many trade agreements go hand in hand with **complementary agreements or policies**, eg. in the EU case (so-called "4 freedoms") :
  - goods / capital / services / labor

  plus eg. the European Structural and Investment Funds
  - Regional Development + Social Fund (256 bil. €), Cohesion (63.4 bil. €), Agricultural Fund for Rural Development, Maritime and Fisheries Fund
- This papers builds on Caliendo, Dvorkin and Parro (2017) to analyze the **combined effects of goods (/services ?) and labor market integration**
  - proposes a **neat quantification framework**
  - makes **original use of old data** (labor force surveys)
  - provides an **original identification strategy** for migration costs (and several other parameters)
- **Really very interesting and very useful contribution**...
  - how tractable is it ?
  - scope for "big science"...

Roadmap of discussion

Mostly clarification questions and suggestions for extensions

1. **Interpretation of your quantification framework**
2. **Migration decisions of households :** explain the comparison with a standard discrete choice model ?
3. **Further discussion of details of the empirical strategy and results**

Quantification framework : Clarification questions

- **Varieties (of goods within countries)** are mentioned in section 3.2
  Unclear to me what is their role in the set-up ?
- **Exogeneity of policies and their timing** : not required ?
  (will be in the empirics ?)
- **Perfect anticipation of policies (?)** : contradicts empirical strategy ?
- In general : which counterfactuals are you able/aren't you able to consider ?
- Which features drive **the speed of the adjustment patterns** ?
- Unclear how A_i is considered (exogenous and endogenous component)
- How is the **rest of world** treated ? How is it affected ?
- In section 5, you consider **shutting down the congestion effect for infrastructure**. What does it correspond to ?

Quantification framework : Tentative suggestions

- **Sensitivity analysis** to the most critical parameters
- Think of further counterfactuals : eg. align all countries to maximal decrease in migration costs
  (eg lower benchmark for labor misallocation) ?
- **Extension to capital flows ?**
  See Kalemli-Ozcan, Sorensen, Volosovych (JEEA, 2014)
- How would **EU structural transfers** affect your quantification ?
  Shock on fundamentals" $\Longrightarrow$ downward bias ?
  Is there a way to incorporate them ?

Migration decisions of households

- Explain the comparison with a **discrete choice model** ?
  Idiosyncratic preference shocks are at the household level ?
  IIA assumption which could be used/tested ?
- **Exogeneity of timing** of migration policies is required.
  - what factors would explain the **heterogeneity in the implementation dates**, which would be exogenous to your setting ?
  - (maybe remove some country heterogeneity)
- **Heterogeneity** in the underlying (change in) migration costs :
  - Maybe provide a more systematic table for parameters between different NMS countries and different EU (5/15) countries
  - Describe what explain heterogeneity in those costs : Shengen area, language ("gravity" equation)
    Formal vs. real reduction in migration costs
  - Use data post 2007 to study flows to Netherlands (2007), France (2008), Belgium and Denmark (2009), Austria and Germany (2011)
  - (What about symmetric flows (NMS to EU) ?)

Further details of the empirical strategy

- Part of the methodology (NMS to NMS ?) to estimate migration costs could be **replicated for goods**
  and compared with the τs in the WITS/TRAINS/WTO datasets ?
  External validation of the methodology
- Put more emphasis in main text on estimation and interpretation of ν ?
  Put the section about elasticity of substitution between high and low skill workers to appendix
- Nice identification strategy but assumption of homogeneity of this parameter across countries could be difficult to buy.
  Provide complementary evidence with cost share equations (and eg. differential exposure of countries to industry level aggregate shocks)

Discussion of results

- Describe **impact of each "phase"** ? (UK, Ireland, Sweden in 2004, Italy, Greece, Portugal and Spain in 2006)
- Results by nationality vs. results by country (location)
  Where the voters are + targets of structural funds
- Contribution of your mechanism for aggregation economies ?
  (elasticity of TFP to population size is 1)
- What drives the **heterogeneity of results** :
  - Across countries (NMS, EU) ?
  - Across counterfactuals (complementarity/substitutability of trade and migration policies) :

  Importance of allocation of fixed factor H^i ?
  Do predicted flows of good/workers vary much across scenarios ?

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