Discussion on "Downward Nominal Wage Rigidities Bend the Phillips Curve" by Mary Daly & Bart Hobijn

Andreas Westermark[1]

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Introduction

- The great recession - long recovery.
- Phillips curve not linear.
- Evidence that wages are downwardly rigid - besides data in the paper microdata (Fehr & Goette (2005), Agell & Lundborg (2003)).
- Other papers Kim & Ruge-Murcia (2011), Fagan & Messina (2009) and Benigno & Ricci (2008)
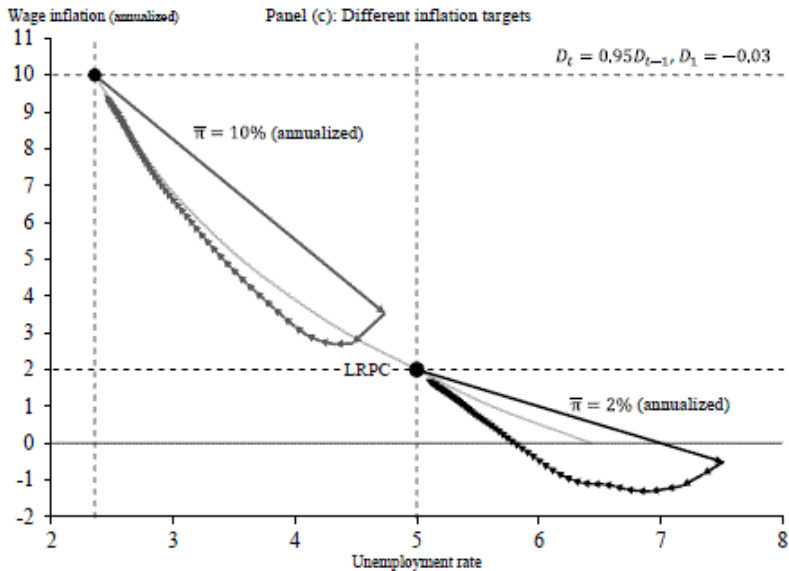- This paper focuses on transitional dynamics.

The Economic Environment

- Downward Nominal Wage Rigidities
- EHL type model
- Intensive margin

Comments on model and results

- Replicates some results for the long-run Phillips curve
- Benigno Ricci (and your paper) two effects on long run Phillips curve
  - The Elsby effect - DNWR makes wage setters go for a slightly lower wage so that they are less likely bound by DNWR
  - The idiosyncratic volatility effect - idiosyncratic shocks makes some wage-setters hit the constraint
- Second effect dominates the first
- New result for dynamics: Short-run Phillips curve

- Figure 11 c) really interesting

Wage inflation (annualized) Panel (c): Different inflation targets

$D_t = 0.95 D_{t-1}, D_1 = -0.03$

$\overline{\pi} = 10\%$ (annualized)

LRPC

$\overline{\pi} = 2\%$ (annualized)

Unemployment rate

- Look at what happens with unemployment following a shock - about the same for the two inflation targets
- For (wage) inflation, response is much smaller when at a low-inflation steady state.
- Reason: DNWR make marginal costs respond less to shock in turn leading to a lower response in inflation
- Inflation volatility reduced
- DNWR might be good!?
- Related to Coibion et. al: Find that DNWR reduces optimal inflation from 1.5 to 0.3
- Why?

- No idiosyncratic shocks in their paper.
- In Benigno & Ricci, long-run Phillips curve vertical in that case - perhaps so in your case too?
- Very different from Coibion et al, since you have a trade-off
- Lower inflation volatility versus higher steady-state unemployment, at least with price rigidities
- Size of idiosyncratic shock important
- Calibration?
- Why about the same speed of convergence for unemployment with the two steady state values of wage inflation - modeling choices?
- Search and matching frictions or Firm-specific labor could lead to lower speeds of convergence when setady-state inflation is low
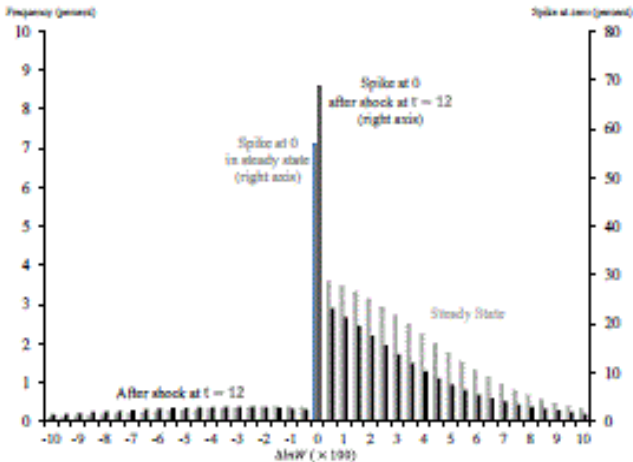
Other results

- Result in figure 5 interesting!

(b) high rigidities
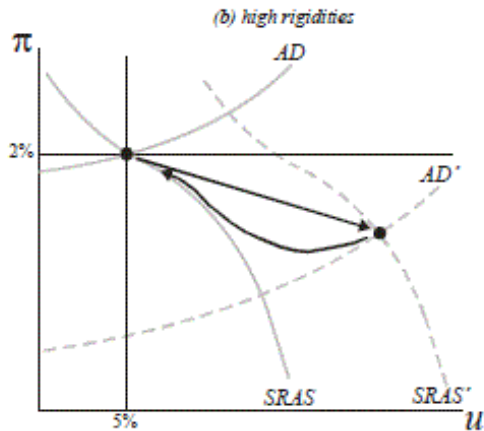
- However, also interesting too see speed of convergence with positive and negative shocks
- Histogram for boom year would be interesting (asymmetries in spike?)

- Why no spike at 5 % in model? What is the duration of wage contracts in the model?
- Is the speed of recovery slower in recessions than return to steady-state following a boom?

Calibration

- Calibration of λ - wage duration?
- Idiosyncratic volatility
- Productivity growth perhaps on the high side (2.7 %)
- Real interest rate high - close to 5 %

Data

- Why not only hourly wages in data (maybe ignore ECI/MWE)
- Perhaps get rid of measurement errors in data
- Looks more similar to the theoretical distribution

- Data (PSID as in Dickens, Goette, Groshen, Holden, Messina, Schweitzer, Turunen & Ward (2007)) from 1995, after taking measurement errors into account

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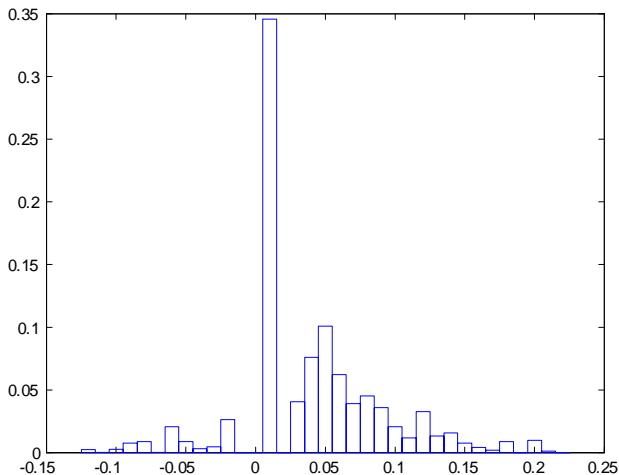
- Data from 1995, without taking measurement errors into account
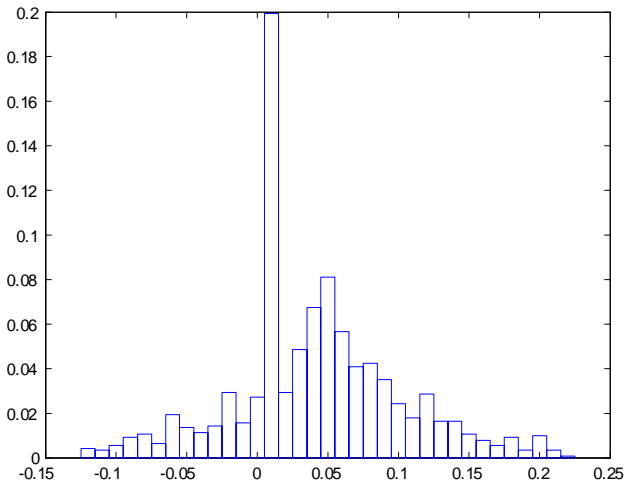
Summary

- Nice paper on important and current issue
- Like the results
- Interesting to see speeds of convergence

Agell, J. & Lundborg, P. (2003), 'Survey evidence on wage rigidity and unemployment: Sweden in the 1990s', *Scandinavian Journal of Economics* **105**, 15–29.

Benigno, P. & Ricci, L. A. (2008), The inflation-unemployment trade-off at low inflation. NBER WP 13986.

Dickens, W., Goette, L., Groshen, E., Holden, S., Messina, J., Schweitzer, M., Turunen, J. & Ward, M. (2007), 'How wages change: Micro evidence from the international wage flexibility project', *Journal of Economic Perspectives* **21**, 195–214.

Fagan, G. & Messina, J. (2009), Downward wage rigidity and optimal steady state inflation. ECB Working Paper 1048.

Fehr, E. & Goette, L. (2005), 'Robustness and real consequences of nominal wage rigidity', *Journal of Monetary Economics* **52**, 779–804.

Kim, J. & Ruge-Murcia, F. (2011), 'Monetary policy when wages are downwardly rigid: Friedman meets tobin', *Journal of Economic Dynamics and Control* **35**, 2064–2077.