# Discussion

# The Job Ladder: Inflation vs. Reallocation
# (Moscarini and Postel-Vinay)

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## Summary

- Explain inflation dynamics in standard DSGE New-Keynesian model w/ on-the-job search (OJS) + sequential bargaining protocol PVR (2002)
  - Novel transmission of economic shocks to labor costs and inflation
  - Novel model-implied statistic of economic slack: AC-Ratio

- Main mechanism linking OJS and inflation:
  - OJS -> Outside offers -> Potential wage increase on the job = cost-push shock –> inflation
  - Occurrence of inflationary wage response depends on workers' bargaining position

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## Comments

Comments:

1. (Already) An influential paper
2. Changing perspective on inflation
3. Changing perspective on economic slack

# (Already) An influential paper

- Next step in series of papers on economic shock transmission to labor costs (MPV 2009, 2013, 2016, 2016b, 2017, 2023, 2023b).
- Strong points: Elegance of theory and estimation despite complex interactions
  - Neat integration frictional labor market with sequential bargaining <-> standard New Keynesian DSGE setting
  - Model extensions to bring predictions close to recent empirical evidence
  - Leverage theory to facilitate estimation by separating parameter space

## (Already) An influential paper

Some additional questions have already been addressed in the literature

- Is there empirical support for co-movement AC and inflation? MPV (2023)
- How about reverse causality - does inflation cause OJS? Bostanci et al. (2022) Pilossoph et al. (2023)
  Pilossoph and Ryngaert (2023)
- What if OJS search intensity varies over the cycle? Faccini and Melosi (2023)
- How does imperfect insurance change results? Birinci et al. (2024)
- How did EE mobility impact inflation during the pandemic? Faccini and Melosi (2022)

The paper's insight has made it into the media



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**One Explanation for Weak Wage Growth: Workers' Reluctance to Switch Jobs**

Central banks should monitor job-market churn as a stronger predictor of pay, prices and productivity than unemployment, say some economists

## Changing perspective on inflation

(At least) 5 new ways to think about inflation:

1. Heightened inflation can be by-product of productivity-enhancing OJS.
2. Heightened inflation is the flip-side of elevated real profits earlier in time.
3. Not all wage increases are inflationary.
4. Inflationary pressures derive most strongly from jobs with high match productivity.
5. Contractionary monetary policy increases misallocation of the employed.

## Changing perspective on inflation

New questions

- How do labor market characteristics affect inflation dynamics? Can higher worker bargaining weight (e.g. unions) reduce inflationary pressures?
    - Suppose workers have bargaining weight CPVR (2006).
    - Higher bargaining weight reduces scope for renegotiation.
    - Do higher worker bargaining weights reduce inflationary pressures?
- How does firm quality/ size correlate with inflation pressures empirically? PVR (2012)
- How does this new perspective change the welfare evaluation of monetary policy and its distributional effects?

## Changing perspective on economic slack

- Slack:= by how much can production increase w/o pressure on prices.
- Classic measures: output gap, labor share, V/U-ratio, U/EE/UE-rate
- Here: Inflationary competition for workers *on the job* not *at hiring* from unemployment.
- Result: A measure of slack that captures
  - *Quality* instead of *Quantity* of employment
  - *Misallocation* instead of worker *Allocation*
  - *Flow* of workers instead of *Stock* of unemployed
  - Economic slack and low unemployment can coincide

## AC and Mismatch

Proxy for slack: Acceptance Ratio $AC = EE/UE =$

$$(1-\delta)s_1 \int_{\underline{y}}^{\overline{y}} \underbrace{\overline{\Gamma}(y)}_{\text{Share of better jobs}} \underbrace{\frac{dL_{t-1}(y)}{1-u_{t-1}}}_{\text{Distribution of employed}}$$

$$\underbrace{\phantom{(1-\delta)s_1 \int_{\underline{y}}^{\overline{y}} \overline{\Gamma}(y) \frac{dL_{t-1}(y)}{1-u_{t-1}}}}_{\text{Willingness to move}}$$

- Conventionally: Low U-Rate = Low Slack
- Here:  Low U-Rate + High Willingness to move –> potentially High Slack
- –> High economic slack and low unemployment can coincide

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## AC and Mismatch

When is empirical AC-Rate a good proxy for slack?

- Good proxy: worker mobility
    - towards higher productive jobs
    - with wage setting through sequential bargaining.
- Less good proxy:
    - Mobility due to amenities instead of higher productivity  Sorkin (2018) LMS (2022)
    - Wage posting instead of wage bargaining  PVR (2004) BM (1998)

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  - Wage posting instead of wage bargaining PVR (2004) BM (1998) But: Estimated share of bargaining firms as compared to wage posting firms: $\approx 40\%$ HR (2024)

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–> Interesting new measure of slack for practitioners.

## Conclusion

- Already highly influential paper on shock propagation through OJS with clear insights for practitioners
- Looking forward to MPV 202X and following

## Other Comments I

- Applications: Can we see more applications of the model? How about regarding the drop in EE rate? How do inflation dynamics change because of it?
- Consumption and Inflation: $corr(\bar{\pi}, C)^{emp} > corr(\bar{\pi}, C)^{sim} \approx 0$ - incomplete markets?

## Other Comments II

- E2E mobility may or may not be inflationary by reducing mark-up $\mu$:
  $\mu_{t=1} = (y_1 - U) < \mu_{t=2} = (y_3 - y_1) > (y_4 - y_3) = \mu_{t=3}$
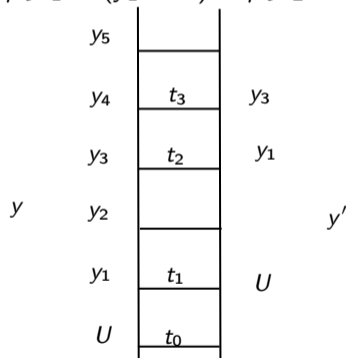
# Small and Tiny Comments I

- p. 23, "Relation to Literature": it would seem more natural to put this section after introduction, or as part of the introduction.
- footnote 1: "empirical fit *of* the"
- p. 8, first paragraph $u = 1 - \int_0^1 e_{t-1}(j)dj$
- p. 14, bottom: "that$y$"
- p. 23, "And to *be* embed it"
- p. 38, "Both UE and EE fall, but the former much farther, raising the AC ratio." –> "Both *EE and UE* fall, but the former much farther, *lowering* the AC ratio."

# Bibliography I

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