

What can be learnt from AGE models about unemployment?

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What do we know about employment impacts of liberalizations and similar structural shocks?

- Autor et al.: even in the US, the employment impact can be durable –at least at the sector level, unclear at the global level (Feenstra, Ma, Xu, JIE, 2019)
 - Wide-ranging consequences
 - True as well in Europe (Malgouyres, JRegScience 2017 on France)
- European labour markets
 - Unemployment (partly structural) key issue, wage structure sticky
 - Significant adjustment costs
 - Limited mobility across regions, weak responsiveness to economic conditions (e.g. Blanchard and Katz, BPEA 1992; Bentivogli & Pagano, Labour 2003; Beyer and Smets, EconPol 2015; Arpaia et al., IZA JoM 2016) ~ 50% of adjustment through mobility
- Dix-Carneiro & Kovak (AER 2017): regional impacts may get worse over time
 - Dynamics at odd with neoclassical theory, driven by slow capital adjustment and agglomeration economies

A heavily constrained framework

- Microfounded, or consistent with a microfounded model
 - Deterministic, unique model with equilibrium based upon the model's variables
 - Tractable (for calibration and solution, *i.e.* empirically & numerically)
- Medium to long run equilibrium
 - Not equipped to deal with SR
 - Nothing to describe SR dynamics of C, I, finance (don't expect a CGE model to perform a Keynesian analysis!)
 - When some dynamics are included, they remain rudimentary
- Counterfactual analysis
 - *Ceteris paribus*, but macro & LM policies are designed to react to LM situation
 - *i.e.* trying to assess impact of second-order determinants, ignoring endogeneity of first-order determinants
 - Of wind and car's speed (Krugman, Foreign Affairs 1995)

What can be done in practice?

- Depart from full-mobility, full-flexibility LM modeling
- Assume wage rigidity
 - (Downward) rigidity (Brecher, QJE 1974; Davis, AER 1998), rigidity of relative wages (Krugman, BPEA 1995), efficiency wages, bargaining models
 - Bottom line: LM impacts will be not only on wages, but also on employment
- Assume imperfect mobility
 - Across sectors: no mobility (specific factor model), adjustment cost of sector-specific capital (Mussa, 1978), switching costs for workers ((Dixit 1993), worker-level labor adjustment model (Artuç, Chaudhuri, McLaren, AER 2010)
 - Across regions

My take on Peterson (2019)

- Elegant: search and matching model, micro-founded, well thought and calibrated
- In each sector, two types of labor: existing (rigid) and matched (flexible)
- Model's behavior in practice
 - No cross-sector mobility
 - Semi-flexible labor market at the sector level
 - Labor supply is flexible (calibrated through separation rates in particular)
 - Wage of matched workers as well
 - = Specific-factor model with sector-level flexibilities
 - Behavior intermediate between flexible and specific-factor model
 - Impacts split between employment and wages

Concluding remarks

- Highly constrained, difficult to hope for self-contained analysis of unemployment impact
- But many useful inputs



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