Monetary Policy under Labor Market Power

Discussion of Burya, Mano, Timmer, Weber (2022)

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Motivation, Research Questions & Related Literature

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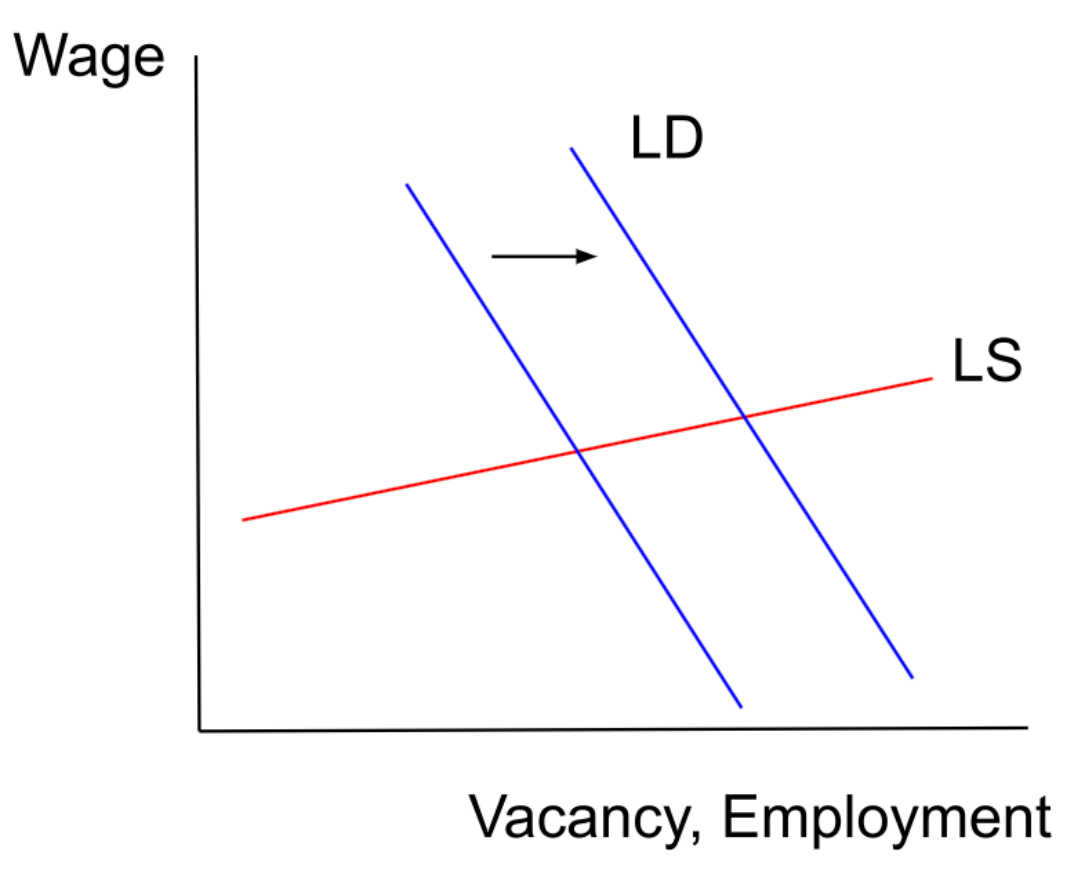
Related Literature:

- Product market power $\rightarrow$ flattening of Phillips curve
- Implications of Product market power for monetary policy transmission.

Main Idea of Model

Expansionary monetary policy—modelled as an increase in labor demand—can lead to a large increase in vacancies (and employment) without much increase in wages with a **flat** labor supply curve.



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Firms with greater labor market power are better at translating vacancy posting into employment. This makes it more worthwhile to post vacancies rather than increase wages to increase employment—implies a flatter labor supply curve.

- Alternatively, can assume cost of posting vacancies is lower for high labor market power firms.

Mapping Model to the Data

How to measure labor market power in the data:

- Use data on near-universe of vacancy postings in U.S. from BGT. Subset of these postings have offered wages as well.
- Informed by search and matching models, firm's local labor market power is share of its vacancy postings in total vacancy postings.
- High labor market power (high vacancy share) correlates with low wages–consistent with their model.

Merge vacancy data with employment data from Compustat

- I can imagine this was a tall task!

Main Empirical Results

Monetary policy easings lead to:

1. relatively large increase in vacancy postings for high labor market power firms
2. relatively large increase in employment for high labor market power firms
3. no difference in wage growth between high and low labor market power firms

Slope of wage Phillips curve:

- Show that wage Phillips curve is significantly flatter in regions with high labor market power.

Some Thoughts for the Future...

Interesting that, although model predicts that wages should react more for low labor market power firms, in data, this doesn't seem to be the case. Any idea why?

Can you run LPs both pre- and post-GFC? I expect unconditional effect of monetary policy on wages to be stronger in pre-crisis sample when wage Phillips curve steeper.

Claim that rising labor market power may explain flatter wage Phillips curve. Can you check if your measure of labor market power rose over time?

Interesting dynamics?: If rising labor market power of firms implies large increase in vacancy postings, this would tighten the labor market and so shift labor market power back to workers.

Conclusion

Very interesting paper helping us to understand structural issues with monetary policy's ability to generate wage growth.

Model is very useful for interpreting empirical results.

Monetary policy results highly robust.

Cool results on slope of local wage Phillips curve as a function of local labor market power.

I would be interested in trying to fully link these two sets of empirical results. One way to do this is to show that monetary policy more effective at stimulating wage growth pre-GFC.