

Discussion of
Pilossof, Ryngaert and Wedewer's
"The Search Costs of Inflation"

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What the Paper Does

- Model with heterogeneous firms, nominal wage rigidities, search and matching in the labor market (also on-the-job), exogenous separations, and endogenous search effort.
- Balanced growth path with constant inflation and aggregate productivity growth. Wage indexation.
- Consequences of a sequence of (unanticipated) inflationary shocks on employment, output, consumption, welfare, etc.
- Main trade-off: more intensive on-the-job search vs. reallocation to higher productivity firms
- Main quantitative finding: post-COVID-like inflationary episode is costly for workers (lower real wages), and for society (search deadweight losses outweigh productivity gains).

Contribution

- Novel inflation cost channel: endogenous search effort
- Initial misallocation can be improved through positive inflation by encouraging search for jobs in more productive firms ("grease in the wheels"). But search is costly. Trade-off.
- Search as a cost of catching up with inflation. Alternative: "menu cost" ("conflict cost" in Guerreiro-Hazell-Lian-Patterson 2024).

Comments/Questions/Suggestions (I)

- Unanticipated inflation modelled as exogenous. No simultaneous changes in other exogenous variables or parameters. No feedback from wages to prices. Alternative: endogenous inflation, driven by some aggregate shock (e.g. exogenous monetary expansion or a negative productivity shock).
- No comparison of aggregate outcomes and welfare across models. Would be useful to uncover the role of different ingredients (search, heterogeneity, OTJ search, endogenous OTJ search,...).
- More intensive search is individually optimal, though in the aggregate its costs outweigh output gains. Is the search response inefficient? Would it be better to ban or tax on-the-job search? A case for indexation.

Comments/Questions/Suggestions (II)

- By symmetry, does unanticipated deflation increase welfare? Difference with NK. Calls for some discussion.
- Quantitative analysis of a specific inflationary episode (size, length). Robustness? (Non-linearities?)
- Calibration of shock: unexpected inflation of 11 per cent above trend, per year and for three years (!) \Rightarrow huge real wage declines if no adjustment. Not commensurate to COVID episode.
- Trend inflation is neutral because of assumed indexation. But this is counterfactual. Suggestion: analysis of optimal trend inflation (close to zero in the NK model, absent ZLB).
- Distribution of vacancies $F(y)$ facing an individual searching for a job is constant, independently of reallocation outcomes. No GE constraints?

Comments/Questions/Suggestions (III)

- Wage setting with state-dependence: nominal wage unchanged until reservation wage is hit, then adjusted under Bertrand. Some references: Thomas and Worrall (1988), MacLeod and Malcomson (1993) and Hall (2003). Appealing alternative to menu costs or Calvo? Maybe, but need to make a case.
- Wage assumed fully flexible for new hires. Is it realistic? (e.g. large gaps with incumbent workers)

Empirical Evidence

- Missing in the current version
- Higher price inflation \Rightarrow more external offers
 - Some are matched \Rightarrow higher wages \Rightarrow higher price inflation
 - Some are not matched \Rightarrow higher EE transitions, higher wages
- Evidence

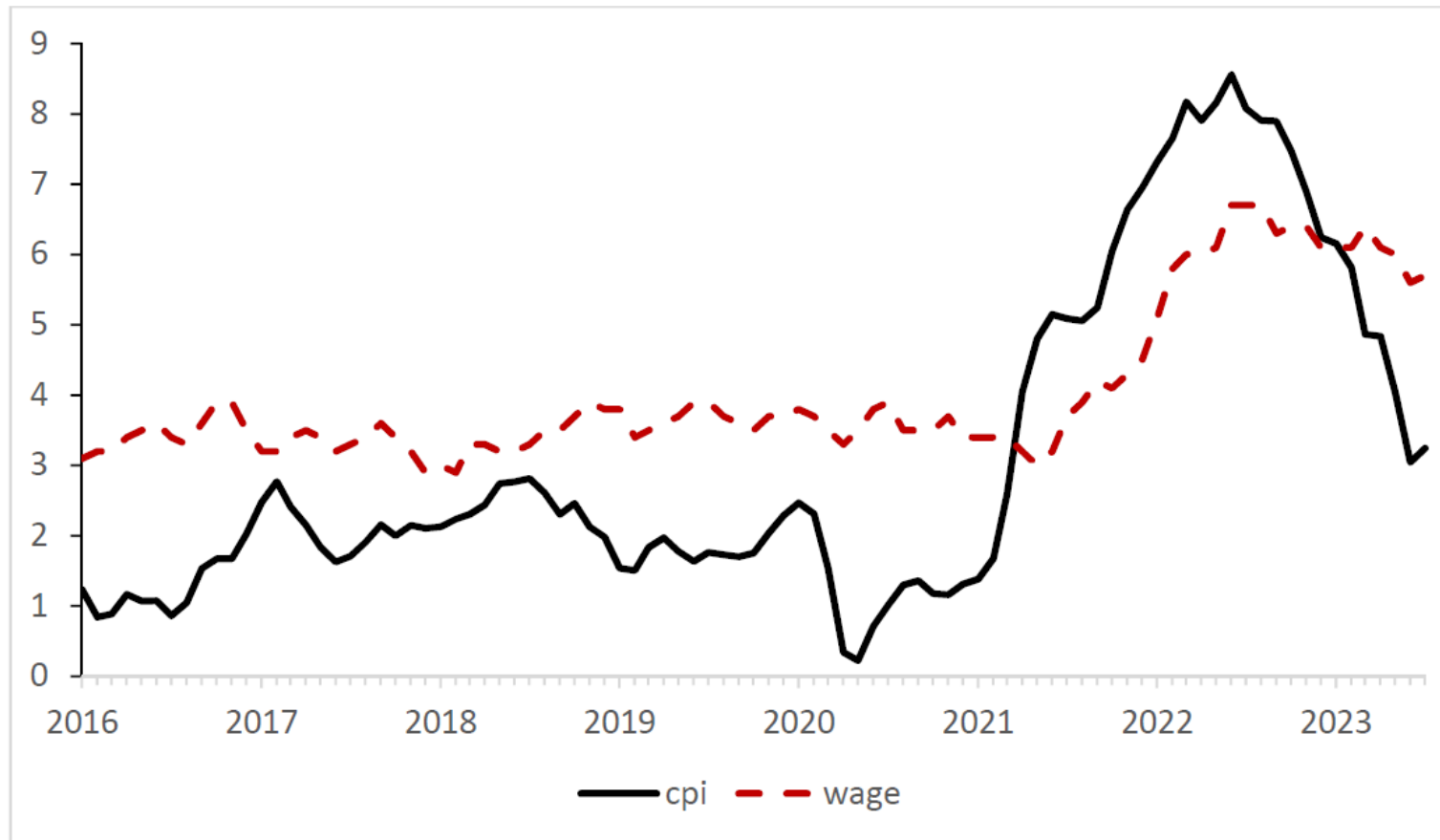
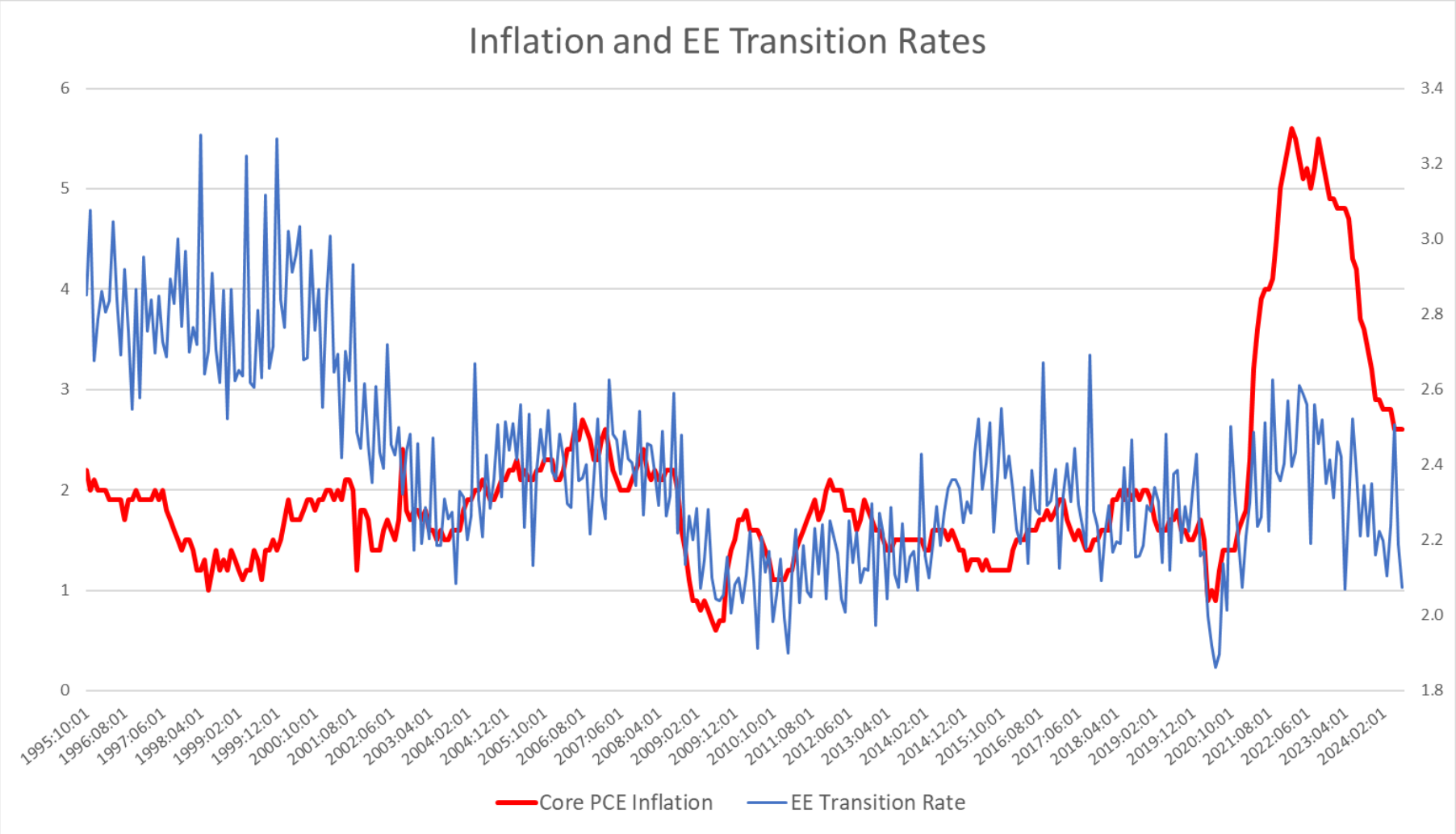


Figure 1: CPI and Wage Inflation



Data sources: St. Louis Fed and Fujita, Moscarini, and Postel-Vinay (2024)

Concluding Remarks

- Valuable contribution to two literatures:
 - costs of inflation
 - role of labor market search in monetary models
- Novel element: endogeneity of search effort
- Potential, but some work to be done
- What lessons for monetary policy?