Comments on

House, Proebsting, and Tesar’s
‘The Benefits of Labor Mobility in a Currency Union’

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Two papers for the price of one

1. How mobile is labor?
   - In the United States
   - In Europe

In particular, how is labor mobility related to unemployment?
Two papers for the price of one

• Paper 1: How mobile is labor?
Two papers for the price of one

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  Answer

  *U.S. labor is more mobile—and moves more with unemployment—than European labor. Canada is in between.*
Two papers for the price of one

• Paper 1: How mobile is labor?
• Paper 2: How would things have been different if European labor were as mobile as U.S. labor?
Two papers for the price of one

- Paper 1: How mobile is labor?
- Paper 2: How would things have been different if European labor were as mobile as U.S. labor?

The interesting, ambitious ‘paper’
Santa Clara University
Two types of labor mobility

**Intra-union mobility**
- Within the United States or within Europe

**Inter-union mobility**
- Between, say, California and Portugal
Two types of labor mobility

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‘Paper 1’: Allows for the distinction.
Two types of labor mobility

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‘*Paper 1*: Allows for the distinction.
‘*Paper 2*: Doesn’t.'
In House, Proebsting, and Tesar’s Model,
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- Production of a *(somewhat)* nontradable final good (education) uses some (almost) tradeable intermediate goods.
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Alternatively, education is a tradeable intermediate good.
In House, Proebsting, and Tesar’s Model,

- Production of a *(somewhat)* nontradable final good (education) uses some *(almost)* tradeable intermediate goods.
- Entrepreneurs rent out the capital from households.
In House, Proebsting, and Tesar’s Model,

• Production of a *(somewhat)* nontradable final good (education) uses some (almost) tradeable intermediate goods.

• Entrepreneurs rent out the capital from households.

• Calvo pricing: tuition
In House, Proebsting, and Tesar’s Model,

\[ \text{change in } v_{\text{California}} \]
Auro Robotics (Santa Clara) purchased by Ridecell, which is partly funded by BMW.
Capital mobility
Capital mobility

*Intra*-currency union (Aero Robotics-Ridecell)
*Inter*-currency union (BMW-Ridecell)
Capital mobility

*Intra*-currency union (Aero Robotics-Ridecell)

*Inter*-currency union (BMW-Ridecell)

Much more important than labor mobility
Mundell’s (and others’)
Factors affecting the cost of a monetary union

Labor mobility

Capital market integration

Business cycle synchronicity

Risk sharing through fiscal flows

Macroprudential measures (still in Europe)

Price rigidities

Wage rigidities

Differences in preferences

Productivity differences
In any model:

*what are the right abstractions?*
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• In an illustrative, conceptual model
  One set of abstractions—often a parsimonious model
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- In a practical, quantitative model,
  A different set—often a rich model
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- In a practical, quantitative model,
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*House, Proebsting, and Tesar’s ‘Paper 2’*
A practical, quantitative investigation requires a rich model
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An accurate quantitative answer may depend on:

– **Intra-union vs. inter-union** factor mobility distinctions

– **Policy and friction interactions**, such as fiscal flows (exogenous here), and (a la Valerio Nispi Landi)—macroprudential measures.

– **Welfare** conceptions
‘Paper 2’: How would things have been different if European labor were as mobile as U.S. labor?
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**Model’s Answer:** 8 percent of the population would have moved out of Greece, Ireland, Italy, Portugal, and Spain
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**Model’s Answer:** 8 percent of the population would have moved out of Greece, Ireland, Italy, Portugal, and Spain

*(Actual: 1-3 percent)*
‘Paper 2’ asks: How would things have been different if European labor were as mobile as U.S. labor?

Model’s Answer: 8 percent of the population would have moved out of Greece, Ireland, Italy, Portugal, and Spain

World Bank: 

Large number... some questions
Large number... some questions

*Welfare loss from migration?*

\[ \text{Welfare with } \gamma_{\text{Europe}} \mid \text{migration using } \gamma_{\text{U.S.}} \]

\[ \text{vs.} \]

\[ \text{Welfare with } \gamma_{\text{Europe}} \mid \text{migration using } \gamma_{\text{Europe}} \]
Large number... some questions

Welfare loss from migration?

\[
\text{Welfare with } \gamma_{\text{Europe}} \mid \text{migration} \text{ using } \gamma_{\text{U.S.}} \text{ vs.} \\
\text{Welfare with } \gamma_{\text{Europe}} \mid \text{migration} \text{ using } \gamma_{\text{Europe}}
\]

Compare to the welfare effect from monetary union itself.
What key frictions jointly make a single monetary policy such a big problem?
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How do they interact with the labor preferences & with other potential policy instruments?
Snapshot from the well-written, ambitious paper:

5 Conclusion

[To be completed]