Discussion of *"Monopsony, On-the-Job Search and Wage-Price Spirals"*

Renato Faccini

ECB Conference: Inflation Drivers and Dynamics
29–30 September 2025

The Question

- When the cost of living rises, do nominal wages adjust upward?
- **Answer:** NO.
- This follows from 2 assumptions:
    1. On-the-job search
    2. Wage posting (no bargaining)
- My take: Strong support for (1); (2) valid but not universal

Assumption I: OJS

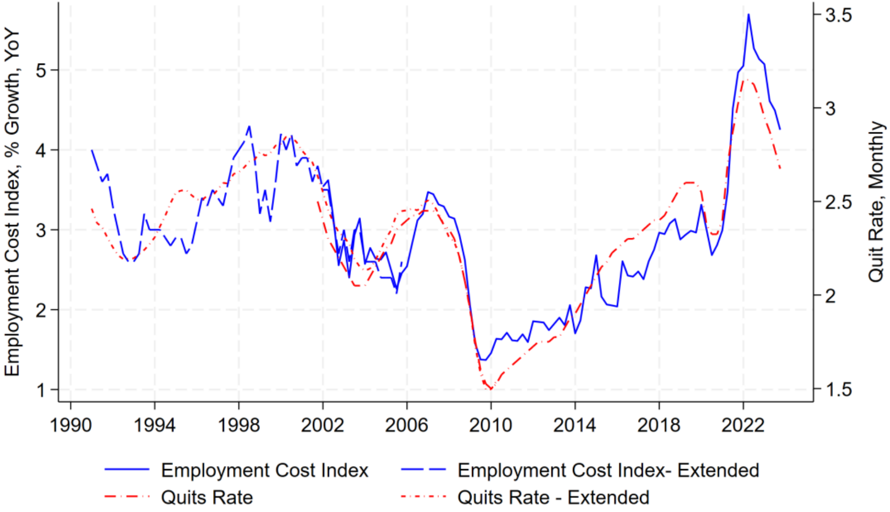


Figure: Employment Cost Index (YoY) and Quits Rate (Monthly), 1990–2024.

Assumption II: Wage Setting

- **Labor mkt:** Frictional, random search.
- **Firms:** representative, posting wages
  $\Rightarrow$ ONE eq. wage.
- **OJS:** No motive; Exogenous.
- Why change job? Taste shocks
- **Wage trade off:** higher wage cost lower quit probability
  $\Rightarrow \Delta$ quit probability $\Rightarrow$ Δ Eq'm wage.

Cost of living shock

- What could possibly increase quit probability?
  1. **labor supply (OJS)**. Ruled out by degenerate wage dist.
  2. **labor demand** Ruled out by Taylor rule
- **Implication:** Instantaneous real wage adjustment; no propagation

Three stories in policy/academic debate

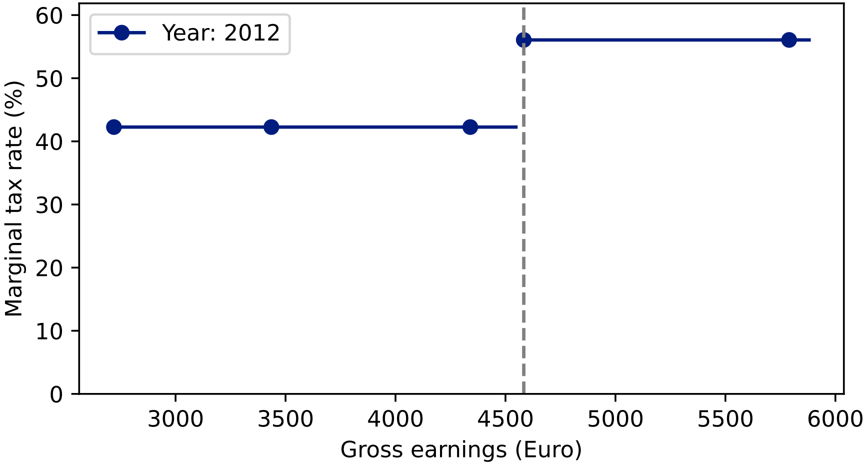
1. **Bargaining:** Worker demand compensation for cost of living
   $\Rightarrow$ Surplus sharing/Nash bargaining ruled out by construction
2. **Outside offers:** which firms can match
   $\Rightarrow$ Sequential auction bargaining. Ruled out by construction
3. **Pre-emptive wage rises** to avoid quits
   $\Rightarrow$ Prerequisite: non-degenerate wage distribution

A perspective from DFMV(2025)

- Model: Job ladder + *endogenous* OJS + SAB.
- match-specific productivity ⇒ ex-post worker heterogeneity
- natural experiment: Danish tax reform
  ⇒ differential impact on OJS incentives across income distribution
- Tax shock isomorphic to a cost-of-living shock

Danish tax reform

Focus top tax rate threshold in Denmark



Danish tax reform

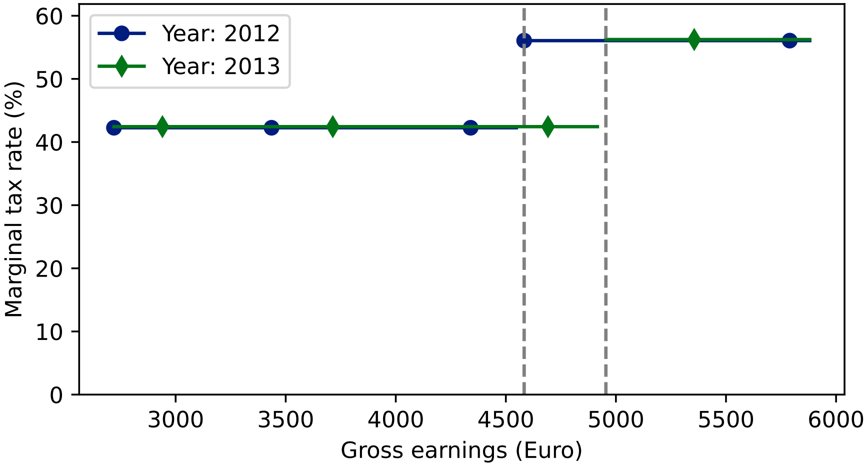


Figure: Employment Cost Index (YoY) and Quits Rate (Monthly), 1990–2024.

OJS Responses: Model vs. Data

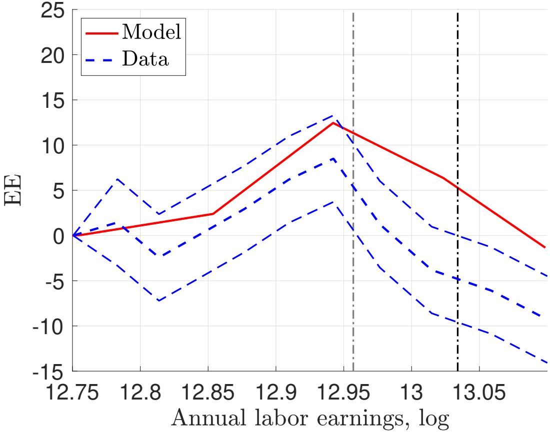


Figure: *

Job to job transitions

Wage Growth for Job Stayers: Model vs. Data

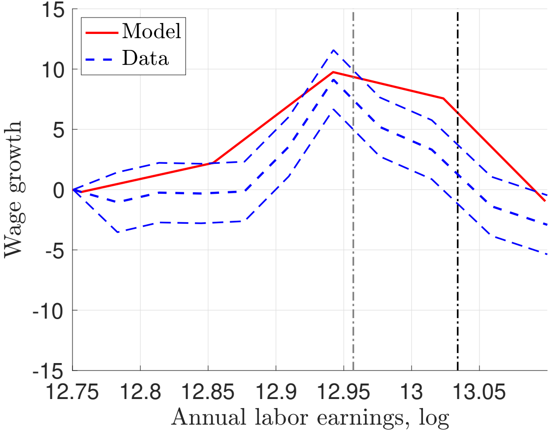


Figure: *

Wage growth stayers

Wage Growth for Job Changers: Model vs. Data

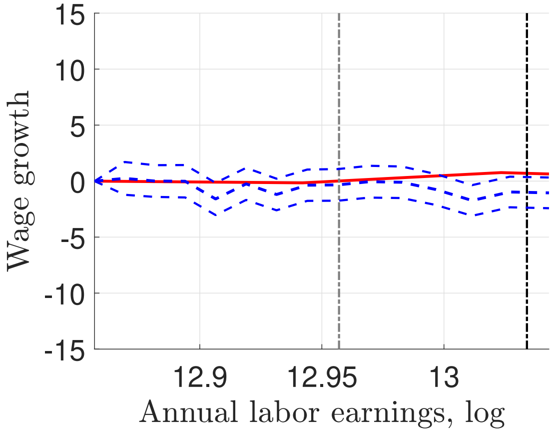


Figure: *

Wage growth leavers

Putting everything together

- Evidence implies:
    1. rejection of Story **(1) bargaining**
    2. support for Story **(2) outside offers**
    3. rejection of Story **(3) pre-emptive wage rises**.
       Wage gains for stayers not movers; no broad rise in **posted wages**.
- To test (3) fairly, the model should feature **search incentives**
- directed search would do $\Rightarrow$ wage dispersion and elasticities of wages to OJS.