

# Labor Markets, Firms, Innovations

Three hurdles in the third year  
of the Moon Jae-in presidency

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# Improving Arrangements

- ▶ Labor market reforms
- ▶ Big firms and small
- ▶ Innovations, their sources and values

# Role of Government

- ▶ Design (?) and enforce (?) rules of the game – a general framework
- ▶ Correct “market failures” (e.g., “neighborhood effects” and “public goods”)
- ▶ Offer social insurance and redistribute income

# Sources of social arrangements

Distinct possible sources of “rules of the game” and “norms”

- ▶ Evolution
- ▶ Copying “best practice” from other societies
- ▶ Mechanism design based on theory and past experience

# Challenges for reformers

- ▶ Existing arrangements are “an equilibrium” in the sense of Nash – everyone is best responding to everyone else
- ▶ Existing arrangements were set up because influential people wanted them and probably still do

# Three contemporary challenges

- ▶ Schooling-career-labor market frictions and imperfections
- ▶ Competition policy and firm exit and entry
- ▶ Fostering and adjusting to “creative destruction” associated with technical change

# Labor Market Reforms

- ▶ Key tension: incentives versus insurance
  - ▶ I Financing higher education with student loans
  - ▶ Unemployment insurance
- ▶ Temptation: to use minimum wages rather than taxes and transfers to redistribute income

# Labor markets and schooling

- ▶ Gerhard Schoeder and Hartz reforms in German
- ▶ Denmark, UK, Sweden, Spain
- ▶ China and Deng Xiaopeng



# Big Firms and “Trust Busting”

- ▶ Reasons for big firms?
  - ▶ Level playing field in capital markets?
  - ▶ Fair treatment of share holders in pyramid-like holding company structures?
  - ▶ Does control mirror ownership structure?
- ▶ Regulation
  - ▶ George Stigler and “regulatory capture”

# Cross-country observations

- ▶ Cartels versus holding companies
- ▶ Capital market collisions
- ▶ Regulators as enforcers of cartels

# Firms exit and entry

- ▶ Relation to job creation and destruction – labor market experiences
- ▶ Secular decline in small firm creation in the US
- ▶ Relationship to rising “skill premium”?

# Innovation

- ▶ Unpredictability (Poincare and Faraday)
- ▶ Challenges for income distribution
- ▶ Patents as promoter of innovation or inappropriate protection of monopolies?

# Innovation Infrastructure:

## How society can accelerate the innovation process

- ▶ (Supply side:) What technical-academic disciplines generated past innovations and give us hints about the infrastructure that will foster new ideas, new technologies that implement them, and new manufacturers that make them?
- ▶ (Demand side:) What economic activities promote invention and innovation?

# How society can accelerate the innovation process

▶ (Supply side:) What technical-academic disciplines generated past innovations and give us hints about the infrastructure that will foster new ideas, new technologies that implement them, and new manufacturers that make them?

▶ mathematics, physics, biology

▶ (Demand side:) What economic activities promote invention and innovation?

▶ Trade – within and across political borders

# Connections

- ▶ between ideas
- ▶ between traders, teachers, researchers

# Connections

- ▶ between ideas
  - ▶ Big data and AI: math, physics, statistics, computer science, brain science, ...
- ▶ between traders, teachers, researchers
  - ▶ Traders: markets and conferences
  - ▶ Researchers, teachers: conferences, internet, critical mass



# What we should expect from governments

- ▶ Framework and rules of game and enforcement
- ▶ Stable and predictable policies
- ▶ Minimal distortions of price signals and impairment of incentives