

Referee Report 1

This paper aims at estimating a relationship between price markup and coordination in wage bargaining on a panel of 15 OECD countries. The authors find that consumer prices are 21 percent higher in coordinated countries compared with uncoordinated due to the impact of coordination on price-markup only. The authors claim that this effect, combined with the implications of coordination in terms of lower wages, may explain why some papers in the literature do not find any clear effect of coordination on unemployment.

Here are my comments and concerns about the paper.

1. The authors start from the proposition that real wages decrease monotonically as coordination increases, while unemployment does not, as its relationship with coordination is instead hump-shaped. These previous findings in the literature can be reconciled through the story outlined in figure 1, where coordination has a separate impact on wage and price setting. It follows that lower coordination increase real wages with an ambiguous effect on unemployment. From the authors' point of view, the objective of the paper should then be twofold: on the one hand provide solid theoretical argumentation in favour of coordination in wage bargaining having a separate (i.e. different from the direct effect on the wage setting equation) effect on the price-setting equation, and provide some empirical evidence in favour of this hypothesis. I am not sure the authors manage to comply with these objectives, and some of the premises looks also not so clear-cut.
2. For example, the literature does not clearly imply that the effect of coordination on real wages is monotonic. Even Nunziata (2005) does not provide such clear-cut statement.
3. In addition, when arguing in favour of a separate effect of coordination on price setting (page 4), the authors do not provide a clear and convincing argument. Indeed (first argument) one thing is passing rises in wages to rises in prices, another is a separate effect on markup. The former can take place even when the markup is unchanged. By the way, why higher coordination should increase wages? Shouldn't it be the opposite? The second argument starts from intriguing premises but fails to clarify why coordination should separately affect price setting. Similarly goes the third argument.
4. There is a literature on the relationship between wage bargaining settings and inflation, part of which has been quoted only in a few notes by the authors. I think the authors should instead position their paper more clearly with respect to this literature, which seems to be relevant given the topic of the paper.
5. Why considering only 15 OECD countries in the empirical analysis? How have these 15 been chosen? The authors do not clearly explain that.
6. The idea here should be to estimate an effect of coordination on mark up pricing, not consumer prices, as the latter effect may be due only to a pass through from wages to prices (see literature on inflation mentioned above).

7. Odd argumentation when discussing homogeneous coefficients at page 16. First, one could assume a dynamic specification where coefficients are homogeneous in the long run only. Second, saying that the estimator of the pooled model has little bias because it is in line with previous estimated price equations is not a good enough econometric argument. The estimates could be biased in both the paper and previous literature, especially if in both cases they rely on homogeneous coefficients.
8. In addition to testing for non-spherical errors the author should include robust standard errors in all specifications.
9. Standard errors in unit roots tests should be calculated through bootstrapping.
10. I am a bit confused about what coordination means here. As far as I am aware of, these indicators measure coordination among bargaining actors, i.e. including employers as well as unions. However, from reading the paper one has the impression the authors refer to coordination among unions only, which tells a completely different story.
11. DWH tests on endogeneity of labour costs and price of imports are based on a choice of instruments which is questionable, at best. I find it quite hard to sell that the instruments used in the tests (i.e. lags) are exogenous, and therefore the tests make no sense.
12. Similarly, the estimates on table 3 relying on the exogeneity of the variables mentioned above are not reliable, and the IV regression adopts a set of instruments which are very difficult to justify as exogenous on economic and econometric grounds. I do not think that a Sargan test, which is likely to be very unstable anyway, is sufficient to say that lags of π , ulc and other variables are exogenous indeed.
13. The sensitivity analysis on outliers should disclose more information about the marginal effects of introducing impulse dummies.
14. The introduction contains various typos and the logic of the authors' arguments are not clearly stated.
15. The comments on figure 1 are also quite disorganized and not very easy to follow.