

Abstract

The paper examines the effects of endogenously determined labor-market policies on labor market outcomes within a frictional labor market. The policymaker maximizes a social welfare function defined over the present value of worker values and firm values. The labor market features search and matching frictions. The paper explores how asymmetries in policy objectives and in wage bargaining, as well as the degree of frictions, affect labor-market policies and the ensuing outcomes. The paper undertakes a quantitative analysis, implemented for the U.S. It emerges that workers have little power relative to firms in the determination of policy and of wages.

Key Words: policy, labor market, policymaker preferences, frictions, worker value, firm value.

JEL Codes: E24, E61, J64, J68