

Comments for slides

1. Motivation: No Adjustment, No Gain

Labor market example. If demand goes up, wages and employment can only increase if markets adjust (also valid for losses, if no adjustment, no losses)

2. A Quick Example: Argentina

The paper by Marion Jansen has lots of examples of estimates of adjustment costs. But I wanted to share some results from a paper we are currently working on, because this will help me later on to discuss the issues that I want to highlight

It's a dynamic structural model of supply and demand for labor in the Argentine economy. Firms maximize profits facing costly factor adjustment. Workers maximize utility; can move across sectors at a cost (as in Artuc, Chaudhuri, and McLaren).

3. Evolution of Wages: Food & Beverages

Blue line: path of wages in F&B following a decline in tariff protection. Wages decline sharply first and then recover partially.

Red line: path of wages in F&B following a decline in tariff protection and factor adjustment costs (in labor and capital) are half of what we estimate in the data. Wages recover much faster and actually increase beyond the initial steady state level.

Green line: new steady state. This is why wages increase in the red line → lower costs "improve" the steady state (relate this to Marion point that sometimes the presence of adjustment costs can affect the steady state of the economy)

REST of Slides

The rest I think is self-explanatory. We care about the welfare costs of costly factor adjustment. Marion provides lots of examples. But, for analysis, we need to think about why it is costly for factors to reallocate. And, for policy, we need to think about the sources of the sources.

What I mean is, for instance, that there are trade adjustment costs if there are capital and labor adjustment costs. Labor AC can arise because of labor mobility costs, sector-specific experience, firing and hiring costs, or market frictions. The "ultimate" reason are, however, labor market flexibility, regulations, unions, taxes, and so on.

The same with capital. It is costly to adjust capital because firms need to invest in product lines, machines and equipment and entrants must incur significant startup costs. Underneath this, we have distortions, imperfect capital markets, credit markets, risk, etc.