

Discussion session: “Heterogeneous Effects of Economic Shocks on Labor Markets”

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Economic shocks and labor dynamics

- Determinants of labor dynamics in response to economic shocks:
 - The nature of the shock:
 - External or domestic
 - Nature of the shock: financial shock/trade shock
 - Openness and integration
 - Labor markets frictions
 - Financial markets frictions
 - Macroeconomic policy frameworks

Openness and labor dynamics (Gamberoni et al 2010)

- Deeper integration into the world economy leads to a deeper and faster initial slowdown of employment growth.
- Particularly, if crises are domestic
- But also to faster and sharper recovery...
- Protectionist policies bad advice.
- But higher volatility from trade integration calls for better social protection.

Economic integration and labor dynamics (Kaplan et al 2010)

- Imports appear to be complements to labor in Northern Mexico consistent with outsourcing patterns.
- A significant portion of hiring decisions tends to occur prior to the realization of exports.
- Most of the adjustment to trade shocks in Northern Mexico seems to have taken place through adjustment in employment rather than to changes in wages.

Economic integration and labor dynamics (Kaplan et al 2010)

- Short-run positive (negative) shocks are associated with skill downgrading (upgrading) of the employed labor force.
- The composition of the employed labor force changes significantly while wages of workers who did not lose their jobs remained relatively unchanged.
- Related-industry trade shocks appear to be significant determinants of employment.

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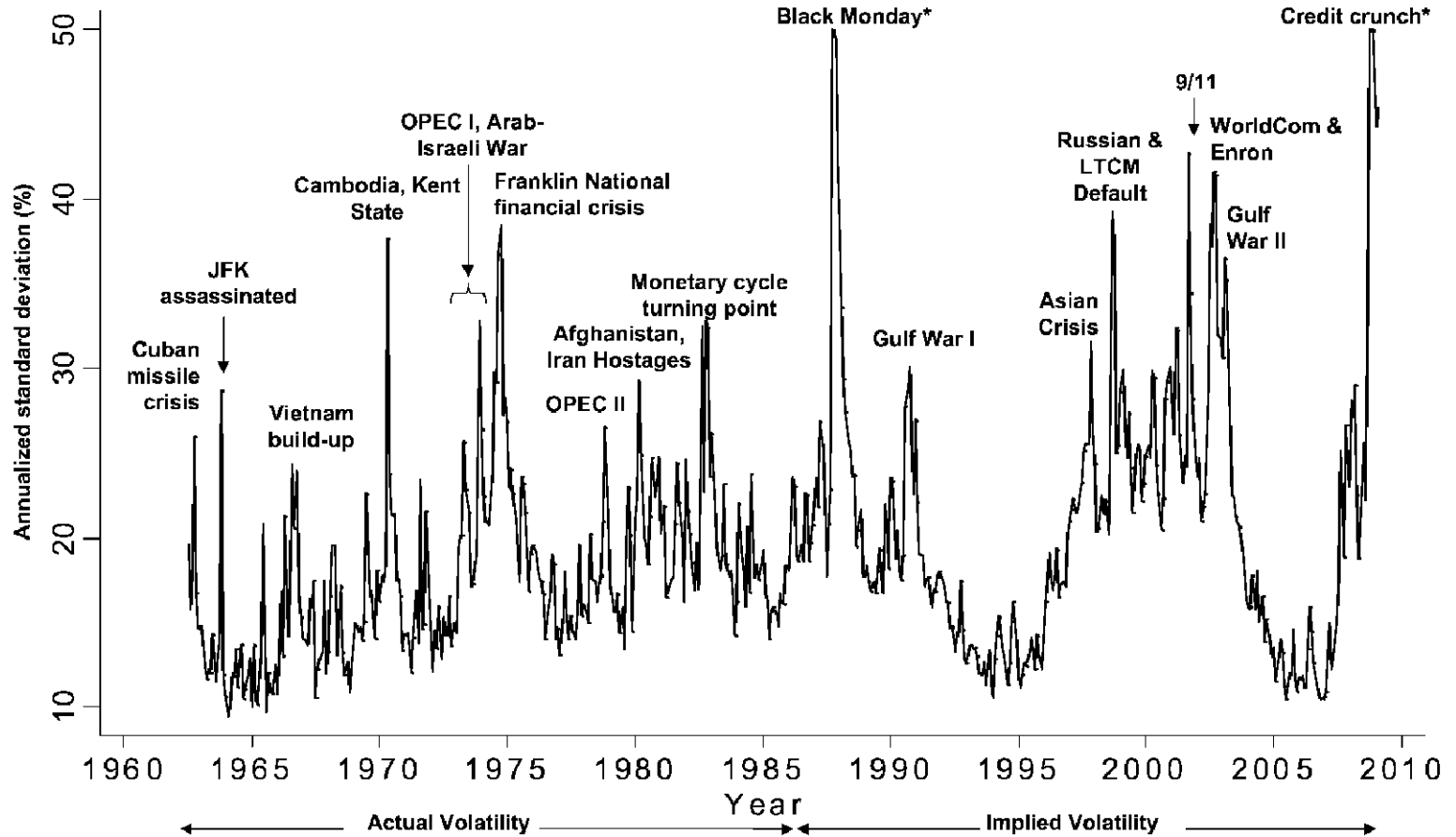
Labor market frictions and labor dynamics (Gamberoni et al 2010)

- High severance payments seems to have been effective in encouraging companies to adjust to crisis through means other than lay-offs.
 - Schemes designed to make firms willing to keep workers despite lower demand.
- Potential trade-off between maintaining high unemployment benefits and the goal to minimize employment losses during a crisis.
 - The relationship between unemployment benefits and employment during crises seems to be non-linear with potentially negative effects on driven by countries with the highest unemployment benefits in the sample.

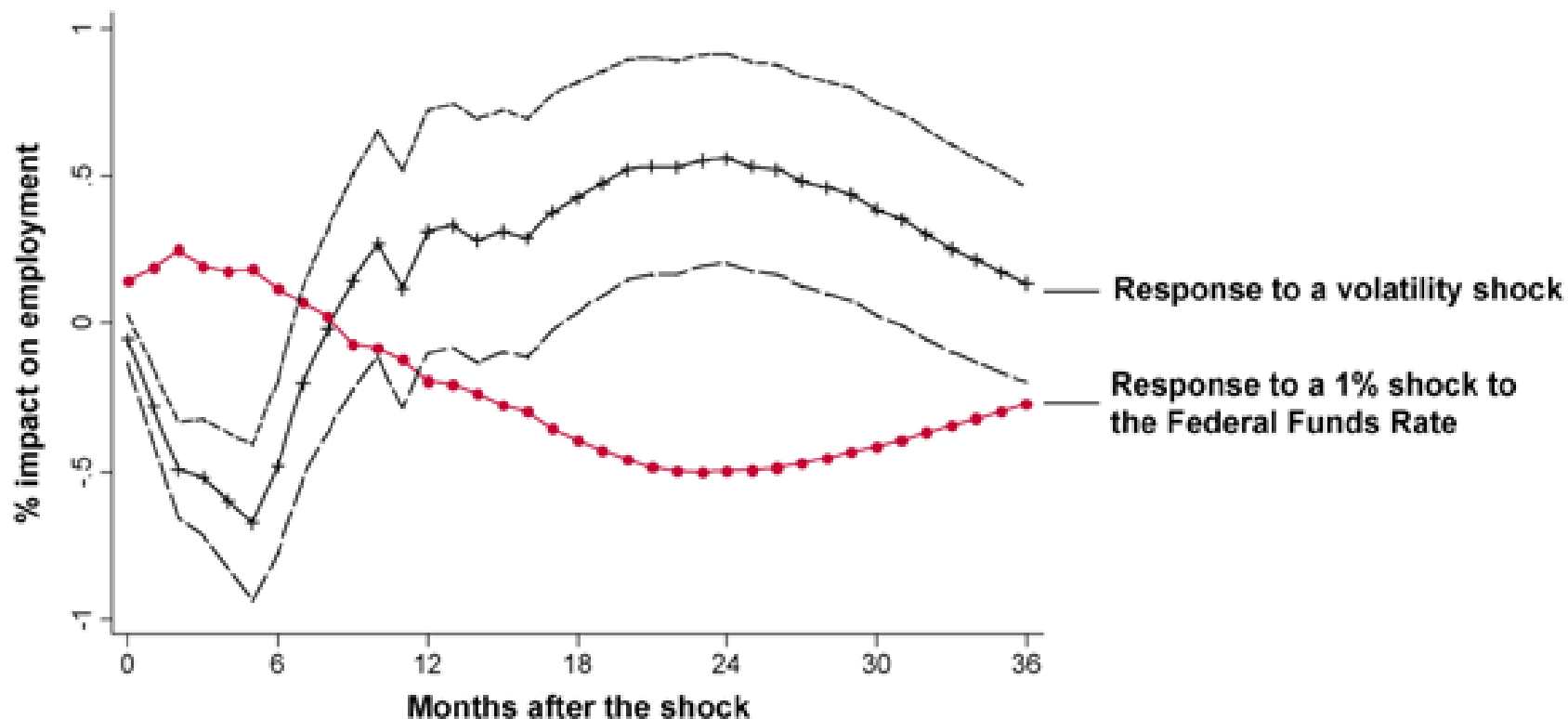
Labor market frictions and labor dynamics (Messina and Sanz-de-Galdeano 2011)

- There is substantial evidence of wage rigidity, either in the form of resistance to nominal wage cuts or in the form of wage indexation.
- The nature of wage rigidity is quite different in Brazil and Uruguay
- The nature of wage rigidities changes dramatically in response to changes in the macro and policy environment:
 - Uruguay from downward real wage rigidity into nominal wage rigidity.
 - IT changed focal point of wage negotiations.

Uncertainty



Uncertainty and labor markets



Real devaluation and monetary policy

Figura 12: Tipo de Cambio Real

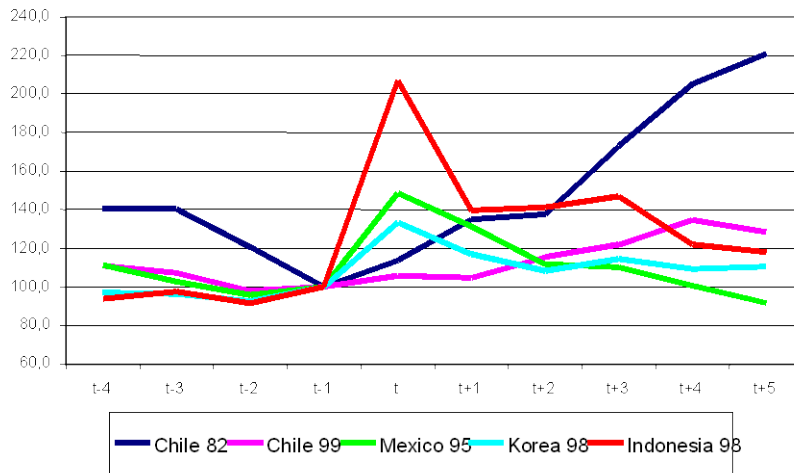
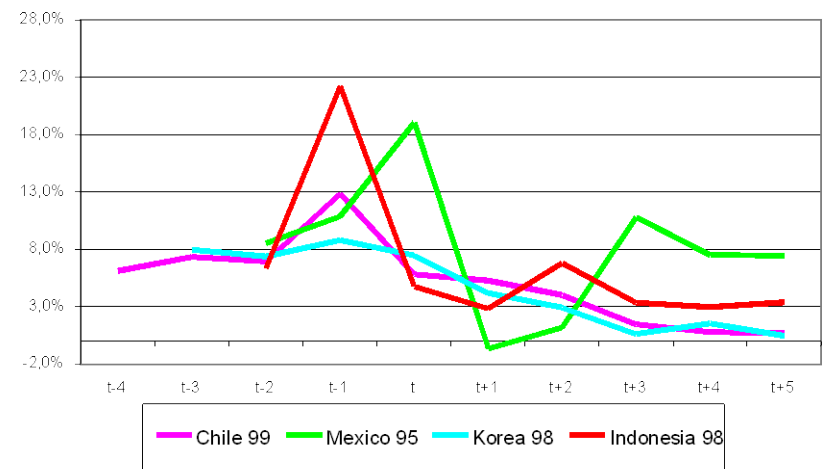


Figura 13: Tasas de Interés Real



Wage adjustment and labor dynamics

Figura 8: Crecimiento del PIB

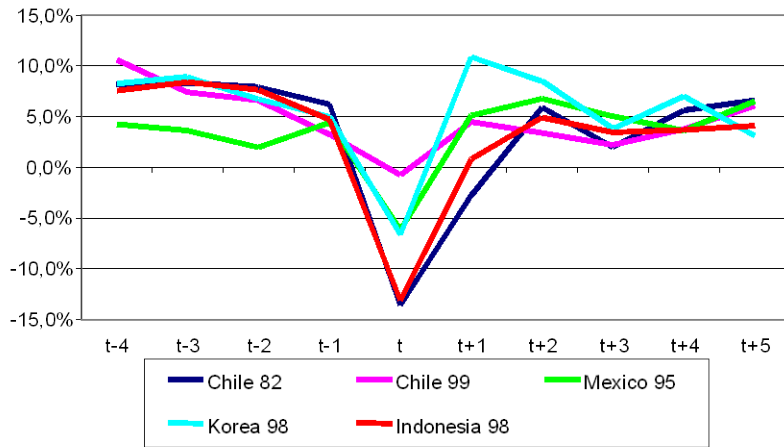


Figura 9: Crecimiento del PIB Socios Comerciales

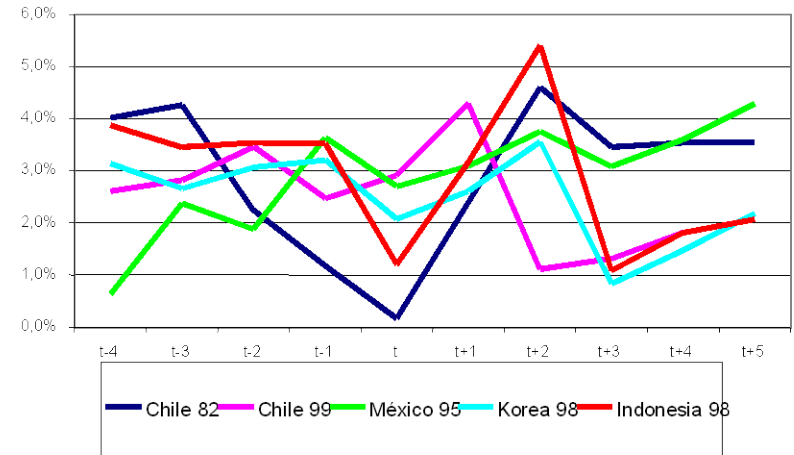


Figura 10: Evolución del Desempleo

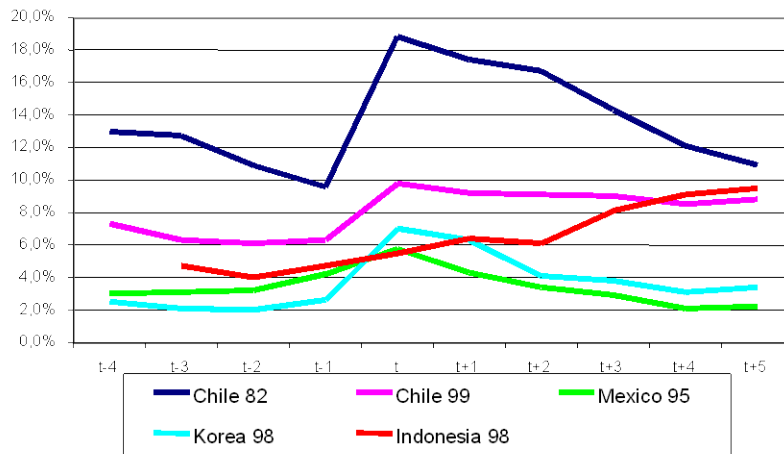
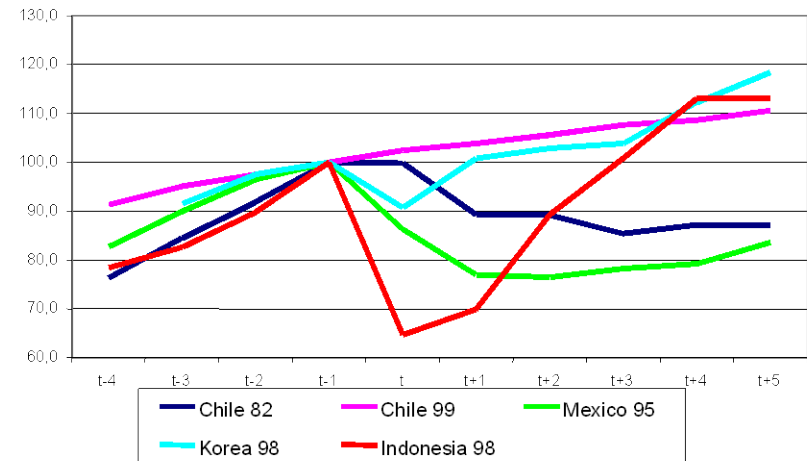


Figura 11: Salarios Reales



Financial frictions and labor markets

- Interaction between financial frictions and labor frictions:
 - Output in sectors with higher external financing needs contract relatively more during sudden-stops episodes.
 - Sudden stops are periods during which job creation decreases and job destruction increases.
 - Evidence that the negative effect of sudden stops on job creation is stronger in sectors with stronger dependence on external finance.
 - Similarly, the effects of sudden stops on job destruction are stronger in sectors with higher indicators of financial needs

The role of the macroeconomic policy framework

- Exchange rate flexibility:
 - Changes in relative prices required facing negative external shocks.
- Credibility of monetary policy:
 - Inflation targets (expectations) as focal points in wage negotiations and indexation.
 - Pass-through of nominal devaluations.
- Counter cyclical policy of macroeconomic policy.

Final comments

- Great papers.
- Highlight the need and importance of more micro work on labor dynamics:
 - Characteristics of the sectors that are hiring and firing during economic turbulence times:
 - Leverage?
 - Capital or labor intensive?
- Key for policy design.