

# 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)

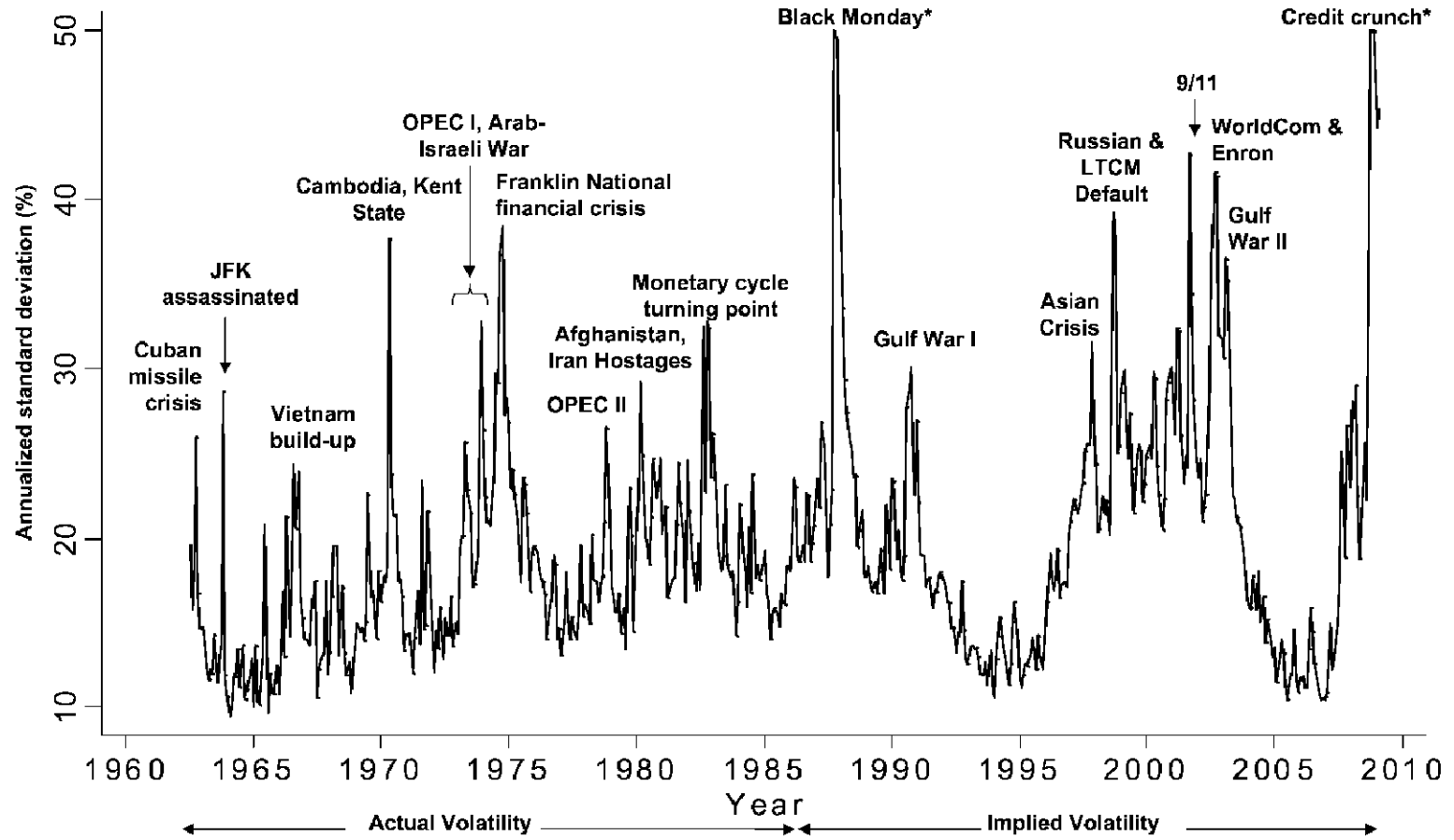
- High severance payments seems to have been effective in encouraging companies to adjust to crisis through means other than lay-offs.
  - Schemes designed to make firms willing to keep workers despite lower demand.
- Potential trade-off between maintaining high unemployment benefits and the goal to 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)

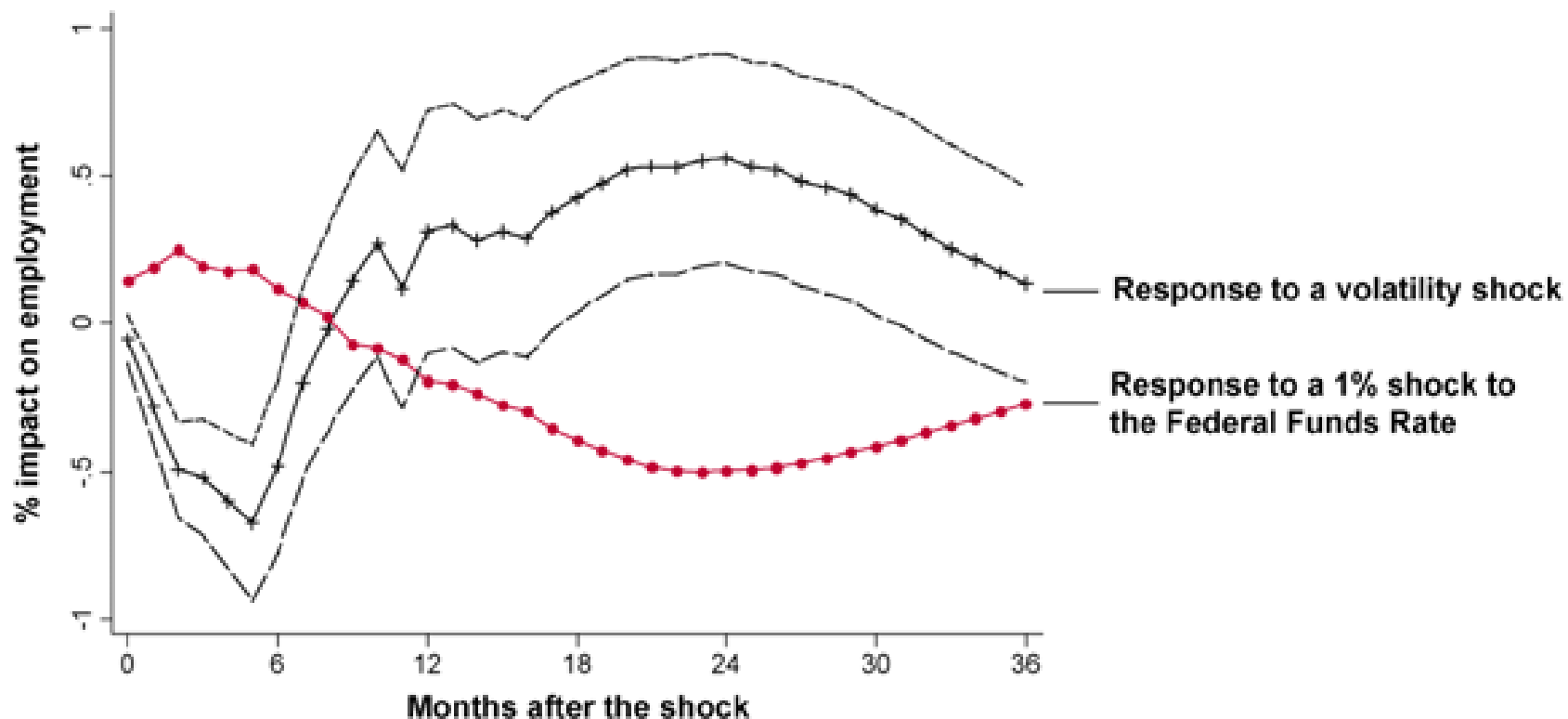
- There is substantial evidence of wage rigidity, either in the form of resistance to nominal wage cuts or in the form of wage indexation.
- The nature of wage rigidity is quite different in Brazil and Uruguay
- The nature of wage rigidities changes dramatically in response to changes in the macro and 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

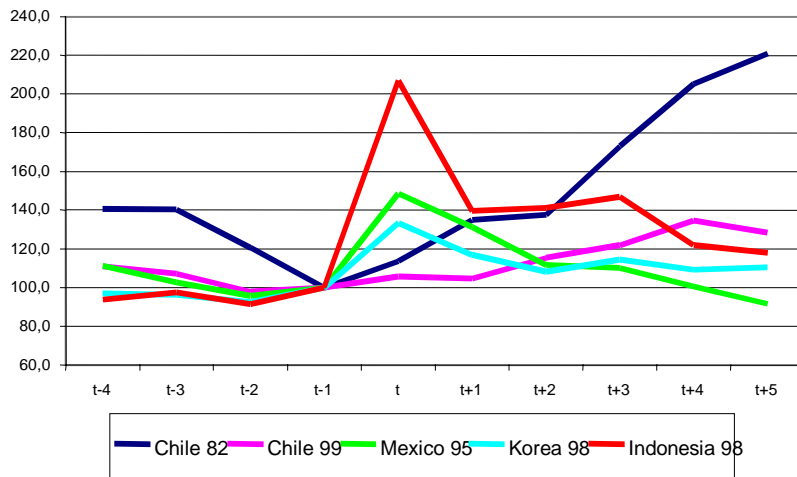
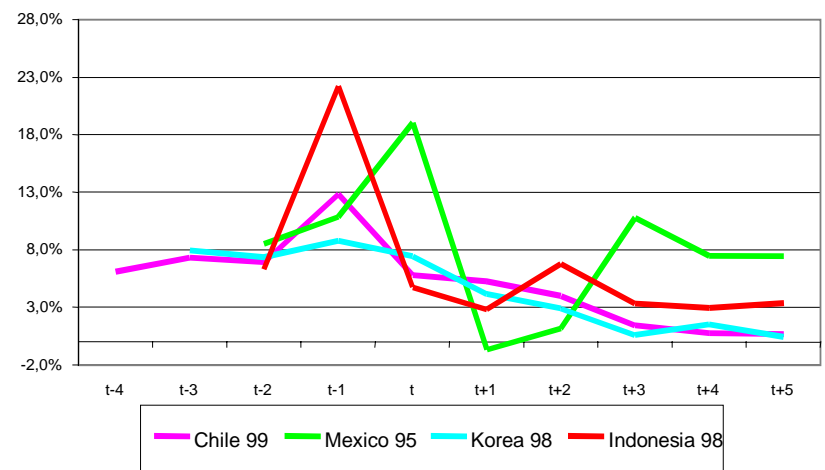


Figura 13: Tasas de Interés Real



# Wage adjustment and labor dynamics

Figura 8: Crecimiento del PIB

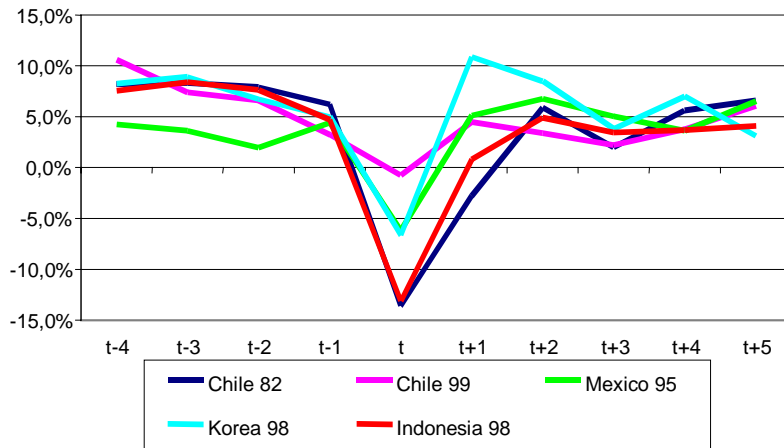


Figura 9: Crecimiento del PIB Socios Comerciales

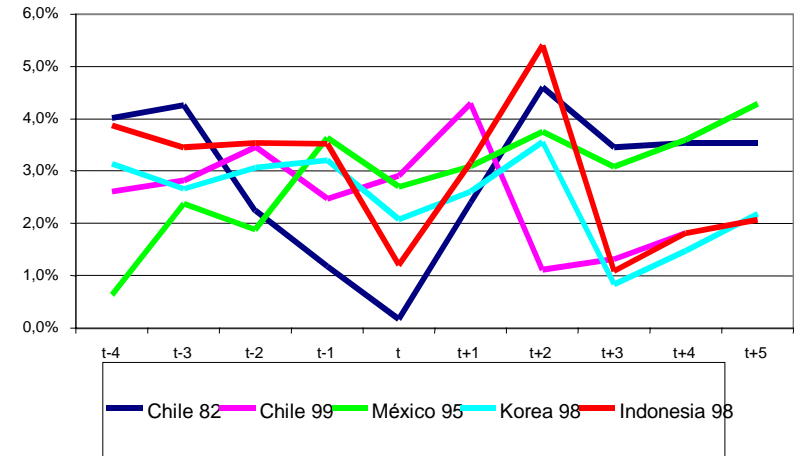


Figura 10: Evolución del Desempleo

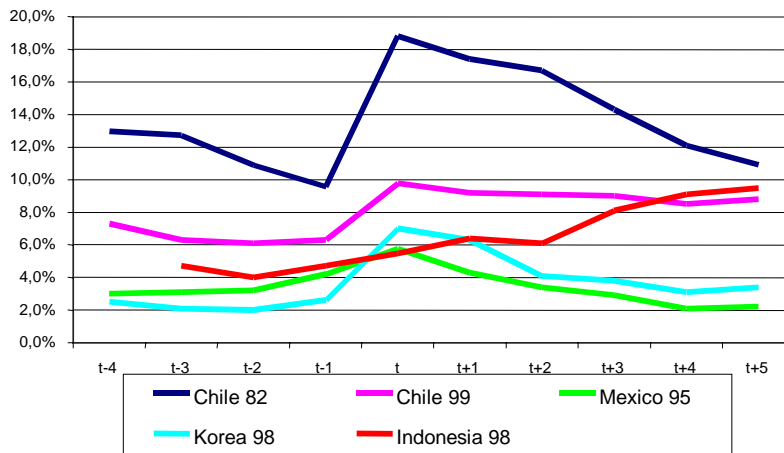
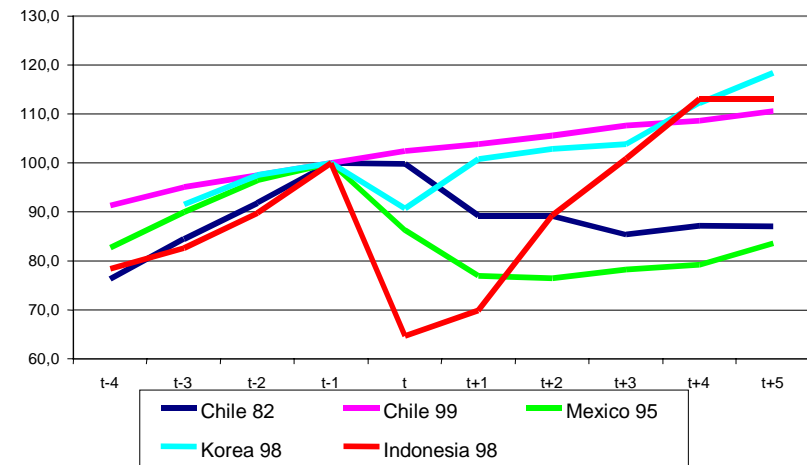


Figura 11: Salarios Reales



# 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 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.