Catastrophic Job Destruction

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Discussant: **Stefan Hochguertel** (VU Amsterdam)

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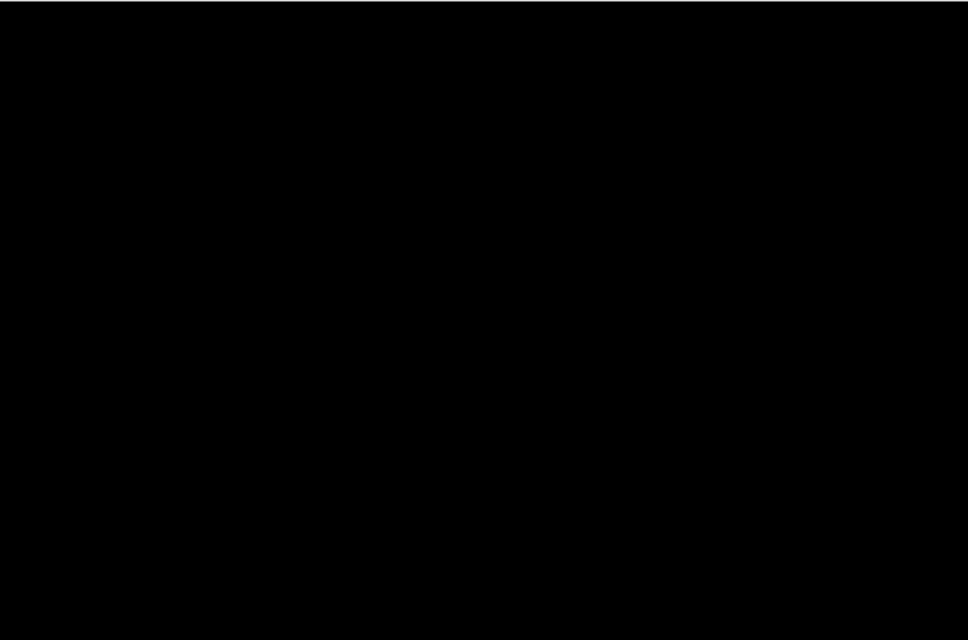
Portugal according to the authors



Summary

- Analyze how Portuguese economy (employment) responded to the 'great recession' shock
- Initial conditions Portugal, pre-crisis
  - substantial macroeconomic imbalances
  - structural and persistent labor market (wage and employment) rigidities
- employment loss due to firm closure and downsizing dominating firm birth & growth
- three channels to affect job shedding
  1. credit constraints (bank lending)
  2. nominal wage rigidity absent inflationary pressure
  3. labor mkt segmentation (fixed term contracts)
- finds: all three contribute; characterizes job destruction as 'catastrophic'

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Main Assessment

- very interesting, topical and relevant paper
- delivers insightful descriptives
- great potential to illuminate pertinent macroeconomic channels
- uses comprehensive micro panel data
- empirical exercise rather transparent
- forthcoming *J Macro E*
- however:
  - no discussion of credibility and robustness of estimates
  - focus unclear—understanding labor market institutions, or macro dis/equilibrium aspects, or credit transmission?
  - conclusion: which effect dominates?

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Main Suggestions

- briefly characterize the state of the economy
- qualify 'catastrophic' nature of the shock, place in context of
    - size of the labor market
    - historical experiences/previous crises
    - other countries
- document and discuss macroeconomic policy changes that have been implemented
- give some model-guided advice on what policies might work and why
- distinguish short-term developments from long-term prospects
- interpretation: low reslience or regime shift accompanied with massive reallocation of resources?

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- *Quadros de Pessoal* [QP]: employer/employee linked workforce + labor contract records, 1985-2010, universe [?] of employees, size: 3m/350k firms p.a.
- *Informação Empresarial Simplificada* [IES]: financial data, 2005-2011, universe [?] of firms, size: 350k firms p.a.
- unique possibility to account for heteregeneity

Channel 1: Credit
Intensive Margin of Adjustment

Estimate net job creation (NJC) on IES data

$$
\begin{aligned}
NJC_{ft} &= \alpha_0 + \alpha_1 \ln(sales_{ft}) + \alpha_2 \ln(wages_{ft}) + \alpha_3 \ln(capital_{ft}) \\
&+ \alpha_4 \ln(TFP_{ft}) + \alpha_5 \ln(debt_{ft}) + \delta_t + \xi_t \frac{ttl\ fin\ cost_{ft}}{debt_{ft}} + \epsilon_{ft}
\end{aligned}
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- What underlying economic model rationalizes this equation?
- Why regress values $t-1$ ($NJC_t = \#Jobs_t - \#Jobs_{t-1}$) on values t?
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- alt: firm fixed effects?
- Public sector firms included? $\rightarrow$ lower bound?
- Difficult to disentangle demand and supply on credit market access without exogenous variation and without direct measurement of credit volume (flow concept)
- More direct evidence: how may firms have felt worsening credit access? Rationing/rejection of applications? Change in debt-to-capital ratios?
- Interpretation of high interest rates?

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Further discussion

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Channel 2: Rigid Wages

- Use QP data (longer)
- Similar exercise, also split into hires and separations
- Policy instruments minimum wage / wage freeze appear not to prevent lay-offs nor exits
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- In how far is incidence of minimum wages and wage freezes a response to the shock?

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Channel 3: Labor Mkt Segmentation

- Use again QP data
- nice: distinguish positive and negative workforce adjustment, by year
- nice: distinguish fixed-term and open-end contracts, as well as hires and separations
- Definitional issues? (i.e., does 'fixed' exclude those working with temp agencies?)

Channels not discussed

- Role of (informal) trade credit as substitute for bank credit?
- Adjustment in contract hours? (full-time $\rightarrow$ part-time?)
- Role of self-employment (20-25% of LF)
- Role of emigration/brain drain

Outlook?

Paper whets appetite for more

- Analysis of causal effect of changes in credit market conditions/regulation on firm behavior along the intensive margin
- Deeper understanding on how labor market institutions work
- Document distributional aspects of job loss (women? older workers?)
- What policy changes have been effected already and might they lead the country in the right direction? [Pic: EPL]