Earnings Inequality and the Minimum Wage: Evidence from Brazil

by

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Discussion:

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Summary

Objectives/Contribution

New theoretical framework and evidence on **minimum wage as driver of declining wage inequality** in Brazil

- Evidence on trends disentangling variance of total earnings in variance of firm and workers fixed effects (based on AKM 1999)
  - Addition vis a vis Alvarez et al. (2015): Authors regress firm fixed effects on value added and workers fixed effects on age and education.
- Equilibrium search model with heterogeneous worker ability and firm productivity
- Model calibration
- Policy experiment with the model
- Supporting evidence

Contribution

Theoretical approach

- Workers are paid differently depending on where they work.
- Assumes labor market frictions impeding reallocation across firms.
- Firms have monopsony power over workers.
- Workers move to better paying employers by climbing “job ladder”.
- Labor markets are separate by workers’ ability groups.
- Firms are characterized by a constant productivity level.

Empirical approach

- Document key facts on wage inequality decline in Brazil.
- Show that the model is consistent with these facts.
- Infer effect of minimum wage policy on inequality.
- Show supportive evidence using data that covers informal employment.

Main Finding

- Estimates using the model fit the 3 highlighted stylized facts.
- The minimum wage explains 70% of the observed decline in wage inequality.

Overall impression

Very interesting work

- Important policy question
- Very complete paper
- New evidence for a developing country using rich/detailed data for recent years
- Is in strike contrast with recent findings for developed countries.
- Explores interesting interactions with firm heterogeneity

Comments/suggestions

1. Clarify scope

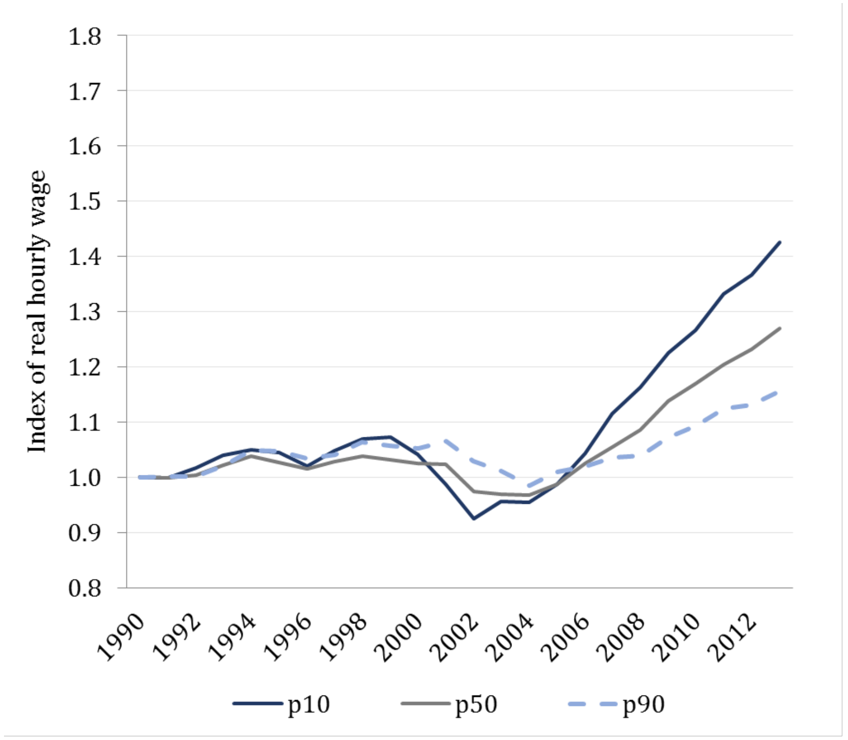
- In Brazil and LAC the decline in wage inequality during the 2000s was driven by fast wage growth at the bottom.

- But this paper misses the bottom of the wage distribution.

- Data covers only formal workers in large firms in Brazil.

- Few from the very bottom of the distribution make it to formal LM (17% in 2013).

Index of Real Hourly Wages, 10th, 50th, and 90th Percentiles, 1990–2012



Hence, the paper assesses the extent to which the rise in the minimum wage drove the fall in wage inequality <u>among formal workers of large firms in Brazil</u>.

Comments/suggestions

2. Models workers as being either unemployed or formally employed, missing informal employment and cross-wage elasticity between formal and informal sectors

- Large part of the workforce became formal during the period when the minimum wage increased.
- Meghir et al. (2015) show that the existence of an informal sector has important implications for labor market dynamics
- Gerard and Gonzaga (2015) show that in Brazil there are important Formal/Informal dynamics around unemployment benefits
- Would be interesting to understand better the interplay in your model of a formal sector (where min wage is binding) and an informal sector (where min wage is not binding).
- Few unskilled are unemployed, they are working in the informal sector and have to be paid more to move.
- Plus incumbent versus new entrants dynamics.

Comments/suggestions

3. Mark-up adjustments by firms

- Firms can adjust prices of final goods in response to cost increase
- Could this dimension be considered?
- Did firms where minimum wage increased more than productivity really exited? Did they adjust significantly the composition of their labor force? Or did they simply adjust mark-ups in a context of booming demand?
- Was it the minimum wage that drove the wage premium down, or did demand dynamics create the space for the minimum wage to increase with limited quantity adjustments?

Comments/suggestions

4. Could productivity vary endogenously with changes in labor force composition?

- In your model, each's firm productivity if fixed
- There are two ways to see the changes in wage-productivity gradient:
    1. Min wage increased too much
    2. Productivity increased too little
- Could there be feedback effects from changes in labor force composition induced by higher min wage on productivity?
- Is a static model appropriate for a country characterized by remarkably low job duration

5. All extensions you mention seem worth pursuing

- Adding informal sector
- Consider other labor market policies such as unemployment insurance

Comments/suggestions

6. Refine supportive evidence using PNAD

- Analysis based in 2 sets of results:
  - Inequality declined less among informal workers. 4 comments:
    - Definition of informality, formal share in table 1 using PNAD of 73% is high vis a vis other studies.
    - Are you restricting to full time workers?
    - Inconsistent with Fact 1 (bigger fall in the bottom)
    - Minimum wage is not binding in the informal sector in Brazil.

- Sectors and regions that started out at lower average earnings levels experienced more pronounced declines in inequality. 2 comments:
    - Why is this in line with the minimum wage having disproportionate effects in those parts of the economy where it is more binding?
    - Should you check instead whether regions where large share of workers are around the minimum wage had larger effects? Also 5 regions is a rather small sample.

Comments

VERY INTERESTING, THANK YOU