First Annual Workshop of ESCB Research Cluster 2
"Medium- and long-run challenges for Europe"
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Discussion of:

"Shocks and labour cost adjustment: Evidence from a survey of European firms"

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All viewpoints personal!

Overall

Super interesting and well aligned with workshop
- "Medium- and long-run challenges for Europe" → adjustment to shocks ☺
- Central issue in (short- and medium-term) macroeconomics
  - Evidence from micro

Earlier survey papers (wages, prices) successful
- Here: <u>labour costs</u> adjustment → employment, hours, wages

Results reasonable and intuitive results ☺
… but almost detectable from macro data

"Luckily" with a few surprises ☺
- Demand ↓ ⇒ permanent empl. ↓↓, temporary empl. ↓ (pooled sample)
- Availabilities of supplies ↓ ⇒ wages ↓ in HU, IE (primary adjustment)
- Positive shocks ⇒ wages main adjustment channel (pooled sample)

Work-in-progress / relatively "raw" paper ⇒ if you have a few hours…
- Maybe prioritise readability over exhaustiveness

Abstract

Long
- … but mainly about theoretical model
- … which is not very central to paper

1. Introduction

Short → about WDN and adjustment strategies

- Motivation / introduction?
- Contribution to science? ← Fabiani *et al.* (2015) (some on p. 9)

2. The dynamics of aggregate real labour costs

Dynamics of employment, hours and wages (Eurostat)
- EU25 aggregate ← Fig. 1
- Each EU25 country ← Fig. 2 hard to read!
  - Much cross-country variation

What about adjustment via productivity? (found to be important in earlier studies)

3. Shocks and adjustment: literature review

Learned a lot ☺

Adjustment
- Type of shock
- Size of shock
- "Sign" of shock
- Institutional framework

Many different labour costs adjustments → employment, hours, wages

What about "general equilibrium" effects?

→

Correlation between shocks of individual firm and other firms
- E.g.: demand ↑ ⇒ desired employment ↑ (but wage ↑ because demand ↑ in other firms)

NB: identification problems ("equilibrium outcomes" observed) may also affect empirical analyses (actually alluded to in Subsection 7.2)

4. Theoretical framework

Adjustment margin ~ costs

"Research gap" in theoretical literature?
- References?

Not all the adjustment margins of the empirical analyses modelled

Partial equilibrium & only labour market adjustments considered
- Demand ↑ → why not increase product price?
- Demand ↓ → profits > 0 / DRS

Static → "adjustment" often discussed in dynamic terms in empirical analyses

5. Data, firm-level and macrostatistics

Representativeness? ☺

Difficult to get a feel for / understanding of survey without reading Isquierdo *et al.* (2017)

→

"Section 3": firms' labour cost adjustments

Figure 3
- Average survey changes in employment, hours and wages vs. macro changes ☺
- Hard to read: small font, two colours, swarms of country ids, many graphs
- Why not same scale on axes? ← average survey changes in employment, hours and wages much larger than macro data

Figure 4 ☺
- Positive correlations between survey shocks and GDP changes

6. Descriptive results from the WDN survey

Figures 5-8 ➔ ☺, but need some clean up 😐

Two results
- Neg. shocks ↑↑ for base wage ↓ (downward rigidity) ☺
- Slope of permanent employment > slope of temporary employment for all types of shocks

7. Econometric analysis

7.1 Methodology

Complicated 3-stages procedure
- Notation and explanations
- References?

7.2 Responses of aggregate employment, hours and wages to <u>negative</u> shocks

ℓ-w-h dominates
ℓ-h-w more prevalent when <u>large</u> negative shocks (maybe not so easy to follow)

Wage adjustment appears to dominate in some countries (IE, HU)

7.3 Responses of aggregate employment, hours and wages to <u>positive</u> shocks

Wages overwhelming adjustment factor → economics?
  →

Demand ↑ ⟹ individual firm adjusts by wage ↑ ← why not first try to meet increased demand, e.g. first ℓ ↑ or h ↑ ?
▪ Discuss → any insights from decompositions in Subsection 7.6

7.4 Decomposing wage adjustments

Large tables 😐
▪ Results as expected, i.e. flex more important than base ☺
▪ … but statistical significance for very few shocks (demand)

7.6 Decomposing employment adjustments

Perm. and temp. equally important **?**
▪ … but statistical significance for very few shocks (demand)

8. Conclusions

Summary ☺

… but possible perspective from earlier work / references / other evidence?

If you have a few hours… (summary)

- Motivation / contribution
  - Focus / prioritisation

- Explain dataset (key questions)

- Explain econometric methodology

- Role of theoretical model → too much, too little?

- Discuss results, cf. literature
  - Adjustment after positive shocks

- Writing / figures