

Staggered Contracts and Unemployment during Recessions

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Purpose

Main research question: The impact of (two sources of) downward nominal wage rigidity in Spain over the last three major recessions (1993, 2008 and 2020) on employment outcomes (displacements)

Sources:

- Collective wage agreements bargained at the province-industry level, which are **“automatically” extended** to all firms in the bargaining unit. These contracts specify wage floors for every job title contained in each contract.

See, for instance, Guimarães, Paulo, Fernando Martins, and Pedro Portugal (2017).” **Upward Nominal Wage Rigidity**,” IZA Discussion Papers 10510, Institute of Labor Economics (IZA)

- **Infrequent bargaining** by looking at the timing of wage bargaining: before or after the onset of the 3 recessions.

Purpose

Additional research questions

- Persistence of job losses (estimate how likely affected workers eventually find a job);
- The role of contract duration on adjustment costs;
- The role of the wage cushion.

Main results

- Wage growth in contracts signed before the 3 recessions are on average between 1 and 2 pp higher than contracts signed afterwards;
- Probability of job loss and of being unemployed in the two years after the first 2 recessions is 1% higher for workers covered by contracts negotiated before the onset of recessions;
- Estimated elasticity of job destruction of 0,77 in 2009-2011: 1% higher wage growth in non-negotiable contracts resulted in 0,77% (high probability of job loss!);
- Job destruction operates mainly through the "separation channel".

UNWR: Impact on the net job creation

	Dependent variables			
	Hiring rate		Separation rate	
	(1)	(2)	(3)	(4)
Implied wage bill growth	-0.049 (0.019)	-0.022 (0.002)	0.206 (0.020)	0.319 (0.002)
Log of firm age	-0.038 (0.002)	-0.034 (0.000)	-0.041 (0.002)	-0.031 (0.000)
Number of obs.	16,551,719			
Contract dummies	-	YES	-	YES
Yearly dummies	YES	YES	YES	YES

UNWR: Impact on the failure rate

Dependent variable: Failure		
	Probit estimates	Marginal effects
Implied wage bill growth	1.969 (0.075)	0.216 (0.008)
Log of firm age	-0.234 (0.007)	-0.026 (0.001)
Number of obs.	17,563,508	
Yearly dummies	YES	

Main results

- The peak of the job destruction rates occur 1,5 years after the shock (adjustment cost involved in dismissals, duality, ...);
- The probability of staying unemployed is higher for workers that had open-ended contracts (higher severance payments,..);
- The impact is higher for workers whose wages are closer to the wage floors; the presence of a wage cushion mitigates the impact

Cardoso, Ana Rute, and Pedro Portugal (2005). "Contractual Wages and the Wage Cushion under Different Bargaining Settings," *Journal of Labor Economics*, University of Chicago Press, vol. 23(4), pages 875-902, October

Some additional clarifying questions

- Did you try to estimate the impact of these sources of wage rigidity on the failure rate? (how much of the job losses are due to shutdowns)
- Did you try to control for firm size and age?
- How did you get information on the wage floors? (10 skill levels by contract? How many job titles has a typical contract in Spain? Wage growth differentiation for each negotiated contract?)
- How difficult is it to renegotiate a wage contract in Spain? How difficult is it to opt-out from a contract after the 2012/2013 reforms?
- How automatic are contract extensions in Spain? Has the representativeness criteria been the same since 1984? If so, how binding are these criteria?