Discussion Session 1
The Wage Dynamics Survey

Gregory Verdugo
Université Paris 1
Firm adjustment during the crisis: evidence from the ESCB-WDN

• Disclosure: I was a part of the task force for the WDN 3 so not really an outsider’s point of view
• Often problem in comparisons across countries is lack of homogenous data at the micro level
• Lot of progress has been made for household surveys with European LFS, ECHP, SILC, etc
• More limited evidence on firms’ adjustments
• WDN very useful in that dimension
• Of course common problem with cross-country surveys is lack of homogeneity of data
  – Here common questionnaire but...
  – Different collection methods (email, snail mail, personal interview, etc) which led to dramatically different response rates across countries
  – Hard to assess potential consequences of attrition across countries
• No ideal weighting scheme:
  – What does “total” mean in the table? Weight by population size? (or same weight for LU and FR?)
  – or by number of firms in the sample plus employment size? (so depend on sampling rate)
  – How do (should) you weight cross-country regression? Weighting matters are some countries far from the regression line.
• Effect of labor force on the wage bill: will be hard to get without individual level data
• Maybe results may be hard to interpret
• Conceptual difficulties in finding measures of wage rigidity
Estonia may be an outlier

Percentage of firms that cut wages

- WDN 2007
- WDN 2009
- WDN 2010-2013
Firms also cut wages in Ireland, Croatia and Cyprus

Percentage of firms that cut wages
...but this not really reflected in this measure for CY and IR

Dickens et al (2007) measure of DNWR

DNWR = freeze / (freeze + cut)
UK quite rigid: hard to interpret

Dickens et al (2007) measure of DNWR

DNWR = freeze/(freeze+cut)

Policy recommendation from this graph would be that wages should be more flexible in UK?
How does labour market structure affect the response of economies to shocks?

• How cross-country differences in labour market structure shape response to shocks
• Shocks: financial intermediation, fiscal and external demand shocks
• Wage flexibility, flexibility in hiring and firing, benefits, etc...
• Methods: calibrated small economy model (Jahab and Kony, 2009)
• Calibration based on Estonia, Finland, Spain
• Results: output and unemployment more affected in countries with high turnover rates
Comments

• Use small open economy model:
  – Ok for Estonia (1,3 M inhabitants) or Finland (5,4 millions) but Spain (46,7 M) is much larger and heterogenous
  – Does it matter?

• Choice of countries:
  – Not clear if choice of countries driven by data availability
  – Maybe paper more convincing if either large countries in the sample (FR, IT, SP, DE) or only small countries?
  – Guess very small countries more likely to be specialized in one particular industry and therefore more sensitive to cycles but I might be wrong
Estonia may be an outlier

Percentage of firms that cut wages
• Identification issues:
  – Differences in type of the shocks across countries might make it difficult to interpret differences
  – Shock in construction sector in Spain
  – Policy reactions: strong internal devaluation in Estonia at the beginning of the crisis.
  – How does the model captures differences in policy responses across countries?
• Why the Jakab and Konya (2009) model:
  – advantages, strength with respect to others?
Credit market access and methods to adjusts firms’ workforce: evidence from Europe

- Effect of the crisis on unemployment through external finance
- Look at extensive use of labour but also intensive
- WDN data matched with balanced sheet data
- For IT, isolate causal effect: use “exogenous” measure of credit restriction: liquidity affects employment decisions
- Only slides to prepare comments so most often clarification questions
Comments

• Should underline the value added of WDN in your research
• Information on employment might be available from other sources
• Could replicate the study with firm data on employment and number of hours?
  – maybe less noisy and have quantitative information
• Intensive margin may be difficult to capture in other data so value added may be here
Comments

• Empirical methods: often discretize arbitrarily
  – positive or negative for comp2 in slide 15
  – Dummy=1 if higher than 25pctile

• Not clear why you are doing that?

• Constrain the model substantially

• Makes the reader suspicious of data mining
Endogeneity of credit constraints

• Endogeneity: should be discussed deeper
  – My interpretation: that lack of liquidity correlated with unobserved difficulties of the firm observed by the banker.
  – Not a causal effect of liquidity as liquidity correlated with unobserved shock
  – Experimental ideal: randomly credit constraint some firms (treated group) but not other firms (control group)
Endogeneity of credit constraints

• As far as I understood, use a sort of ‘shift-share’ approach
  – Use initial distribution of debt across banks in 2009
  – Use aggregate growth of loans for each bank to create counterfactual growth in loans

• As always with shift-share approach, based on a set of assumptions
  – Exogeneity of initial distribution with respect to future (unobserved) shocks
  – Ex: local banks or banks specialized in some sectors
  – May be partially testable and can make placebo tests
• Did not really understood the tables so will not comment much the results of this section
• Remark: good practice with ivprobit to also report 2sls results with linear probability model