

Liberalization and Policies to Facilitate Labor Market Adjustment

Discussion

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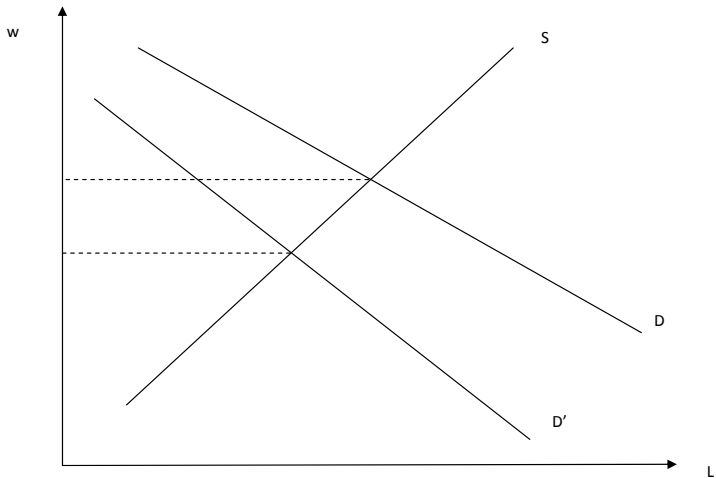
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Discussion on Trade Adjustment Costs

- Marion Jansen: “Adjustment to Trade Liberalization”
- Nanno Mulder: “Trade Openness and Wage Gaps in Chile”
- José Antonio Rodríguez López: “Trade and Occupational Employment in Mexico Since NAFTA”

Motivation: No Adjustment, No Gain



A Quick Example: Argentina

- Bet, Brambilla and Porto (2011): Dynamic structural model (Artuç et al. (AER, 2010) + Cooper et al. (RES, 2006))

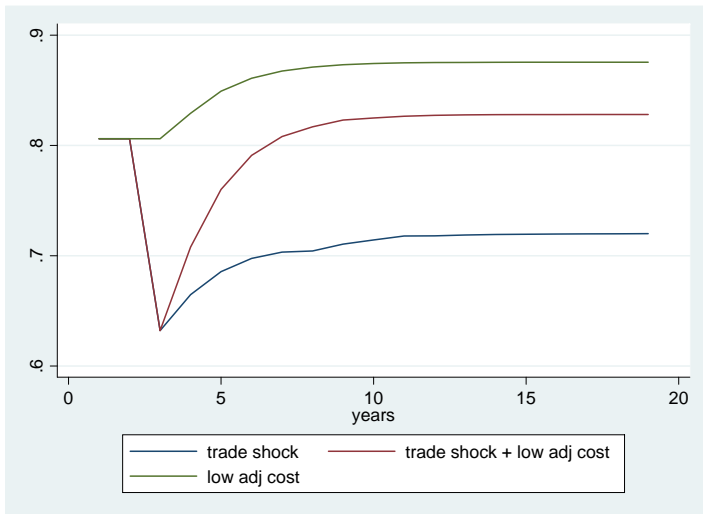
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 - 5 manufacturing sectors + 1 non-tradable
 - Profit maximization with factor adjustment costs (to be discussed)
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 - Dynamic optimization delivers: supply functions + demand functions for labor in each sector
- Workers:
 - Maximize utility: demand functions (no leisure)
 - Supply labor
 - Workers can move at a mobility cost \longrightarrow wage differential and individual shocks generate bilateral flows of workers across sectors and these flows define the supply of labor to different sectors

Evolution of Wages: Food & Beverages



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 - lost income, wages, profits
 - high in the short run, high for affected individuals (the unemployed)
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 - What can we do about this?

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- Market Frictions: Cosar (WP, 2009), Cosar, Guner and Tybout (NBER, 2010)

The Sources: Distortions

- Labor market flexibility *longrightarrow* Rodríguez-López
- Regulations
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- Think about costs and benefits...

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- Bloom (ECA, 2009); Caballero and Engel (ECA, 1999); Cooper and Haltiwanger (RES, 2006)

The Sources: Distortions

- Imperfect capital markets
- Credit markets *longrightarrow* Rodríguez-López
- Risk
- Uncertainty

Conclusions

- It is costly to reallocate factors
- The gains from trade are reduced, but they do not vanish
- Protection is not the way to go
- How to improve/facilitate factor mobility?
- Compensation mechanisms?