Wage Cyclicality of New and Continuing Jobs

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BIS CCA Research Conference: Buenos Aires

May 23, 2019
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Yes. But how strongly? And for which kinds of workers/jobs?

Different perspectives throughout history:

- Keynes and some classical economists: countercyclical wages.

Evidence then was that wages were only mildly procyclical. So needed very elastic labor supply to account for observed fluctuations in hours.

Newer evidence based on micro panel data: wages more procyclical than previously thought (due to composition effects)

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- Search/frictional view of labor market: extensive margin more important than intensive margin.

"Shimer puzzle": Wages are too procyclical in DMP model with Nash bargained wages. Rigid wages, in particular among new hires, can resolve this puzzle. Sticky wages (in existing jobs) are source of fluctuations in some New Keynesian models. "Job ladder" models: workers move up the job ladder during booms.

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There are a variety of related questions that we want to answer:

- Are wages as procyclical among existing/continuing jobs as among new jobs?
- For new matches, what was the "outside option"—previous job, or non-employment?
- Are wages upward flexible but downward rigid?
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To answer these questions, ideally we'd like micro-level wage data on worker-firm matches that can distinguish:

- New matches from continuing matches
- Job-to-job transitions from nonemployment-to-job transitions
- Length of search for nonemployment-to-job transitions

In other words, we'd want the Chilean data in this paper!! with one caveat. . . more on this later.
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[Additional context or notes regarding the Chilean data would be added here if necessary, but they are not included in the provided text.]

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  - Also, divide annual income by number of months employed to get average monthly “wage.”
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- Extensive robustness checks and deeper dives (age, sex, firm size, etc.).
  - There does appear to be some asymmetry: wages increase during booms more strongly than they decrease during downturns.
Caveats

What the paper calls "wages" is actually labor income. I.e. not a wage rate per unit of labor. It could be hours that are procyclical, and not the wage rate. Is it possible to dig deeper on this? E.g., are there sectors where hours are less likely to be variable?
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Is it possible to identify the different components of the compensation, such as bonuses? Or just the total? It would be nice to see if signing bonuses and/or retention bonuses are accounting for a lot of the cyclicality.

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The panel wage regressions essentially give the average cyclicality of different groups (e.g. "keepers"). It would be nice to look beyond the average. Quantiles? Could show how the distribution of wage changes evolves over the cycle (i.e. the one recession in the data). Is there wage compression during recessions?

Questions beyond wage cyclicality:
Information on worker flow rates. Who gets cut during recessions? Short tenure? Low wage? Evidence of declining "dynamism" as in U.S.?
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