

# Discussion of “Labor Supply and Demand Shocks in Brazil During Covid-19 Period” - Nelson da Silva and Sydney Caeatano

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# Research Summary

- ▶ Estimate labor supply and labor demand shocks by sector in Brazil during the pandemic period.
- ▶ Use a Bayesian VAR with sign restrictions to identify the supply and demand shocks.
- ▶ Unlike in the US, demand shocks seem more important for the behavior of employment (measured by effective hours worked). About 70% of the decline in hours worked in the service sector is because of the demand shock.
- ▶ Labor demand and supply shocks revert to historical averages by the fourth quarter of 2020.

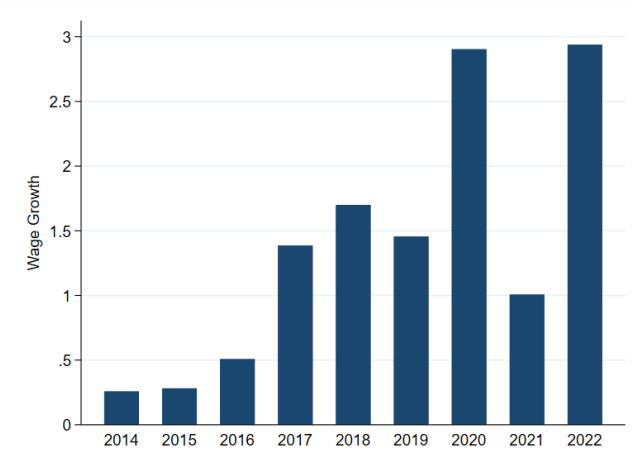
# Highlights

- ▶ Hard-to-answer and policy-relevant question.
- ▶ Different findings relative to the US case are of interest for middle-income economies.
- ▶ State-of-the-art methodology.

## Comment 1: Composition Changes

- ▶ Composition changes are extremely important in these settings. Average wages actually went UP in many countries during the pandemic!
- ▶ Brinca et al. include a few additional exercises to show that composition changes are not driving their results: restrict to supervisory and non-production workers, assume extreme cases: no wage changes, or all wage changes coming from composition effects.
- ▶ Additional composition changes in Brazil is movement from formal to informal sector.

# Wage Changes in Mexico from January to May, by Year



The figure shows the observed growth of the daily average wage from January to May for years 2014-2022. Observations of daily wages are available in a monthly basis. The wage growth is obtained by computing the percentage change between the average daily wages of January and May. Source: IMSS open data.

## Comment 2: Extensive or Intensive Margin?

- ▶ The paper includes estimates using both effective hours worked and total employment.
- ▶ The difference between these estimates is important! Did the demand shocks work mostly through the intensive margin thanks to subsidies?
- ▶ Labor supply elasticities are different at the extensive and intensive margins!
- ▶ Priors for intensive and extensive margin elasticities should be different.

## Comment 3: Going Beyond Brinca et al. (2021)

- ▶ Hard path to walk: You do not want to copy them, but you need to do most of what they did.
- ▶ Labor informality: You have all the data to test whether the effects of labor supply or demand shocks differ across formal and informal sectors. Can also estimate jointly to test for the “buffer” role of the informal sector.
- ▶ Elasticity priors: The priors of the elasticities for Brazil should NOT be the same as those from Brinca et al.
- ▶ Gender: Separate your sample by gender. We have plenty of evidence on the differential impact of the pandemic across genders (Albanesi and Kim 2021)
- ▶ Sector linkages: Do we really believe that the labor supply shocks in one sector do not affect the other? What about labor demand? Should we estimate a GVAR?