

Discussion of *Matching and Local Labor Market Size in Mexico*

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The views expressed in this presentation are those of the author and no responsibility for them should be attributed to the Bank of Canada.

The paper in a nutshell

- ▶ **Question:** Does the size of the local labor markets (LLMs) improve matching between workers and firms in a developing country (Mexico)?
- ▶ **Approach:** Apply the *Dauth et al. (2022)* approach to the Mexican IMSS matched data ($\approx 80\%$ of formal workers).
 - ▶ AKM model, estimate $cov(\alpha_i, \psi_j)$ as measure of assortative matching.
- ▶ **Main finding:** Positive association between assortative matching in the formal sector and the size of the LLM (agglomeration effects).
- ▶ **Novel insight:** Informality dampens the agglomeration effects on assortative matching.

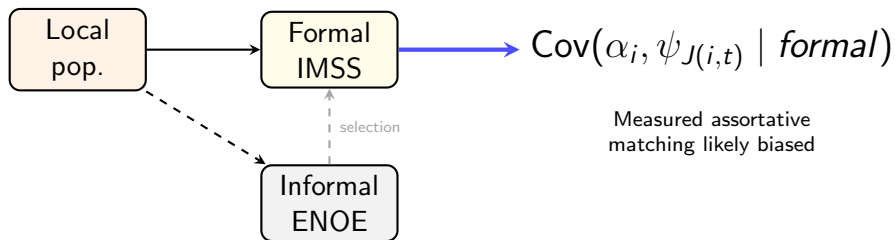
Particularly useful elements

- ▶ **Parallel with Dauth et al. (2022):** compare the result for an advanced and a developing country → Not so different when disregarding the informal sector.
 - ▶ **Rich administrative data:** universe of formal workers and firms; precise worker mobility tracking.
 - ▶ **Innovations:** integrates informality, education, firm size, and industry composition as moderators.
 - ▶ **Policy relevance:** demonstrates how informality can suppress agglomeration benefits.
- *The paper offers solid empirical evidence about sorting patterns in middle-income economies.*

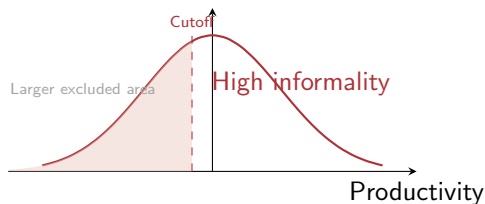
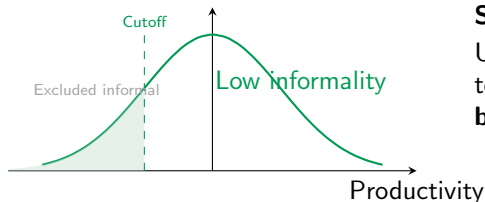
Informality modeling assumption

Implicit assumption: informality is *independent* to the formal-sector matching process.

But what if informality **shapes who enters the formal AKM sample**?



Sanity check (correction?)



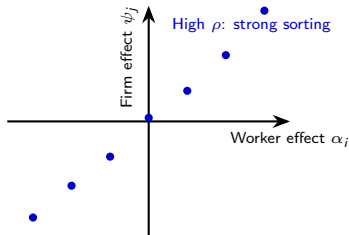
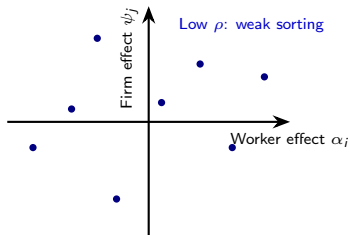
Higher informality
⇒ cutoff shifts right
⇒ larger truncation
⇒ $\downarrow \text{cov}(\alpha_i, \psi_{J(i,t)})$

Suggested sanity check:

Use ENOE (household survey) to recover characteristics of **both** sectors:

- ▶ Estimate $\Pr(\text{formal}|X, C)$ by city and worker type.
- ▶ Compare distributions of wages, education, firm size.
- ▶ (Maybe) reweight IMSS data with $w(X, C) = \hat{\pi}(X, C)^{-1}$.

Sorting as proxy for matching quality



Same average productivity, but different structure of matches.

- ▶ **Matching quality:** or productivity of the match is the joint output of the pair, beyond what the worker or firm separately (Mortensen & Pissarides 1994)
⇒ how good the match is.
- ▶ **Sorting:** of high-wage workers in high-wage firms and vice versa (assortative matching?) is the correlation of worker and firm effects (Abowd, Kramarz & Margolis 1999)
⇒ who matches with whom.
- ▶ Vicious / virtuous cycles of low-low matches and high-high matches

Minor comments and personal observations

- ▶ **Education:** focus on higher education vs. rest, may help the interpretation of non-linear pattern.
- ▶ **Industry :** why is industry heterogeneity important?
- ▶ **Amenities and informality:** high informality reduces tax collection and amenities, potentially reinforcing poorer matches.
- ▶ **Other mechanisms:** consider housing market and immobility, e.g., differences in homeownership rates.
- ▶ **Gender dimension:** women? Potentially interesting pattern.
- ▶ **AI disclosure:** great touch!

Takeaways

- ▶ **Strong contribution:** extends the Dauth et al. (2022) framework to a developing economy: informality weakens the link between agglomeration and matching.
 - ▶ **Empirical caveat:** the empirical analysis would benefit from considering the sample-selection bias from informality.
 - ▶ **Policy angle:** dynamic effects of sorting and agglomeration, beyond discussion of match quality.
- *A well-executed and policy-relevant link between labor market and urban structure.*