

Discussion of how do regulated and unregulated labour markets respond to shocks

by M. Tuccio, S. Guriev, B. Speciale

Marco Manacorda
Queen Mary University of London and CEPR

12th Joint ECB/CEPR Labour Market Workshop on
"Wage Developments in the Aftermath of the Crisis"

Frankfurt
December 13-14, 2016

What Does the Paper Do

- Uses data on a sample of migrants in Italy.
- Examine “formal” vs. “informal” workers.
- Documents a sharp rise in wage differential during great recession.
- Documents opposite change in relative employment?

What Does the Paper Do

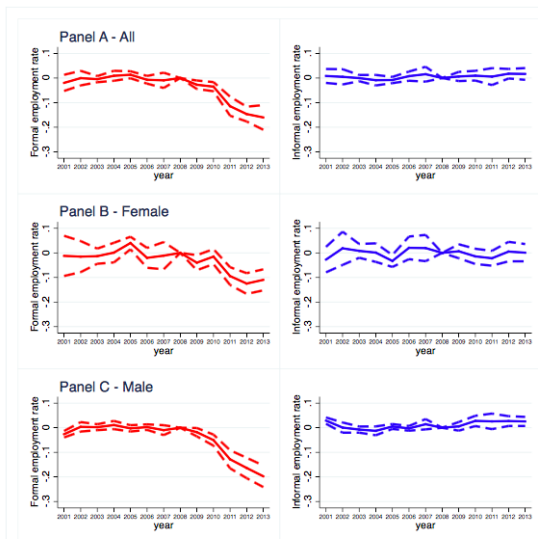
- Rationalizes this result with a standard dual (à la Harris-Todaro) model of the labour market and a common demand shock.
- Claims: severe frictions to transition from formal to informal employment.
- Claims: if wages free to adjust in the formal labour market, employment would have not fallen as much.

- Simple maybe powerfull model to explain some stylized facts in an established tradition (à la Gary Fields) but ...
- Unlikely to provide credible clean evidence of LM regulations (which regulations?)
 - some confusion between diff vs. diffs in diffs
- GE not quite appropriate
- Welfare implications?

Wages

- 1 Informality unlikely to be randomly allocated.
 - interact sector + individual characteristics with shock
- 2 Not an intrinsic worker characteristics.
 - selection

Figure: Employment in formal and informal markets, by gender



Employment rate (relative to 2008) controlling for gender (in panel A), age, education, country of origin, family characteristics, occupation dummies, provinces of residence dummies.
Left-hand side: formal sector. Right-hand side: informal sector. Dashed lines: 95% confidence interval.
Source: ISMU survey, authors' calculations, see Tables A11, A12, and A13 in the Appendix.

Table: Employment in the formal/regulated and informal/unregulated sectors

Table A10: Employment in the formal/regulated and informal/unregulated sectors, full sample

	(1) Employment in formal sector	(2) Employment in formal sector	(3) Employment in informal sector	(4) Employment in informal sector	(5) Employment in informal sector
Year ≥ 2009	-0.085*** (0.011)	-0.069*** (0.012)	0.006 (0.009)	0.009 (0.009)	0.015 (0.009)
Female	-0.044*** (0.005)	-0.044*** (0.005)	0.037*** (0.005)	0.038*** (0.005)	0.039*** (0.005)
Age	2.400*** (0.405)	1.278*** (0.237)	-0.792*** (0.222)	-0.969*** (0.240)	-1.029*** (0.245)
Age squared	-2.812*** (0.452)	-1.582*** (0.282)	0.961*** (0.277)	1.161*** (0.294)	1.243*** (0.298)
Years in Italy	0.003*** (0.001)	0.004*** (0.001)	-0.004*** (0.001)	-0.004*** (0.001)	-0.004*** (0.001)
Married	-0.001 (0.006)	-0.007 (0.006)	0.003 (0.006)	0.003 (0.006)	0.003 (0.006)
Children abroad	-0.003*** (0.001)	-0.003** (0.001)	0.002* (0.001)	0.002* (0.001)	0.002* (0.001)
Children in Italy	-0.003** (0.001)	-0.003* (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)
Compulsory school	0.022*** (0.006)	0.022*** (0.006)	-0.026*** (0.006)	-0.026*** (0.006)	-0.026*** (0.006)
High school	0.022*** (0.006)	0.030*** (0.007)	-0.033*** (0.007)	-0.032*** (0.007)	-0.032*** (0.007)
Tertiary education	0.034*** (0.008)	0.046*** (0.007)	-0.053*** (0.007)	-0.052*** (0.007)	-0.053*** (0.007)
Occupation dummies	yes	yes	yes	yes	yes
Province dummies	yes	yes	yes	yes	yes
Country of origin dummies	yes	yes	yes	yes	yes
Observations	57,061	56,208	57,061	56,208	54,945
R-squared	0.092	0.081	0.082	0.084	0.087

Notes: Robust standard errors in parentheses, clustered by province times simple occupations dummy times before/after crisis dummy. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The estimation sample is limited to documented migrants. Estimates in columns 2 and 4 are conditional on labor force participation. The specification in column 5 is conditional on employment.

Table: Employment in the formal/regulated and informal/unregulated sectors with year dummies, full sample.

	(1) Employment in formal sector	(2) Employment in formal sector	(3) Employment in informal sector	(4) Employment in informal sector	(5) Employment in informal sector
Year2001	-0.020 (0.017)	-0.010 (0.014)	0.008 (0.014)	0.011 (0.015)	0.011 (0.015)
Year2002	-0.000 (0.015)	-0.001 (0.015)	0.005 (0.016)	0.005 (0.016)	0.005 (0.016)
Year2003	-0.005 (0.006)	0.001 (0.006)	-0.000 (0.006)	0.001 (0.006)	0.001 (0.006)
Year2004	0.009 (0.010)	0.008 (0.010)	-0.009 (0.011)	-0.009 (0.011)	-0.009 (0.011)
Year2005	0.013* (0.007)	0.010 (0.007)	-0.008 (0.006)	-0.009 (0.007)	-0.009 (0.007)
Year2006	-0.007 (0.008)	-0.007 (0.009)	0.008 (0.010)	0.008 (0.009)	0.008 (0.009)
Year2007	-0.009 (0.016)	-0.015 (0.015)	0.015 (0.015)	0.015 (0.016)	0.015 (0.015)
Year2009	-0.027*** (0.009)	-0.009 (0.010)	0.006 (0.010)	0.008 (0.009)	0.009 (0.009)
Year2010	-0.035*** (0.009)	-0.015 (0.010)	0.010 (0.010)	0.012 (0.010)	0.013 (0.010)
Year2011	-0.115*** (0.020)	-0.098*** (0.021)	0.006 (0.018)	0.008 (0.018)	0.018 (0.019)
Year2012	-0.147*** (0.015)	-0.136*** (0.015)	0.017* (0.010)	0.019** (0.010)	0.053*** (0.011)
Year2013	-0.160*** (0.026)	-0.149*** (0.026)	0.016 (0.012)	0.019 (0.012)	0.032** (0.015)
Female	-0.043*** (0.006)	-0.044*** (0.005)	0.038*** (0.005)	0.039*** (0.005)	0.040*** (0.005)
Age	2.383*** (0.403)	1.246*** (0.236)	-0.790*** (0.223)	-0.966*** (0.241)	-1.024*** (0.245)
Age squared	-2.774*** (0.444)	-1.526*** (0.278)	0.958*** (0.276)	1.157*** (0.293)	1.235*** (0.296)
Years in Italy	0.003*** (0.001)	0.005*** (0.001)	-0.004*** (0.001)	-0.004*** (0.001)	-0.004*** (0.001)
Married	-0.003 (0.006)	-0.009 (0.006)	0.003 (0.006)	0.003 (0.006)	0.004 (0.006)
Children abroad	-0.003*** (0.001)	-0.002*** (0.001)	0.002* (0.001)	0.002* (0.001)	0.002* (0.001)
Children in Italy	-0.003** (0.001)	-0.003* (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)
Compulsory school	0.027*** (0.006)	0.027*** (0.006)	-0.027*** (0.006)	-0.027*** (0.006)	-0.027*** (0.006)
High school	0.028*** (0.007)	0.036*** (0.007)	-0.033*** (0.007)	-0.032*** (0.007)	-0.033*** (0.007)
Tertiary education	0.038*** (0.008)	0.051*** (0.007)	-0.054*** (0.007)	-0.052*** (0.007)	-0.053*** (0.007)
Year dummies	yes	yes	yes	yes	yes
Occupation dummies	yes	yes	yes	yes	yes
Province dummies	yes	yes	yes	yes	yes
Country of origin dummies	yes	yes	yes	yes	yes
Observations	57,061	56,208	57,061	56,208	54,945
R-squared	0.103	0.094	0.083	0.085	0.088

Notes: Robust standard errors in parentheses, clustered by province times simple occupations dummy times before/after crisis dummy. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The estimation sample is limited to documented migrants. Estimates in columns 2 and 4 are conditional on labor force participation. The specification in column 5 is conditional on employment.