"Real wages and the business cycle: Accounting for worker, firm and job heterogeneity",
by A. Carneiro, P. Guimaraes and P. Portugal

Discussion by Pedro S. Martins,
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Summary

- Study of:
  - real wage cyclicality in PT, accounting for three sources of heterogeneity;
  - new hires differences;
  - Robustness to different cyclical measures
- Motivation:
  - countercyclical bias due to composition effects;
  - importance of job differences (train driver...);
  - MP vs Hall/Shimer debate: Nash bargaining generates too little employment variability
- QP, 1986-2007: 32m observations!
- Novel iterative approach (GP)

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Main results

1. Abundant evidence of procyclicality (in line with US and UK studies); semi-elast > 2.2
2. New hires even more responsive to cycle
3. Collective bargaining determines responsiveness of stayers; firm practices explain new hires result (2.)
4. One-to-one relation between and wages and productivity
5. Role of compositional bias

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Questions: 1. Why no control for tenure?

Importance of jobs could be exaggerated:

- Tenure is countercyclical
- Jobs are picking up tenure effect
- Controlling for jobs removes countercyclical bias...
- ... but only for stayers, as in the results

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2. Jobs, jobs, jobs

- More info on jobs over cycle would be useful
- Alternative job measures (chef in restaurant and hotel industry...)
- "Same firm-job"?

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3. Why lagged cycle measure?

"Since wages are set at least six months to one year in advance, there is a delayed relationship between wages and economic growth" (p. 11)

- Contemporaneous effects more comparable
- Collective bargaining can take place anytime...
- ... and typically has immediate effect
  – Sometimes even "backward" effect
- Related: identification of new-hire effect on bargained wages (and job effects)?

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4. Why new hires/job prob result?

Insignificant incremental effect for new hires when using job finding/separation probabilities

- Correlation = -0.36 -> Multicollinearity ("micronumerosity")?
- Same if each probability separately?

Evidence of weakened RWC since Euro – and 2010 UR highest ever (11%)

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Martins, Solon & Thomas, 2010

"Measuring What Employers Really Do about *Entry Wages* over the Business Cycle," NBER WP 15767

- QP 1982-2008
- 1,300 "case studies" combined
- Identification of "entry jobs"

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Martins, Solon & Thomas, 2010

- Identification of "representative wage"
- Firm/*job*/job-level fixed effects
- 2-stage RWC semi-elasticity = -1.8

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