

Informal Labor Markets in Times of Pandemic: Evidence for Latin America and Policy Options^a

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^aThe views and opinions expressed are those of the authors alone and do not necessarily reflect those of the Central Bank of Chile.

Comments Outline

1. Labor Hoarding versus Creative Destruction
2. Role of Capital-Labor Complementarity
3. Final Remarks

Comment 1 - Labor Hoarding versus Creative Destruction

- In a typical crisis, at least in Chile, productivity is procyclical
- In the COVID-19 crisis, it has been countercyclical
- Value-added decreased, but employment decreased more \Rightarrow \uparrow Productivity
- Two mechanisms:
 1. Past crisis: Labor hoarding due to labor adjustment costs?
 2. This crisis: Creative destruction due to audacity of policy support?
- Three comments:
 1. Would be useful to benchmark employment changes to value-added changes across countries
 2. Does the theory allow for distinguishing these two mechanisms?
 3. Which moments could help in identifying the relevant mechanism?

Comment 2 - Role of Capital-Labor Complementarity

- Another mechanism of why labor market frictions can negatively affect output
 - Capital-labor complementarity (Oberfield and Raval, 2021)
 - $\Rightarrow \downarrow \text{Labor} \Rightarrow \downarrow \text{Capital (and thus } \downarrow \text{investment)} \Rightarrow \text{Further reduction in output}$
- Currently the model has Cobb-Douglas \Rightarrow Expand to capital-labor complementarity setting
 - This will imply another reason for why the work disutility shock can be important during COVID-19
- Explore different degrees of substitution with capital depending on formal and informal labor
 - In general, probably capital more complementary with formal than informal labor
 - Maybe during COVID, new technologies might imply more capital-informality complementarity
 - E.g., social distancing technologies \Rightarrow Software and hardware + delivery services (almost informal)
 - Use sectoral informal and formal employment data to inform the likelihood of this mechanism
 - Can also use social distancing policies to identify this mechanism

Final Remarks

- Super relevant topic and great quantitative work
- Looking forward to future versions and more research in these topics