

# Trade, Labor Market Concentration, and Wages<sup>a</sup>

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<sup>a</sup>The views and opinions expressed are those of the authors alone and do not necessarily reflect those of the Central Bank of Chile.

- Study of how trade reduces wages through the increase of labor market power
  - Pushing trade into the rising IO-labor-macro literature on labor market power
  - Paper is relevant, well motivated, good data and research design guided by the theory, and super nicely (and transparently) executed
- Will focus my attention on three comments:
  - I. Worker heterogeneity
  - II. Informality
  - III. Amenities

# I. Worker Heterogeneity $\Rightarrow$ Identification and Quantification

- Paper assumes workers are homogeneous
- Adding Worker heterogeneity  $\Rightarrow$  Identification strategy (LMS)
  - Worker heterogeneity  $\Rightarrow$  Sorting across firms  $\Rightarrow$  Compositional effects  $\Rightarrow$  Look at effect on stayers
  - Intuition: Otherwise, you will pick up changes in other firms' primitives which will be correlated with workers' primitives due to sorting
  - Wage premia of the paper does not solve the issue since it is affected by worker composition
    - Currently: affected by worker composition within bins of demographics/skills  $\Rightarrow$  Add worker fixed effects
  - Using average wage instead is worse. Simple solution: robustness with wages of stayers
- Worker heterogeneity + Strategic interactions  $\Rightarrow$  Important biases (Chan et al., 2022)
  - Chan et al.: Worker heterog. + SI  $\Rightarrow$   $\uparrow$  Pass-through of shocks  $\Rightarrow$   $\downarrow$  LS elasticity  $\Rightarrow$   $\uparrow$  Markdown
- Also, would be interesting in itself to look at heterogeneity of labor market power across workers
  - Heterogeneous skills  $\Rightarrow$  Heterogeneous mobility  $\Rightarrow$  Heterogeneous labor market power
  - If trade affects more low skilled workers, and these have lower mobility response
    - $\Rightarrow$  Relationship between labor market power and trade could be greater
  - $\Rightarrow$  Study the correlation between effects of trade on wages and mobility response, across skills

## II. Informality

- The paper has the advantage of looking at labor market power in a developing country
  - One issue with a country such as Brazil is the response of the informal sector (40% GDP, 50% emp)
- Dix-Carneiro and Kovak (2019): 1990s Brazil's trade liberalization  $\Rightarrow$   $\uparrow$  Informality
- Reallocation responses (and thus the effect on concentration) depend on selection to informality, even within firms (Ulyssea, 2018; Dix-Carneiro et al, 2021)
- $\Rightarrow$  Should local labor market definition and concentration measures include informality?
- Paper claims that excluding informality underestimates the effect of trade on concentration
  - Main arguments: more exit and wage response in informal markets  $\Rightarrow$  Further decline in payroll shares of small firms relative to large firms
  - But if informality decreases with firm size, then small firms might be able to absorb more the increase in informality due to the trade shock  $\Rightarrow$  Reallocation between formal and informal small firms?
  - $\Rightarrow$  Role of informality seems ambiguous for the effect of trade on labor market concentration
- $\Rightarrow$  Doing something more systematic with the data to sign the bias more precisely would be useful

### III. Amenities $\Rightarrow$ Identification Threat + Effect of Trade

$$\Delta \log w_{zm} = \frac{1}{\eta} \Delta \log l_{zm} + \Delta \delta_m + \underbrace{\Delta \epsilon_{zm}}_{\text{Taste Shifter}}$$

- Identification strategy: Trade shock does not affect taste of workers for different firms
  - Including vertical differentiation in the form of amenities  $\Rightarrow$  Would need a similar assumption (LMS)
- But most likely, trade liberalization affects amenities at the firm and preferences of workers
  - Trade liberalization affects not only goods but services such as management practices, for example
  - E.g., importing Google services  $\Rightarrow$  Local tech firms to replicate working conditions from Google
- Hard to address since we do not observe amenities and preferences for them
  - But it is an important assumption and it is a relevant issue in the IO-labor literature (Dube et al.)
  - Similar to how the production function literature cares about endogenous productivity
  - Techniques from production function literature can be applied to address this issue
- Also, it is interesting in itself to explore how trade affects amenities and workplace preferences

## Other Comments

1. Important to show more the properties of the wage premia estimates:
  - Under the current model, without worker heterogeneity and amenities, rent-sharing seems to be the only reason for wage premia  $\Rightarrow$  So it seems model-consistent
  - But it is not consistent with facts on relevance of worker heterogeneity and amenities for wage setting
  - With worker heterogeneity and amenities, would need to estimate the wage premia in a different way, closer to LMS and BLM
  - Could also use time-varying firm effects following Enbgom, Moser, Sauermann (2022)
  - Are these wage premia subject to limited mobility bias? Probably yes given mobility moments from the paper. Try robustness with BLM's method
2. Bottom up vs top down approach: Maybe not overemphasize this so much?
  - This has been done in the literature
  - Unless you show that by doing BHM strategy in your setup would give you a very different answer. This might actually be something interesting to see

## Other Comments

4. Would be nice to expand more the analysis of reallocation of employment across firms and how it affects labor market concentration
  - Especially if allowing for heterogeneous workers...which workers reallocate?
  - Current result that wage premia and average wage are similar implies that reallocation of workers happened within bins of worker composition used to estimate wage premia
  - What about the role of entry and exit of firms as in Melitz? Is that relevant empirically? Could show how trade shock affects gross probabilities of entry and exit
  - Could even decompose how much of the reallocation is given by intensive versus extensive margin
5. What about the relevance of GE forces related to labor market power, as a response to international trade? How big of a deal is this?

## Final Remarks

- Super interesting (and nicely executed) project and agenda
- Looking forward to more research of Mayara in these topics

Thanks!