

Employment Protection, Temporary and Permanent Employment Share, and
Procyclicality of Labor Productivity 導讀

1. What is the main question(s) raised in the paper (the issue)?

The authors first noticed the stylized fact that the extent of procyclicality of ALP (average labor productivity) varies across countries and the procyclicality of ALP is positively correlated with the strictness of employment protection. Therefore, they wanted to explore how employment protection as costs of dismissing workers explain different procyclicality of ALP across countries.

2. Why should we care about it (the significance)?

In the literature, the procyclicality of ALP is widely accepted as TFP shocks are the only source of economic disturbances. However, without inclusion of non-technology shocks, it's not possible to generate different cyclical property of ALP but procyclical. This paper thus complements the literature by relating the costs of dismissing workers to the employment protection and then explaining why different cyclical property of ALP is observed.

3. What is the author's answer (the findings)?

To explain that different countries have different procyclicality of ALP, this paper found that the strictness of employment protection has positive effects on both the procyclicality of ALP and the share of temporary employment. Therefore, the varying employment protection explains the varying procyclicality of ALP. Also, if firms are allowed to hire different types of workers that have different adjustment costs as short-term substitutes, there's a decrease in the relative volatility between output and aggregate hours worked. Moreover, firms with higher intensity of labor dismissing costs have more incentives to keep less-productive redundant workers when experiencing negative TFP shocks.

4. How did the author get there (the strategy)?

This paper built up an RBC model. In the model, the authors divide workers into two types—permanent and temporary workers. Permanent workers are further divided into newly-recruited and formally-employed workers, and newly-recruited workers require job training to turn into formally-employed workers that have skills for higher productivity. And, dismissing permanent workers will require firms to have extra adjustment costs due to employment protection. Additionally, permanent workers have a fixed possibility that permanent workers will become redundant in each period, thus,

firms have to endogenously determine whether to dismiss workers or keep them during recessions. With these features added in the RBC model, the authors explain why the procyclicality of ALP varies across countries.