Discussion of

"Job creation and firm dynamics"

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The paper

- Chile's employment growth slowed after 2013: net job creation (NJC) fell by
  - 1.3 pp in formal net job creation (FNJC)
  - vs. 0.5 pp in total NJC
- Periods: 2005-2012, 2013-2021, 2022-2025
- Most of the adjustment in FNJC comes from lower **gross job creation** by incumbents (only one third is **extensive margin**)
- What explains it? A small open economy model decomposes the drop in FNJC into:
  - **Labor wedge:** no role in 2013–21; very important in 2022–25 (≈ -0.8 pp, more than the total observed drop of 0.6 pp)
  - **terms of trade:** almost all of the 2013–21 drop (≈ -0.8 pp of total FNJC); positive contribution in 2022–25
  - **Residual:** very relevant on the intensive margin (incumbents) in 2022–25 (≈ -0.45 pp)

Comments

- **Evidence** on the evolution of formal job creation
- **A small open economy model with firm dynamics and adjustment costs**
- Two **mechanisms**: **Terms of Trade** or **labor wedge**

Empirics, terms of trade

- **Terms of trade**: their role is clear and important in Latin America
  - Evidence from other countries hit by the same global shocks would be very illustrative
  - Formal net job creation dropped by 4.6 pp in Argentina (2013-2021 vs 2005-2012) mostly due to incumbents but also due to lower entry (-1pp). Slight improvement post-COVID (2022-2025).
- The paper's cross country evidence does not strongly ly support commodity exposure as the explanation
  - Fitted line: $\Delta \text{NJC} = -0.35 - 0.02 \times (\text{XCom/GDP}), \;\; R^2 = 0.04$
  - The constant (-0.35) is common to all countries
  - For exposure alone to deliver Chile's -1.1 pp, XCom/GDP would need to be $\approx 75\%$ (Chile's is below 30%)

Empirics, labor wedge

- **Labor wedge**: is there additional evidence on the plausible effects of labor wedges?
  - Evidence from Latin America is mixed about the effects of changes in payroll taxes on employment
  - Relevant literature on changes in statutory hours from Chile and other countries

Model

- Adequate model to analyze labor demand and the role of firm dynamics
- Some effects **outside the model** seem to drive incumbents' job creation or entry rates
  - In 2022–25, the residual is concentrated on the intensive margin (≈ -0.45 pp)
  - The paper itself lists candidates: **demographic change, market power, technological change**
  - **Automation** could be relevant to explain the "residual"
- **Demographics** could be behind the fall in entry rates (Hopenhayn et al., 2022; Karahan et al., 2024)
- Is the cycle **terms of trade** only?

Mechanisms

- **No informality** in the explanation or in the model (Ulyssea, 2018)
  - Part of the mechanism could work through substitution: a higher wedge could shift activity toward informal firms and informal jobs
- Some variables are **not exploited** to link data and model
  - **Production:** ToT shocks change value added differently for exportables, importables and nontradables; this can be identified in the model and compared with the data
  - **Wages:** changes in average or median wages (all workers or entrants) could identify wage rigidity. The correlation of sectoral wage changes after a ToT shock could identify or validate the elasticity (the authors note that only $(1-\gamma_w)(\omega-1)$ is pinned down)
  - **Investment:** no link with investment; also relevant for calibration (as in Clementi-Palazzo) or validation (e.g., capital–labor substitution)

About the wedge shock

- Wedge shock: 1% of the wage in 2024 $\rightarrow$ 19% by 2033.
- Most of the shock is changes in statutory workweek. Laws implemented in 2024 and later years.
- Much of the effect is through **anticipation**:
  - **Assumption**: the full path is known in 2022 in the model.
  - Expected labor costs affect hiring and exit today: labor adjustment costs, capital adjustment costs and wage rigidity, all matter for this
  - Exactly how much is **anticipation**? A decomposition would be useful.
- Revenue is **rebated as a lump sum**.

About the wedge shock

- Much of the wedge is the **shorter statutory workweek** combined with protected monthly pay.
- $45 \rightarrow 40$ hours alone raises the hourly cost by 12.5%: about two thirds of the 19% total
- The whole wedge shock effect is **large**: total hours fall by 15% in 2035.
- **Hours as a wedge?** General-equilibrium effects on wages would differ between incumbents (monthly pay protected) and new hires
- The paper is about **employment and formal jobs**; the model recovers **hours**
  - Particularly confusing when part of the shock is a cut in the statutory workweek
  - How are the model's job creation and job destruction (authors' slide 23) measured?

Calibration

- The calibration
  - Some parameters from Chilean data (γ, μ_{cf}, σ_{cf})
  - Some parameters from the US (θ, ρ_z, σ_z) (Clementi & Palazzo, 2016)
  - **Adjustment costs** $\gamma = 0.6$: how do they compare with micro estimates of hiring costs in Chile? The cost is symmetric, while separation costs could be higher. Range of inaction could help identify it.

Final comments

- The model is used as a **measurement tool**
  - How can we assess its **accuracy**?
  - **Heterogeneity** in skills
  - **Causal summaries** as targets
  - Main mechanisms as **validation exercises**

This model is a very important quantitative tool for many purposes, highly relevant for policy evaluation in Chile.

Thank you!