

Diego Huerta

Contact Information

Department of Economics
University of Chile
Diagonal Paraguay 257
Santiago, Chile

dhuertad@fen.uchile.cl
www.diegohuertad.com
Citizenship: Chilean

Fields

Macroeconomics, Political Economy

Education

Ph.D., Economics, Northwestern University	2019–2024
Committee: Giorgio Primiceri (co-chair), Georgy Egorov (co-chair), Lawrence Christiano	
M.Sc. in Economics (highest honors), University of Chile	2014
B.Sc. in Industrial Engineering (highest honors), University of Chile	2014

Job Market Paper

The Evolution of the Welfare State [pdf](#)

Abstract: The evolution of the welfare state over the last few decades has differed strikingly across countries in the world. For example, spending on social benefits as a fraction of GDP has substantially increased in the US since 1980, remained stable in Canada, and declined in Sweden. To explain these different trends, I propose a model with agents that are heterogeneous in occupation and wealth, and who vote on social benefits over the course of their lifetime. The model highlights the key role of “aspirational voters”—members of the middle class who support pro-business policies and sacrifice social benefits hoping to become future entrepreneurs. The importance of aspirational voters, in turn, depends on wealth inequality. The model predicts that social spending should increase in rich countries with high wealth inequality, while it should decline if inequality is low. A calibrated version of the model successfully predicts the observed trends of social spending in 18 out of 24 countries from all continents.

Working Papers

The Political Economy of Labor Policy (submitted) [pdf](#)

Abstract: This article explores the political origins of size-contingent labor regulation, which imposes stricter requirements on larger firms. The theory is based on the political conflict between workers and entrepreneurs that is shaped by endogenous occupational decisions. The equilibrium policy protects only workers in larger firms, regardless of the government’s political orientation. Firms strategically adjust their labor demand in response to the size-contingent policy, causing welfare distortions. These distortions can be eliminated by balancing the bargaining power of workers and entrepreneurs. A dynamic extension to the model rationalizes the long-term stability of size-contingent labor regulation within countries.

The Regressive Effects of Worker Protection: The Role of Financial Constraints [pdf](#)

Abstract: I exploit the adoption of U.S. state-level employment protection legislation (EPL) to study its effects on labor earnings and firms’ profits. I find that EPL has unintended regressive consequences. EPL harms financially constrained firms and their workers, while only benefiting the most unconstrained firms and their workers. The effects on financially constrained firms are driven by EPL limiting access to credit and raising debt costs, forcing them to reduce investment and employment. Conversely, unconstrained firms expand their operations due to a decrease in their cost of debt. A model with heterogeneous firms and endogenous financial constraints guides the empirical analysis.

Publications

Wealth Inequality and the Political Economy of Financial and Labour Regulations with Ronald Fischer [pdf](#)*Journal of Public Economics*, 204, 2021, 104553

Abstract: This article studies the interplay between inequality and the effectiveness of financial and labor regulations. We motivate the paper by observing that the cross-country correlation between wealth inequality and the strength of regulations increases with a country's GDP per capita. In poor countries the relationship is negative, but might become positive for rich enough countries. In our model, initial regulations and wealth inequality determine occupational choice and thus create endogenous interest groups. We embed these groups in a political economy model, and use it to endogenize political platforms and explain our observation. We show that increased inequality in a poor country leads in equilibrium to lower creditor and worker protection. In rich countries the effect is reversed and higher inequality means that less advantaged groups can exert more pressure towards laws that work in their favour.

The Inequality-Credit Nexus with Ronald Fischer and Patricio Valenzuela [pdf](#)*Journal of International Money and Finance*, 91, 2019, pp. 105–125

Abstract: This paper explores the inequality-credit nexus from both a theoretical and an empirical perspective. The paper develops an overlapping generation model in which the effect of income inequality on private credit depends on the countries' per capita income and on the quality of laws protecting creditor rights. The model predicts that greater inequality leads to higher levels of private credit in countries with low per capita incomes and weak legal rights, while this effect is ambiguous or negative in economies with higher aggregate income and stronger credit protection. Using a panel dataset of 155 countries over the 1982–2015 period, the paper shows empirical evidence that is robust and consistent with the model's predictions. The paper's major finding suggests a credit channel through which inequality may affect economic outcomes.

Work in Progress

Policy-Making: Disentangling Politics from Economics

Abstract: This paper models policy-making as an intricate process in which governments balance political and economic considerations. I incorporate this view into a macro model with heterogeneous agents who face idiosyncratic shocks and express their political sentiments. I provide analytical results when political sentiments are uniformly distributed and independent over time. The model endogenously sorts people into three categories depending on their policy demands: the "indifferent", "the sensible", and "the senseless" citizens. Policy-making responds mainly to the dynamics of sensible agents, but the survival of the government can be threatened by senseless agents. I expand the model to consider a general distribution of sentiments that depends on past sentiments so that the government takes into account the future threats of its current policy decisions. The model allows for a structural empirical approach to disentangle how economic versus political grounds have influenced policy decisions and the process of development across countries.

Welfare Analysis: Unraveling the Role of Transition Dynamics in Heterogeneous Agent Models with Matias Bayas-Erazo

Abstract: Heterogeneous-agent models have become a popular tool for evaluating the welfare effects of policy changes. Due to computational challenges, the conventional approach has often overlooked the importance of transition dynamics for welfare analysis and has relied on the comparison of steady states. In this paper, we propose a tractable model with heterogeneous agents and idiosyncratic risk that allows for an analytical study of the welfare implications of policy changes. Based on this model, we propose a simple rule for choosing the length of the transition between two steady states. We show that the rule performs well in quantitative heterogeneous-agent models and establish general computational guidelines for computing transitional dynamics in this class of models.

Research
Experience

Research Assistant, Professor Silvia Vannutelli, Northwestern University
Research Assistant, Economic Research Department, Central Bank of Chile

2024
2014–2019

Teaching Experience	Teaching Assistant, Undergraduate, Northwestern University	
	Political Economics, Bruno Strulovici	2023
	Macroeconomics, Robert Gordon, Giorgio Primiceri, Larry Christiano	2021, 2022
	Introduction to Macroeconomics	2020, 2021
	Teaching Assistant, Graduate, Pontifical Catholic University of Chile	
	Heterogeneous Agents in Macroeconomics	2017, 2018
	Teaching Assistant, Graduate, University of Chile	
	Heterogeneous Agents in Macroeconomics	2016, 2017
	Labor Economics	2014
	Econometrics	2013, 2014
Fellowships & Awards	Lecturer, Graduate, Diego Portales University	
	Empirical Industrial Organization, Master in Economics	2014
	Teaching Assistant, Undergraduate, University of Chile	
	Industrial Organization	2013
	Macroeconomics	2013
	Microeconomics	2011
	Introduction to Calculus	2010
	Distinguished Teaching Assistant Award, Northwestern University	2022-2023
	Northwestern University Fellowship	2019-2023
	Research Grant. Complex Engineering Systems Institute (ISCI), University of Chile	2014
Seminars and Conferences	Scholarship for Master's Degree. National Commission for Scientific and Technological Research (CONICYT), Government of Chile	2013-2014
	23rd Annual SAET Conference	2024
	Strategy Department Brown Bag Talks, Kellogg School of Management	2023
	Macroeconomics Lunch Seminar, Northwestern University	2021, 2022, 2023
	Latin American and Caribbean Conference (LACEA)	2017
	Mini-Workshop on Industrial Organization & Economic Theory, Complex Engineering Systems Institute (ISCI), University of Chile	2014, 2016, 2017
	Seminar of the Central Bank of Chile	2014, 2015, 2016, 2017
	Annual Meeting of the Chilean Economic Society (SECHI)	2014, 2015, 2016, 2017
	Open House Master in Economics, University of Chile	2014
Editor	Assistant Editor of the Journal of Economía Chilena (The Chilean Economy)	2018
	Editor of the Working Papers of the Central Bank of Chile	2015-2017
	Editor of the Economic Policy Papers of the Central Bank of Chile	2015-2017
	Editor of the Studies in Economics Statistics of the Central Bank of Chile	2015-2017
Languages	English (fluent), Spanish (native), Portuguese (fluent)	
Programming	Matlab, Fortran, Julia, Stata	

References

Professor Giorgio Primiceri
Department of Economics

Northwestern University
2211 Campus Drive
Evanston, IL 60208
847-491-5395
g-primiceri@northwestern.edu

Professor Lawrence Christiano
Department of Economics

Northwestern University
2211 Campus Drive
Evanston, IL 60208
847-491-8231
l-christiano@northwestern.edu

Professor Georgy Egorov
Department of Managerial Economics and
Decision Sciences

Northwestern University
2211 Campus Drive
Evanston, IL 60208
847-467-2154
g-egorov@kellogg.northwestern.edu