

# Informal Labor Markets in Times of Pandemic: Evidence for Latin America and Policy Options<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.

# 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