Assessing the labour reallocation process in Europe: productivity-enhancing or not?

This paper

- Explores the labour reallocation process across a set of European countries
  - Distinguishing between within-sector and between-sector reallocation
  - Paying particular attention to the role of the crisis in the reallocation process...
  - ...in different European countries

- Assesses whether the presence of product, labour and credit market distortions hampers resource reallocation
  - The strategy is to construct sector-specific measures of product, labour and credit market distortions...
  - ...and evaluate whether sectors with more distortions, relative to the country average, in a given year, are also characterised by less cleansing

Between-sector reallocation

Are more production sectors creating more net employment?

Contribution of between-sector reallocation to aggregate productivity growth:

- There are large differences across countries
- In the pre-crisis period between-sector reallocation contributed negatively in ES, BE and FI
- However, within-firm productivity growth and within-sector reallocation more than compensated in BE and FI

Why is cleansing different across sectors?

- We take from the mark-up module average price-cost margins at the country, sector and year level
  - Compute the sector deviations to the country average, every year

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Coefficients</th>
<th>Significance</th>
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</thead>
<tbody>
<tr>
<td>Sector demand</td>
<td>0.208***</td>
<td>0.000***</td>
</tr>
<tr>
<td>Relative initial productivity</td>
<td>0.021***</td>
<td>(0.0004)</td>
</tr>
<tr>
<td>Rejection of market power</td>
<td>-0.004***</td>
<td>(0.0001)</td>
</tr>
<tr>
<td>Within-sector margins</td>
<td>-0.006***</td>
<td>(0.0001)</td>
</tr>
<tr>
<td>External margins</td>
<td>-0.006***</td>
<td>(0.0001)</td>
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<tr>
<td>Observations</td>
<td>7,629</td>
<td>7,629</td>
</tr>
<tr>
<td>R squared</td>
<td>0.0077</td>
<td>0.0061</td>
</tr>
</tbody>
</table>

Pooling all countries together:

- Net employment creation at the sector level was not significantly correlated to the sector’s relative productivity during the pre-crisis period
- From 2008 onwards, only more productive sectors were able to create jobs
- Sector job destruction not correlated to sector productivity over the entire period

Cleansing across sectors (poolede countries):

- Cleansing is highest in manufacturing
- And lowest (significantly) in ICT, construction and professional and technical activities
- Why?

The way forward

Labour and credit market distortions

- We have used estimated collective bargaining parameter from the mark-up module
  - But lack of time variation does not permit to identify effects
  - 2 other possibilities:
    - Use the Kernel share of firms in each country, sector and year with centralised collective bargaining – to be done
    - Construct a sector EPL using sector job churning from the US and OECD EPL
- We have also explored the impact of sector access to finance on cleansing
  - Preliminary evidence shows that sectors where the share of credit constrained firms is relatively larger than the country average feature less cleansing
  - But results are not entirely robust. Looking for alternative proxies to access to finance at the sector level

Construct counterfactuals

- What is the contribution of reallocation to aggregate productivity growth?
- What would it be if European countries adopt best practices?