

Discussion

Insurance Between Firms: The Role of Internal Labor Markets

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Introduction

- Mobility of workers within groups is important

Devaro, Kauhanen and Valmari (2018), Finnish MEE data

Given a set of stayers within a group, in the following year

- Internal mobility: 8.50% (3.62 % horizontal, 4.88 % vertical)
 - External mobility: 6.04% (4.97 % horizontal, 1.07 % vertical)
- Finding of paper: Business groups adjust to changing business conditions by exploiting internal labor markets (ILM) given external LM frictions. They provide job stability for employees.

Summary

- Impressive data set combining matched employer-employee data, data on firm structure, firms' fiscal data for all French firms
- Study of hiring flows after positive demand shock within industry and negative shock of mass layoffs within group
- Increase in ILM hiring after both types of shocks
- Particularly strong ILM effect for
 - high-skill workers after positive shock and low-skill workers after negative shock
 - diversified groups or hiring from different industry/location
- Effect business group adjustment
 - Towards more productive firms/with less capital expenditures
 - After positive shock, market share increases particularly for firms with high LM access

Summary

- Novel and very interesting analysis of firms' response to shocks due to ILM combining
- Creating new questions
 - How is ILM response conditioned by other mechanisms increasing stability of employment relationship within groups?
 - Understanding insurance within groups: What are the determinants, costs and benefits of ILM insurance ?

How is ILM response conditioned by other mechanisms increasing stability of employment relationship?

Job security as optimal policy to reduce labor costs given its relatively low cost in diversified group

- High job security permits lower wages (cf. Jarosch 2015)
- Reduced on-the-job-search of group employees due to optimal contract with promised tenure profile (cf. Lentz 2015)

Potential study of differences in average wages and wage structure

- Is the tenure profile steeper or are average wages lower in firms with extensive ILM usage?

Understanding insurance within groups

Further explore determinants of insurance (comparative statics of framework)

- Large and small demand shocks
- Industries with high/low capital-labor substitutability
- Size of firms ...

What are the benefits and costs of ILM insurance ?

- The cost of insurance: Is group insurance good for existing employees at receiving firms (Caliendo and Rossi-Hansberg (2012): expanding firms might lower average wages) ?
- The benefits of vertical integration: Only diversified firms can offer job security in long-term careers. Vertical integration of firms could thus lower industry layoff rate and lengthen careers within a firm. Does that hold empirically?