

Introduction of "Employment Protection, Temporary and Permanent Employment Share, and Procyclicality of Labor Productivity"

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1 What is the main question(s) raised in the paper (the issue)?

The main question raised in the paper is how employment protection, characterized by labor firing costs, affects the procyclicality of average labor productivity (ALP) and the share of temporary employment across OECD countries. The paper investigates why the extent of ALP procyclicality differs significantly among countries and is positively correlated with the strictness of employment protection.

2 Why should we care about it (the significance)?

Understanding the relationship between employment protection and procyclicality of labor productivity is significant as it informs economic policy design, helps explain business cycle dynamics, guides firm behavior during economic fluctuations, highlights the trade-offs between job stability and labor market flexibility, and enables valuable cross-country comparisons to understand international disparities in economic performance and labor market outcomes.

3 What is the author's answer (the findings)?

The authors find that stricter employment protection, characterized by higher labor firing costs, leads to more procyclical average labor productivity (ALP) and a higher share of temporary employment. The theoretical model they develop can explain why firms have more incentives to hoard less-productive redundant workers when facing negative total factor productivity shocks, leading to less procyclical ALP in countries with higher firing costs.

4 How did the author get there (the strategy, empirical approach)?

The authors use data from 36 OECD countries to establish the empirical relationship between employment protection and procyclicality of labor productivity. They then construct a real business

cycle (RBC) model, which divides employment into temporary and permanent categories, with the latter being subject to firing costs. The model incorporates various mechanisms, such as time-to-build for permanent workers, household labor supply choices, and endogenized dismissals, to reproduce the observed positive correlation between ALP and output.