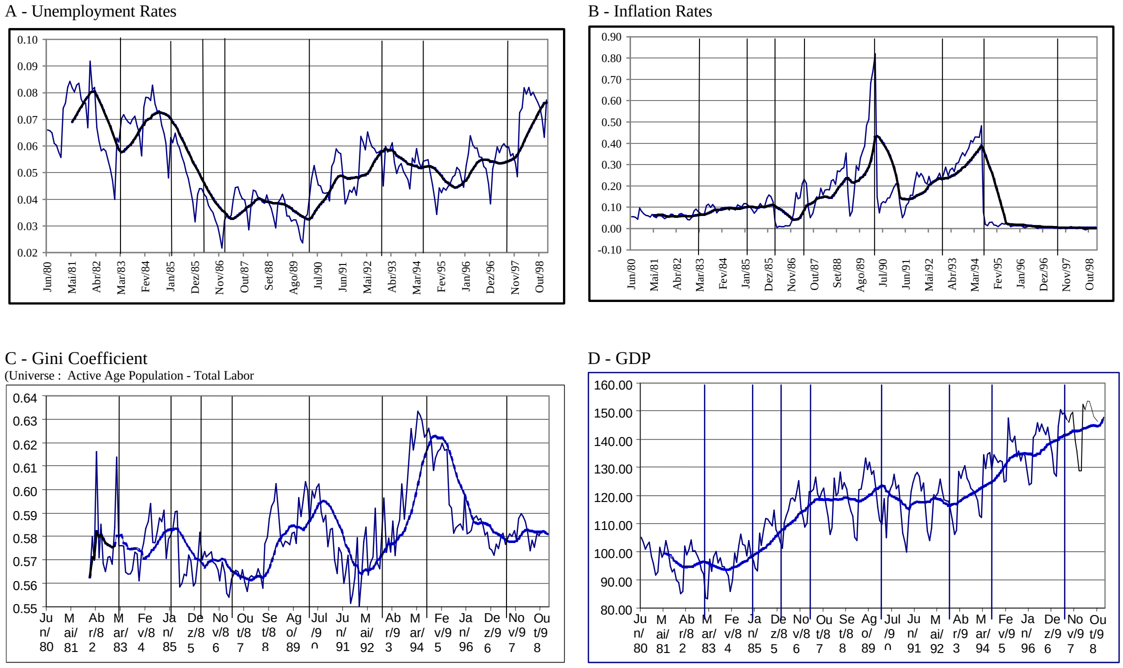
Macroeconomic Shocks and Labor-Market Mobility

Abstract

This paper presents the distributive effects of selected recessions and growth periods. Mobility between employment states and income levels is higher among more educated workers. This implies that negative shocks carry more weight for less educated, on average poorer workers, since the subsequent chances of recovery are slimmer. Second, earnings among the informal self-employed are less stable than formal-sector earnings. Movements from the formal to the informal sector therefore generally imply increased earnings risk. Third, workers' propensity to exit the informal sector into the formal sector is the clearest difference at the level of employment transitions between growth periods and recessions.

Part I: The Economic Environment

Figure 1
Selected Macroeconomic Time Series, 1980–98



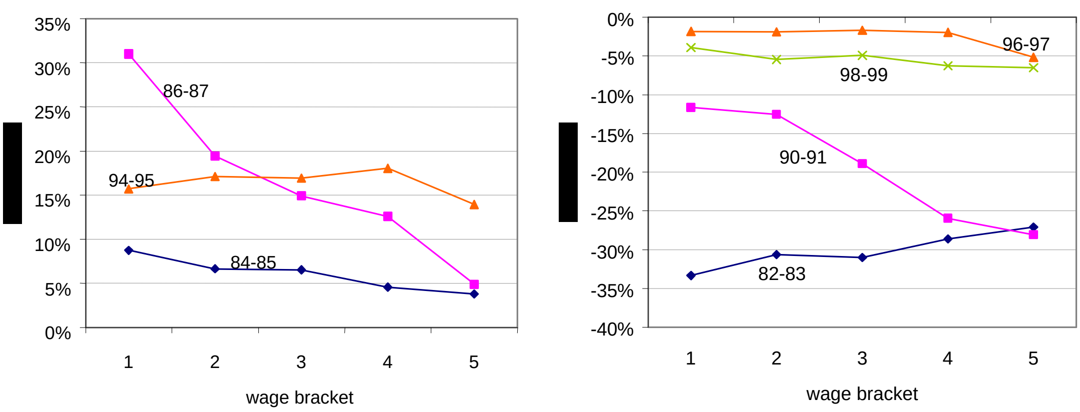
Income[1]

Table 1
Income Gains and Losses by Wage Bracket (percent)

Wage Bracket	*Growth*			*Recession*			
	1984-85	1986-87	1994-95	1982-83	1990-91	1996-97	1998-99
1 (poorest)	8.77	31.02	15.71	-33.34	-11.65	-1.84	-3.91
2	6.65	19.44	17.13	-30.65	-12.54	-1.88	-5.45
3	6.55	14.93	16.94	-31.01	-18.92	-1.70	-4.93
4	4.56	12.58	18.04	-28.62	-25.96	-1.96	-6.27
5 (richest)	3.81	4.90	13.95	-27.09	-28.07	-5.17	-6.52

Figure 2
Income Gains and Losses

Growth **Recession**



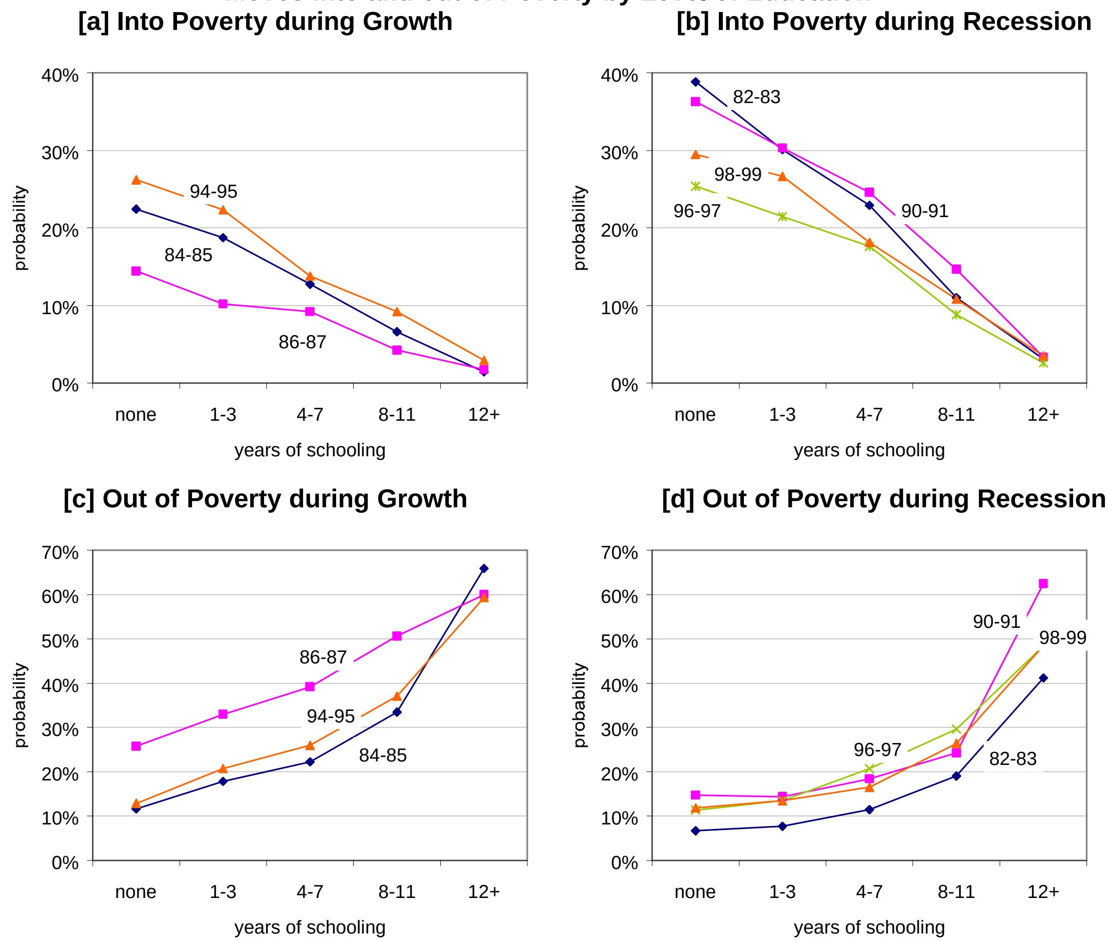
Informal and Formal Sectors, Median Income Changes

Labor Category	*Growth*			*Recession*			
	1984-85	1986-87	1994-95	1982-83	1990-91	1996-97	1998-99
formal employee	1.95	9.67	15.69	-26.31	-20.87	-0.69	-4.73
informal employee	8.18	20.11	15.85	-24.60	-14.53	-1.38	-4.18
self-employed	6.17	23.59	15.34	-28.56	-19.35	-4.74	-7.36

[1]The equation contained gender, marital status, polynomials of age and experience, and employment sector.

Poverty

Figure 3
Moves into and out of Poverty by Level of Education



Employment

Figure 4
Probability of Transition to Unemployment (percent)
Growth **Recession**

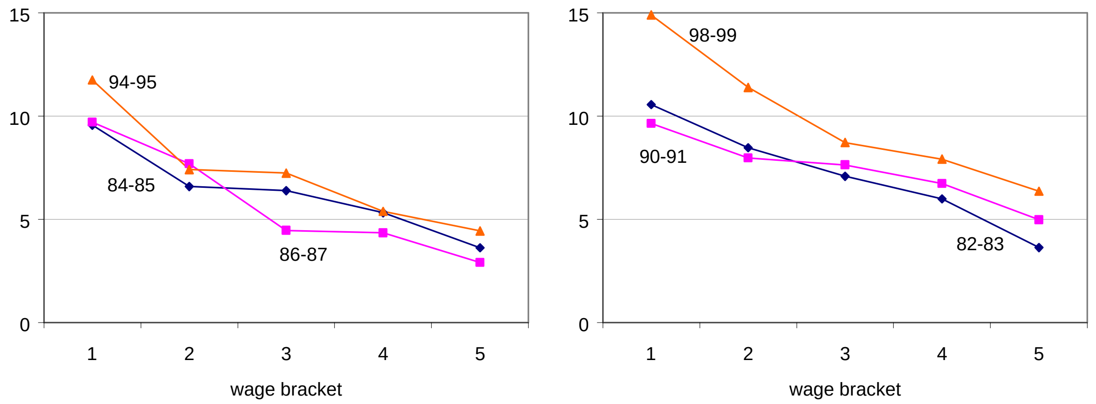


Table 3
Poverty Transition Probabilities by Labor Category

	Growth			*Recession*			
Transition into Poverty	1984-85	1986-87	1994-95	1982-83	1990-91	1996-97	1998-99
formal employee	9.67	7.10	11.27	18.6	19.57	11.39	12.16
informal employee	12.52	9.73	10.48	25.27	26.34	14.58	15.90
Selfemployed	15.88	8.07	13.13	26.26	23.61	15.61	17.00
Unemployed	14.29	3.45	5.17	29.23	26.19	17.14	21.52
Transition from Poverty	1984-85	1986-87	1994-95	1982-83	1990-91	1996-97	1998-99
formal employee	20.19	34.03	26.64	8.65	16.71	19.78	17.14
informal employee	17.03	41.89	26.54	11.59	18.52	19.93	15.71
self-employed	19.8	36.79	24.36	9.33	15.28	16.79	17.77
Unemployed	24.87	47.06	32.29	16.62	26.37	25.00	24.51

Neri, M.C. and M.R. Thomas (2000), "Growth and Recessions: An Episodic Analysis of their Effects on Employment, Income, and Poverty in Metropolitan Brazil since 1982", Anais da SBE e Lacea, 2000