

Seminario Visitinps - 18 novembre 2020 - ore 12

Titolo: Defusing leverage: liquidity management and labor contracts

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Rigidities in firms' payroll structures are likely to increase the transmission of shocks to firms' cash flows and profitability. By using Italian administrative data on workers careers and firms' balance sheets, we study the role of the use of permanent and fixed-term labor contracts in affecting this passthrough. We document how firms use the contract composition of their workforce to manage the risk determined by their labor-induced operating leverage. First, we confirm that a higher labor share is associated with more volatile cash flows following unexpected real shock, a telling indication of operating leverage at work. Second, we show that firms with a greater share of temporary contracts are characterized by a smoother time-series behavior of their cash-flows. In particular, the smoothing effect is stronger for firms with higher labor share related to the permanent workforce. We complement this analysis with the study of the 2001 labor market reform that lifted constraints on the employment of temporary contracts. Exploiting the staggered implementation of the reform across different sectoral collective bargaining agreement, we show that following the reform firms increased on average their share of temporary contracts and decreased average labor compensation. In particular, firms characterized by an ex-ante more rigid labor cost structure benefited the most from the reform, and substantially increased their profit margins.