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Labour Demand During Transition in Hungary

by Gábor Kőrösi

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(Econometric Analysis of Hungarian Exporting Firms, 1986–1995)†

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Abstract

Transition from socialist to market economy brought drastic changes on the Hungarian labour market. Employment fell by 1.6m, *i.e.*, by more than 25% during the past decade, while unemployment jumped from practically nil to over 14% within four years.

This paper describes the changes in corporate labour demand resulting in this drop in aggregate employment, and gives an empirical analysis of the corporate labour demand during the transition period, based on a panel of medium-sized and large Hungarian firms.

Keywords: Labour demand; firm in transition economy.

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1. Introduction

Probably the most striking macroeconomic indicator of transition from socialist to market economy in Hungary was the fast emergence of large-scale unemployment. In socialism unemployment was practically non-existent, voluntary unemployment was illegal, punished by jail or forced labour. When the labour market was liberalized (together with practically all aspects of economic activities) unemployment jumped from practically nil to over 14% (February 1993) within four years. It later stabilized at around 11%. Open unemployment, however, was only one component of the decline in employment. Employment fell by 1.6m, *i.e.*, by more than 25% during the past decade. (See figures in Table 1.)[1] Only a small proportion of this drop can be explained by demographic factors. There were three major exit routes from the labour market: retirement, unemployment and inactivity.

In the classical socialist command economy central planners set (usually very ambitious) quantity targets to firms. Firms, however, faced soft budget constraint, thus they could finance input hoarding. Firms also had the inherent drive to grow: Large firms had much stronger bargaining position against central planners, who faced enormous information asymmetry. This all led to excess demand for all productive inputs, including labour. (*c.f.*, *Kornai* [1980])

The 1968 economic reform led to a substantial marketization of the Hungarian economy. Companies no longer received direct orders from central planners, they were supposed to make their own decisions on production and resource allocation, based on cost-benefit analysis. However, central planners regulated the financial environment of firms to small detail, constantly inventing new incentive schemes for making firms behave as expected. Prices, wages, imports, investment loans were all controlled by central authorities, thus firms only had limited autonomy in economic decision making. Labour market was one of the important segments regulated very tightly by central planners through wages. Wage regulation had the twin goal of limiting inflationary

[1] The 'on child-care leave' category means parents, who are on long-term leave with their child(ren) under 3, after which employers are obliged to re-employ them in their former position. Although large scale bankruptcies withered away the implied absolute job security, many younger women use the child-care leave as a temporary buffer, hoping that the labour market situation will improve while they stay at home with the children.

Table 1: National aggregates (end of year, in thousands)

	1986	1989	1990	1991	1992	1993	1994	1995
Active earners	4885.2	4795.2	4668.7	4241.8	3866.9	3700.7	3636.4	3595.2
Employed pensioners	479.0	432.0	383.6	292.3	223.0	181.1	156.8	142.2
Unemployed	6.4	24.2	100.5	406.1	663.0	632.1	519.6	497.1
on child-care leave	224.8	244.7	251.5	262.1	262.1	254.6	252.0	247.2
Total	5595.4	5496.1	5404.4	5202.3	5015.0	4768.5	4564.8	4481.7

pressure stemming from wage increases and of maintaining excess demand on the labour market, thus preventing unemployment. The average wage at the firms was very strictly controlled. Details of regulation changed frequently (how increases in productivity may have been used for wage rises, etc.), however, the major characteristics were almost permanent. Firms could not increase average wages substantially. Thus, if they wanted to pay high wages to the employees with scarce special skills, they had to employ many low skilled and thus low paid workers. Of course, there were many other factors leading to excess labour demand even in the reformed socialism[2], but after 1985 those factors had very limited role in Hungary.

The 1980's was the period of slow liberalization of many aspects of the economy, including labour markets. Initially liberalization only meant that people could start small enterprises as part-time employment on top of their permanent job. However, economic policy started a comprehensive, albeit gradual liberalization of prices, foreign trade, corporate structure, finances and labour market in 1987-88 which shifted into a much higher gear in 1989-90. By 1990 wage regulation was abolished in the corporate sector, and all aspects of the labour market was liberalized. Labour market liberalization was linked to substantial liberalization of prices, foreign trade, and capital market, thus firms suddenly faced a very strong competitive pressure. They no longer had any incentive to hoard underutilized (mostly low-skilled) labour. Many firms shed labour even when production did not change. The firms loosing market share (*e.g.*, because of competition from new private enterprises and imports, and/or loosing CMEA markets) usually responded with substantial reduction of labour. In 1992 a new bankruptcy law, and new auditing rules led to a string of bankruptcies, resulting in large-scale redundancies. At the same time there were many small (usually family) firms created, however, the resulting job creation was paltry compared to job destruction at larger firms. Many low skilled workers permanently left the labour market through early retirement schemes or through easy access to disability pension.

These changes of the labour market have been extensively analysed from the point of view of the (would be) employees (*c.f., Galasi and Kertesi* [1996], *Kertesi and Köllő* [1995], [1996], *Köllő and Nagy* [1996] or *Micklewright and Nagy* [1996]). *Kertesi and*

[2] *Kornai* [1980] gives a detailed description of the mechanisms leading to excess labour demand in socilism. *Köllő* [1996] and *Lehmann and Schaffer* [1995] give two alternative theoretical models of corporate labour demand in reformed socialism.

Köllő [1995], [1996] find that the slow liberalization phase of the 1986–89 period already brought substantial changes in income distribution and in other aspects of the relative labour market position of various groups of employees. On the other hand, individual strategies on the labour market changed substantially from the early 1990's with the emergence of large-scale unemployment.

The other side of the labour market, the demand of the firms has been much less extensively studied, with the notable exception of some works by János Köllő, the most recent of which is *Köllő* [1996]. However, his analysis is hampered by data problems: his dataset consists of observations from every third year only. Thus he could only analyse changes from 1986 to 1989 and from 1989 to 1992. These periods are far too long for refined empirical work. He observed substantial deviations from the traditional 'socialist' labour market behaviour of enterprises in the period from 1986 to 1989, but he had to assume that this period was homogeneous. He also suggested that "The relation between employment and output is strengthening" after 1992, indicating market-like corporate behaviour of the more and more numerous private (either new or privatized) firms.

Halpern and Kőrösi [1995], [1997a] and [1997b] analysing determinants of corporate performance, however, observed substantial shifts in corporate behaviour starting from 1988 which they consider the first year of economic transition in Hungary. On the other hand they found that corporate behaviour has not stabilized until 1995, thus the economy was still in the transition phase.

This paper analyses corporate labour demand during transition. The starting point of the transition on Hungarian labour market is of historic interest only. However, it is a crucial question, bearing strong implications on the economic policy, whether transition has really been completed.

2. Data issues

The dataset consists of variables obtained from the financial accounts of the main Hungarian exporting firms between 1985 and 1995.[3] A firm has been selected and defined as main exporter if it exported more than one million US$ in any year between 1985 and 1995. During this period thousands of new firms were established while many old firms disappeared. Some new firms were starting firms founded by domestic or foreign investors, but many were created from the assets of existing SOEs. In our dataset firms are identified by their tax file number. However, whenever a firm is reorganized, *e.g.*, corporatized, it receives a new tax file number, even if there was no real change in assets or activities. A major task when compiling the dataset was identify firms in case of which commercialisation only meant the change of the name. In other cases they were treated as totally new entities following the natural way of entry and exit.

The sample includes medium-sized and large firms only, many of which were former socialist firms, or were created from those firms. Unfortunately, a crucial sector of the

[3] The analysis starts with 1986, 1985 data is only used for lagged variables.

labour market is omitted due to the lack of sample information: the emerging small enterprises.

Employment is measured in annual average number of employees. It is not possible to correct for part-time employment, however, that is usually negligible. Employment figures also include an unknown number of people on long-term unpaid leave (child care and military service). These uncertainties may also have an effect on the labour cost. All other variables are measured in million Forints at 1991 prices.

Capital stock of firms was not measured reliably in the sample period. During the socialist period capital stock was derived from former investments. frequently using inappropriate depreciation rates and applying no adjustment for inflationary effects. Since 1990 the capital stock of a firm could have been revalued several times: once when the firm was corporatized, at least once, but in case of larger firms frequently 3–4 times before privatization and usually after privatization as well. These revaluations in some cases repeatedly completely changed the size of the capital stock without incurring any new (dis)investment.

3. The model

The sample covers two or three distinct periods: the late reformed (partially marketized) socialist economy, the transition phase, and, perhaps, that of the market economy. The same statistical model is used to describe labour demand in all these periods, however, under different assumptions.

The following dynamic labour demand equation is used for the analysis:

$$\log L_t = \mu \log L_{t-1} + \alpha_0 \log Q_t + \alpha_1 \log Q_{t-1} + \beta_0 \log \left(\frac{w}{c}\right)_t + \beta_1 \log \left(\frac{w}{c}\right)_{t-1} + b + \varepsilon_t$$

where L is the number of employees; Q is production; w is labour cost (wage + benefits + wage related taxes and contributions); and c is capital cost. See *Nickell* [1986] and *Mátyás and Sevestre* [1996], Chapter 25 for the derivation. However, the major assumptions of the model have to be discussed.

The model assumes profit maximizing firms under a budget constraint represented by a Cobb-Douglas production function, facing demand constraint, and thus profit maximization is equivalent to cost minimization. Long-run equilibrium is assumed: The production function is linearized in its neighbourhood. Adjustment costs (of labour and capital) are assumed to be quadratic. Exogenous variables are assumed to follow AR(2) processes.

These assumptions obviously do not all apply to firms in a socialist or a transition economy. Though socialist firms optimized their behaviour, they did not maximize profit.[4] Usually demand was not constrained. However, companies in the reformed

[4] *Lehmann and Schaffer* [1995] give empirical evidence that firms in Poland in the period of reformed socialism (mid 1980's) did not maximize profits.

Hungarian economy after 1985 were no traditional socialist SOEs. From 1986 Hungarian firms faced a very strong demand constraint. They had a complex objective function in which profit maximization and cost minimization were components only, however, cost minimization was important to most firms by the mid-1980's. A kind of equilibrium also existed in the reformed socialist economy, however, the assumption that relative marginal factor demand is equal to the relative factor prices clearly did not apply for a socialist firm, as productive inputs were on short supply, but prices were rigid. Thus the assumption that $\log(w)$ and $\log(1/c) = -\log(c)$ have the same coefficients may be invalid. The quadratic adjustment cost is clearly invalid. The assumed equality of the upwards and downwards elasticities may bias estimation.

During the transition period the economy moves from one kind of relatively stable equilibrium to a completely different one. Firms face strong demand constraint and they minimize costs. However, the economy is far away from any stable long-run equilibrium path.

For the socialist and the transition period the labour demand model is rather interpreted as a partial adjustment model. Transition is assumed to lead to the neighbourhood of a long-run market equilibrium path where the major assumptions of the above model apply.

It can be assumed that the downward output elasticity of labour demand is relatively small in socialist equilibrium. Upwards elasticity would be high in both the centrally planned and the reformed versions of socialism, constantly bringing the labour market to full employment. After 1986, however, Hungarian firms faced strong demand constraint, so few could expand. Still, aggregate employment was close to full employment, indicating that corporate behaviour on the labour market may have been the same until 1987-88.[5] During the transition period the downward output and wage elasticities are expected to be much higher, and the long-run elasticities uncertain, as there is no stable long-run equilibrium. During transition excess employment is eliminated in redundancies unrelated to output or wage changes, thus, the explanatory power of the labour demand model may be significantly lower. For the post-transition period we expect stable long-run behaviour and short-run elasticities between those of the former two regimes. Figure 1 gives a simple graphic representation of these assumptions with respect to downward output elasticity.

The panel dataset is used as a repeated cross section sample as substantial structural breaks are assumed among the three regimes and further structural changes are very likely during the transition.

Even though we use the sample as a series of cross sections, the basic heterogeneity of a panel model has to be assumed here as well. In case of a dynamic model it not only will lead to heteroscedastic errors, but the lagged dependent explanatory variable leads to inconsistent estimates when using OLS, as the lagged dependent variable is not independent of the individual effects incorporated in the error term. The estimated

[5] *Köllő* [1996] suggests that the gradual switch from average wage to total wage bill regulation may have resulted in a strong trade-off between employment and wage.

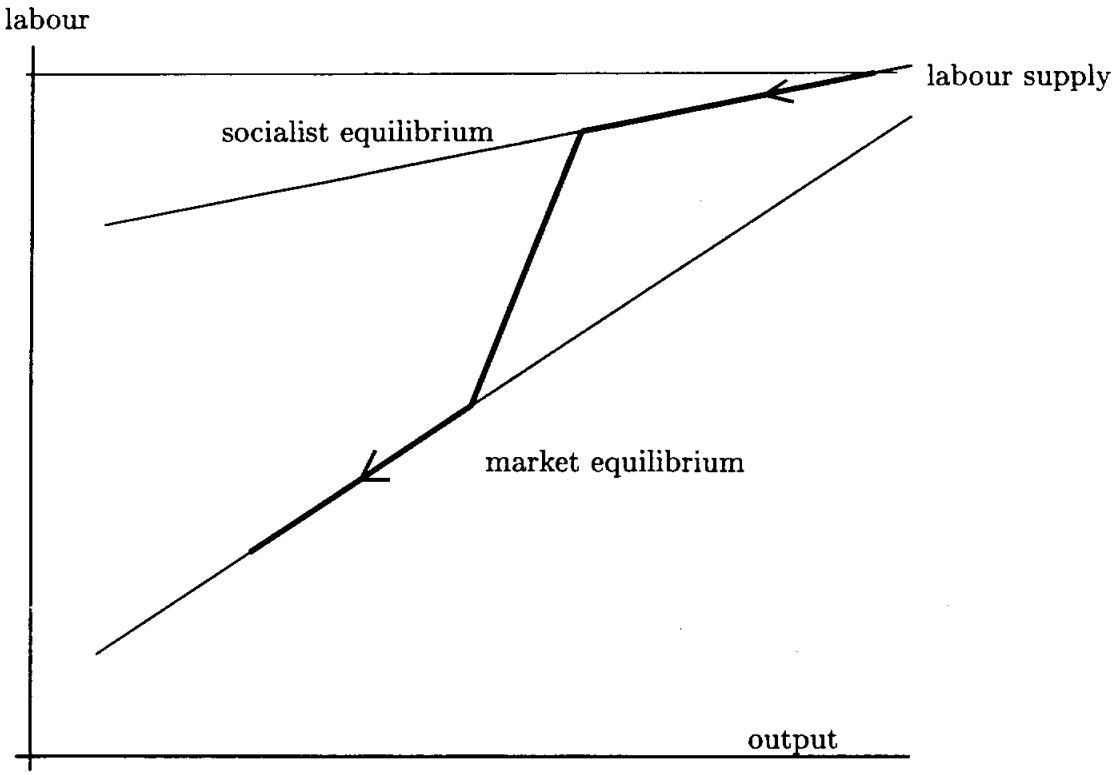

Figure 1: Transition from socialist to market equilibrium

equation is derived from a model consisting of a production function, thus, production is also an endogeneous variable.

Also, wages may not be exogeneously set, especially in the socialist period, when wage regulation established a strong link between wage and employment.

Thus, instrumental variables were used at estimation. Instruments for L_{t-1}, Q_t and w_t are lagged variables taken from the financial accounts of the firms (capital stock, cost of capital, bank cost, export share, and share of foreign ownership) and sector dummies (necessary when testing for fixed sectoral effects).

4. Estimation results

Tables 2a and 2b present core estimation results.[6] All regressions were estimated by

[6] Legend to the table: JB normality: Jargue–Bera test (an approximate χ^2_2 distribution) White hetero: test for heteroscedasticity (χ^2 distribution); Reset is a general misspecification test (F distribution); LM test for sectors has $F_{7,.}$ distribution. LM test for log(c) is a joint test of log(c_t) and log(c_{t-1}) ($F_{2,.}$ distribution. One asterisk (*) indicates that the (t or diagnostic) test is significant at 5% level, while two asterisks (**) indicate significance at

both OLS and instrumental variables. The assumption that the coefficients for $\log(w_t)$ and $\log(w_{t-1})$ are equal to those of $-\log(c_t)$ and $-\log(c_{t-1})$ was rejected in all but one year. Thus, only regressions with the real labour cost were used for final analysis.

Regressions fit surprisingly well.[7] As expected, there was a very significant structural break between all consecutive years. The difference between OLS and instrumental estimates is much larger in the first years of the sample, indicating the strong simultaneity effect of wage regulation. Residuals are always heteroscedastic, as expected, the non-normality of their distributions may be due to truncation that small firms are not in the sample. Functional form is only rejected for a couple of years. There does not seem to be significant sectoral effect in the instrumental estimates. Capital cost seems to matter increasingly in the later years. Instrumental estimates show a slightly different picture. Clearly, the available instruments are not perfect. However, when correcting for the possible endogeneity of the wage cost, capital cost proves to be irrelevant.

The effect of past employment is extremely high in the initial years. Interpreting the equation as a partial adjustment model it indicates strong stability of the behaviour in socialism. The long-run elasticity of the wage is very unstable, frequently insignificant from 1988. The long-run elasticity of output is more stable. The short-run elasticity of production became substantially larger in 1988, and gradually declined as transition progressed. The short-run wage elasticity shows a less clear path. It indicates that firms are very sensitive to real wage changes during transition.

Separate regressions were also estimated for relevant subsamples. Tables 3a and 3b summarize the estimates for subsamples where production increased or decreased. The downwards elasticity of production is usually much higher than the upwards elasticity. That tendency is apparent even in the beginning of the sample, except for 1987. It confirms other evidence: New behavioural patterns started to emerge already during the late socialism in Hungary. It is also evident that downsizing firms were also much more sensitive to real wages during the high transition years.

Tables 4, 5a and 5b present evidence on the effect of foreign ownership in the Hungarian corporate sector.[8] Clearly, sizeable foreign ownership changes the overall behaviour of the firm on the labour market. Foreign owned firms tend to have smaller short-run elasticities, probably indicating smaller financial pressure.

The international evidence on labour demand is rather mixed. Different studies use different assumptions and thus specifications, and the characteristics of the datasets vary considerably. However, comparing the labour demand models estimated for Hungary to the ones estimated either to developed market economies (for some recent studies *c.f.*,

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1% level. (The same applies to the consecutive tables.) Standard errors are heteroscedasticity consistent estimates. Diagnostic tests for instrumental estimates are based on the OLS residuals of the two stage estimation, standard errors and SEE(inst) are taken from direct instrumental variable estimates.

[7] The model was also estimated from differences, using the method of Anderson and Hsiao. Except for the first two years R^2 was rather high there as well, in the range of .55 to .7. However, differencing means the imposition of a homogeneous behaviour on two consecutive years which is rejected by structural break tests.

[8] The share of foreign ownership is small if it is less than 10% and large if greater than 50%.

Arellano and Bond [1991], *Bresson, Kramarz and Sevestre* [1992], *Hamermesh* [1992]), or other transition economies (*e.g.*, *Grosfeld and Nivet* [1997] or *Singer* [1996][9]) the Hungarian output and wage elasticities are very large. Further more, according to *Grosfeld and Nivet* [1997] the bulk of the adjustment occured in one single transition year (1991) in Poland, while in Hungary it seems to be a much longer, and more perturbed process.

5. Conclusions

The behaviour of the firms in a transforming economy can be pretty well described by a standard dynamic labour model, however, the interpretation of the model is different from the usual.

The good macroeconomic situation of the labour market in the late 1980's may just be a lucky coincidence. The gradual loss of employment due to the initial downsizing of the labour force was disguised by falling demographic trends, and by a swift to self employment. However, during the fast transition years of 1988–91 the high downwards production elasticity of employment very quickly created a large pool of unemployed and inactive people.

These estimates clearly reject the suggestion that transition was completed in 1992 on the labour market. Although there seems to be some stabilization in the properties of the estimated regressions in 1992-3, 1994 again shows strong signs of instability. It may well be related to the political environment, a kind of go-stop cycle. Apparently transition in the Hungarian corporate sector is a longer process than in Poland which may be related to differences in macro-economic policies in the two countries.

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[9] Singer uses monthly observations, thus the elasticities in that study correspond to a very different time frame.

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Table 2a: Labour demand equations

(Ordinary Least Squares Estimates)

Variable	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
$\ln(L_{-1})$	0.970	0.946	0.959	0.880	0.891	0.811	0.877	0.866	0.894	0.900
	(0.005) **	(0.007) **	(0.012) **	(0.018) **	(0.028) **	(0.025) **	(0.031) **	(0.031) **	(0.023) **	(0.023) **
ln(Q)	0.513	0.245	0.615	0.734	0.795	0.712	0.560	0.588	0.527	0.526
	(0.098) **	(0.042) **	(0.291) *	(0.084) **	(0.063) **	(0.039) **	(0.038) **	(0.045) **	(0.051) **	(0.042) **
$\ln(Q_{-1})$	-0.481	-0.195	-0.588	-0.653	-0.715	-0.559	-0.473	-0.504	-0.435	-0.465
	(0.095) **	(0.039) **	(0.285) *	(0.082) **	(0.067) **	(0.041) **	(0.039) **	(0.049) **	(0.054) **	(0.049) **
ln(W)	-0.507	-0.362	-0.494	-1.339	-1.162	-0.927	-0.628	-0.674	-0.745	-0.581
	(0.113) **	(0.066) **	(0.267)	(0.086) **	(0.141) **	(0.057) **	(0.068) **	(0.062) **	(0.098) **	(0.075) **
$\ln(W_{-1})$	0.456	0.291	0.531	1.139	1.116	0.613	0.557	0.494	0.544	0.431
	(0.095) **	(0.065) **	(0.276)	(0.103) **	(0.132) **	(0.054) **	(0.104) **	(0.055) **	(0.085) **	(0.085) **
Constant	-0.129	-0.129	0.224	-0.0002	0.124	-0.262	0.187	0.242	0.148	0.104
	(0.063) *	(0.039) **	(0.101) *	(0.124)	(0.121)	(0.105) *	(0.104)	(0.075) **	(0.066) *	(0.049) *
Long-run elasticities										
Production	1.072	0.943	0.654	0.679	0.732	0.813	0.705	0.628	0.871	0.602
	(0.145) **	(0.058) **	(0.098) **	(0.079) **	(0.114) **	(0.057) **	(0.079) **	(0.069) **	(0.077) **	(0.073) **
Wage	-1.693	-1.330	0.919	-1.670	-0.418	-1.666	-0.576	-1.351	-1.904	-1.497
	(0.845) *	(0.256) **	(0.603)	(0.404) **	(0.386)	(0.181) **	(0.512)	(0.246) **	(0.304) **	(0.224) **
Nob	502	521	507	528	558	720	642	549	761	944
Mean ln(L)	7.257	7.238	7.213	7.060	6.842	6.263	5.954	5.875	5.471	5.261
Mean employment	2047	2009	1943	1692	1400	967	760	665	510	413
Std. dev. ln(L)	0.844	0.843	0.836	0.874	0.949	1.163	1.286	1.209	1.345	1.300
SEE	0.072	0.065	0.124	0.189	0.301	0.315	0.305	0.245	0.269	0.259
R^2	0.993	0.994	0.978	0.954	0.900	0.927	0.944	0.959	0.960	0.960
$\overline{R}^2$	0.993	0.994	0.978	0.953	0.899	0.926	0.943	0.959	0.960	0.960
White hetero	421 **	110 **	482 **	194 **	76 **	135 **	326 **	217 **	240 **	416 **
JB normality	3364 **	1011 **	563640 **	2535 **	21792 **	3246 **	3637 **	3851 **	4163 **	3504 **
Reset $\widehat{y}^2$	0.50	5.45 *	0.14	4.51 *	0.12	5.39 *	0.002	2.48	8.04 **	4.53 *
Reset $\widehat{y}^2$, $\widehat{y}^3$	0.60	2.82	0.47	2.52	0.16	3.04 *	0.39	1.38	12.29 **	3.01
LM test for log(c)	2.29	2.11	2.56	3.48 *	0.65	10.43 **	5.80 **	0.39	5.45 **	1.29
LM test for sectors	0.64	3.87 *	2.25 *	1.87	3.05 **	6.80 **	1.81	2.92 **	5.50 **	2.13 *

Table 2b: Labour demand equations

(Instrumental Variable Estimates)

Variable	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
$\ln(L_{-1})$	0.969	0.947	0.983	0.889	0.878	0.931	0.892	0.921	0.952	0.929
	(0.008) **	(0.008) **	(0.007) **	(0.022) **	(0.050) **	(0.031) **	(0.036) **	(0.040) **	(0.027) **	(0.021) **
ln(Q)	0.512	0.303	0.577	0.735	0.794	0.700	0.558	0.557	0.526	0.527
	(0.101) **	(0.048) **	(0.290) *	(0.084) **	(0.063) **	(0.045) **	(0.033) **	(0.049) **	(0.052) **	(0.043) **
$\ln(Q_{-1})$	-0.479	-0.251	-0.569	-0.659	-0.706	-0.638	-0.484	-0.527	-0.479	-0.489
	(0.096) **	(0.044) **	(0.293)	(0.086) **	(0.080) **	(0.047) **	(0.043) **	(0.048) **	(0.058) **	(0.044) **
ln(W)	-0.498	-0.825	-0.131	-1.406	-1.072	-0.825	-0.619	-0.440	-0.731	-0.584
	(0.206) *	(0.150) **	(0.074)	(0.133) **	(0.205) **	(0.118) **	(0.054) **	(0.120) **	(0.173) **	(0.090) **
$\ln(W_{-1})$	0.448	0.739	0.181	1.198	1.014	0.699	0.572	0.432	0.607	0.470
	(0.178) *	(0.138) **	(0.077) *	(0.137) **	(0.191) **	(0.084) **	(0.100) **	(0.050) **	(0.132) **	(0.085) **
Constant	-0.127	-0.155	0.143	-0.027	0.136	-0.163	0.202	0.352	0.152	0.099
	(0.069)	(0.045) **	(0.059) *	(0.137)	(0.124)	(0.128)	(0.100) *	(0.101) **	(0.075) *	(0.053)
Long-run elasticities										
Production	1.060	0.999	0.454	0.687	0.720	0.908	0.693	0.376	0.972	0.521
	(0.142) **	(0.059) **	(0.279)	(0.092) **	(0.100) **	(0.174) **	(0.091) **	(0.272)	(0.191) **	(0.126) **
Wage	-1.661	-1.614	2.962	-1.877	-0.472	-1.821	-0.440	-0.109	-2.624	-1.599
	(0.868)	(0.297) **	(2.217)	(0.509) **	(0.463)	(0.840) *	(0.556)	(1.182)	(0.895) **	(0.417) **
Nob	502	521	507	528	558	720	642	549	761	944
Mean ln(L)	7.257	7.238	7.213	7.060	6.842	6.263	5.954	5.875	5.471	5.261
Mean employment	2047	2009	1943	1692	1400	967	760	665	510	413
Std. dev. ln(L)	0.844	0.843	0.836	0.874	0.949	1.163	1.286	1.209	1.345	1.300
SEE (inst)	0.072	0.070	0.129	0.190	0.301	0.323	0.306	0.258	0.272	0.260
SEE	0.362	0.344	0.345	0.470	0.493	0.564	0.637	0.601	0.634	0.657
R^2	0.817	0.834	0.831	0.713	0.732	0.765	0.756	0.754	0.778	0.745
$\bar{R}^2$	0.816	0.832	0.830	0.711	0.730	0.764	0.755	0.753	0.777	0.744
White hetero	120 **	54 **	205 **	254 **	120 **	85 **	259 **	121 **	179 **	151 **
JB normality	1085 **	1778 **	1939 **	3642 **	1814 **	1891 **	2277 **	1824 **	997 **	1217 **
Reset $\widehat{y}^2$	81.74 **	82.29 **	61.25 **	39.46 **	34.45 **	52.48 **	74.45 **	53.22 **	29.54 **	43.13 **
Reset $\widehat{y}^2$, $\widehat{y}^3$	44.00 **	43.21 **	30.73 **	19.97 **	17.41 **	29.06 **	37.85 **	27.76 **	31.05 **	25.23 **
LM test for sectors	0.62	0.103	0.18	0.31	1.28	1.42	0.43	0.39	1.07	0.27
LM test for log(c)	2.26	2.07	0.35 .	0.56	0.60	3.81 *	2.97	0.06	0.79	0.42

Table 3a: Labour demand equations by production trend

(Subsample estimates, OLS)

Variable	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Firms where production increased										
$\ln(L_{-1})$	0.979	0.947	0.969	0.945	0.930	0.786	0.853	0.898	0.935	0.907
	(0.006) **	(0.010) **	(0.006) **	(0.025) **	(0.035) **	(0.045) **	(0.054) **	(0.065) **	(0.021) **	(0.023) **
$\ln(Q)$	0.366	0.210	0.302	0.349	0.465	0.616	0.488	0.634	0.440	0.494
	(0.130) **	(0.062) **	(0.074) **	(0.202)	(0.141) **	(0.063) **	(0.079) **	(0.091) **	(0.070) **	(0.058) **
$\ln(Q_{-1})$	-0.337	-0.157	-0.285	-0.314	-0.425	-0.488	-0.409	-0.559	-0.379	-0.444
	(0.127) **	(0.061) *	(0.073) **	(0.192)	(0.134) **	(0.062) **	(0.082) **	(0.105) **	(0.073) **	(0.064) **
$\ln(W)$	-0.379	-0.347	-0.173	-0.310	-0.275	-0.923	-0.447	-0.702	-0.566	-0.474
	(0.121) **	(0.073) **	(0.047) **	(0.182)	(0.092) **	(0.080) **	(0.087) **	(0.094) **	(0.094) **	(0.075) **
$\ln(W_{-1})$	0.338	0.250	0.210	0.307	0.200	0.489	0.327	0.548	0.432	0.347
	(0.117) **	(0.072) **	(0.050) **	(0.154) *	(0.106)	(0.066) **	(0.099) **	(0.097) **	(0.091) **	(0.093) **
Constant	-0.155	-0.194	0.138	0.065	0.041	-0.112	0.259	0.117	0.093	0.138
	(0.042) **	(0.051) **	(0.072)	(0.106)	(0.111)	(0.148)	(0.118) *	(0.099)	(0.068)	(0.062) *
Long run elasticities										
Production	1.364	1.010	0.576	0.641	0.567	0.601	0.543	0.741	0.930	0.539
	(0.237) **	(0.074) **	(0.161) **	(0.184) **	(0.144) **	(0.086) **	(0.108) **	(0.121) **	(0.145) **	(0.097) **
Wage	-1.945	-1.859	1.216	-0.059	-1.078	-2.034	-0.813	-1.518	-2.076	-1.379
	(0.676) **	(0.335) **	(0.995)	(0.863)	(0.769)	(0.348) **	(0.291) **	(0.495) **	(0.459) **	(0.268) **
Nob	298	355	213	192	119	151	170	229	452	631
R^2	0.996	0.993	0.994	0.973	0.974	0.942	0.949	0.959	0.975	0.957
Chow test	20.56 **	1.36	27.30 **	45.91 **	8.24 **	5.52 **	4.91 **	1.40	7.07 **	6.81 **
Firms where production decreased										
$\ln(L_{-1})$	0.958	0.944	0.933	0.869	0.871	0.822	0.901	0.843	0.800	0.896
	(0.010) **	(0.010) **	(0.023) **	(0.017) **	(0.033) **	(0.029) **	(0.037) **	(0.021) **	(0.043) **	(0.038) **
$\ln(Q)$	0.841	0.230	1.018	0.757	0.856	0.798	0.596	0.614	0.588	0.588
	(0.112) **	(0.134)	(0.414) *	(0.127) **	(0.071) **	(0.064) **	(0.055) **	(0.071) **	(0.083) **	(0.117) **
$\ln(Q_{-1})$	-0.811	-0.185	-0.981	-0.692	-0.786	-0.659	-0.538	-0.523	-0.438	-0.524
	(0.112) **	(0.130)	(0.406) *	(0.127) **	(0.082) **	(0.061) **	(0.054) **	(0.075) **	(0.081) **	(0.127) **
$\ln(W)$	-0.458	-0.414	-0.640	-1.513	-1.227	-0.990	-0.676	-0.656	-0.865	-0.939
	(0.153) **	(0.132) **	(0.271) *	(0.071) **	(0.153) **	(0.082) **	(0.072) **	(0.078) **	(0.152) **	(0.157) **
$\ln(W_{-1})$	0.449	0.378	0.686	1.448	1.223	0.767	0.688	0.451	0.576	0.810
	(0.141) **	(0.129) **	(0.286) *	(0.086) **	(0.139) **	(0.067) **	(0.130) **	(0.066) **	(0.125) **	(0.146) **
Constant	0.091	-0.019	0.449	0.421	0.430	-0.065	0.363	0.331	0.332	0.089
	(0.088)	(0.051)	(0.206) *	(0.119) **	(0.143) **	(0.105)	(0.150) *	(0.118) **	(0.115) **	(0.077)
Long-run elasticities										
Production	0.719	0.816	0.546	0.503	0.542	0.780	0.596	0.576	0.753	0.617
	(0.142) **	(0.081) **	(0.096) **	(0.071) **	(0.137) **	(0.064) **	(0.136) **	(0.089) **	(0.062) **	(0.118) **
Wage	-0.205	-0.650	0.693	-0.500	-0.030	-1.256	0.124	-1.307	-1.449	-1.233
	(0.721)	(0.322) *	(0.542)	(0.319)	(0.435)	(0.208) **	(1.128)	(0.240) **	(0.230) **	(0.332) **
Nob	204	166	294	336	439	569	472	320	309	313
R^2	0.991	0.995	0.976	0.968	0.888	0.923	0.943	0.960	0.946	0.968

Table 3b: Labour demand equations by production trend

(Subsample estimates, instrumental variables)

Variable	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Firms where production increased										
$\ln(L_{-1})$	0.983	0.946	0.971	0.962	0.970	0.901	0.848	0.901	0.938	0.945
	(0.006) **	(0.012) **	(0.009) **	(0.023) **	(0.033) **	(0.046) **	(0.041) **	(0.049) **	(0.027) **	(0.024) **
$\ln(Q)$	0.358	0.242	0.223	0.381	0.677	0.547	0.497	0.354	0.365	0.367
	(0.086) **	(0.097) *	(0.101) *	(0.197)	(0.141) **	(0.088) **	(0.062) **	(0.108) **	(0.104) **	(0.050) **
$\ln(Q_{-1})$	-0.332	-0.186	-0.210	-0.357	-0.653	-0.520	-0.411	-0.320	-0.317	-0.365
	(0.086) **	(0.093) *	(0.100) *	(0.194)	(0.180) **	(0.083) **	(0.072) **	(0.114) **	(0.106) **	(0.047) **
$\ln(W)$	-0.320	-0.757	0.028	-0.207	-0.044	-0.770	-0.515	-0.233	-0.296	-0.257
	(0.095) **	(0.159) **	(0.099)	(0.164)	(0.162)	(0.186) **	(0.117) **	(0.144)	(0.217)	(0.089) **
$\ln(W_{-1})$	0.289	0.646	0.018	0.270	0.020	0.549	0.370	0.287	0.230	0.229
	(0.091) **	(0.145) **	(0.098)	(0.143)	(0.159)	(0.088) **	(0.120) **	(0.093) **	(0.176)	(0.076) **
Constant	-0.143	-0.208	0.139	0.112	-0.098	0.145	0.231	0.457	0.071	0.293
	(0.053) **	(0.064) **	(0.072)	(0.130)	(0.153)	(0.277)	(0.141)	(0.183) *	(0.081)	(0.060) **
Long-run elasticities										
Production	1.494	1.037	0.440	0.615	0.773	0.278	0.572	0.342	0.794	0.034
	(0.369) **	(0.078) **	(0.205) *	(0.298) *	(0.485)	(0.348)	(0.140) **	(0.275)	(0.151) **	(0.397)
Wage	-1.812	-2.060	1.604	1.653	-0.788	-2.231	-0.958	0.550	-1.078	-0.502
	(1.164)	(0.389) **	(1.001)	(2.294)	(1.886)	(1.153)	(0.241) **	(1.179)	(0.834)	(0.755)
Nob	298	355	213	192	119	151	170	229	452	631
R^2	0.850	0.859	0.889	0.853	0.907	0.721	0.767	0.750	0.759	0.703
Firms where production decreased										
$\ln(L_{-1})$	0.947	0.954	0.943	0.888	0.915	0.901	0.918	0.956	0.909	0.868
	(0.010) **	(0.008) **	(0.019) **	(0.025) **	(0.043) **	(0.038) **	(0.035) **	(0.052) **	(0.081) **	(0.039) **
$\ln(Q)$	1.047	0.111	1.004	1.244	0.379	0.891	0.602	0.833	1.013	0.633
	(0.106) **	(0.167)	(0.370) **	(0.340) **	(0.163) *	(0.082) **	(0.070) **	(0.093) **	(0.162) **	(0.135) **
$\ln(Q_{-1})$	-1.007	-0.073	-0.973	-1.187	-0.353	-0.811	-0.557	-0.839	-0.996	-0.548
	(0.106) **	(0.162)	(0.369) **	(0.335) **	(0.160) *	(0.074) **	(0.076) **	(0.094) **	(0.188) **	(0.142) **
$\ln(W)$	-0.705	-0.376	-0.739	-1.539	-1.197	-1.144	-0.605	-0.454	-0.517	-0.802
	(0.171) **	(0.173) *	(0.169) **	(0.081) **	(0.265) **	(0.164) **	(0.067) **	(0.157) **	(0.408)	(0.167) **
$\ln(W_{-1})$	0.690	0.356	0.801	1.441	1.308	0.995	0.664	0.500	0.451	0.635
	(0.166) **	(0.166) *	(0.186) **	(0.126) **	(0.251) **	(0.125) **	(0.124) **	(0.093) **	(0.285)	(0.185) **
Constant	0.105	-0.018	0.467	0.382	0.457	-0.040	0.404	0.567	0.699	0.126
	(0.093)	(0.050)	(0.169) **	(0.121) **	(0.153) **	(0.106)	(0.161) *	(0.125) **	(0.197) **	(0.097)
Long-run elasticities										
Production	0.772	0.830	0.534	0.506	0.297	0.813	0.556	-0.157	0.184	0.648
	(0.126) **	(0.090) **	(0.134) **	(0.086) **	(0.257)	(0.119) **	(0.168) **	(1.217)	(0.592)	(0.095) **
Wage	-0.276	-0.439	1.093	-0.881	1.306	-1.515	0.717	1.069	-0.734	-1.275
	(0.575)	(0.426)	(0.759)	(0.401) *	(1.528)	(0.508) **	(1.331)	(3.603)	(1.329)	(0.276) **
Nob	204	166	294	336	439	569	472	320	309	313
R^2	0.823	0.828	0.819	0.662	0.554	0.721	0.700	0.738	0.766	0.782

Table 5b: Labour demand equations by ownership

(Subsample estimates, instrumental variables)

Variable	1990	1991	1992	1993	1994	1995
No foreign ownership						
$\ln(L_{-1})$	0.891	0.882	0.907	0.928	0.921	0.912
	(0.024) **	(0.038) **	(0.039) **	(0.045) **	(0.033) **	(0.031) **
$\ln(Q)$	1.072	0.869	0.684	0.790	0.800	0.625
	(0.148) **	(0.050) **	(0.049) **	(0.087) **	(0.175) **	(0.145) **
$\ln(Q_{-1})$	-0.988	-0.762	-0.623	-0.739	-0.728	-0.579
	(0.150) **	(0.051) **	(0.062) **	(0.072) **	(0.173) **	(0.142) **
$\ln(W)$	-1.404	-1.030	-0.732	-0.569	-0.825	-0.531
	(0.057) **	(0.115) **	(0.067) **	(0.162) **	(0.312) **	(0.167) **
$\ln(W_{-1})$	1.208	0.813	0.700	0.579	0.633	0.455
	(0.086) **	(0.087) **	(0.110) **	(0.084) **	(0.256) *	(0.152) **
Constant	-0.077	-0.231	0.294	0.287	0.164	0.136
	(0.134)	(0.117) *	(0.145) *	(0.128) *	(0.141)	(0.112)
Long-run elasticities						
Production	0.773	0.909	0.661	0.706	0.918	0.523
	(0.105) **	(0.108) **	(0.134) **	(0.223) **	(0.195) **	(0.180) **
Wage	-1.799	-1.845	-0.339	0.134	-2.423	-0.870
	(0.446) **	(0.487) **	(0.752)	(1.509)	(0.873) **	(0.649)
R^2	0.558	0.661	0.659	0.646	0.720	0.676
Foreign ownership > 0%						
$\ln(L_{-1})$	0.817	0.923	0.880	0.901	1.021	0.968
	(0.076) **	(0.046) **	(0.046) **	(0.045) **	(0.052) **	(0.025) **
$\ln(Q)$	0.163	0.407	0.451	0.485	0.750	0.495
	(0.214)	(0.061) **	(0.091) **	(0.105) **	(0.143) **	(0.050) **
$\ln(Q_{-1})$	0.016	-0.423	-0.386	-0.450	-0.770	-0.489
	(0.223)	(0.058) **	(0.068) **	(0.109) **	(0.162) **	(0.053) **
$\ln(W)$	-0.953	-0.865	-0.636	-0.509	-0.453	-0.834
	(0.536)	(0.128) **	(0.159) **	(0.164) **	(0.291)	(0.136) **
$\ln(W_{-1})$	0.648	0.661	0.518	0.452	0.536	0.739
	(0.466)	(0.085) **	(0.169) **	(0.123) **	(0.209) *	(0.132) **
Constant	-0.523	0.423	0.276	0.412	0.165	0.091
	(0.290)	(0.223)	(0.179)	(0.127) **	(0.137)	(0.062)
Long-run elasticities						
Production	0.986	-0.209	0.536	0.354	0.923	0.201
	(0.115) **	(0.737)	(0.242) *	(0.319)	(0.662)	(0.578)
Wage	-1.674	-2.654	-0.978	-0.587	-3.869	-3.049
	(0.615) **	(1.151) *	(0.406) *	(0.747)	(5.120)	(1.840)
R^2	0.940	0.790	0.793	0.805	0.792	0.780
Majority foreign ownership						
$\ln(L_{-1})$		0.619	0.773	0.824	1.034	0.976
		(0.157) **	(0.072) **	(0.052) **	(0.058) **	(0.033) **
$\ln(Q)$		0.670	0.492	0.460	0.632	0.441
		(0.161) **	(0.098) **	(0.081) **	(0.190) **	(0.043) **
$\ln(Q_{-1})$		-0.444	-0.332	-0.353	-0.670	-0.451
		(0.189) *	(0.066) **	(0.108) **	(0.204) **	(0.051) **
$\ln(W)$		-1.177	-0.715	-0.497	-0.262	-0.738
		(0.238) **	(0.275) **	(0.105) **	(0.320)	(0.157) **
$\ln(W_{-1})$		0.592	0.475	0.371	0.322	0.663
		(0.161) **	(0.226) *	(0.113) **	(0.192)	(0.149) **
Constant		0.182	0.170	0.322	0.100	0.176
		(0.282)	(0.259)	(0.126) *	(0.129)	(0.061) **
Long-run elasticities						
Production		0.594	0.704	0.608	1.093	-0.428
		(0.097) **	(0.153) **	(0.112) **	(0.638)	(1.813)
Wage		-1.538	-1.057	-0.718	-1.722	-3.245
		(0.354) **	(0.373) **	(0.372)	(2.478)	(3.451)
R^2		0.789	0.761	0.835	0.799	0.763

Table 5b: Labour demand equations by ownership

(Subsample estimates, OLS)

Variable	1990	1991	1992	1993	1994	1995
No foreign ownership						
$\ln(L_{-1})$	0.885	0.816	0.893	0.900	0.897	0.890
	(0.032) **	(0.028) **	(0.038) **	(0.053) **	(0.036) **	(0.039) **
$\ln(Q)$	0.773	0.785	0.615	0.649	0.544	0.617
	(0.066) **	(0.048) **	(0.046) **	(0.063) **	(0.066) **	(0.064) **
$\ln(Q_{-1})$	-0.694	-0.637	-0.548	-0.577	-0.446	-0.555
	(0.077) **	(0.050) **	(0.051) **	(0.070) **	(0.071) **	(0.073) **
$\ln(W)$	-1.388	-0.999	-0.648	-0.682	-0.746	-0.570
	(0.199) **	(0.053) **	(0.068) **	(0.074) **	(0.135) **	(0.125) **
$\ln(W_{-1})$	1.357	0.707	0.626	0.527	0.512	0.460
	(0.181) **	(0.051) **	(0.125) **	(0.070) **	(0.114) **	(0.130) **
Constant	0.191	-0.218	0.315	0.144	0.063	0.149
	(0.131)	(0.110) *	(0.156) *	(0.130)	(0.088)	(0.092)
Long-run elasticities						
Production	0.684	0.808	0.623	0.731	0.941	0.563
	(0.115) **	(0.064) **	(0.117) **	(0.142) **	(0.127) **	(0.125) **
Wage	-0.268	-1.591	-0.211	-1.555	-2.269	-1.003
	(0.427)	(0.217) **	(0.844)	(0.468) **	(0.545) **	(0.410) *
R^2	0.892	0.916	0.937	0.952	0.957	0.947
Foreign ownership > 0%						
$\ln(L_{-1})$	0.864	0.877	0.872	0.829	0.908	0.912
	(0.075) **	(0.038) **	(0.044) **	(0.030) **	(0.028) **	(0.021) **
$\ln(Q)$	0.452	0.504	0.425	0.505	0.473	0.485
	(0.130) **	(0.053) **	(0.069) **	(0.057) **	(0.081) **	(0.050) **
$\ln(Q_{-1})$	-0.383	-0.443	-0.359	-0.402	-0.398	-0.433
	(0.093) **	(0.051) **	(0.061) **	(0.064) **	(0.084) **	(0.058) **
$\ln(W)$	-0.521	-0.725	-0.500	-0.668	-0.738	-0.624
	(0.147) **	(0.103) **	(0.142) **	(0.098) **	(0.143) **	(0.068) **
$\ln(W_{-1})$	0.321	0.537	0.407	0.455	0.565	0.467
	(0.162)	(0.086) **	(0.137) **	(0.080) **	(0.129) **	(0.074) **
Constant	0.181	0.178	0.316	0.310	0.219	0.099
	(0.256)	(0.133)	(0.136) *	(0.096) **	(0.093) *	(0.055)
Long-run elasticities						
Production	0.512	0.495	0.513	0.596	0.815	0.597
	(0.247) *	(0.160) **	(0.151) **	(0.082) **	(0.112) **	(0.087) **
Wage	-1.462	-1.530	-0.729	-1.244	-1.881	-1.783
	(0.747)	(0.386) **	(0.479)	(0.303) **	(0.476) **	(0.332) **
R^2	0.981	0.962	0.961	0.967	0.962	0.971
Majority foreign ownership						
$\ln(L_{-1})$		0.729	0.803	0.773	0.904	0.907
		(0.124) **	(0.073) **	(0.041) **	(0.036) **	(0.025) **
$\ln(Q)$		0.636	0.476	0.433	0.470	0.471
		(0.157) **	(0.076) **	(0.053) **	(0.078) **	(0.056) **
$\ln(Q_{-1})$		-0.482	-0.346	-0.282	-0.397	-0.419
		(0.180) *	(0.071) **	(0.064) **	(0.085) **	(0.063) **
$\ln(W)$		-0.942	-0.805	-0.547	-0.651	-0.596
		(0.132) **	(0.119) **	(0.089) **	(0.126) **	(0.077) **
$\ln(W_{-1})$		0.635	0.580	0.329	0.430	0.433
		(0.154) **	(0.135) **	(0.079) **	(0.108) **	(0.082) **
Constant		0.312	0.233	0.266	0.192	0.138
		(0.194)	(0.162)	(0.113) *	(0.109)	(0.071)
Long-run elasticities						
Production		0.567	0.658	0.665	0.763	0.563
		(0.099) **	(0.101) **	(0.068) **	(0.135) **	(0.103) **
Wage		-1.133	-1.139	-0.958	-2.318	-1.765
		(0.374) **	(0.354) **	(0.274) **	(0.473) **	(0.405) **
R^2		0.938	0.956	0.964	0.962	0.967