Credit Supply Shocks and Labor: Evidence from a Change in Accounting Norms*

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Abstract

We do a complete investigation of the effects of an exogenous credit supply shock, triggered by a change in accounting norms, on the labor market. In 2005, the introduction of new reporting norms for defined-benefit pension plans in Portugal led to large increases in the accounting value of bank pension liabilities. Affected banks increased both mandatory contributions to their pension plans and prudential deductions from core regulated capital, subsequently reducing their supply of credit. Using bank-firm credit exposures matched with a census of Portuguese employees, we first document that firms in a relationship with affected banks do not perfectly substitute credit and hence borrow less. Second, we find that affected firms reduce employment. We show that these employment effects are stronger not only among unskilled workers, but also among the highly educated ones. Workers holding a college degree, or occupying skill-intensive jobs - such as managers or specialists - are more likely to leave affected firms. Third, we find that there is a posititive wage premium when workers switch away from affected firms.

Keywords: Credit Frictions, Employment, Skills, Wages

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