

Research Statement

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My research covers topics in international finance and labour economics. In international finance, I have been working on two themes: global imbalances and cross-border spillovers. In labour economics, I have looked at the impact of the 35-hour workweek in France and at the effect of employment protection legislation on the employment of immigrants.

On **global imbalances**, my paper with Olivier Blanchard and Francesco Giavazzi, published in *Brooking Papers on Economic Activity* in 2005, uses a simple model of current account and exchange rate determination to interpret the behaviour of the US current account and the dollar and ask what might happen under alternative scenarios. The model shows that the increase in US net external debt and the depreciation of the dollar that occurred at that time can be explained by an increase in US demand for foreign goods and an increase in foreign demand for US assets. Recently, I have been working with Francesca Viani, from the European University Institute, on a related topic, looking at the impact that the growth of Sovereign Wealth Funds (SWFs) may have on global imbalances. Compared to central banks, SWFs have higher risk tolerance and invest less in US assets. These differences in portfolio allocation may have implications for the US current account and the dollar. To study this question, we adopt a dynamic general equilibrium model with two countries (the US and the rest of the world) and two asset classes (equities and bonds). We model preferences for assets in a similar way to Blanchard, Giavazzi and Sá (2005), but allow for endogenous adjustment in interest rates and asset prices. The model is used to simulate what would happen if ‘excess’ reserves held by Emerging Markets are transferred from central banks to SWFs. We conclude that the dollar would depreciate, US net debt would increase in the long run and there would be a reduction in the ‘exorbitant privilege’, i.e., the excess return the US receives on its assets over what it pays on its liabilities.

On **cross-border spillovers**, I worked with Chris Kubelec, from the Bank of England, in the construction of a dataset on the geographical composition of external assets and

liabilities for a group of 18 countries, including both developed and emerging economies. The data covers the years from 1980 to 2005 and distinguishes between four asset classes: FDI, equity, debt, and reserves. I believe this dataset is an important addition. While total external assets and liabilities are now well documented, following the work of Gian Maria Milesi-Ferretti and Philip Lane, little is known about the geographical composition of countries' external balance sheets. Such knowledge is important to understand to what extent shocks that originate in a given country may be transmitted to other countries. Indeed, this is the question we study in a related paper, where we use this dataset to analyse the impact of financial interlinkages on the magnitude of cross-border spillovers, using a Bayesian VAR model. The main finding of this work is that financial globalization increased the magnitude of cross-border spillovers, with the US playing a central role in generating spillovers to other countries.

On **labour economics**, I worked with Marcello Estevão, from the IMF, on a paper about the impact of the reduction of the workweek from 39 to 35 hours in France, which was published in *Economic Policy* in July 2008. We explore the fact that the reduction of the workweek was first implemented in large firms to construct a natural experiment, analyzing differences between employees in large and small firms before and after the law. Using data from the French labour force survey, we find that aggregate employment was unaffected by the reduction in the workweek, but labour turnover increased, as firms shed workers who became more expensive. We also look at the impact on welfare using happiness surveys and find that women but not men have benefited from the shorter workweek. In another project, I look at the effect of Employment Protection Legislation (EPL) on the employment of immigrants. Immigrants, being new to the labour market, may be less aware of the legislation and less likely to claim their rights in case of dismissal. This would generate a gap between the costs for employers of hiring a native relative to hiring an immigrant, giving immigrants a comparative advantage. I test this hypothesis drawing on evidence for the EU and on two natural experiments for Spain and Italy. The findings suggest that stricter EPL reduces employment, and hiring and firing rates for natives, but has no effect on most immigrants.

Looking forward, there are a number of questions I would like to study, both in international finance and in labour economics. In international finance, I am planning to use the dataset I constructed on bilateral external assets and liabilities to analyse spillovers to and from the UK. I would also like to apply the model I constructed with Francesca Viani to analyse the implications of the current financial crisis for the sterling exchange rate and UK net debt. The financial crisis has reduced foreign demand for UK assets, leading to a depreciation of sterling and an increase in the return the UK has to pay on its foreign liabilities. Our model is well-suited to shed light on this question. Also related to my work on global imbalances, I would like to look at the impact of US monetary policy on economies that are pegging to the dollar, especially China and oil exporters. It is frequently argued that these economies have been growing too fast, creating upward pressure on commodity prices. I would like to study whether US monetary policy is indeed too loose from a global perspective and what the optimal monetary policy would be under a coordinated equilibrium.

On labour economics, I would like to continue working on issues related to immigration. I would like to study how immigration is affected by exchange rate movements. It is sometimes argued that exchange rate depreciation in the host country induces immigrants to return to their home countries. I would like to test whether this is the case and what the consequences are for the home and host countries. I would also like to extend the work I have been doing on cross-border spillovers to include immigration. There are three main types of cross-border linkages: trade, finance, and labour. My work so far has focused on the second. I would like to extend it to look at the impact of immigration on the transmission of cross-border spillovers.