

Giupponi and Landais “Employment and Welfare Effects of Short-Time Work Programs”

Discussion by Monica Costa-Dias

2nd Annual Research Conference of Banco de España
Taxes and Transfers

Madrid, September 3-4, 2018

Overview and contributions

- ▶ One of very few studies of the effects of STW
- ▶ Looks at instantaneous and dynamic effects on firms, workers and the labour market in Italy during the recession
- ▶ Combines rich admin data with variation in treatment take-up in the aftermath of the financial crisis of 2008
- ▶ Uses structural model to interpret empirical evidence and conduct counterfactual analysis
- ▶ Findings
 - ▶ STW reduced hours and increased employment in treated firms
 - ▶ Securing jobs, but only in the short-term
 - ▶ Indirect -ve effects on employment of non-treated firms
 - ▶ Rational: STW increases tightness in the labour market
 - ▶ Counterfactual: UI may attenuate indirect effect by limiting the reduction in hours

Overview and contributions

- ▶ One of very few studies of the effects of STW
- ▶ Looks at instantaneous and dynamic effects on firms, workers and the labour market in Italy during the recession
- ▶ Combines rich admin data with variation in treatment take-up in the aftermath of the financial crisis of 2008
- ▶ Uses structural model to interpret empirical evidence and conduct counterfactual analysis
- ▶ Findings
 - ▶ STW reduced hours and increased employment in treated firms
 - ▶ Securing jobs, but only in the short-term
 - ▶ Indirect -ve effects on employment of non-treated firms
 - ▶ Rational: STW increases tightness in the labour market
 - ▶ Counterfactual: UI may attenuate indirect effect by limiting the reduction in hours

Discussion

1. Identification of effects on eligibles/treated
2. Indirect effects of STW
3. Mechanisms underlying effects

Natural experiment using recession shock

- ▶ No policy reform, but Great Recession affects the take-up of STW
- ▶ Identification exploits eligibility rules (size,industry) \times recession
- ▶ Validity of estimates of effects of STW on workers/firms requires
 1. No differential effects of recession on eligibles & ineligibles
 - * Can administrative differences relate to potential outcomes and policy environment?
 - * Consider estimating effects using only size?
 2. Eligibility is not manipulated
 - * Easy to manipulate size, at least at the margin
 - * Effect of recession on size of small firms in eligible sectors?
 3. STW does not affect mortality

Natural experiment using recession shock

- ▶ No policy reform, but Great Recession affects the take-up of STW
- ▶ Identification exploits eligibility rules (size,industry) \times recession
- ▶ Validity of estimates of effects of STW on workers/firms requires
 1. No differential effects of recession on eligibles & ineligibles
 - * Can administrative differences relate to potential outcomes and policy environment?
 - * Consider estimating effects using only size?
 2. Eligibility is not manipulated
 - * Easy to manipulate size, at least at the margin
 - * Effect of recession on size of small firms in eligible sectors?
 3. STW does not affect mortality

Natural experiment using recession shock

- ▶ No policy reform, but Great Recession affects the take-up of STW
- ▶ Identification exploits eligibility rules (size,industry) \times recession
- ▶ Validity of estimates of effects of STW on workers/firms requires
 1. No differential effects of recession on eligibles & ineligibles
 - * Can administrative differences relate to potential outcomes and policy environment?
 - * Consider estimating effects using only size?
 2. Eligibility is not manipulated
 - * Easy to manipulate size, at least at the margin
 - * Effect of recession on size of small firms in eligible sectors?
 3. STW does not affect mortality

Natural experiment using recession shock

- ▶ No policy reform, but Great Recession affects the take-up of STW
- ▶ Identification exploits eligibility rules (size,industry) \times recession
- ▶ Validity of estimates of effects of STW on workers/firms requires
 1. No differential effects of recession on eligibles & ineligibles
 - * Can administrative differences relate to potential outcomes and policy environment?
 - * Consider estimating effects using only size?
 2. Eligibility is not manipulated
 - * Easy to manipulate size, at least at the margin
 - * Effect of recession on size of small firms in eligible sectors?
 3. STW does not affect mortality

Indirect effects of STW

- ▶ Model of heterogeneous firms (as in Cooper et al 2017)
 - ▶ Adjustment cost: low productivity treated firms hoard labor
 - ▶ LM tightness raises cost of hiring and productive firms hire less
- ▶ Current paper quantifies the latter effect using LLM variation in size of eligible/treated population
- ▶ Empirical evidence for UK (Bernick et al 2017, Griffith, Miller 2015)
 - ▶ Industries are asymmetrically distributed across locations
 - ▶ And so is firm size
 - ▶ Recession changed the trajectory of productivity differently across industries
- * Does the prevalence of STW eligibility/take-up correlate to other LLM characteristics that shape the impact of the recession?

Other potential mechanisms

- ▶ Stylised model may miss some determinants of the effects of STW
- ▶ **Worker heterogeneity** (Balleer et al 2016)
 - ▶ Treated firms reduce hours of least productive workers
 - ▶ These are likely to experience longer unemployment spells if displaced
- ▶ **Job-to-job transitions**
 - ▶ Important role in driving productivity and wage progression
 - ▶ But strongly pro-cyclical (Shimer 2005, Hyatt 2015)
 - ▶ STW may affect mobility between jobs during recession
- ▶ **Human capital**
 - ▶ Part-time penalty in HC (Blundell et al 2016)
 - ▶ STW may affect future worker productivity and wages
- ▶ **Product market** (Michaillat and Saez, 2015)
 - ▶ STW may attenuate drop in demand during recession years
 - ▶ Which could feedback into labour demand