The views expressed here represent the discussant’s personal opinions and do not necessarily reflect the views of the Deutsche Bundesbank or the Eurosystem.
What is Short-Time Work?

– a marginal employment subsidy targeted at temporarily distressed firms facing, e.g. credit constraints

– firms, who reduce working hours along the intensive (hours per worker) margin, pay wages only for actual hours worked

– a government-financed fund partially compensates the affected employees for their loss of income
Cost-Efficient Job Saver or Strong Windfall Effects?

– empirical macro-level studies typically find positive employment effects

– evidence from firm level data is rather mixed, but often suffers from negative selection bias

– based on French firm level data, the current paper proposes a new strategy to instrument STW programme use

– in addition, the authors develop a directed search and matching model
STW in France and the OECD

**Figure 2.** STW take-up rates between 2007Q1 and 2010Q4 for all countries in our sample.

*Source: Brey & Hertweck (2018)*
Contribution to the Theoretical Literature

- based on a random search and matching model, Cooper et al. (2017) argue that STW may \textbf{deteriorate the allocative efficiency} of the labour market.

- the current paper adds \textbf{within-firm job heterogeneity} & \textbf{directed} search.

$\Rightarrow$ the authors argue that STW sustains jobs at a \textbf{relatively low cost}, because the subsidy is conditional on low hours.

$\Rightarrow$ moreover, in the presence of credit market imperfections, STW \textbf{prevents inefficient} job destruction.
Illustration of the Main Channel

Figure 4: The relation between productivity $y$ and hours worked with short-time work (continuous red line) and without short-time work (dashed black line).

Notes: $\bar{y}$ stands for the threshold number of hours worked below which short-time work applies. $\bar{\bar{y}}$ stands for the threshold value of productivity below which jobs are destroyed absent short-time work. $\bar{y}_1$ stands for the value of this threshold when there is short-time work.

Source: Cahuc, Kramarz, Nevoux (2018)

– do hours worked really rise linearly with productivity?
Main Comments: Model

- Why only a **one-period model**?

- the main purpose of STW is to help temporarily distressed firms, i.e. to preserve employment relationships with a **positive net present value**, but a negative flow income, which forces credit-constrained firms otherwise to destroy jobs with positive continuation values

- Include also **firing costs**?

- in OECD data, STW and strict **employment protection legislation** (EPL) are positively correlated (Hijzen & Venn 2011), which indicates that STW is meant to overcome the lack of flexibility imposed by strict EPL
Contribution to the Empirical Literature

- new **strategy to instrument** STW programme use

- exploit the *départemental* heterogeneity in the 2008:
  - response time to STW applications and the
  - firm-to-firm diffusion

⇒ effects are particularly strong for firms facing **deteriorated profitability** and finances

⇒ STW enables those firms to engage in **labour hoarding** and recover **quickly in the aftermath** of the recession
Main Comments: Empirical Part I

- Why is STW an indicator variable?

- related to that: if the intensive margin of STW (take-up) is explicitly considered, it is possible to regress the employment growth rate on the change in STW take-up ($\Delta STW$)

- intuition: increases in STW ($\Delta STW > 0$) dampen the drop in the employment growth rate in recessions

- but in the early recovery, when STW schemes expire ($\Delta STW < 0$), the employment growth rate rises less, because firms simply increase working hours of former STW participants back to normal instead of hiring new employees

- the level specification, by contrast, assumes that maintaining a high level of STW take-up leads to a sustained high level of the employment growth rate (see also Brey & Hertweck, 2018)
Main Comments: Empirical Part II

– claim: only jobs with large hours reductions would have been destroyed, those with little reduction are windfall candidates

– however, cross country evidence (Brey & Hertweck 2018) indicates that the effects of STW are weaker in those countries, where the average hours reduction per STW participant are larger

– this may be due to the fact that STW in those countries is used as a substitute for temporary lay-offs (see Hijzen & Venn 2011) and thus causes displacement effects

– this is not necessarily a contradiction, since some regulation in the French labour code may rule out this phenomenon
Average Hours Reduction Across the OECD

**Figure 6.** The estimated dampening effect of STW take-up rates on the unemployment rate at different values of GDP growth. The orange plane represents our baseline version, the blue plane represents the sample without the “high AHR” countries, and the green plane represents the sample without the “low AHR” countries.

*Source: Brey & Hertweck (2018)*
Summary

- very nice piece of work
- well written
- I enjoyed reading the paper very much
References

