

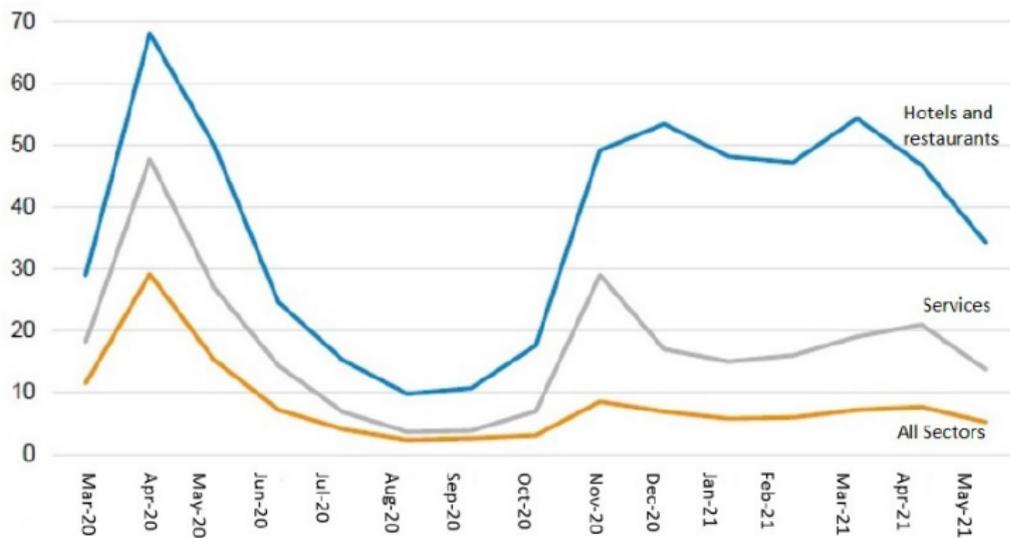
Discussion: Giupponi, Landais, Lapeyre (2021)
Should We Insure Workers or Jobs During Recessions?

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Short-time Work during the Pandemic in France

Figure 1: Share of Employees on Short-time Work across Sectors, March 2020 to May 2021



Source: Coeuré Commission.

Short-time Work during the Pandemic in France

- Short-time work subsidies were a key ingredient to make it acceptable to shut down large sectors of the economy and order home lockdowns in France
 - ▶ Between March 2020 and June 2021, 35.2 billion euros devoted to short-time work subsidies
- STW appears to have been successful at achieving its main goals:
 - ▶ To compensate workers and firms for state-ordered shutdowns
 - ▶ To reduce uncertainty and maintain aggregate demand (in contrast with McKay and Reis 2016)
- But not the right tool to address the new macroeconomic challenges:
 - ▶ Increase in labor market tightness
 - ▶ Necessary increase in bankruptcy rates to preserve allocative efficiency

Roadmap

- ① Reallocation effects of UI vs. short-time work schemes
- ② Fraud detection

[1/2] Reallocation Effects: UI vs. Short-time Work Schemes

*Both UI and STW have the potential to hinder reallocation, although the mechanism by which they do so differs. In theory, **UI is a general brake to aggregate reallocation**: by lowering the search effort of the unemployed, it can slow the pace at which workers who have been dismissed from lower productivity jobs may move to more productive matches. **STW is a specific brake to sectoral/firm reallocation**: it prevents workers in firms/sectors that are hit by productivity shocks to reallocate to other firms/sectors **by keeping them in their jobs**. How problematic that is for aggregate productivity depends on whether the shock is temporary or permanent: if the shock is permanent, then STW may subsidize persistently unproductive matches and hinder reallocation towards more productive job matches.*

Reallocation Effects: UI vs. Short-time Work Schemes

- Is the reallocation effect of STW conceptually different from UI?
 - ▶ If it wasn't possible to put a new employee on STW, the distortion would be much stronger with STW, which would subsidize existing links only
- In France, anyone could be put on STW, even immediately after a job-to-job transition
 - ▶ The scheme does not subsidize reduced work hours for existing employer-employee links only, but for *all* links
 - ▶ No distortion from the point view of existing vs. new employer-employee links

Reallocation Effects: UI vs. Short-time Work Schemes

- STW helps maintain "zombie links" (old or new) and reduce search effort from workers who would have otherwise become unemployed
 - ▶ Conceptually very similar to UI
- Reallocation effects might differ primarily because of the replacement rates for net earnings under UI vs. STW
 - ▶ In France, replacement rate was larger for STW (about 84% for a typical workers) relative to UI (below 70%).

[2/2] Fraud detection

- Fraud detection program was launched by the Labor Ministry in May 2020
 - ▶ Audits based on firms' balance sheets records, as well as in-depth random audits
- As of June 2021, the Labor Ministry had carried out 47,700 audits
 - ▶ In 62% of cases, the audits revealed no fraud and no inaccuracies
 - ▶ In 31% of cases, the audit revealed that the firm had provided an incomplete or inaccurate application - within those cases, 87% led to an obligation for firms to partly reimburse public funds
 - ▶ Finally, 7% of cases appeared to constitute outright fraud - for example, involving identity theft or the creation of fictitious firms
- Strengthening fraud detection schemes is an important direction to prepare for the next crisis