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
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.

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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.
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%).
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