DISCUSSION
Baleer, Gehrke, Lechthaler, Merkl 2014: Does Short-Time Work Save Jobs? A Business Cycle Analysis

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Eltville, June 12, 2014

Motivation

- STW as explanation for the labor market performance during the Great Recession?

- STW encourages to adjust labor input along the intensive margin instead of the extensive margin

- how important was the discretionary component of STW for the German labor market performance during the Great Recession?

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Purpose/Result

- disentangle effects of rule-based and discretionary STW components on output and unemployment

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Approach

- step 1: estimate (semi-)elasticity of the rule-based component of STW with respect to output

- step 2: estimate effects of discretionary STW policy on unemployment

- step 3: develop model to rationalize ineffectiveness of discretionary policy and conduct simulation analysis

Ineffectiveness of Discretionary STW (1)

- firing threshold $\epsilon_t > \nu_t^f$

$$\nu_t^f = a_t - w_t - c_f + \frac{\beta\mathbb{E}[J_{t+1}] + f - C(K(\nu_t^f))}{1 - K(\nu_t^f)}$$

- short-time work threshold $\nu_t^f > \epsilon_t > \nu_t^k$

$$\nu_t^k = a_t - w_t - c_f - D_t + \beta\mathbb{E}J_{t+1}$$

Ineffectiveness of Discretionary STW (2)

- one-period change in D_t: continuation value and wage are unaffected (collective bargaining)

- multi-period change in D_t: economic meaning of unit increase in D_t and autocorrelation of 0.5?

- does a multi-period adjustment of D_t reflect an extension of the eligibility period of STW?

- surprising result (i.i.d. cost shocks and low probability of ending up in STW)?

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Effectiveness of Rule-Based STW

- automatic stabilization mechanism

  - share of workers on STW: countercyclical

  - average hours reduction of workers on STW: procyclical

- increase in firing rate: 2.4 (STW) and 2.2 (no STW)
  ⇒ sufficient to generate substantially different
  volatility in unemployment rate?

- effect of business cycle indexed D_t?

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Bargaining

- collective bargaining introduces inflexibility that is partly reduced by STW

- more flexible labor markets (Nash-Bargaining over wages): effect of STW is reduced

- even more flexible labor markets (Nash-Bargaining over wages and separation rate): effect of STW is zero?

Calibration

- fixed cost of production to *match* volatility of unemployment
  $\Rightarrow$ volatility is not targeted

- logistic distribution for explicit threshold values
  - analytical results for impulse response
  - model structure leads to poly-log and zeta functions

- disperse production cost distribution: $\sigma(\epsilon) \approx \sqrt{\pi}$
  $\Rightarrow$ calibrated threshold substantially higher than actual productivity (normalized to unity)?

Minor Points

- balanced budget in each period

- flexibility and resilience of labor market and effectiveness of short-time work (US vs. Germany)

  - why did Italy under-perform?

  - what about policy recommendations for Spain?

- STW as measure to avoid loss of job specific skills: dynamic aspects of STW are missing