EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-CEPR 2019 Labour Market Workshop

"The Long-Run Earnings Effects of a Credit Market Disruption"

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Discussion: Alexander Popov (ECB)

Motivation: The butterfly effect of a bank funding shock

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Bank funding shock

(Japanese RE, US subprime, Pakistani nuclear test)

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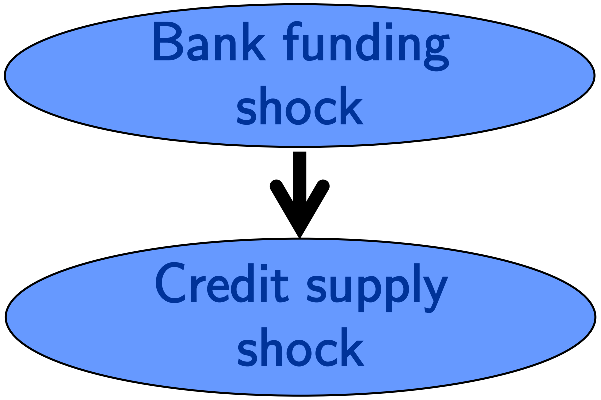

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(Peek and Rosengren, 1997; Puri et al.., 2010)

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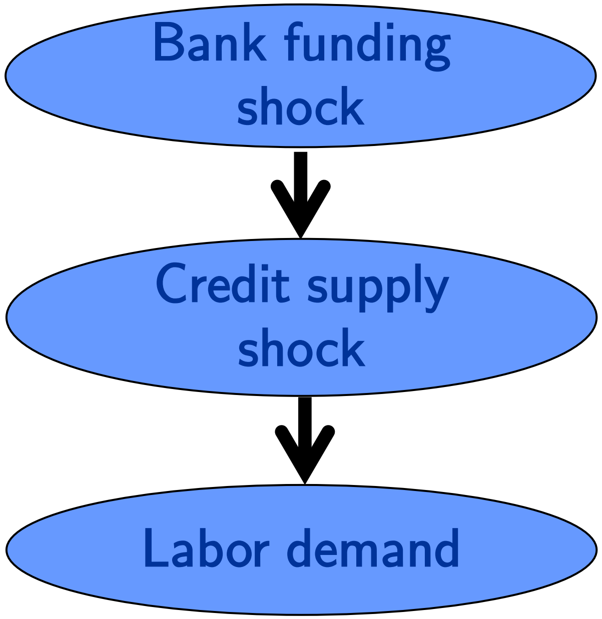

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(Chodorow-Reich, 2014; Duigan-Bump et al., 2015; Popov and Rocholl, 2018)

Viviano et al., “The long-run earnings effects of a credit market disruption”

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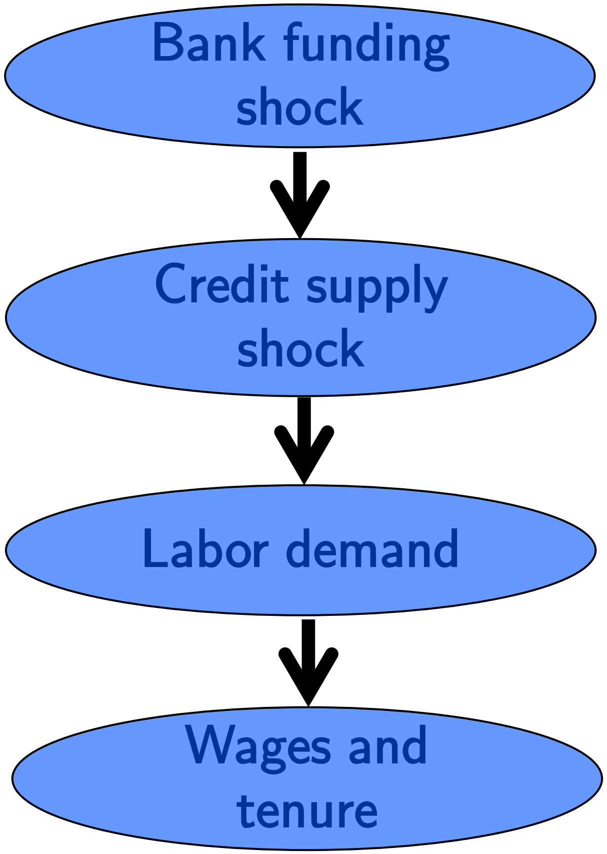

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(This paper)

Motivation: The butterfly effect of a bank funding shock

Bank funding shock	(Japanese RE, US subprime, Pakistani nuclear test)
↓	
Credit supply shock	(Peek and Rosengren, 1997; Puri et al.., 2010)
↓	
Labor demand	(Chodorow-Reich, 2014; Duigan-Bump et al., 2015; Popov and Rocholl, 2018)
↓	
Wages and tenure	(This paper)
↓	
Human outcomes	(?)

This paper

- Impact of a credit disruption on workers’ employment, wages, and tenure
  - Exposure to wholesale funding in 2007-08 on post-crisis employee outcomes
- 5 different datasets to achieve a bank-employer-employee match
- Main finding: employees in firms connected to banks affected in 2007-08
  - More likely to lose their jobs
  - Receive lower lifetime earnings
  - Especially if they change jobs, but also at same job
  - Concentrated among white-collar workers

Main reaction

- Novel message, comprehensive analysis, multiple robustness checks
  - Crowded literature on credit shocks
  - Hard to make it not “another bank funding shock paper”
  - Documenting a crucial ripple in the butterfly effect of a bank funding shock

- Paper rich and comprehensive
  - No issues with originality
  - Should and will be published well!
  - Some “big picture” and some econometric comments

Comment 1. Credit demand

- When you are far down the chain of events, you need to document all previous steps
- Step 1: bank funding shocks translates into a credit decline
- Authors show that firms with relatively higher weighted exposures to wholesale funding experience a larger decline in borrowing
  - But, such firms could also have worse unobservables (e.g., growth opportunities)
  - Better to use the Khwaja and Mian (2005) approach
    - Same firm borrowing from multiple banks, firm FEs
  - Italian firms borrow on average from 8 banks

Comment 2. Multiple bank relationships

- Italian firms borrow on average form 8 banks

- They can therefore substitute among funding sources
  - Especially in the long-run (which is what the authors are looking at)

- Average exposures may not matter!
  - Rather—is the firm borrowing from at least one healthy bank?
  - Identification compromised, aggregate effect mismeasured
  - Solution: focus on single-bank firms

Comment 3. Heterogeneity

- Earnings-loss effects / unemployment effects are larger:
  - at older firms;
  - among workers with lower tenure;
  - among white-collar workers

- Further margins can be exploited
  - Firms / sectors where firm-specific human capital is more important (hysteresis)
  - Male / female (firing gender bias?)
  - Old / young (closer to retirement? Insurance / job stability argument)

Minor issues

- Clustering should be at the unit of the shock (bank)
- Identification relies on assumption of orthogonal labor supply and demand shocks
  - Can labor supply be identified?
  - Supply could go up at “affected” firms, explaining decline in wages
- External validity?
  - Italy, France: core / peripheral labor markets
  - Different euro area countries: firing more / less difficult
  - Germany: government contribution, short-term arrangement
- Next paper: human outcomes!

Conclusion

- Interesting paper, fresh look at the “another bank funding shock” paper
- Important insights into the labor market effect of credit shocks
- Several directions to take the paper in terms of tying loose ends
- Good luck publishing the paper and getting your message through! ☺