The Consequences of Short-Time Work: Evidence from Japan*

Takao Kato and Naomi Kodama**
January 29, 2019

Abstract

While there is a growing body of evidence on the efficacy of STW (publicly subsidized worksharing) in reducing working hours and job losses, there is only limited evidence on the consequences of STW for firm performance. Theoretically STW can have both positive and negative consequences for firm performance. On the one hand, STW can be argued to benefit the employers ultimately by preserving firm-specific human capital and avoiding the negative effect of layoffs on workplace morale and productivity. On the other hand, STW allegedly distort the firm's efficient use of inputs and induces adverse worker sorting, resulting in productivity losses and reduced profitability. We apply the Propensity Score Matching (PSM) with difference-in-differences methodology to unique data on STW from Japan, a country known for its extensive use. We find the first rigorous econometric evidence on the positive consequences of STW for firm performance measured by ROA and profit margin. Our evidence is less subject to bias due to selection on unobservables, for our data allow for the use of unusual proxies for such unobservables in PSM. To be consistent with the observed positive consequences of STW, we find no evidence on the distortionary effects of STW on the firm's efficient use of inputs. Furthermore, no evidence is found for any increase in the payroll cost. The literature tends to point to the positive impact of STW on employment and support the efficacy of STW as a job saver. However, if STW harms firm performance and ultimately the efficiency of the economy, policymakers ought to consider not only the benefit of STW but also the cost of STW to the employers and the efficiency of the economy. Our findings suggest that STW has no negative consequence for firm performance, and hence is likely to be a win-win policy instrument.

JEL codes: J23, J65, J68, H25
Key words: Short-Time Work, Worksharing, Employment Adjustment, Firm Performance, and Propensity score matching with difference-in-differences

*Acknowledgements forthcoming.

**Kato is *W.S. Schupf Professor in Economics and Far Eastern Studies*, Colgate University; *Research Fellow*, IZA-Bonn; *Faculty Fellow and Mentor*, School of Management and Labor Relations, Rutgers University; *Research Fellow*, TCER-Tokyo; *Research Associate*, CJEB (Columbia Business School) and CCP (Copenhagen Business School and Aarhus University); and *Senior Fellow*, ETLA (Helsinki). email; tkato@colgate.edu. Naomi Kodama is Professor of Economics, Nihon University, and Research Associate of RIETI (Research Institute of Economy, Trade, and Industry). email: kodama.naomi@nihon-u.ac.jp. .