Fiscal Consolidation and the Labor Market in Europe: Firm Level Theory and Evidence

Ruhollah Eskandariy,
Gulcin Ozkanzand Paulo Santos Monteirox

Discussant:
Vladimír Peciar

Motivation

- Lack of focus on heterogeneous effects of VAR/consolidation emprical literature on the business sector
- Scarcity of firm-level data
- Investigate the heterogeneous effects across countries/firms and different groups

The model and data

- Panel VARX
- Theoretical model
- The authors are using Compnet database at 1-digit and 2-digit NACE level
- The authors use the so called „narative“ approach to identify fiscal consolidations

Results

- Tax-based fiscal consolidations lower firm-level employment and investment but raise labor productivity
- Fiscal consolidations lead to higher firm leverage and also raise cash holdings
- Fiscal consolidations lower investment by small and financially constrained firms mostly.

Questions

- **Data**
  - How many fiscal consolidation episodes do we have? Complement the figures.
- **Empirical framework**
  - Why panel VARX? Assumptions why the countries are dependent on each other.
  - Reasoning behind the dynamic and static interdependencies in the firm/sectoral level data.
  - Vector m is not described (page 9)
  - Baseline/extended results require more comments/detailed description. What are the channels behind the movements/dependencies in the selected variables ?
  - Orbis data might be useful to complement the results

Questions

- **Theory**
  - Eq. (3) X = M? Cash holdings.
  - Eq. (5) is it correct? There is Z.
  - In general, it would be welcomed to have more comments on the equations.

- **Appendix figures** – not clear to me, lacks description and story