

FMA Annual Meeting

Discussion of: **Corporate Reorganization as Labor Insurance in Bankruptcy**

by Diana Bonfim and Gil Nogueira

Discussant: Donghyun Kang (Copenhagen Business School)

October 21, 2022

Summary of findings

What is the effect of reorganization on bankrupt firms' workers?

Workers in reorganized firms, *relative to those* in liquidated firms:

- Earn more wages, both in short and long terms (about 18-19 pp +)
 - Are more likely to stay in the same firm (as expected)
 - Decomposition: likelihood of employment is similar (extensive margin), but wage is higher conditional on employment (**intensive margin**)

This suggests liquidated workers switch to jobs with lower wage premium

- liquidated workers are more likely to move to less skill-intensive jobs
 - e.g., architect → mason
- Reorganized workers enjoy more time before switching jobs

Big picture question

This paper asks a positive question: does reorganization benefit workers?

A normative question: *should* the design of the bankruptcy law consider workers?

- In principle: workers have control rights as much as claims (eg, wage arrears)
 - Their future job prospects are not part of the claims
- In reality: workers shape bankruptcy outcomes via unions (Campello et al 2018)

The finding does not imply that the bankruptcy system should be more labor-friendly

This paper uncovers that, when formal unemployment insurance is weak, reorganization may be its partial substitute for workers

Which group is driving the effect?

“Workers of reorganized firms have higher wages *relative to* those of liquidated”

But we cannot tell which group is driving the effect of reorganization

- Is it from the gains of reorganized workers?
- Or from the deterioration of liquidated workers?

Provide descriptive figures: plot € wage over the event window across two groups

Implication of the findings would differ across the driving group

- If the former: reorganization reallocates workers to more productive uses
- If the latter: reorganization mitigates the negative consequences of firm-level shocks
 - More consistent with the insurance hypothesis

Wage vs. total income

The paper's main outcome variable is wage

Wage loss, after liquidation, can be compensated with other types of income

- Unemployment insurance benefits may partially offset wage loss
- Workers may react by becoming entrepreneurs, earning non-wage incomes

The effect on *total income* may be smaller

If data on total income are available, I'd like to see results using both variables

If not available, give us idea on worker outcomes after job displacement in PT

- UI benefits, entrepreneurship/self-employment behavior

External validity

Describe worker rights in reorganization and its impact on Portuguese workers in reorganization (Ellul and Pagano 2019):

- Can collective bargaining agreements previously entered by the debtor be modified by the reorganization plan?
- How are employees' claims to the firm treated? Seniority?

If Portuguese workers' rights in reorganization are stronger than other countries, then the estimates are likely the upper bound

- since reorganization would confer larger benefits to Portuguese workers

Additional comments

Table 1: measured at which event time? $t = 0, -1, -2$?

Figure 4: shouldn't you set the reference year as year -1, not year 0? Wage growth is defined as the ratio btw $(wage_{\{+1,+5\}})/(wage_{-1})$

Table 7: clarify which event windows are used to measure job transition: $t = -1, +5$?

Table A1, col 2: clarify what the threshold is for 'insufficient' number of cases to compute judge leniency?

Conclusion

Great paper on an important question: what's the effect of bankruptcy reorganization on workers?

- Nice data and empirical design

Interesting findings

- Liquidation incurs labor insurance costs
- Liquidated workers get lower wages, move to less skill-intensive jobs, and rush to find new jobs

Would like to see more discussions on results, to be more comparable to other contexts