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Summary of presentations and comments by discussants and audience

Day 1: Monday, 26 August

Morning session: Credit, employment and inequality

- **Samuel Bentolila**, *When Credit Dries Up: Job Losses in the Great Recession* (with **M. Jansen**, **G. Jiménez** and **S. Ruano**).

  The recent financial crisis has fostered new interest in the real effects of credit supply shocks, in particular the impact of credit constraints on employment both in the aggregate and at the firm level. Using a unique firm-loan-bank dataset, **Bentolila, Jansen, Jiménez** and **Ruano** attempt to measure the employment effects of the credit crunch in Spain by exploiting differences in banks' health at the onset of the crisis. The main idea is that firms' initial exposures to different groups of banks (weak and strong ones) can be used to identify the firms that are more likely to be affected by credit shocks during the crisis. The authors document that firms with a relatively large exposure to weak banks at the onset of the crisis destroyed a larger fraction of their jobs in the period between 2006 and 2010 than other firms. Specifically, firms' attachment to weak banks caused a differential employment drop between 3.2 and 6.2 percentage points depending on the estimation method, i.e. a 18% to 35% larger job destruction than at non-attached firms. Surprisingly, firms attached to a single weak bank have not suffered larger job losses than those attached to a single healthy one, possibly due to banks' choice to "evergreen" their loans.

  While employing a rich set of strategies (ranging between standard difference-in-difference and matching techniques), the empirical approach of the papers may be affected by attenuation bias due to the misclassification of control and treatment groups (i.e. treated firms in the control group and vice versa), stemming from the transformation of a continuous sorting variable into a discrete one. While employing a rich set of strategies (ranging between standard difference-in-difference and matching techniques), the definition of the control and of the treatment group based on the transformation of a continuous variable (the ratio of ex-ante loans from weak banks to total assets) into a discrete one, may create a problem of misclassification of firms (some treated firms in the control group or viceversa) that may bias the estimates. Moreover, the high statistical significance of estimates may be driven by the vast sample dimension, which is close to the underlying population: with very large samples, the empirical issue lies more in the actual magnitudes of estimates than on their statistical significance. Addressing this issue, however, would require identifying a benchmark for evaluation, which is actually not provided by the authors. By the same token, it is hard to assess the aggregate effect on employment for policy purposes, as the paper estimates only differential employment effects across firms with different exposures to the credit sector.

- **David Thesmar**, *Employment and Credit Constraints* (with **T. Chaney** and **D. Sraer**).

  How do credit constraints impact the labor demand of firms? To address this question, **Chaney**, **Sraer** and **Thesmar** provide an indirect test of the relevance of borrowing constraints by investigating the response of firm-level labor demand to regional real estate price shocks. The identification strategy relies on the comparison between firms that own and firms that rent their offices. The key idea is that an increase in the value of collateral, by relaxing borrowing constraints, is likely to be associated with larger investment and employment. Employing a large sample of French firms that provides data on employment, financial statements and real estate holdings, the authors find that (real estate) collateral shocks explain a quite large fraction of job creation, given

their strong negative impact on the labor demand of firms. Specifically, at the macro level the increase in real estate prices between 2002 and 2006 was associated with a 10% increase in aggregate job creation; however, at the micro level labor responded less than capital to collateral shocks (0.2% versus 2% against a 10 percentage points increase in collateral). This result is inconsistent with the CES production framework, in the absence of additional frictions. The supporting hypotheses are then that, since labor and capital are complements, financing constraints hurt labor demand because they reduce investment; and that, because of adjustment costs, employers consider employment as a stock, which would make labor demand directly sensitive to financing constraints.

An alternative interpretation relies on the possibility that, in the presence of sticky wages, the increase in the value of real estate may cause a decline in the labor leverage, hence requiring an upturn in employment. The authors' finding that collateral effects are stronger for larger and more global firms, which are more likely to be unionized and hence characterized by stickier wages, supports this interpretation. Testing this hypothesis would require using labor leverage and the interaction of real estate value, unionization and the degree of wage stickiness as additional controls. A specific econometric issue lies in the potential for inflated t-values arising from projecting an auto-correlated dependent variable (employment growth) on a trending variable (real estate value): using first difference of the real estate value or performing placebo regressions with trend-stationary real estate value may be useful to address this concern.

- **Anton Korinek**, *The Redistributive Effects of Financial Deregulation* (with **J. Kreamer**).

  In the aftermath of the financial crisis of 2008-09, consumer organizations, labor unions and political parties have strongly advocated a tightening of financial regulation, whereas financial institutions and their representatives have issued dire warnings of the dangers and high costs of tighter regulation. Surprisingly, the distributional effects of the crisis are much debated in the media, but not assessed in economic research. To fill this gap, **Korinek** and **Kreamer** develop a formal model of risk-taking and surplus distribution and identify a sharp distributive conflict at the core of this debate on the optimal level of financial regulation: while deregulation benefits the financial sector by enabling it to take on higher risks and earn greater expected returns, higher risk-taking amplifies the incidence of large losses and impose negative externalities on the real economy, in the form of large employment losses. Other theoretical implications show that concentration in the banking system, financial innovation, agency problems, and market power may exacerbate the distributive conflict by leading to higher risk-taking at the expense of the real economy.

  While the model is neat and simple, it delivers an important set of insightful predictions. It nevertheless leaves unexplained why deregulation might ever be supported by a political majority, that is why (at least some) workers may vote for it. Also, there exists an ongoing debate on whether banking crises generally induce higher income inequality.

- **Vincenzo Quadrini**, **Credit and Hiring** (with **Q. Sun**).

  There is recent evidence that more unionized firms tend to have higher leverage, which is generally interpreted as a response by firms aimed at reducing the surplus to be bargained upon with strong unions. This suggests that the bargaining channel might be also relevant for the hiring decisions of firms. In the presence of bargaining over firms' policies, higher leverage allows firms to negotiate more favorable conditions with workers, providing stronger incentives to hiring. And since the strength of this mechanism largely depends on the credit capacity of firms, better financial conditions, which relax enforcement constraints, are likely to foster employment growth. Despite the interest of the topic, also in terms of policy relevance, little attention has been paid to it in the literature. **Quadrini** and **Sun** attempt to fill this void by developing a dynamic model with wage bargaining and financial distress and estimating it on firm-level data. The model's implications are that (1) there exists a positive relation between debt and employment growth, (2) credit shocks are an important source of employment fluctuations at the firm level, and (3) the strength of this relation increases with the bargaining power of workers. To support these conclusions, it is shown that the

estimated model does a good job in replicating key moments of data (in particular, the positive correlation between employment and credit growth rates); credit shocks are also shown to account for up to 37% of the standard deviation of employment growth, and to alter significantly the transmission mechanisms of non-financial shocks. Prediction (3) is probably the key one. Indeed, it involves a very narrow set of testable implications: first, the *presence* of some bargaining matters, as it breaks the Modigliani-Miller irrelevance result by introducing a strong motive to borrow. Second, the *allocation* of bargaining power matters as well, as greater union power makes employment growth more sensitive to the financing decisions of firms. These testable implications could be easily contrasted with the data, by regressing the employment growth rate on the level and growth of debt and some proxy for the bargaining power of firms, as well as the interaction between the two to test for the "allocation matters" hypothesis. The aim of this exercise would be to estimate conditional correlations. This regression may also be run on subsamples including high and low unionized groups of firm to check whether there exist significant differences. Some endogeneity issues might however be present: larger labour-based firms may push the emergence of stronger bargaining units; or unions might organize in more mature industries, which likely have a wider capacity for financial leverage. In its more realistic version with financial distress, the model delivers less narrow theoretical implications. Remarkably, the effects of the allocation of bargaining power are less clear. The model simulation is conducted by keeping benchmark estimates fixed, including the parameter capturing the allocation of bargaining power. This is clearly informative about the qualitative effect of this mechanism, less about its quantitative effect. Maintaining heterogeneity on this dimension and re-estimating the model on subgroups of firms featuring different unionization rates may address this concern.

Afternoon session: Finance and labor reallocation

- **Dmytro Hryshko**, *Moving to a Job: The Role of Home Equity, Debt, and Access to Credit* (with **Y. Demyanyky**, **M.J. Luengo-Prado** and **B.E. Sörensen**).

  A big drop in aggregate house prices has characterized the US Great Recession. Moreover, the US economy is recently experiencing persistent unemployment despite a mild recovery in GDP. Motivated by those facts, **Demyanyky, Hryshko, Luengo-Prado** and **Sorensen** explore the causal effect of negative home equity and local unemployment shocks on households' job mobility choice. They find that households with bigger negative equity realizations in 2007-2009 are more likely to move geographically. This effect is stronger for households who lived in areas with negative employment shocks. The authors conclude that economic benefits of accepting a job offer outside the area of residence outweighed the cost of moving and that negative home equity are not an important barrier to labor mobility. Those findings contribute to non-conclusive related literature about the lock-in effects of housing. The results are highly reliable thanks to the availability of a detailed dataset from a large U.S. credit bureau (TransUnion) merged with Loan Performance data on individuals' mortgage loans. Although the high level of information, the empirical analysis cannot reveal the quantitative contribution of house price shocks and unemployment shocks in isolation because of an implicit orthogonality assumption between these two shocks. Moreover, a deeper analysis of the dynamics of the rental market following the crisis may finally help the understanding of job-mobility determinants.

- **Ashwini Agrawal**, *Technological Investment and Labor Outcomes: Evidence from Private Equity* (with **P. Tambe**).

  How do private equity acquisitions impact individual employees' market outcomes? This research question relates to a long-standing debate about the effects of corporate governance on workers' welfare and job prospects. **Agrawal** and **Tamba**, by exploiting leveraged buyouts (LBO) as shocks to firms' production technologies, examine the effects employers' technological investment on the long-run labor market outcomes of their workers. The research concludes that private equity acquisitions positively impact workers' task-specific human capital, especially for employees whose tasks are complementary to IT-enabled work practices. Accordingly, workers employed at an LBO target at the time of a private equity acquisition realize longer subsequent job tenures, reductions in

unemployment durations, and higher rates of within-occupation mobility over their careers. The authors reach those conclusions by relying on a dataset from an online job search platform, which provides data on U.S. worker resumes; for each person they observe education, employment history, dates, job titles, and description of tasks. Although the un-doubtful uniqueness of the dataset, one aspect that deserves careful inspection relates to the possible negative correlation between LBO waves and the length of unemployment spells that may drive the main results. In fact, the empirical evidence documents that the first are pro-cyclical phenomena while the second is strongly counter-cyclical.

- **Olga Kuzmina**, *Capital Structure and Employment Flexibility*.

  Kuzmina studies the interaction between financial and labor market frictions. In particular she explore the causal effect of temporary labor contracts on the capital structure of the firm. The theoretical hypothesis is that temporary contracts, by allowing flexible operating strategies, reduces the probability of distress/default, relaxes the borrowing constraints and causes higher leverage. To test this channel, the author use a panel dataset of manufacturing firms from different European countries which show inter-temporal and cross-regional variation in government programs that discouraged the use of more flexible labor contracts by firms. The results of the paper highlight that prohibiting policies of temporary employment contracts reduce firms' indebtedness by 3.6 percentage points. While those results are consistent with the theoretical hypothesis of the author, they are also consistent with a cash windfall argument. In the framework of the analyzed policy intervention programs, which discourage the use of temporary labor contracts, there were also incentives (through subsidies) to convert employees to permanent contracts. The subsidy is a windfall either in the form of actual cash or lower taxes and firms may use the subsidy to payoff their debt (and leverage).

- **Paige Ouimet**, *Acquiring Labor* (with **R. Zarutskie**).

  A classical topic in the financial economics literature relates to the determinants of mergers and acquisitions (M&As). Among the intersection between financial and labor economics, **Ouimet** and **Zarutskie** innovatively investigate the possibility that some firms pursue M&A activity with the objective of acquiring labor, and in particular some target's employees. By exploiting the information from a US sample of 2,003 M&As between 1985-2001, the authors find that target firms are indeed most likely to be acquired for their employees. Target firms with the largest ex-ante employment are in fact associated with more positive post-merger employment outcomes. This relation is strongest when acquiring labor outside of an M&A is likely to be most difficult, due to tight labor conditions, or most valuable, such as in high human capital industries. Those findings, although very robust, do not overcome the possibility of alternative mechanisms that may provide a rationale for the empirical results. In case of persistent complementarity between human and physical capital, the main findings may be confounded by an acquiring assets motive, which correlates with employment.

Day 2: Tuesday, 27 August

Morning session: Risk sharing within firms

- **Fabiano Schivardi**, *Risk-Sharing within Firms: Worldwide Evidence* (with **A. Ellul** and **M. Pagano**).

  The idea that firms provide insurance against risk to workers by providing them with a stable income flow is well established in the economic research. Casual observation however suggests that distressed firms often lay off workers and impose wage cuts even in response to purely firm-specific shocks. Motivated by this evidence, **Ellul**, **Pagano** and **Schivardi** explore empirically the factors, which might constrain the employment and wage insurance provided by firms to their employees against industry-level and idiosyncratic shocks. Using firm-level data, the authors provide cross-country evidence that family firms provide more employment protection but less wage stability than non-family ones. To control for demand effects, the empirical strategy exploits cross-section and

time series variation in replacement rates. Remarkably, the additional protection offered by family firms is stronger, and the wage discount larger, the less generous the unemployment insurance system, indicating that firm-provided and government-provided employment insurance are substitutes. Moreover, it is found that state-owned firms provide more employment stability than privately owned ones, and the same applies to business groups relative to standalone companies. Financial development affects neither the level of insurance provided, nor the difference in provision of insurance provided by family firms relative to non-family ones. Most empirical findings hold using a more granular Italian dataset of firms. The empirical analysis may be subject to estimation bias arising from endogenous sorting (more risk averse workers sorting into family firms which are known to provide better insurance); this potential drawback is supported by the estimation results for the Italian case, where the presence of worker fixed effects to account for workers heterogeneity seems to drive away some of the results from cross-country evidence. From the identification standpoint, the presence of other providers of insurance (government or private) likely renders the insurance provided by family firms to be less valuable, increasing ceteris paribus the wage that family firms would have to offer, which in turn may reduce the supply of family firms (selection effects). Moreover, estimation biases may arise with respect to industry level shocks, since larger firms (non-family ones) are by definition more correlated with industry level growth shocks. Even at firm level, family firms may be thought of as information machines (they know better their workers), and hence avoid inefficient lay-offs, which have higher sensitivity to firm-level shocks. An important issue concerns the interpretation of the main results: do they really suggest that family firms provide higher insurance, or rather that they simple choose different allocations on the labor demand and wage relations?

- **Christoph Schneider**, *Labor Representation in Governance as an Insurance Mechanism* (with **E. H. Kim** and **E. Maug**).

  Worker participation in corporate governance varies across countries. While employees are rarely represented on corporate boards in most countries, in several countries (Austria, China, Germany, Norway, Sweden among others) workers and/or unions have a right to appoint members to the Board of Directors. In principle, such board representation gives labor a means to influence corporate policies. To test this hypothesis, **Kim**, **Maug** and **Schneider** investigate how Germany's mandated 50% labor representation on supervisory boards affects layoffs and wages during adverse industry shocks. Estimating difference-in-differences in employment and wages on a panel at the establishment level, the authors find evidence that white-collar and skilled blue-collar employees of firms with parity-codetermination are protected against layoffs during shock periods, whereas unskilled blue-collar workers are not. The effects of insuring these employees manifest in higher operating leverage. The authors emphasize an important argument in favor of a more stakeholder-oriented model for corporate governance, i.e. governance that enables "insurance within the firm". The analysis treats the shocks at the establishment level as exogenous. However the other establishments in the same sector may downsize precisely because those of parity firms do not. Also, from the identification point of view, the analysis may be capturing effects of labor mobility (from other establishments to those of parity firms), as shocks are more likely to be observed in industries with more mobile workers. Potential inconsistency in the results stems from the usage of almost all the explanatory variables at the firm level, while the analysis is conducted at the establishment level. Estimates at the firm level would then probably better suited, while the establishment level data could be used to more specifically analyze within firm variation. Also, a threshold discontinuity regression analysis would be able to address the issue of whether parity firms may be intrinsically different from non-parity firms.

- **David Matsa**, *Boarding a Sinking Ship? An Investigation of Job Applications to Distressed Firms* (with **J. Brown**).

  A firm's financial condition has far-reaching effects on the firm, including on its workers. Remarkably, firms' financial struggles hurt workers, strains firm's reputation for treating employees fairly, and substantially reduces job security. Such "indirect" costs of financial distress form the basis for theories of financing choices according to which employees and jobseekers avoid distressed firms. The empirical relevance of financial distress' impact on worker behavior is however unknown. In this respect, since firms' distress affects both supply and demand in the market for

labor, there exists a major measurement challenge in the separation of the effects of distress on supply and demand with only data on employment or wages. **Brown** and **Matsa** address this identification challenge by studying novel datasets from a large online job search platform which allows them to hold demand fixed and examine the supply of workers to specific jobs at individual firms. The analysis is intended to answer the question of how a firm's financial health affect jobseekers' application behavior (supply versus demand), and of what the implications are for firms' accumulation of human capital. Analyzing responses to job postings by major financial firms during the recent financial crisis, the authors find that an increase in an employer's distress results in fewer and lower quality applicants. These effects are particularly evident when the social safety net provides workers with weak protection against unemployment and for positions requiring advanced training. These results may be interpreted as supporting the growing literature investigating the provision of employment insurance by firms: in fact they suggest that firms have to be sufficiently financially healthy (or appear to be so) for them to credibly promise to provide employment insurance. Crucially, the type of analysis the authors perform is limited by the data availability provided by the online job search platform. As an example, the lack of data on the applicants' resumes limits significantly the exploration of applicants' characteristics (financial sophistication) and the matching between firms and job. At a more substantial level, the authors do not clearly distinguish between economic and financial distress. Financial firms (bank holding companies, investment banks, and insurance companies) during the crisis may be a good laboratory to disentangle the job seekers response to economic and financial distress. Also, the analysis does not address the issue of whether firms adjust their financial structure (or improve their risk management practices, in the case of financial institutions) to be able to attract human capital.

- **Nicolas Serrano-Velarde**, *CEO Identity and Labor Contracts: Theory and Evidence from CEO Transitions* (with **L. Bach**).

  A growing body of literature studies the role played by CEO attributes in shaping employment policies within firms. Despite ample evidence from hostile takeovers that labor contract renegotiations are most likely to materialize when new executive management comes into the firm, most of the theoretical papers have abstracted from the role played by CEO turnover in the design of labor contracts. **Bach** and **Serrano-Velarde** analyze the impact of CEO identity on firm-level turnover and wages, and the potential correlation of these effects with the external labor market. The main argument put forward is that family links between a new CEO and his predecessor act as a commitment device for upholding implicit contracts with the workforce. The model predictions are tested on firm-level annual French data regarding CEO successions in family firms merged with matched employer-employee data. The main empirical findings are in line with the model predictions that (1) dynastically-promoted CEOs, relative to external ones, are associated to lower layoff risks but also to both lower entry wages and wage raises, and that (2) layoffs differences, between dynastic and non-dynastic CEO successions are significantly greater when labor markets are more frictional. An inherent identification issue lies in the potential role of outside competition as a trigger for external transition. Hence, CEO identity may not be seen as causing changes in employment contracts. The empirical framework used by the authors may be not suitable to tackle this issue since the choice of the CEO is not random (the characteristics of the firm and family that cause it to choose a family CEO may also cause the change in employment and wages), nor is the timing of succession (external transitions tend to prevail when firms are performing badly). Moreover, it the governance structure of the firm changes around turnover events due to other reasons (e.g. acquisition), it is not only the identity of CEO which causes the changes in employment and wages, but the overall change in the governance and ownership structure of the firm.

Afternoon session: Risk taking, innovation and employees

- **Julian Atanassov**, *Corporate Governance, Non-Financial Stakeholders and Innovation: Evidence From a Natural Experiment*.

  What are the effects of non-financial stakeholder friendly policies on firm value? In particular, what are the effects on long-term performance measures such firm innovation, value and capital structure?

On one side, the contracting view contends that non-shareholders benefits are part of the implicit contract between managers and non-financial stakeholders which enhances firm value and productivity; on the other side, the agency view predicts that caring about non-financial stakeholders by managers is a form of perk consumption that reduces the benefits of shareholders and the firm value. Which theoretical mechanisms find support in the data is a matter of empirical investigation. In particular a major challenge is represented by the identification of the causal mechanism that goes from stakeholders' benefit enhancing policies to firm performance. **Atanassov** addresses this issue by using the exogenous passage of Constituency Laws to measure stakeholder protection. He finds that firms incorporated in states that passed the laws have a higher number of stakeholder-friendly policies. He also shows that, after the increase in stakeholder protection, firms with weaker governance experience lower innovation and firm value, and higher leverage than firms with better governance. The author concludes that his findings overall support for the agency view; however, partial support for the contracting view is also highlighted: only when shareholders are strong, an increase in stakeholder protection leads to higher innovation and firm value. The identification issue is crucial as it requires the assumption that treatment and control states/firms do not differ along unobservable dimensions that explain outcomes; hence, a large battery of fixed effects is needed. Also, the joint analysis of the whole set of stakeholders groups may result in important difficulties in disentangling the exact causal effects with only survey data.

- **Xuan Tian**, Providing *Protection or Encouraging Holdup? The Effects of Labor Unions on Innovation* (with **D. Bradley** and **I. Kim**).

  Bradley, Kim and **Tian** examine the impact of labor unions on the innovation activities of firms. Theory provides an ambiguous prediction about the effects of unionization on firm innovation: on one side, labor unions, by providing job protection, induce a long termism in employees which may motivate innovation which is a long and risky activity; on the other side, unions may encourage holdup and impede innovation because workers have incentives to expropriate rents after the innovation process begins. The major challenge for the empirical tests of such theories is represented by the endogeneity of labor unions. The authors overcome this problem by exploiting a novel database of union elections. In particular, they use a regression discontinuity design relying on "locally" exogenous variation in unionization generated by union elections that pass or fail by a small margin of votes. Firm innovation output, measured by patent counts and citations, declines significantly after firms elect to unionize and increases significantly for firms that vote to de-unionize. The evidence suggests unionization stifles innovation. Although the negative and crude effect of unionization on innovation is robust, to have strong policy implications following these findings, a deeper understanding of two points is required: 1) the intermediate economic mechanism through which unions negatively affect innovation; 2) a reliable estimate of the quantitative effects.

- **Sudipto Dasgupta**, *Employee Inside Debt and Firm Risk-Taking: Evidence from Employee Deposit Programs in Japan* (with **Y. Lin, T. Yamada** and **Z. Zhang**).

  The risk-shifting problem is a well-known source of the agency cost of debt. In particular, the effect of debtors' monitoring on firm risk taking has been deeply investigated both in empirical banking and corporate finance literature. In particular, recent papers have focused on managerial exposure to the company's debt (inside debt) as a remedy for managerial risk-shifting incentives. **Dasgupta, Lin, Yamada** and **Zhang** innovatively contribute to this strand of research by analysing the effect of inside debt held by rank-and-file employees. This innovative research question builds on the evidence that comes from employee deposit programs (EDP) in Japan. In Japan, EDPs are in-company savings schemes that allow employees to deposit money with the company and earn interest. Based on a sample of 2104 Japanese firms and on a difference-in-difference approach around a law change that determined the priority of employee deposits in bankruptcy, they find that firms with more employee deposit are associated with significantly lower total risk, systematic risk, and idiosyncratic risk. They moreover show that employee deposits are positively related to the firm's leverage ratio, suggesting a lower cost of borrowing associated with the risk-reducing effect of employee deposits. The main critique of this paper is related to the identifying assumption: the law change not only affected priority of inside debt in bankruptcy but also affected other aspects of financial distress, including debtor in possession system. Indeed, the new corporate reorganization reform law made it clear that a court may appoint existing executives as trustees or deputy trustees in

some cases. So, managers of more conservative firms (that engage in EDPs) may be willing take on more risk after the law change because they are less likely to lose their jobs.

- **Malcolm Wardlaw**, *The Effect of Financial Leverage on Workplace Safety* (with **J. Cohn**).

  Cohn and **Wardlaw** undercover a causal relationship between a firm's debt and workers' safety policy. Why should indebtedness affect workplace safety? The authors suggest that debt can make cash constraint tighter, forcing firms to reduce investment in safety-related activities. Moreover, in case of high leverage, a debt overhang problem may occur: creditors may appropriate long-run returns from productivity-enhancing investment in case of bankruptcy. To address the research question, they use establishment-level injury data to study the effects of a firm's capital structure on the safety of its workplace. They find that an establishment's injury rate is positively related to its parent firms' financial leverage, especially when its operating profits are low. Two quasi-natural experiments - one involving a tax law change and the other oil price shocks - suggest that cash constraints impacting a firm's investment in safety-related activities play a role in driving the relationship between leverage and injury rates. Debt overhang also appears to play a role, as injury rates are lower following an increase in creditor control in the form of covenant violations. Although the two quasi-natural experiments do not fully solve the debt endogeneity problem, they reinforce the confidence that the relationship between debt and injuries is causal but they do not provide evidence that shed light the economic channels behind those findings. In fact, since many mechanisms may rationalize the results, the paper would benefit from a more detailed discussion of the theoretical underpinnings.