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CC: melissadell@fas.harvard.edu

Ref.: MS 20230334
Banking on Snow: Bank Capital, Risk, and Employment
Journal of Political Economy
Sep 06, 2023

Dear Professor Rudolf Winter-Ebmer,

Thank you for submitting your paper, "Banking on Snow: Bank Capital, Risk, and Employment" (MS 20230334), to the Journal of Political Economy. First, I apologize for the time elapsed. I have been promised a report for some time by a referee, but at this point have given up on receiving it. Fortunately, I do have a very detailed report from a knowledgeable referee, and have also carefully read the study myself.

Both the referee and I found a lot to like about the study and its fascinating setting, but also have some doubts about the interpretation. Overall, my reading aligns with that of the referee. First, for this sort of question, one would ideally have firm balance sheet or credit registry data, to more directly test the hypothesis. Without such data, the interpretation relies upon what is essentially a reduced form relationship with a highly aggregate bank shock. The referee discusses in detail potential confounders like impacts on capital investment. Another potential concern is that the employment days outcome is a potentially noisy measure of the wage bill. The referee also raises concerns about external validity.

Overall, it is a really fascinating setting – and the study may well have done the best it possibly can within the data constraints – but the setting also lacks the rich data that would be needed to fully nail the question. The JPE is able to accept fewer than 5% of submissions, a very high bar, and regrettably with the data constraints I don't think this study can clear this bar. I am sorry that we will not be able to publish the paper, and hope that this will not dissuade you from submitting your work to the JPE in the future.

Sincerely,
Melissa Dell
Editor

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Reviewer #1: ##Summary of paper:
This paper argues that firms rely on banks in part to provide employment "insurance" to their workers by offering more fixed employment contracts, and that bank capitalization positively impacts this channel. The setting for identification in the paper is ski resorts in Austria. The idea is that when ski resorts face more weather-related demand shocks, the labor productivity of their workers goes down, but firms could insure their workers through these spells by providing more guaranteed employment via bank financing. Then the friction that banks face is the extent to which they can lend due to their capital constraints. The paper uses an instrument for bank capital to provide a causal estimate of the relationship between financial constraints and employment. The setting is clever, and even though the paper does not appear to have firm-level balance sheets or credit registry data that would provide more direct evidence of this mechanism, the mechanism itself is overall
plausible and interesting to analyze.

##Major comments:
1. Interpretation: The paper argues that bank equity impacts ski resorts through firms' ability to raise bank financing that would hedge labor productivity (i.e. demand shocks) and to maintain higher employment even when the risk of demand shocks is higher. Since there is no credit registry data, it is not possible to see directly whether there are actually loans being contracted. The paper needs to infer whether there is this relationship based on the reduced form relationship between employment (a real outcome of the firm) and bank equity shocks. However, there is an additional, very

important role for bank financing, which is in capital investment. Ski resorts in particular are capital-intensive, and I would imagine that there is a significant amount of funding that goes into maintaining that capital each year. It would seem that there would be a pretty standard production function between capital and labor for a resort, and it would be hard for resorts to deviate too
much from it (for example, a chairlift needs to be manned by X number of people; if the chairlift is undergoing repairs, then X fewer people will be needed, regardless of demand). Since the relationship between bank financing and physical capital is so well-established in the literature as having a first-order effect, it would be important to show that the relationship between bank equity and employment goes *beyond* just what would be expected from adjusting on the capital side. From an identification perspective, it may be the case that the firm-year fixed effects are residualizing the capital effect, but conceptually, I think the paper would be stronger if it could speak a bit more to exactly how readers should think about the capital-labor optimization and the role of bank equity in providing capital.

- Firms can provide employment "insurance" either by offering more employment days or by offering higher wages. For example, a resort that very flexibly adjusts its count of employee hours would look like one that is not providing much insurance, but perhaps it is precisely *only* able to adjust on the hours of employment because it pays higher wages per hour. This equivalence is what would make workers indifferent ex-ante. Given that much of the action is coming from tight labor markets, it seems that resorts would need to compete for labor. Is this a possibility that can be addressed directly with the social security data?

2. Empirical specification:

- I would like more exposition on the baseline regression (equation 1) that estimates the relationship between snow risk and employment, going through the channel of bank equity. Even though this is not the instrumented regression, the estimates it produces are in magnitudes very similar to the 2SLS so it would be helpful to understand it better.

- What is in the vector of controls Z? Since the main coefficient of interest is based on the interaction term of the Ski-Resort (SR) risk interacted with Bank-Equity (BE) measured regionally, I'd like to know how the BE term enters into the estimation. Is BE_{j(i),t} in the Z vector, and if so, is it interacted with /tau fixed effects so that it's allowed to have varying effects every week? or is it absorbed in the /alpha_{i,t} fixed effect? Does it matter empirically? The tables for the baseline effects do not describe the control variables nor adds them in individually.

- How much variation is there actually in both the SR and BE variables? I would recommend plotting them in a histogram. I'm skeptical that the either variable has much time variation because any change over time would be slow-moving. That suggests that the identifying variation is based on regional variation (which is fine), but it would be helpful to understand the source of the variation. If indeed the variation in SR (after absorbing the weekly variation in overall risk) is regional, a map to visualize it would be helpful so that it is clear whether it might be useful to have region x year fixed effects that absorb, for example, regional labor policies that may impact employment.

- Instrument: the instrument is based on the idea that individual banks play a small role in the overall equity in a "group" of banks (of which there are 3 types of these groups). This intuition is similar to a shift-share based on shares where each individual "share" is unlikely to generate the overall variation in equity at the group level. The work on Bartik instruments on shares provides strategies for assessing whether that is actually the case, in particular using Rotemberg weights.

- I am unclear on the number of banking groups used for the instrument. The text says there are 3 different groups —are those 3 groups the ultimate source of variation? If so, that is only 3 internal capital markets. This means that the actual instrument is essentially a different shift-share where there are 3 "shocks" (time-varying BE across bank groups) interacted with municipality-level shares. In this setting shares are going to be very static and also conceptually very unlikely to be random. The ultimate source of variation would be coming from the "shocks". 3 is generally considered to be too small for inference.

- Is there any additional information about the bank branch network other than the existence of a branch in any given place? If so, it would be helpful to see the BE variable constructed with other measures of shares.

- Measurement: Is the SR variable sensitive to the 5 year measurement cut-off? How much unregistered employment is there likely to be? The outcome variable is measured using Austrian social security data; is it likely/possible for these resorts (especially later on in the sample) to hire temporary workers from other countries that are not registered in the SS database?

##Minor comments:

- Institutional detail of hotel bookings: I was unclear about whether the footnote (33) about when booking.com was introduced to Austria addressed the concern that resorts can differentially price. Especially if the hotel is operating its own website (or operators), it seems even easier to update prices than in a third-party system. It would be good to have direct evidence of the prices, and to show that there are vacancies because prices did not adjust sufficiently.

- Organization: I found it a little strange that the empirical strategy was discussed before the data. It was harder to follow the former section without understanding the structure of the data.
- I found Figure 1 a bit hard to follow; in particular, arrows generally indicate causality, and that does not appear to be the case in the figure.
- External validity: while I am sympathetic that some empirical settings are useful for identification, and I appreciate that the paper explicitly draws connections to theory that helps to make the mapping between this setting to a broader economic phenomenon, I think the paper should do more to discuss how to extrapolate from Austrian ski tourism. In particular, this setting may be reasonable for thinking about seasonal workers broadly, but it is not clear that it extrapolates to discussing family-owned firms generally speaking. In order to address that, the authors could use the social security database to provide some summary statistics on the % of overall employment that looks like seasonal spells, the % of family firms that employ seasonal workers, the % of the overall employment that family firms actually explain, etc. These statistics would be helpful to believe that this paper is really about small firms making a big difference in the aggregate economy as opposed to
seasonal workers in a specific industry being exposed to more frictions.

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