Productivity Slowdown and Firm Exit: The Ins and Outs of Banking Crises

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Summary

This Paper

How do banking crises impact the aggregate productivity dynamics?

- Two margins at play: firm exit + reallocation across survivors
  - Firm exit in the early post-crisis years
  - Dampened productivity growth in the later years
- Provide data evidence using Spanish firm-level data
- A simple model w/ endogenous exit, productivity investment + financial distress
  - Financial friction formalized by an increase in banks' discount factor
  - Replicate the effects on both exit and reallocation margins
- Use regional variations in the concentration of banks to disentangle them
  - Heckman selection model correcting the selection bias in measuring TFP growth
  - Output falls by 3% in total; the exit margin recovers while the intensive margin is more persistent

Comments

Overview

Interesting paper!

- Brings novel insights to the effect of banking crises through intensive and extensive margins
  - The difference and decomposition of two margins
- Rich datasets enabling to identify the source of funds to firms & the credit shock at the firm level
  - Orbis dataset + Spanish Bank data (Bank of Spain, the European Banking Authority, AEB, and CECA)

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Four comments

1. Parsimony of the Model: Missing Differentiated Channel
2. Quantification of the Results
3. How Should We Consider Firm Entry and Exit?
4. Implications for Cleansing vs. Sullying Effects

Parsimony of the Model: Missing Differentiated Channel

- The model assumes a reduced form of internal cost of funds (R) to account for
  - Increased exit cutoffs → More firm exit
  - Reduced investments in productivity enhancement

  → The key is through the ratio between productivity and discount factor $\frac{\theta}{R}$

  → Any shocks affecting the ratio should yield similar results (e.g., aggregate TFP shocks)
- What do we learn from the channel of R? What is the mechanism to distinguish itself from other stories? Can putting a structure to R help provide this?
- Some model components and analysis rely on ad-hoc assumptions which require reference

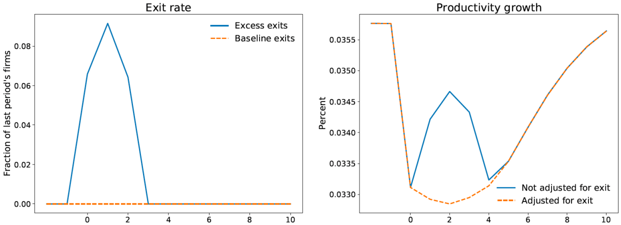
  (e.g., why endogenous exit happens? why all R&D can succeed? where does the time path of R come from?)

Quantification of the Results

- Are the results on the aggregate impact an upper bound? "yes"
- The current analysis is abstracting from the effect of
  - Firm exit and productivity-enhancing selection of survivors
  - General equilibrium forces (in/out dynamics of firms, factor prices)
  - Dynamics of firm-bank relationships (bank substitution effects)
- What is more likely to happen in practice?
- How does the impact compare to other types of shocks? (e.g., collateral crises)

How Should We Consider Firm Entry and Exit?

Figure 5: Aggregate outcomes during the crisis



- The paper has emphasized the exit margin as a source to “distort” the true loss of banking crises
- How can we distinguish this from the literature abstracting from exit margin?

  (e.g., Chodorow-Reich 2014)
- How should we interpret the exit effects discussed in the literature (cleansing effect)?
- How about firm entry?

Implications for Cleansing vs. Sullying Effects

- There is a large body of literature on cleansing vs. sullying effects of recessions
  - Cleansing: productivity-enhancing reallocation increases in recessions (Davis and Haltiwanger 1990; Caballero and Hammour 1994; Mortensen and Pissarides 1994, etc.)
  - Sullying: productivity-enhancing reallocation is attenuated in recessions (Caballero and Hammour 1996, 2005; Barlevy 2003, etc.)
- This paper can give interesting insights to this discourse
  - Mixed effects through the exit (reallocation) margin enhancing (mitigating) productivity
  - Implications can vary depending on the relative magnitudes across different durations
    : short-term vs medium-term vs long-term
- What are the welfare implications?

Conclusion

Conclusion

This paper:

- Banking crises affect aggregate productivity through extensive and intensive margins
- The response of each margin varies in directions and timing
- Correcting the survivorship bias gives 3% of output loss

Review:

- Interesting paper: important question, simple modeling, rich data
- The model components & quantification analysis could be extended and enriched
- More discussion along with other existing literature would help
- Linking to the cleansing vs. sullying effects would be a promising direction