

Comments on:
“The life and death of zombies – evidence
from government subsidies to firms”
by Nurmi, Vanhala, and Virén

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The paper

- Studies zombie firms in Finland.
- New identification method for zombies: Growing and shrinking zombies.
- Uses state aid as novel mechanism to analyse zombies.

Results

- Most zombies recover.
- Subsidies preserve firms...
- ...but subsidies do not seem to promote recovery.

Contributions

- Great dataset: Firm level data, combined with matched administrative dataset on subsidies.
- New mechanism in the zombie literature: subsidies (as opposed to the more common interest rate, or bank forbearance channels).
- Tries to distinguish between temporary losses and permanent uncompetitiveness.

Results: Descriptives

- Shows cyclical rather than secular pattern of zombies share (at least in Finland).
 - ▶ But what is different in Finland?
- Aprox. 30% of mature zombies with low interest coverage ratios are actually growing firms.
 - ▶ “False zombies”

Results: Zombie Congestion effects

- Standard Caballero et al.(2008) identification of congestion effects.
 - Stronger effects by growing zombies: congestion or competition?
 - Do results suffer from Schivardi et al. 2017 identification problem?
 - ▶ The larger effect for growing zombies (smaller effect by shrinking zombies) is exactly the effect predicted by Schivardi et al.(2017).
- Table 2
- Results sensitive to FEs.

Results: Zombie Exit

- 2/3 of zombies recover.
 - ▶ Suggestion: Compare recovering zombies to “never-zombies”?
- Duration as zombie positively related to size and capital intensity.
 - ▶ Points to various mechanisms, like pressure to maintain employment, or more lengthy resolution for larger firms.
 - ▶ Consistent with Gopinath et al. 2017 size-dependent frictions.
- Cyclical death hazard rates, but evidence of more long-term zombies?
 - ▶ Underlying secular trend higher?

Results: Subsidies

- Suggestive correlations between subsidy intensity and zombie status.
- Subsidies do not differentially promote recovery from zombie status, lack of subsidies increase death hazard.
- Evidence indicative of a misallocation effect of subsidies, mainly through allowing prolonged duration of zombie status.

What next?

- Describe subsidies mechanism: Who gets the subsidies and why?
 - ▶ How would we identify the effects of the supply of subsidies?
- Subsidies increasingly important during the public health crisis.
 - ▶ By Dec 2020, 460 emergency national schemes approved by the EU within the State Aid temporary framework; over €3 tril.
 - ▶ New industrial strategy for Europe (2020), Franco-German Manifesto for industrial policy (2019).

Very interesting paper

- New data: firm level subsidies.
- New analysis: Zombie anatomy, exit/recovery hazards.
- Very important research agenda on subsidies.
- Can't wait to learn more.

Table 2. Congestion effects of zombies.

RHS variable	Number of firms	Decl. or equal firm	Growing firm
Dependent variable	$\Delta \log(r)$		
Non-zombie dummy	.281 (93.77)	.366 (108.16)	.099 (23.10)
Non-zombie dummy *zombie industry share	-4.887 (105.10)	-7.378 (105.10)	-13.710 (105.30)
Log likelihood	-880093	-878523	-881209