Comments on: "Credit Misallocation During the European Financial Crisis"
(Schivardi, Sette and Tabellini)

and "International Financial Flows and Misallocation: Not so Harmful After All"
(Cingano and Hassan)

Andrea Caggese
UPF, Barcelona GSE, and CREI
The papers

Cingano and Hassan=CH; Schivardi, Sette and Tabellini=SST

Both papers: effects of credit supply shocks on misallocation of resources.

- CH: Positive credit supply shock from international financial flows.
- SST: Excess credit supply from low capitalization banks to Zombie firms.

Three ingredients:

1. Fantastic datasets: data on individual loans, bank level variables, firm level balance sheets.
2. Identification:
   - Multi-bank firms: can use firm-year fixed effects (isolate credit supply shocks).
   - Credible stories about cross sectional bank heterogeneity (pre 2000 bank exposure to international flows in CH, low capitalization in SST).
3. Credit Shocks
   Firm level real effects
   Misallocation/aggregate implications.
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  - Useful to exploit more the richness of the micro data.
Cingano and Hassan

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  - Who are these MRPK firms? What do they do with the additional credit? Do they grow? Do they create jobs?
Focus on one specific form of misallocation. Lending to Zombie firms.
Schivardi, Sette and Tabellini

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  - Zombie firms: not only loss making, but also stagnant and in an absorbing state.

Results suggest that lending by "low capitalization" banks helps to (relatively) increase employment and sales of Zombie firms.

SST consider deep recessionary period (2008-2013).

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The misallocation question:

- Lending to Zombie firms to keep them alive (or undead) is by construction misallocation.

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\text{TFPR}_{si} \propto (\text{MPRK}_{si})^{\alpha_s} (\text{MPRL}_{si})^{1-\alpha_s} \propto (1 + \tau_K_{si})^{\alpha_s} \tau_Y_{si}
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\text{TFPR}_{si} \text{ only reflects frictions, not demand or productivity shocks.}

\text{\tau}_{K_{si}} \text{ should be higher for zombie firms because they are riskier.}

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