Queries Prompted by: Cingano and Hassan Schivardi, Sette and Tabellini

Bill Maloney
World Bank, 2019
wmaloney@worldbank.org
Cingano and Hassan

• Do International Financial Flows Lead to Misallocation- an important question given swings and magnitudes in international capital flows to DCs.

• Could use a more explicit conceptual framework for someone new to this literature on
  • Why an increase in international K flows is different from a local increase. ER?
  • Why it should lead to misallocation? What is driving the demand for these flows?
    • Not sure what “credit triggered consumption boom” means.
  • What is the misallocation we’re worried about?
• Focus on flows to manufacturing and tradeables not consumption or construction non-tradeables as measure of efficient allocation. Cite:
  • Benigno et al. (2015): FCF trigger a consumption boom and the shift of resources toward the non-tradable sector.
  • Reis (2013): FCF cause expansion of non productive non-tradable sector.

• But are HK and OP statements about optimality, or simply efficiency in production narrowly defined?
  • Releasing constraints on pent up demand for consumption can be optimal, no?
  • Chile 1976-82- thought income would double in 10 years..socially optimal to borrow for consumption (and non-tradeables) against future earnings. Huge appreciation but maybe optimal even if it slows growth?

• Leads me to want more focus on the mechanisms through which this misallocation is happening.
• Accepting their focus, re we measuring narrow misallocation well the way they do it?
  • Lending to **high TFPR, low risk** firms is “good” allocation

• **TFPR**
  • Generally deflated at sectoral level
  • Residual price induced variation includes efficiency (TFPQ), Quality, and Rents from, for instance, from market power.

• Low risk?
Risk taking societies grow faster (and have more dispersion)

FIGURE 3.7  Faster Quality Growth Is Riskier Quality Growth

Source: Krishna, Levchenko, and Maloney 2018.
• High TFPR and Low Risk companies?

• Worry: From Developing Country Perspective, capital is flowing to protected, low growth potential companies.
  • Are we possibly saying that inflows are supporting SOEs (Brazil, 1980s); or monopolies and protected firms?
Schivardi, Sette, Tabellini

• Inspired by Caballero (2008)- Weak banks keep lending to zombies (30%?) with adverse consequences for healthy firms.
  • Clearer mechanism from credit flows to inefficiency.
  • Weak monitoring of NPLs relevant in developing countries as well.

• New angle: Impact on dispersion (Hsieh Klenow 2009), obvious results?
  • Free standing Low capital variable (0 zombies) has negative effect on dispersion?
  • Increased dispersion kicks in at 22% zombies (44% of province-sector-years.)
  • So little effect on misallocation, in line with other literature on Italy.
Cover new lit on H-K to strengthen this discussion?

• Asker, Collard-Wexler and de Loeker (2014):
  • Shocks (sales volatility) with adjustment costs- also leads to dispersion, but maybe not inefficiency per se.
  • Again, might expect more dispersion if more low capital banks impeding rapid adjustment.

• Haltiwanger, Kulick, Syversson et al (2018):
  • Assumptions behind HK not supported empirically
  • Not clear what “dispersion” residual is capturing but maybe not inefficiency. (See also Cusolito and Maloney 2018).
  • Preventing low MC firms (Higher TFPR firms) from expanding? Consistent with paper’s finding.

• In light of both views, what else is correlated with prevalence of Zombies? Volatility that might explain interaction?
Next volume in WB Productivity Project: **Finance and Productivity**- good data and analysis welcome!!!