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

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# 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.

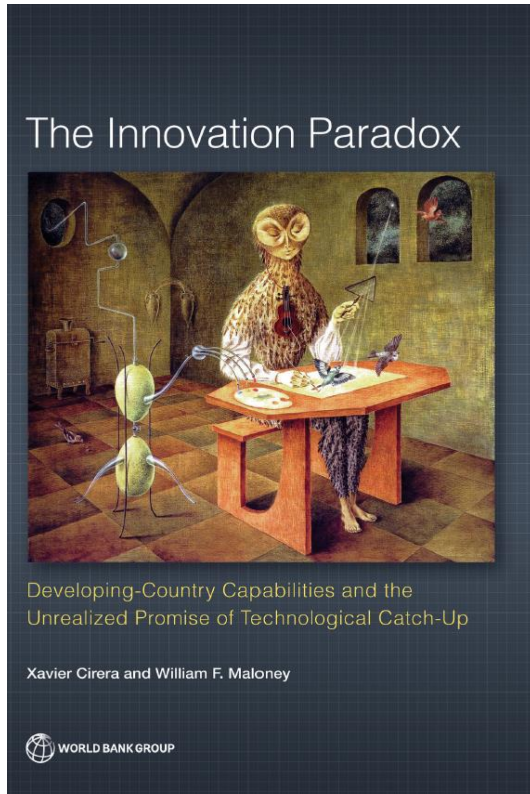
- High TFPR and Low Risk companies?
- Worry: From Developing Country Perspective, capital is flowing to protected, low growth potential companies.
    - Are we possibly saying that inflows are supporting  SOEs (Brazil, 1980s); or monopolies and protected firms?

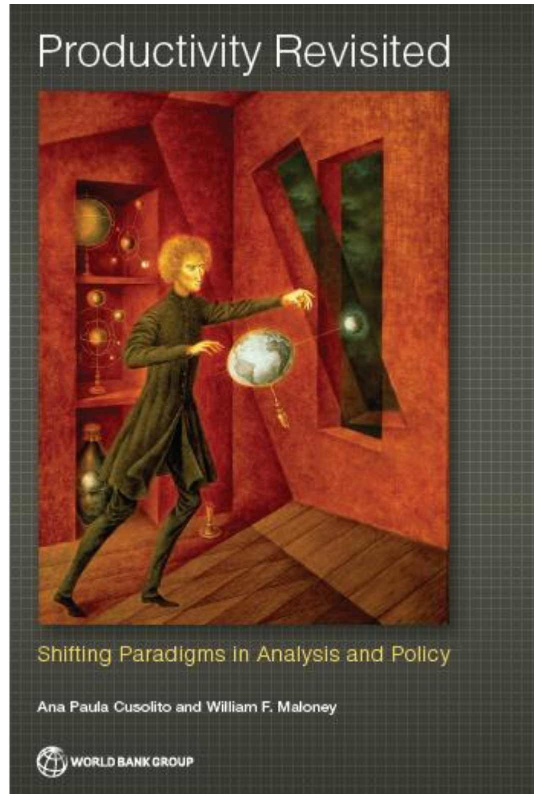
# Schivardi, Sette, Tabellini

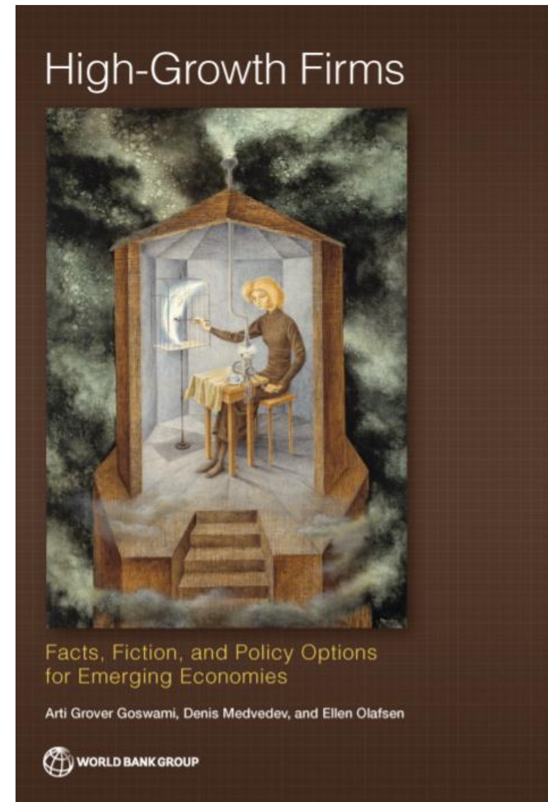
- Inspired by Caballero (2008)- Weak banks keep lending to zombies (30%?) with adverse consequences for healthy firms.
  - Clearer mechanism from credit flows to inefficiency.
  - Weak monitoring of NPLs relevant in developing countries as well.
- New angle: Impact on dispersion (Hsieh Klenow 2009), 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.

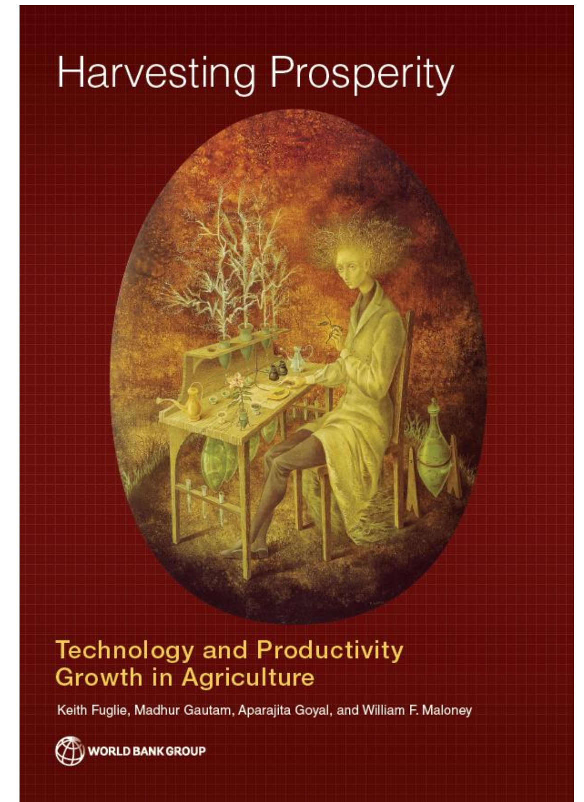
# Cover new lit on H-K to strengthen this discussion?

- 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?

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