

## 1<sup>st</sup> Finance and Productivity Conference

2-3 December – EBRD, London UK

Jointly organized by CompNet, EBRD and IWH

### Conference Summary

---

After a warm welcome by the EBRD staff, the Chairman of CompNet presented some stylised facts arising from the upcoming CompNet 7<sup>th</sup> Vintage. The first session started, focusing on the connection between entrepreneurship and innovation. The paper by [Christoph Albert](#) investigated whether financial frictions affect the growth potential and decision making of entrepreneurs. The authors find that aggregate adverse financial shocks negatively affect all start-ups but that the effect is particularly strong for high growth potential firms and especially so during recession periods. Thereafter, [Nandini Gupta](#) presented a paper in which she investigates early career choices of US elite engineers, to shed light on to what extent financial sector growth attracts young engineers. The authors find that talented engineers are more likely to switch from engineering jobs to finance in high finance growth areas. Compared to classmates who remain in engineering, these individuals create fewer start-ups that are large, receive VC funding, are acquired by other companies, and issue patents. To conclude the first session, [Şebnem Kalemli-Özcan](#) gave the keynote speech presenting her research agenda on the role of corporate leverage in propagating aggregate boom-bust cycles. For Europe, she finds that corporate debt overhang is important for understanding the low investment activity. In the short-run, debt overhang impinges investment via rollover risks and in the medium-run via de-leveraging needs.

In the 2<sup>nd</sup> session the focus shifted to financial flows and factor allocation. [Fabiano Schivardi](#) presented his work on credit misallocation during the financial and sovereign debt crises in Italy. The authors find that during the crises undercapitalized banks were less likely to cut credit to non-viable firms. Moreover, they present evidence that credit misallocation increased the failure rate of healthy firms and reduced that of non-viable firms. However, their results also suggest that the adverse effects of credit misallocation on the growth rate of healthier firms were negligible, as were the effects on TFP dispersion. The authors therefore conclude that while banks with low capital can be an important source of aggregate inefficiency in the long run, their contribution to the severity of the great recession via capital misallocation was modest. Thereafter, the paper by [Fadi Hassan](#) showed a study on the effects of international financial flows on the real economy in the context of the Italian experience during the early 2000s. During this period of time, Italy experienced a strong increase in international capital inflows and a reduction in productivity often related to resource misallocation. However, the authors find that banks exposed to financial flows increased credit supply disproportionately to high productive firms and to those with high collateral, which are often active in the manufacturing sector. As a result, the authors conclude that aggregate TFP would actually have been lower without these financial flows and that there is no evidence pointing to a causal increase in misallocation through the bank lending channel.

The final session of the first day on the link between financial frictions and productivity was opened by [Simone Lenzu](#). He presented a paper investigating the effect of negative credit supply shocks on firms' productivity growth, focussing on disentangling price and efficiency responses. The results suggest that, in the short-run, productivity (purged from price effects) does not move in response to financial shocks, while over a longer time horizon credit supply shocks have a negative impact on productivity growth, which is driven by a persistent contraction of firms' investments in innovation and technology adoption. Then, [Klass](#)

[Mulier](#) presented a novel approach for identifying financial constraints from production data. The measure is validated using data from ECB's SAFE survey, which informs about self-reported financial constraints. In particular, the authors show that the measure recovers the country-specific trends of financial constraints during the financial and the sovereign debt crises.

The second day started with an engaging discussion on the micro foundations of aggregate productivity. Nowadays, the literature stating the importance of micro-data in analysing productivity macro-trends is growing. At the same time, a full understanding of the drivers and foundations of productivity growth at the firm level is important too. Linking the micro dynamics of productivity with macro trend is not an easy challenge, both because of the need of harmonized micro data and the idiosyncratic feature of the countries in which firms operate. The two papers presented during this session were focused, respectively, on one country (each). [Marcela Eslava](#) highlighted the importance of credit constraints in shaping the effects of a recession in Colombia. Through a probabilistic model on firm exit, the authors state that the heterogeneity in financial constraints make the exiting of a firm from the market inefficient, as plants with high TFP and high constraints face the same exit probability of plants with low TFP and low constraints. [Giuseppe Fiori](#) focused in the second part of the session on Italian firms, studying the role of investment for productivity dynamics. The authors exploit the fact that investment is an infrequent episode for a firm and that spikes in the investment trend signal new technology adoption. The results indicate that investment is a key determinant of productivity dynamics, as firms with lower investment age have higher productivity and that the latter accounts for a significant part of productivity heterogeneity across firms. The session was concluded by the keynote speech held by **Kalina Manova** on trade, productivity and misallocation. It was highlighted how misallocation of resources acts as a factor that can amplify, dampen or even reverse the gain occurring from trade. Therefore, optimal design of trade policy and structural reforms should take into account the role of misallocation.

The fifth session of the workshop was on policy and crisis transmission, in order to shed light on how policy decision or shocks can influence aggregate measure of competitiveness. Firstly, [Matthias Meier](#) explained how monetary policy can influence aggregate TFP and mark-up distribution. In particular, the authors examined the case of a contractionary monetary policy shock. According to the authors, due to the heterogeneity in price rigidity a contractionary MP shock might induce an increase in the mark-up dispersion as well as (through the increase in mark-up dispersion) a reduction in the aggregate TFP. Then, **Vahid Saadi** presented his research in which he (and his co-authors) tested the cleansing effects of banking crises in the U.S. The analysis aimed at identifying the effects of bank restructuring during a crises on the real economy. In particular, firm entry/exit and job creation/destruction as well as TFP growth were under scrutiny. The results were highlighting a clear trade-off: greater levels of bank restructuring are associated to higher destruction in the real sector; however, bank restructuring helps in having a much faster post-crisis recovery in terms of job creation, firm entry and TFP growth.

Finally, the organizers wrapped up emphasizing how much space is still present to merge the productivity and finance literature, as well as the need to further work on new methodological frameworks either to improve or to challenge older ones. With respect to both these two issues, CompNet is already working to provide an improved dataset including fundamental variables as entry/exit of firms, firm age and zombie firms. Still, cooperation with scholars is needed and encouraged by the Chairman to continue the improvements of the dataset.