On the Cleansing Effect of Recessions and Government Policy: Evidence from Covid-19

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Overview

- Authors combine survey data with administrative registries to analyse the relationship between firm TFP, firm-level employment and sales, and uptake of public support programs during the Covid-10 recession

- Main findings:

  - $\downarrow \text{TFP}_i \rightarrow \downarrow \% \Delta\text{Employment}_i$ and $\updownarrow \% \Delta\text{Sales}_i$

  - $\downarrow \text{TFP}_i \rightarrow \uparrow \text{Pr(Public support}_i)$

  - Muted exit dynamics

- Interpretation:

  - Reallocation of resources towards more productive firms

  - The cleansing effect of the recession could be stronger in the absence of public support programs

- Great and timely micro-level evidence on the role of TFP!

Identification: recession vs. policy

- Difficult (impossible?) to separate the effects of recession from the ones of the policy measures only by looking at the data.

  - "Virtually all firms reported being eligible for the debt moratorium, government credit lines and tax deferral policies"

- Eligibility is more important for use of the paid furlough policy: firms need to have a decline in sales by more than 40% to use this policy

  - Is there a way to explore the design of the employment policy to better identify its effects?

	Employment contracted	**Employment contracted > 10%**
TFP	-0.060***	-0.027***
Sample of firms	sales declines up to 25%	sales declines more than 50%

- Difficulties:

  - Different LHS variables

  - Sales declines may be endogenous. Is there geographical variation in the severity of measures aimed at containing the spread of the virus that can be used as an "IV"?

Policy use

- Why are low-productivity firms more likely to use public support? A more detailed discussion of policy measures can be useful:

  - What are the benefits and – importantly – costs of participating in public support programs? Who takes the decision to grant public support?

- Example: the paid furlough policy could attract low-TFP firms via the eligibility threshold of 40% drop in sales. But it also required firms not to fire any of their employees while receiving this benefit, or for 60 days afterwards

  - Less operational flexibility in the future in exchange for a subsidy today

  - Commitment not fire employees after policy expiration is costly (for firms) but it helps to screen firms with higher productivity

Other comments

- External validity: similar results in Spain

  - Fernández-Cerezo, González, Izquierdo and Moral-Benito (2021) BdE WP

- Provide a two-line motivation for including markups in the regressions when discussing the results in the introduction

- Illustrate aggregate TFP dynamics in the introduction

- Minus in formula (7)

- Estimate ordered response models, especially to clarify the results on sales

Thank you!