Will Schumpeter Catch Covid-19?[a]

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Comments Outline

1. Normative vs Positive Implications

2. Dynamism

3. Measurement Error

4. Empirical Design Issues and Suggestions

5. Final Remarks

Comment 1 - Normative vs Positive Implications

- Goal of the paper: *"Did Policy Support Distort Bankruptcy Behavior?"*
  - Excessively large support to firms could dampen creative-destruction forces
  - Excessively small support could imply too much destruction, even of ex-ante productive firms

- Key policy question: Trade-offs between magnitude, speed and scope of support
  - This, in turn, is relevant for aggregate productivity and the recovery

- Authors find that "Creative destruction has been partially frozen but not distorted"

- This is fundamentally a normative question and answer ⇒ Which is the counterfactual?
  - Should bankruptcy behavior not change during a crisis?
  - Is unchanged creative destruction bad because in recessions it should be more prevalent?
  - Internal validity challenge

- Challenge in going from positive to normative analysis
  - Could look at another crisis to study bankruptcy behavior, even if it is a sector-specific crisis

Comment 2 - Dynamism

- Dynamic component of bankruptcy filing that short-term behavior does not capture

- What if firms not just froze the bankruptcy, but will catch up later
    - In a way that will be different to how firms file for bankruptcy in normal times

- Moreover, the later catch up could be more distorted than bankruptcy behavior during 2020
    - $\Rightarrow$ Evaluate overall medium-run selection into bankruptcy, including catching up

- Is it possible to look at higher frequency data to anticipate these issues?

Comment 3 - Measurement Error

- How representative are bankruptcy filings of actual firm exit?
  - External validity challenge

- In Chile, bankruptcy behavior is only taken as a last resort
  - Usually involves relatively large firms with complex net worth composition
  - This may limit the scope of this data for studying SMEs
  - Also given the transitory nature of the shock, exit might be underestimated with bankruptcy data

- On the other hand, could the authors measure entry of firms?
  - Also, to measure the role of transitory exit and re-entry?
  - The CBCh showed that this was important in 2020 in Chile

- If policies favored entry, could that also help productivity and by how much?

- Complementing exit behavior with entry is important to fully gauge Schumpeterian forces

GRAFICO V.8 NÚMERO DE EMPRESAS EN CHILE, 2015-2020 (*)
(miles)
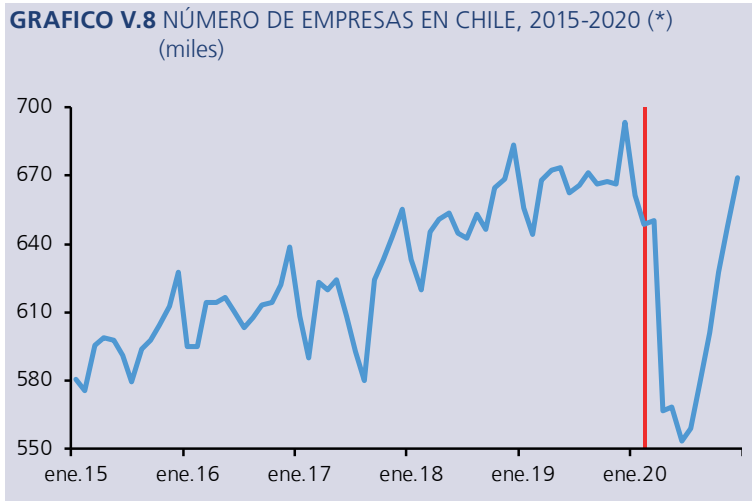
- But not such a large movement in bankruptcy filing

	(1)	(2)
	No reporte	No reporte
Crecimiento ventas	-0.0363***	-0.0386***
	(0.00203)	(0.00227)
Crecimiento deuda	-0.00444***	
	(0.00109)	
Crecimiento ventas * Crecimiento deuda	0.00115	
	(0.00151)	
Deuda nueva=1		-0.0198***
		(0.00267)
Deuda nueva=1 * Crecimiento ventas		0.00855**
		(0.00382)
Constante	0.0787***	0.0890***
	(0.00137)	(0.00158)
Tamaño	Si	Si
Sector	Si	Si
Edad	Si	Si
Observaciones	41874	46483
R^2	0.048	0.048
R^2 Ajustado	0.048	0.048

Nota: Errores estándares en paréntesis.
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

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Comment 4 - Empirical Design Issues and Suggestions

- How can you use the COVID shock at the industry level if the regression has industry fixed effects?

    - Maybe because you use a narrower industry classification for COVID shocks? This is unclear

- Add location fixed effects given that many health policies were also targeted geographically

- Add firms with no debt (unbanked firms) to the analysis
    - In Chile these firms behave very different relative to banked firms

- Dig more into why R-squared is much lower in 2020
    - Which dimensions might be driving this potentially unobserved heterogeneity?

- How representative is the sample relative to aggregate economic outcomes?

Final Remarks

- Super relevant topic, great data and great analysis

- Looking forward to future versions and more research in these topics