

# Healthier Firms for a Stronger Recovery <sup>a</sup>

IDB & CGD

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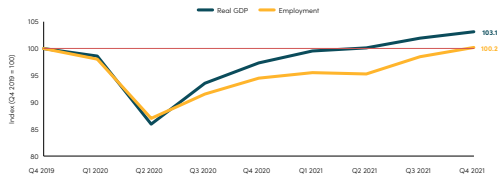
<sup>a</sup>The views and opinions expressed are those of the authors alone and do not necessarily reflect those of the Central Bank of Chile.

- Report on how firms fared along the pandemic crisis and its recovery
  - Unprecedented crisis in terms of the shock and policy response  $\Rightarrow$  Super relevant policy report
  - Important effort to combine evidence across countries and compare experiences and lessons learned
- Will focus my attention on three comments:
  - I. Productivity Implications: Was the pandemic good or bad for productivity?
  - II. Informality Adjustment: How to solve the puzzle?
  - III. Remaining Challenges:
    - III.1 Consolidate cross-country policy evaluation
    - III.2 Regional administrative data infrastructure project

# I. Productivity Implications: Was the Pandemic Good or Bad?

- Important dimension in itself, and given technological change due to digitalization and WFH
  - Relevant also to evaluate efficiency effects of immense policy tools implemented during the pandemic
- Report claims that recovery through informality and small firms should not support productivity
- But one can directly see in the report that labor productivity increased
  - This is even further boosted by the fact that fixed assets declined  $\Rightarrow \uparrow$  TFP

FIGURE 13 Output and employment in Latin America and the Caribbean, 2019–21



Sources: National sources.

Note: Median values are reported. Sample includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Dominican Republic, Mexico, Nicaragua, Paraguay, Peru, and Uruguay.

- Using microdata admin data from Chile, we showed that TFP also increased in 2020
  - In a typical crisis in Chile, productivity is procyclical, it was countercyclical in the pandemic
- How did this happened? How transitory will it be?

# I. Productivity Implications: How did this happened? How transitory will it be?

## ■ How?

- Report gives hints of technological change behind this
- Higher employment losses in sectors with higher probability of automation
- But what about real GDP of these sectors?
- Alternative story: labor hoarding (past crisis) versus creative destruction (this crisis)
- Correlate across sectors productivity growth with policies and technological change measures
- Tease out whether productivity growth comes from institutions or technological change (or both)
- Chile: Part of productivity growth came from labor reallocation allowed by employment protection

## ■ Persistence of productivity growth?

- Will depend on the source behind productivity growth
- If it comes from policies, as in Chile  $\Rightarrow$  Transitory
- If it comes from technological change such as digitalization and WFH  $\Rightarrow$  More permanent

## ■ The report has already the ingredients to give hints to answer these questions

## II. Informality Adjustment: Why Did Informality Decreased at the Beginning?

- ↓ Informality rate: Stylized fact of the pandemic, different to previous crisis, e.g., great recession
  - Standard mechanism: Informality acts as buffer to formal employment
- Important to understand the source of this fact, given relevance of informality in Latinamerica
- One potential mechanism pointed out in the literature (Leyva and Urrutia, 2021):
  - Decline in labor productivity in informal sector  $\Rightarrow$  ↓ Informal labor demand
  - Potentially due to health-related shutdown of contact-intensive and less-amenable-to-teleworking activities, where informality is pervasive
- Could use policy measures to exploit heterogeneity across informal sectors to shed light on this?
  - Did informality rate decrease in contact-intensive sectors that are not good for teleworking?
- How will digitalization in contact-intensive sectors affect the informal sector?

### III. Remaining Challenges 1: Consolidate Policy Evaluation

- This crisis: Unprecedented scale of policies implemented across the globe
  - Policies varied in magnitude, design, type
- Currently, there is a parallel effort in different countries in the region evaluating policy packages
  - E.g., in Chile we have been comparing the employment protection versus credit guarantees
  - Lessons: Employment protection  $\Rightarrow$  Creative destruction; Credit guarantees  $\Rightarrow$  Capital accumulation
- Tons of potential synergies to exploit in this effort, IDB and CGD could help in this process
  - Collecting those different evaluations to try to share lessons learned and extract common implications?
- This could help governments in improving these policies, as the crisis is still not over
  - E.g., in Chile, consumption and commercial default rates have increased since January 2022

### III. Remaining Challenges 2: Regional Admin Data Infrastructure Project

- Parallel effort in different countries in the region of merging admin data from different sources to improve policy-making (and research)
  - E.g., Chile, Colombia, Ecuador, Costa Rica, Brazil
- In the spirit of understanding better how to improve productivity, shock resilience and the like, why not create synergies across countries in the region to boost this process even further?
  - IDB and CGD could help in this process
  - This will help us during the next crisis in designing policies, sharing findings, monitoring the economy
- For example, sharing ideas of how to setup the data infrastructure, which are the technical challenges, which datasets to focus on, organize the data in similar ways so that standard codes can be implemented
  - The Central Bank has been investing heavily the last decade in setting a modern data infrastructure

## Final Remarks

- Super relevant (and nicely executed) report
- Looking forward to next policy reports in this agenda of the IDB and CGD

Thanks!