

Discussion of:

COVID-19 and SME Failures

by Gourinchas, Kalemli-Ozcan, Penciakova, and Sander

Brent Neiman
University of Chicago

AEA Meetings 2021

1-Slide Overview of the Paper

- Build simple short-run, partial equilibrium, firm-level model:
 - Nested CES demand
 - Cobb-Douglas production, cash, financial expenses
 - Exogenous demand, labor-supply, and productivity shifters

1-Slide Overview of the Paper

- Build simple short-run, partial equilibrium, firm-level model:
 - Nested CES demand
 - Cobb-Douglas production, cash, financial expenses
 - Exogenous demand, labor-supply, and productivity shifters
- Populate key terms:
 - Firm-level production, cash, financial expenses: ORBIS
 - Aggregate demand: IMF
 - Sector-level supply and demand: O*NET

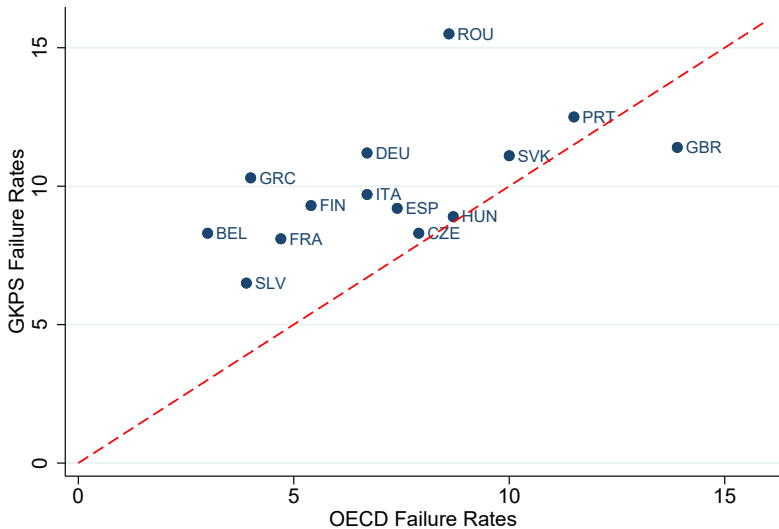
1-Slide Overview of the Paper

- Build simple short-run, partial equilibrium, firm-level model:
 - Nested CES demand
 - Cobb-Douglas production, cash, financial expenses
 - Exogenous demand, labor-supply, and productivity shifters
- Populate key terms:
 - Firm-level production, cash, financial expenses: ORBIS
 - Aggregate demand: IMF
 - Sector-level supply and demand: O*NET
- Use model toward three goals:
 - ① Predict and explain failures of SMEs from COVID-19
 - ② Evaluate various theoretical and implementable policies
 - ③ (More please) Shed light on cross-country/industry differences

High-level Impressions

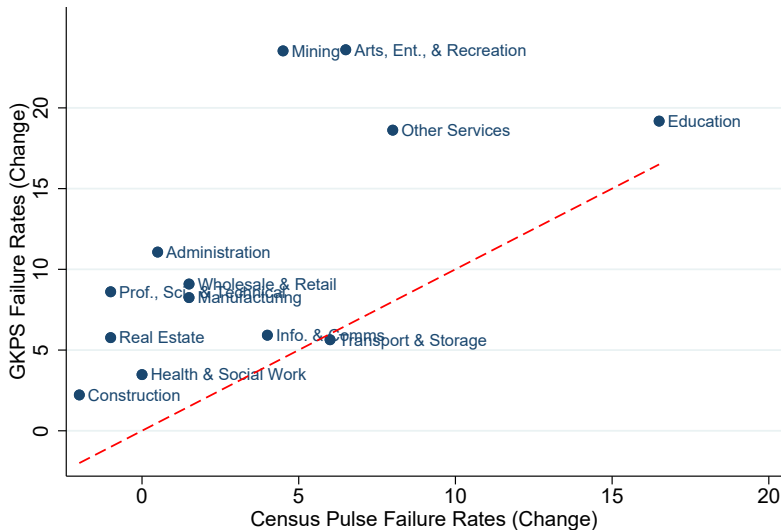
- A worthy goal, developing tool useful for policymakers.
Surprisingly few options out there to forecast failure rates ...
- Very well written, clear about assumptions, limitations, etc.
- Helpful as is for COVID. Beyond COVID, clear scope for enrichment to make basis for state-dependent policymaking

Comment 1: More focus on in-sample fit



Source: Table 2 from Paper

Comment 1: More focus on in-sample fit



Source: Table 4 from Paper and Crane et al. (2020)

Comment 1: More focus on in-sample fit

- Key condition: $Cash + CF - FE < X$. Unclear $X = 0$ is best. Estimate sector-country specific X_{ij} ? Or $f(X_{ij,t-k}, \dots, X_{ij,t+k})$?
- International equivalents to US sources like Census Pulse, ADP, Womply, Homebase, etc.?
- Relatedly, how about corroborating cash flow predictions using public firms operating in same industries and countries?

Comment 2: Make use of more results

- Key exercises are policy experiments:
 - Like lump-sum transfers. Ideal is giving minimum amount only to firms that will be solvent post-Covid.
 - “Waste” comes from giving too much, or to insolvent firms.
 - Compare with other policies tied to observables, some in the spirit of “partial reforms”.

Key outcomes reported (among others): failures, lost wages.

Comment 2: Make use of more results

- Any given firm's failure has different implications from another firm's failure, so a lot more outcomes of interest:
 - Differential importance for banks (*nicey done already*)
 - Share of output in given industry?
 - Wage share of unskilled workers? Geographic inequality?
 - Weighted by systemic-ness (ie Leontiev inverse by industries)

Comment 2: Make use of more results

- Good discussion of sector-level demand/supply shocks driving failures. What about cross-country within-sector differences?:
 - How firms are financed?
 - Heterogeneity in factor shares?
 - Differences in firm size dispersion?

Italy vs. France is one of collest things in paper. Differences in finance/tech implies recommendation of different policies!

Comment 3: Build into usable online interface?

- Exciting migration of models+data online for broader use (e.g. Mike Waugh's US-China Trade War Tracker)
- Depends on permissions from Orbis, etc., but particularly if COVID lasts a lot longer (hope not...!), perfect example

Conclusion

- Very cool paper that is clearly written and a great merging of basic theory and rich micro data
- Actually implementable in predicting firm failures and efficacy/efficiency of policy response
- To increase scope of impact:
 - Short-term: Corroborate model fit (potentially estimate bankruptcy threshold)
 - Medium-term: Online interface?
 - Long-term: Draw out sources of cross-country cross-industry differences and their implications for policy
- Timely and important contribution!