Discussion of:

COVID-19 and SME Failures

by Gourinchas, Kalemli-Ozcan, Penciakova, and Sander

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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
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• Populate key terms:
  • Firm-level production, cash, financial expenses: ORBIS
  • Aggregate demand: IMF
  • Sector-level supply and demand: O*NET
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• 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
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Source: Table 4 from Paper and Crane et al. (2020)
Comment 1: More focus on in-sample fit

- Key condition: $\text{Cash} + CF - FE < X$. Unclear $X = 0$ is best. Estimate sector-country specific $X_{ij}$? Or $f(X_{ij,t-k}, ..., X_{ij,t+k})$?

- 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 *(nicely 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!