Discussion of "The Employment Effects of Credit Market Disruptions: Firm-level Evidence from the 2008-09 Financial Crisis" by Gabriel Chodorow-Reich

Discussion by Bob Hall

NBER ME Program Meeting
Finance and Macroeconomics Workshop
Andrew Metrick and David Scharfstein, Organizers
13 July 2012 1:30 pm Sonesta Ballroom A

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Current state of finance-macro analysis of the crisis

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Welcome appearance of work relating finance to employment: This paper and the related work of Mian and Sufi on household spending effects and the consequent movements of employment

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How big is the estimated employment effect?

Item	*Source*	*Value*
Small-med firm employment effect	C-R, Table 14	2.4%
Employment in small-med firms	BED	69,265
Employment effect	Calculated	1692
Total employment, September 2008	Payroll survey	136,332
Trend growth, 1990 to 2007	Payroll survey	1.4%
Change in total employment, 9/2008 to 9/2009	Calculated	-4.8%
Shortfall	Decline in employment plus growth rate	6.2%
Employment shortfall	Calculated	8,480
Employment effect as a fraction of employment shortfall		20%

Hardly any small-medium firms in the sample relative to the U.S. economy

Firm size	*GC-R employment*	*BED employment*	*Sampling rate*
Large	6,000,000	42,824,000	0.1401
Small-medium	500,000	69,265,000	0.0072

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Diversely held banks specialize in lending geographically, by industry, by risk exposure, and by extent of asymmetric information

Though we know of many reasons why this principle does not hold strictly, it remains the case that there is no fundamental pressure on a bank to balance its exposures

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L is the ratio of (1) the crisis period lending of the firm's last pre-crisis lending syndicate to borrowers *other* than the firm, to (2) the pre-crisis lending of that syndicate to those other borrowers

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In general, identification rests on the hypothesis that loan demand shocks for the firm on the left side are not correlated with L

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Support in the paper for the identification assumption

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Table 4: L unambiguously *positively* related to measures of bank conditions

Although as a general matter this finding would not help, here there are good reasons to believe that outside forces—mainly the real-estate price collapse—caused the weakening of banks

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More support for the identification assumption

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Borrowers unambiguously switched borrowing to healthier lenders

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Failure of identification would result in an upward bias in the estimated effect, but the effect is actually pretty small

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The puzzle about the behavior of weak banks

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No good explanation for the change, yet

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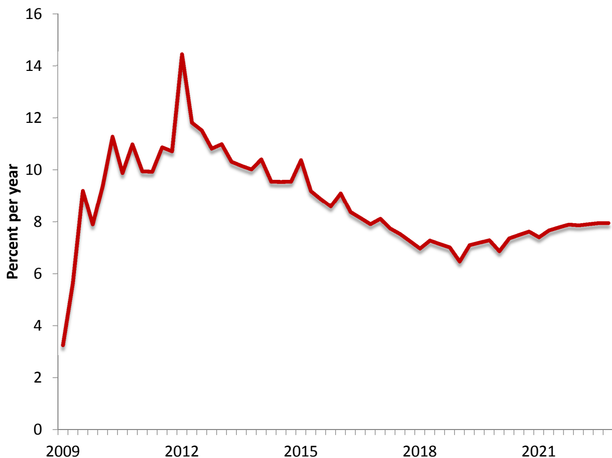
"Quantifying the Forces Leading to the Collapse of GDP after the Financial Crisis"—financial friction



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