Credit Market Frictions and the Productivity Slowdown

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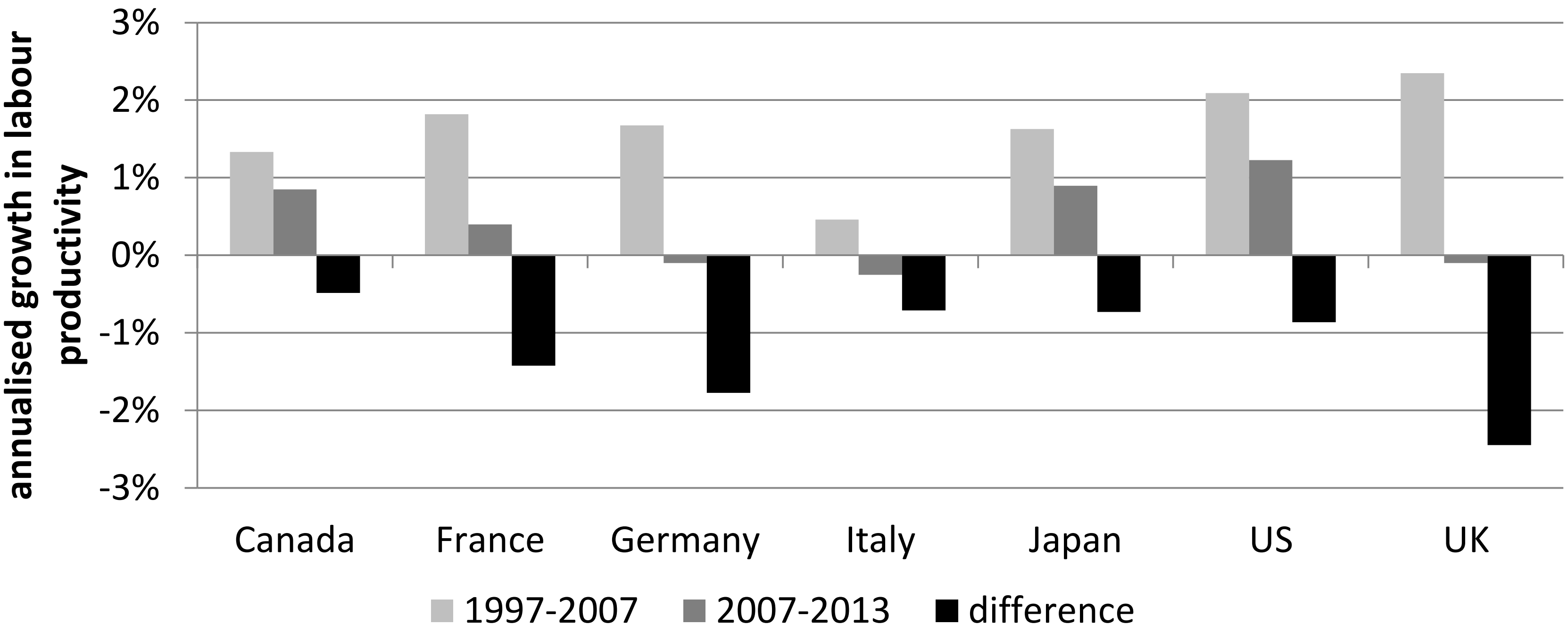
Schumpeter, Minsky and the FCA: Exploring the links between financial regulation, growth and stability

Systemic Risk Centre, LSE

Main Contributions of the Study

- Develops a framework that enables relatively “simple” quantification of the size of credit frictions and their impacts on productivity performance
- Application to the (recent) UK Productivity Puzzle
- Focus on aggregate outcomes
  – Micro to Macro

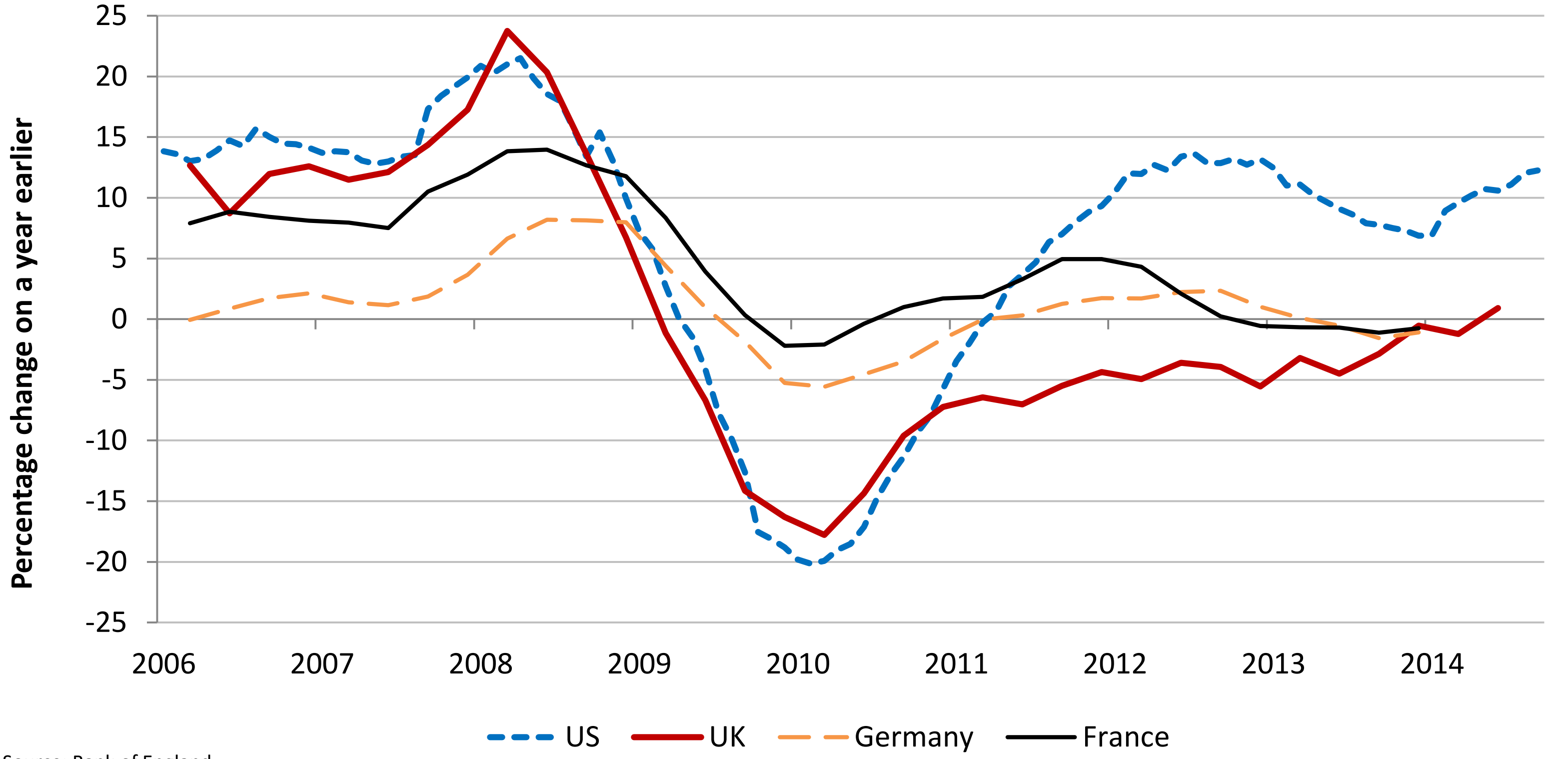
Dive in G7 labour productivity growth, particularly pronounced in the UK



Source: Table 3 Constant price GDP per hour worked, in *International Comparisons of Productivity, Final Estimates for 2013*, ONS Statistical Bulletin, 20 February (2015).

From Riley, R., Rosazza Bondibene, C., and Young, G. (2015) 'The UK Productivity Puzzle 2008-2013: Evidence from British Businesses', Bank of England Working Paper No. 531.

Related to sharp contraction in credit supply?



Source: Bank of England.

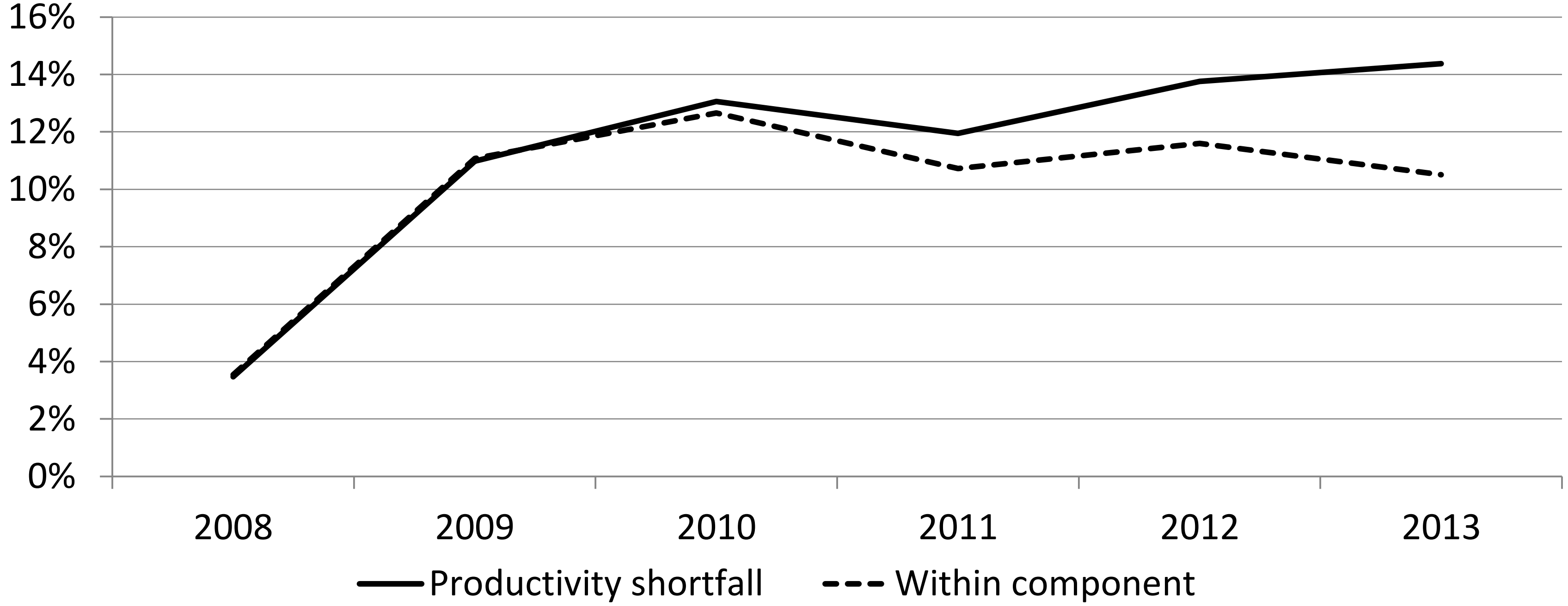
Notes: Bank lending to private non-financial corporations. UK and US data exclude commercial real estate loans. Germany and France data exclude loans to the construction sector.

From Riley, R., Rosazza Bondibene, C., and Young, G. (2015) ‘The UK Productivity Puzzle 2008-2013: Evidence from British Businesses’, Bank of England Working Paper No. 531.

Comments

- Misallocation of credit across firms plays little if any role in explaining productivity weakness
  - How does this sit with related evidence?
- Credit frictions reduced productivity *growth* before the financial crisis
  - Should we expect this and what does this imply about the contribution of credit frictions to the gap between actual and trend productivity
- Small versus large firms
  - Aggregate demand shock larger for larger firms?
- Data
  - Selection issues in matched data

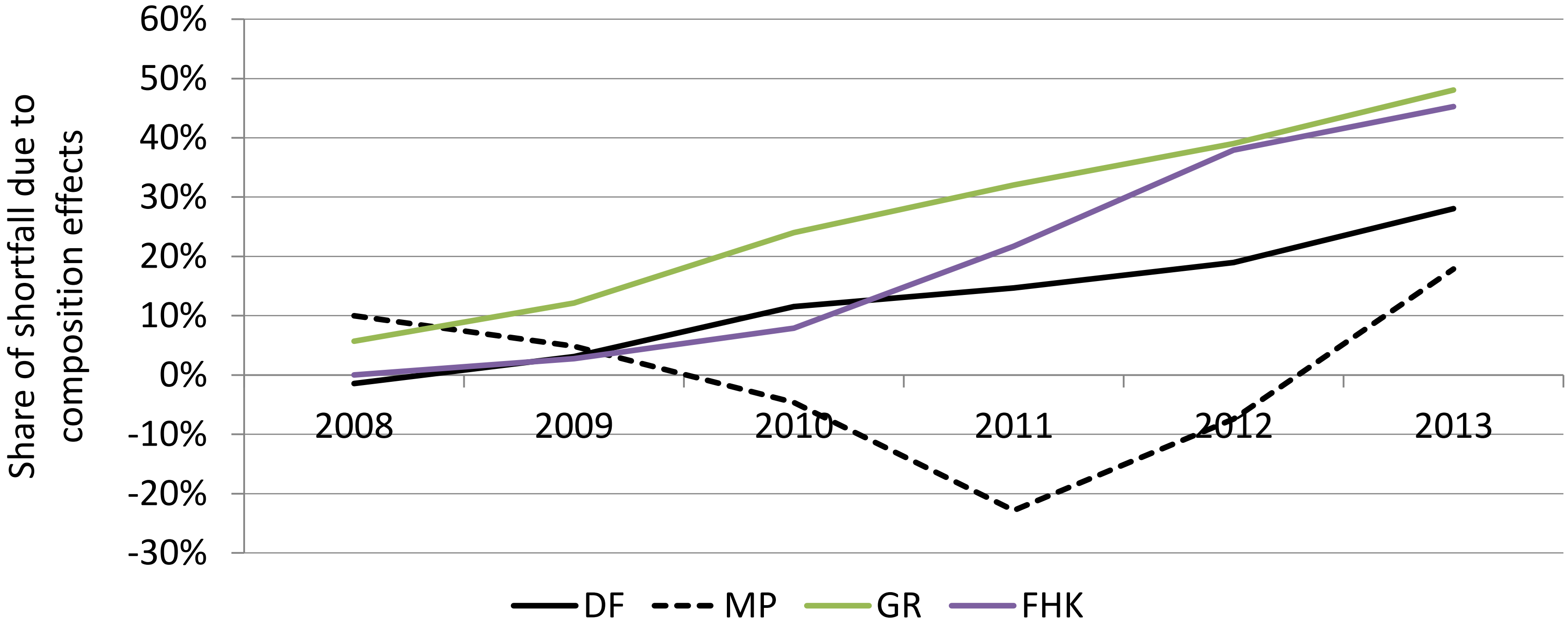
Accounting for the productivity shortfall relative to trend



Source: Annual Respondents Database, ONS, and authors' calculations.
Notes: Derived from DF decomposition of annual labour productivity growth. Shown as a 2-year backward looking moving average. Non-farm non-financial market sectors excluding mining & quarrying, utilities and real estate activities. Britain.

From Riley, R., Rosazza Bondibene, C., and Young, G. (2015) 'The UK Productivity Puzzle 2008-2013: Evidence from British Businesses', Bank of England Working Paper No. 531.

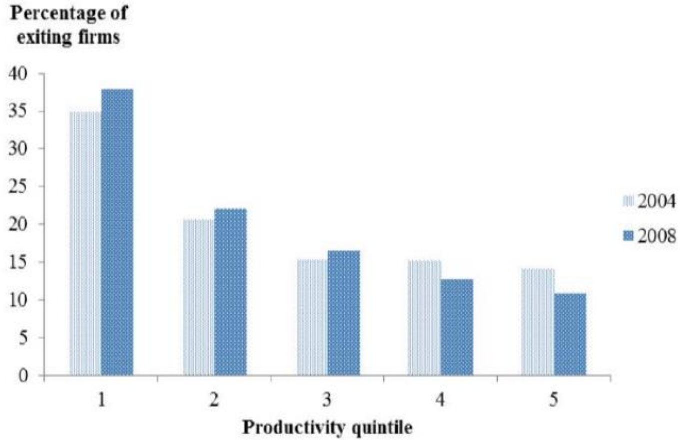
Importance of composition effects depends on how you look at it



Source: Annual Respondents Database, ONS, and authors' calculations.
Notes: Derived from decompositions of labour productivity growth to different time horizons. Non-farm non-financial market sectors excluding mining & quarrying, utilities and real estate activities. Britain.

From Riley, R., Rosazza Bondibene, C., and Young, G. (2015) 'The UK Productivity Puzzle 2008-2013: Evidence from British Businesses', Bank of England Working Paper No. 531.

Credit frictions and the productivity distribution



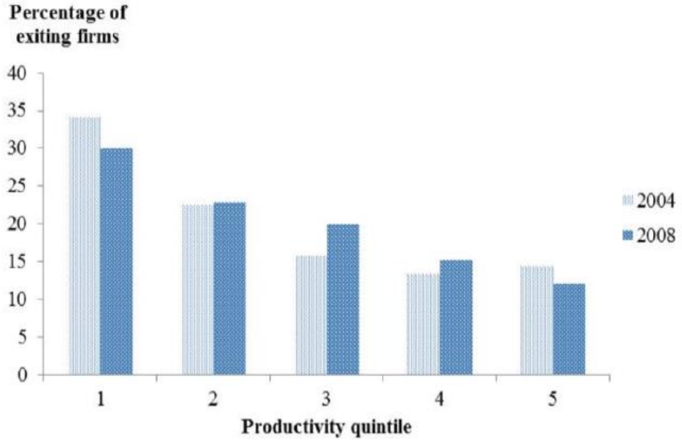


Figure: Firms which exited and banked with "Non-Distressed" banks

Figure: Firms which exited and banked with "Distressed" banks

Source: FAME and authors' calculations.

From Anderson, G., Riley, R., and Young, G. (2017) 'Distressed Banks, Distorted Decisions', mimeo.