

# Costly External Finance, Corporate Investment, and the Subprime Mortgage Crisis

Duchin, Ozbas, Sensoy

Discussion by

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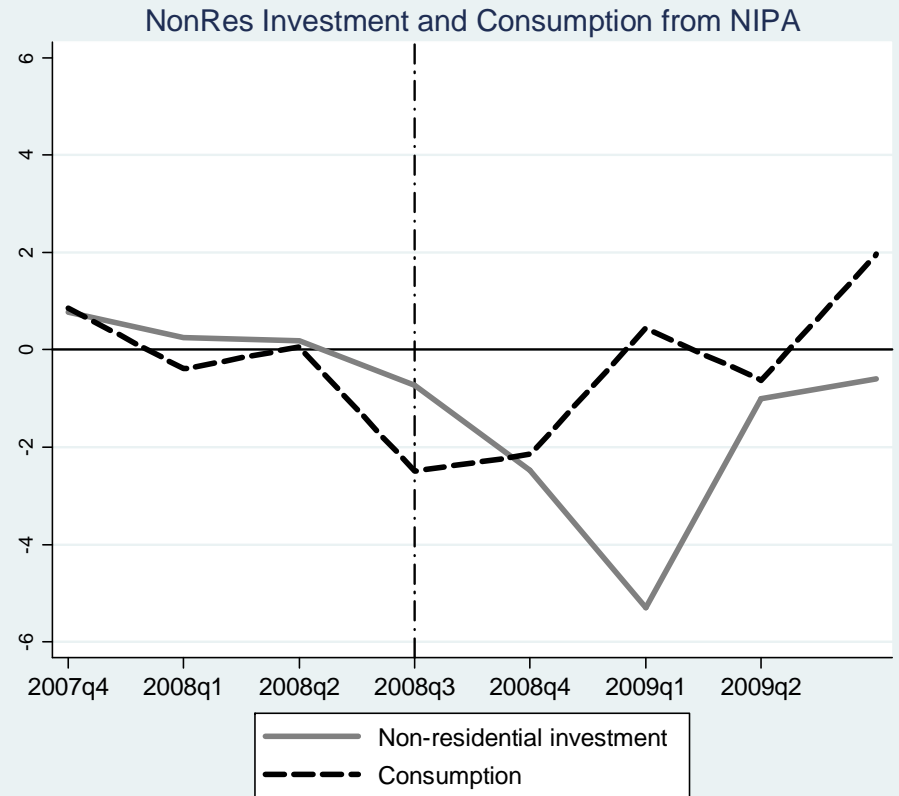
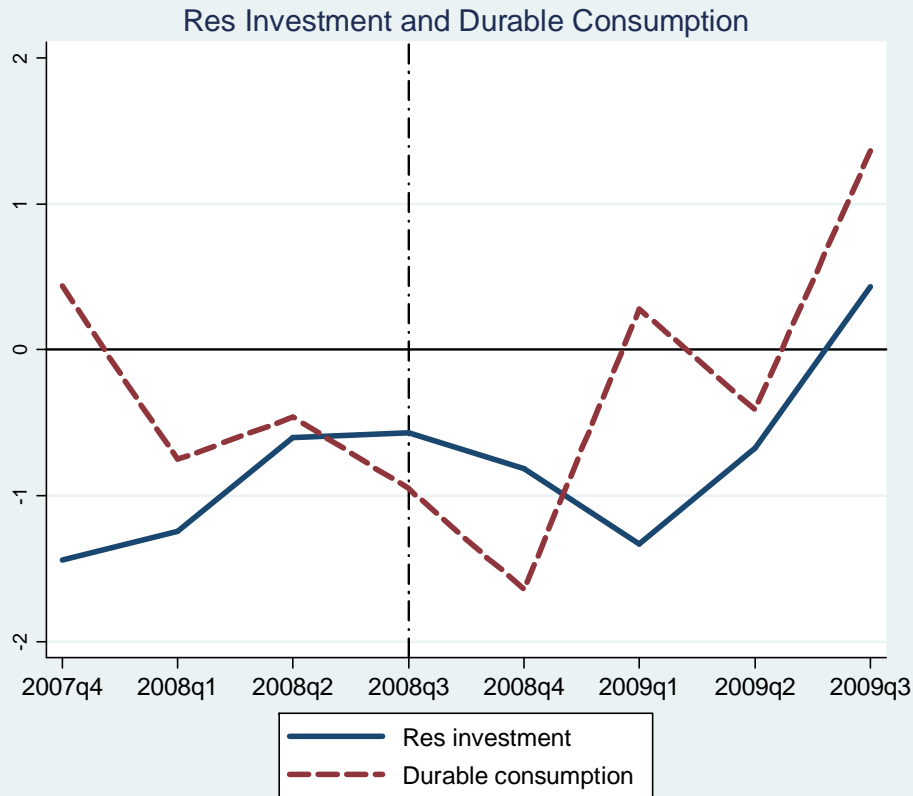
# Overview

- Manuscript is already forthcoming, which gives me a little bit of leeway
- My focus: How do frictions in the financial sector affect macroeconomic fluctuations? In particular, the 2007 to 2009 downturn?
- The majority of research coming out of the “finance” crowd (including this study) focuses on investment patterns of large corporate borrowers
- My bottom line: the effect of the financial crisis on investment patterns of large corporate borrowers is not the primary channel through which the financial crisis has affected the real economy
- This is an argument about magnitudes

## Point #1

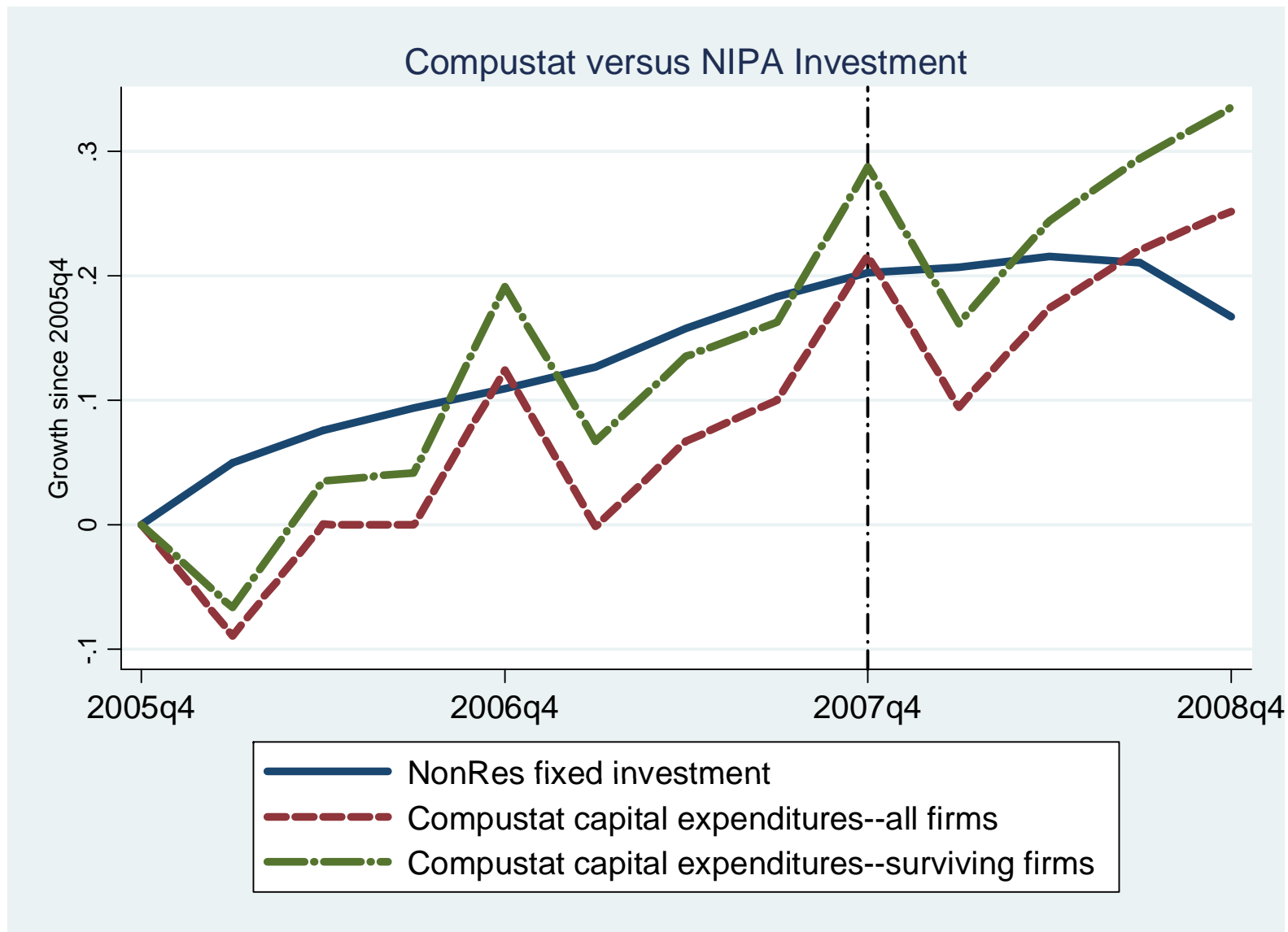
Non-residential investment was not driver of recession until 2008Q4  
(Notice different scales)

### Contributions to GDP Growth



## Point #2

Compustat versus NIPA evidence suggests investment decline not driven by large corporate borrowers

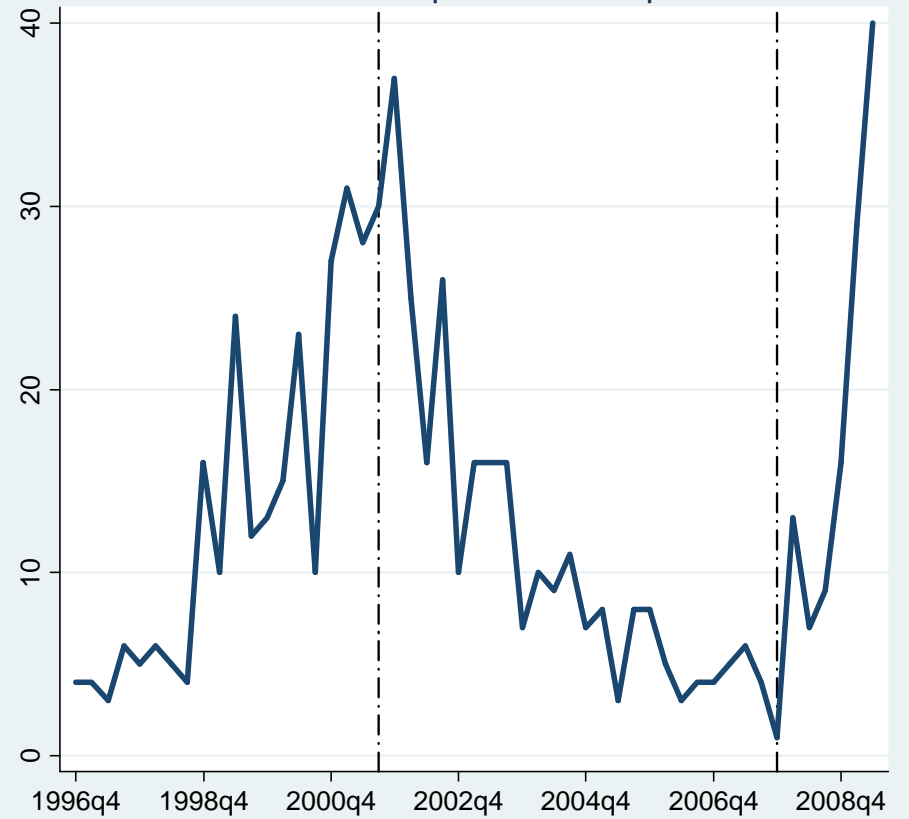


Point #3  
Measures of Large Corporate Financial Distress  
Lower in 2008 than in 2001

Fraction of firms violating financial covenant



Number of corporate bankruptcies



## Conclusion:

### Financial Accelerator through Households and Small Businesses

- My view: much more likely that severity of current recession is operating through household and small business finance
- Magnitudes in cross-section much larger (Mian and Sufi, IMF Review, 2010)
  - U.S. counties with high household leverage see recession start much earlier and become more severe
  - U.S. counties where credit card availability has declined the most experienced most severe decline in consumption during financial crisis
  - Magnitudes are very large
- We need more research on financial accelerator operating through small business and household finance!

# Final Suggestion: Why Not Focus on Employment?

