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

Res Investment and Durable Consumption

NonRes Investment and Consumption from NIPA

Res investment
Durable consumption

Non-residential investment
Consumption
Point #2
Compustat versus NIPA evidence suggests investment decline not driven by large corporate borrowers

Compustat versus NIPA Investment

- NonRes fixed investment
- Compustat capital expenditures--all firms
- Compustat capital expenditures--surviving firms
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?

Compustat versus BLS Employment

- BLS
- Compustat employment--all firms
- Compustat employment--surviving firms

Growth since 2005q4