

## *Comments on Taken by Storm*

Nathan E. Wilson

Federal Trade Commission  
Bureau of Economics  
nwi l son@ftc. gov

November 15, 2012

The views expressed are those of the speaker. They do not necessarily represent those of the Federal Trade Commission or any of its Commissioners.

# Introduction & Recapitulation

- | Economists have long been interested in identifying financing constraints (Fazzari, Hubbard, & Petersen 1988) and the extent to which they vary across firm types (Sharpe 1994, Khwaja & Mian 2008)



# Introduction & Recapitulation

- | Economists have long been interested in identifying financing constraints (Fazzari, Hubbard, & Petersen 1988) and the extent to which they vary across firm types (Sharpe 1994, Khwaja & Mian 2008)
- | Authors examine constraints on service industries by exploiting natural experiment and great data
- | Endeavor to explain variation in exit-rates within firms of equivalent size by considering branches' physical proximity to banks

# Introduction & Recapitulation

- | Economists have long been interested in identifying financing constraints (Fazzari, Hubbard, & Petersen 1988) and the extent to which they vary across firm types (Sharpe 1994, Khwaja & Mian 2008)
- | Authors examine constraints on service industries by exploiting natural experiment and great data
- | Endeavor to explain variation in exit-rates within firms of equivalent size by considering branches' physical proximity to banks
- | Results support the idea that small { especially sole-proprietorships { more vulnerable to catastrophes, and this vulnerability increases with distance from banks



## Concerns: Geographic Variation

- | Map indicates that most adversely impacted areas are located closer to shore (with a few additional areas inland)





## Concerns: Geographic Variation

- | Map indicates that most adversely impacted areas are located closer to shore (with a few additional areas inland)
- | Concern is that businesses along waterfront are not drawn from the same distribution as businesses inland (though admittedly relative lack of differences in exit from 2002 to 2004 are comforting)
- | County controls may be too coarse to address these differences, and productivity controls may not either due to differentiatedness of firms

## Concerns: Geographic Variation

- | Map indicates that most adversely impacted areas are located closer to shore (with a few additional areas inland)
- | Concern is that businesses along waterfront are not drawn from the same distribution as businesses inland (though admittedly relative lack of differences in exit from 2002 to 2004 are comforting)
- | County controls may be too coarse to address these differences, and productivity controls may not either due to differentiatedness of firms
- |

## Concerns: Geographic Variation

- | Map indicates that most adversely impacted areas are located closer to shore (with a few additional areas inland)
- | Concern is that businesses along waterfront are not drawn from the same distribution as businesses inland (though admittedly relative lack of differences in exit from 2002 to 2004 are comforting)
- | County controls may be too coarse to address these differences, and productivity controls may not either due to differentiatedness of firms
- | Not clear what overall effect will be of omitted variable(s), especially given multiple differencing, but worrisome if we wish to take estimated results seriously for policy purposes
- | One possible way to explore if relevant would be to use distance from beach





## Concerns: What do distance results indicate?

- | Paper's findings about the importance of proximity to banks particularly interesting; however, ...
- | Striking qualitative similarity of results for dentists and banks consistent with the idea that there is unobserved variable correlated with locations of dentists and banks
- | Perhaps capturing some localized demand variation?



## Concerns: What do distance results indicate?

- | Paper's findings about the importance of proximity to banks particularly interesting; however, ...
- | Striking qualitative similarity of results for dentists and banks consistent with the idea that there is unobserved variable correlated with locations of dentists and banks
- | Perhaps capturing some localized demand variation?
- | Problem heightened by absence of mechanism that would explain why seemingly minor differences in distance matter so much (e.g., 0.1 - 0.55 miles ! 11% point difference in exit likelihood?)
- | Is this a monitoring story a la Lafontaine & Kalnins (*mimeo*)? Is that reasonable?



## Concerns: Additional Identification (& Other) Questions

- | It seems concerning to assume equivalent effects across industries of varying capital intensities { do results change if run separate regressions for each industry?



## Concerns: Additional Identification (& Other) Questions

- | It seems concerning to assume equivalent effects across industries of varying capital intensities { do results change if run separate regressions for each industry?
- | Given statements about how entry rates have not returned to pre-Katrina pace, how fair to state that demand recovered?
- | What if differential exit rates reflect small firms' greater flexibility in responding to changing situations?

## Concerns: Additional Identification (& Other) Questions

- | It seems concerning to assume equivalent effects across industries of varying capital intensities { do results change if run separate regressions for each industry?
- | Given statements about how entry rates have not returned to pre-Katrina pace, how fair to state that demand recovered?
- | What if differential exit rates reflect small firms' greater flexibility in responding to changing situations?
- | If we do accept the idea of substantial differences in exit due to financing constraints, is there a policy implication?