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The COVID pandemic and Productivity: Some early observations with German microdata

MICROPROD Policy debate, 18 March 2021

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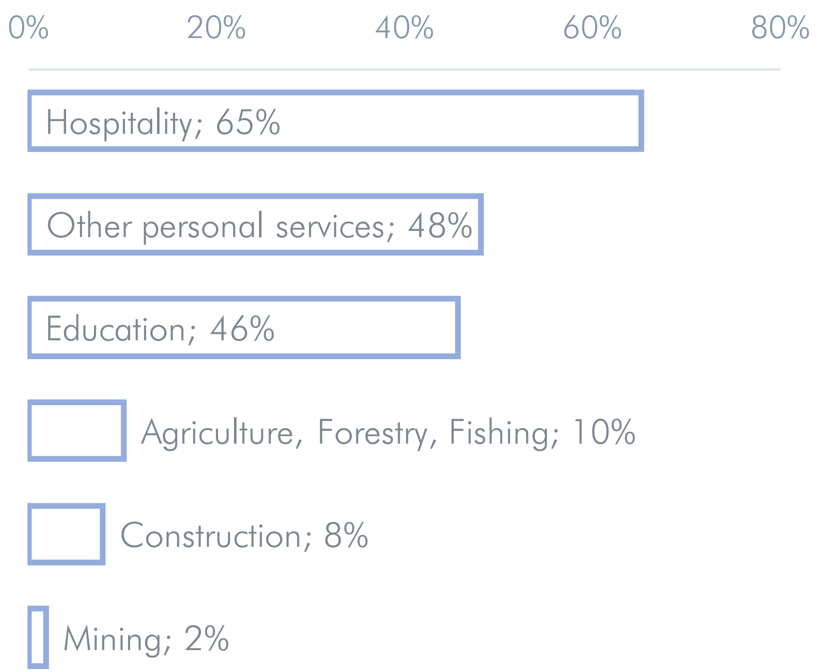
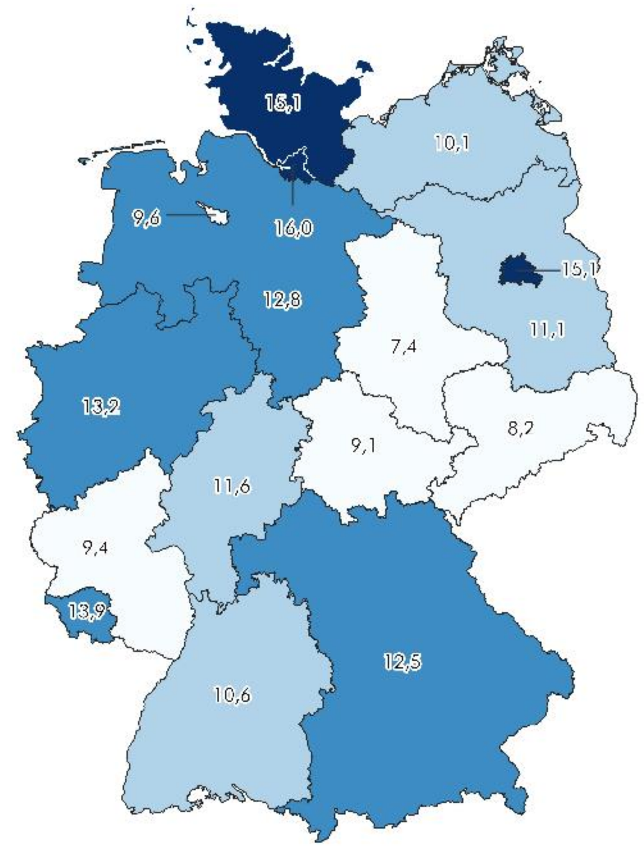
Hit hard by the crisis (% of plants):
Sector heterogeneity, Top 3 vs Bottom 3



Overall mean 25% (plant-level)

Close to market exit (% of plants):
Urban regions more, East less affected



Overall mean 12% (plant-level)

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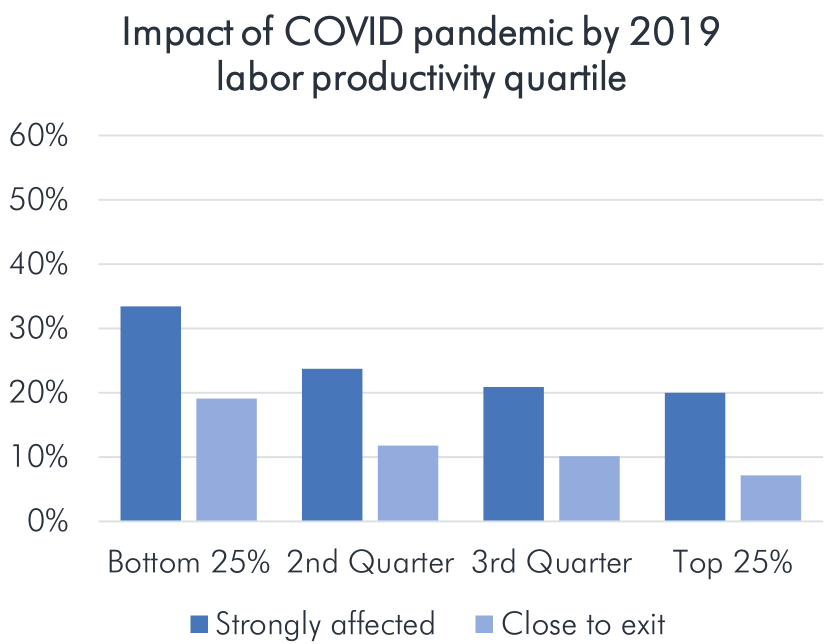
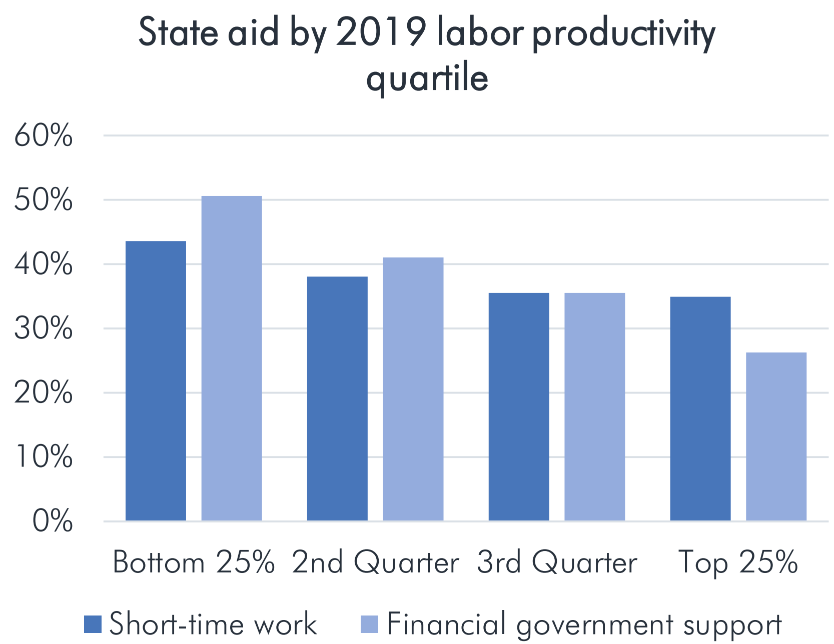
Cleansing effects likely: Low productivity firms hit hardest and are closer to market exit



1.4 mio establishments (weighted) +++ 25% (12%) strongly affected (close to exit) +++ Strongly affected (close to exit) plants on average 24% (36%) less productive before COVID

Government support: Short-time work scheme is used productivity-neutral; Financial support goes to less productive firms



1.4 mio establishments (weighted) +++ 38% (38%) used short-time work (financial support) +++ Users of short-time work (financial support) have been on average 10% (34%) less productive before COVID

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Massive government support in Germany: Indispensable in the short-run but distortive in the long-run?

- Obligation to file for bankruptcy has been relaxed in March 2020 but reinstated in October.
  - *Within the current environment of great uncertainty and massive additional aid;* there is no evidence for major distortions as only a very minor wave of bankruptcies followed the reinstatement of mandatory bankruptcy filings.

- Various financial support schemes, many of them ongoing
  - Potentially distortive as support primarily went to least productive firms.

- Short-time work scheme extended until end of 2021
  - No evidence for major distortions in 2020 (productivity-neutral).
  - However, potentially distortive for factor allocation during recovery in 2021.