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CREDIT DISTORTION, PRODUCTIVITY DISPERSION AND RESOURCE MISALLOCATION

Abstract:

Financial distortion is an important source of TFP losses. In China, credit distortion is the outstanding feature of financial distortion. We use micro-level data to analysis the effect of credit distortion on resource misallocation and its mechanism. Our main findings include: (1) credit distortion worsens resource misallocation of industry, especially for those industries with heavily dependent on finance, especially in early ages, or with high proportion of state-owned firms, or with large size firms excluding state-owned firms; (2) credit distortion can affect TFP via impacting R&D, or by changing probability of firm exit when we apply Quantile regression and Probit regression to explore the mechanism of credit distortion on resource allocation, respectively. It shows that these effects are heterogeneous in different distribution of TFP; (3) the magnitude of credit distortions effect on resource misallocation is great. The efficiency of resource allocation can improve from 15.6% to 51.7% for each 4-digit industry without credit distortion.

Keywords:

Credit distortion; Resource misallocation; Dispersion; Quantile regression

JEL Classification: D22, O25