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

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

- Hospitality; 65%
- Other personal services; 48%
- Education; 46%
- Agriculture, Forestry, Fishing; 10%
- Construction; 8%
- Mining; 2%

Overall mean 25% (plant-level)

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

Overall mean 12% (plant-level)
Cleansing effects likely: Low productivity firms hit hardest and are closer to market exit

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

Impact of COVID pandemic by 2019 labor productivity quartile

State aid by 2019 labor productivity quartile

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

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
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.