Productivity, Zombie Firms and Exit Barriers in Portugal

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Abstract

Productivity growth is slowing in OECD countries, coupled with increased misallocation of resources. A recent strand of literature focuses on the role of non-viable firms "zombie firms" to explain these developments. Using a rich firm-level dataset for Portugal, we explore the role played by zombies in firm dynamics and the misallocation of labour and capital. We confirm the results on the high presence of zombie firms, which are significantly less productive than their healthy counterparts and drag down aggregate productivity. Higher zombie presence is associated with lower growth of viable firms, stifling intra-sectoral capital reallocation. Portugal has shown one of the largest reductions in barriers to exit and restructuring of all OECD countries and is therefore particularly suited for an assessment of the extensive margin effects of these policy changes. We show that a reduction in exit and restructuring barriers promotes a more effective exit channel and fosters the restructuring of the most productive zombies. The results highlight the role of public policy in addressing zombies' prevalence, fostering a more efficient resource allocation, and promoting productivity growth.

Introduction

The last decades have seen enormous progress in information and communication technologies, increased participation of firms in global value chains and a better educated workforce (Peña-López, 2017; Jack and Lewis, 2009). These developments can be seen everywhere but, as aggregate productivity statistics show, global productivity growth is slowing. The "productivity paradox" has raised a debate on the underlying reason. Prominent explanations

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