

At least as far back as Schumpeter 1939, economists have debated the effect of business cycles on economic growth. In 1993, the theoretical literature was significantly futhered by Caballero and Hammour in their seminal paper “The cleansing effect of recessions,” in which create a model where lower productivity firms are more likely to be destroyed in recessions. On the other hand, various authors have discussed the increased frictions in the form of credit tightening during recessions that may actually reduce the potential for productive resources to be reallocated to the most effective use. Consequently, we may actually see an increase in the level of sclerosis during recessions. Since these two effects likely both increase in reality, it is an empirical question which one dominates in practice. Furthermore, in the twenty or so years since the Caballero and Hammour paper, several more papers have been written, both empirical and theoretical in nature, especially since the Great Recession. Consequently, a new survey is called for to give the researcher a current feel of the literature. To this project we now turn.