“Changing Business Dynamism and Productivity: Shocks vs. Responsiveness”

by Decker, Haltiwanger, Jarmin and Miranda

Discussion by Matthias Kehrig

Duke University

NBER Summer Institute: CRIW
July 18, 2017
What this paper is about

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- illustrate how a model with more severe labor market frictions can explain this set of facts,
- conclude that declining reallocation and rising TFP dispersion lower aggregate productivity growth.
Why care?

Declining job reallocation is ...

1. a good thing if there is match quality is high ⇒ less need for reallocation
2. a bad thing if something increasingly prevents job reallocation ⇒ match quality, allocative efficiency decline

Declining (increasing) TFPR dispersion suggests view 1. (view 2.) empirically TFPR dispersion rises ⇒ declining dynamism is a problem

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▶ less between-firm reallocation
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... look at declining dynamism in both labor and capital.
The hiring responsiveness declined

Estimate $n_{it} = c + f(tfpshock_{it}) + controls_{it} + \varepsilon_{it}$

from Ilut et al., NBER WP No. 20473, 2014
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<th>(IIIb) -1 StDev +1 StDev</th>
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<tr>
<td>All</td>
<td>0.179</td>
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Comment about those results:

Empirical magnitude of change in exit responsiveness looks small

Regression coefficient of mature non-tech establishments:
- 1981: +0.144
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Suggestions

- do separately for positive/negative TFP shocks and get stronger results? I think JC and JD don’t decline symmetrically, do they?
- does it matter for aggregate employment?

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Broaden theoretical scope

Inform profession what labor market frictions matter most:

- fixed and convex adjustment costs
  \[ \Rightarrow \text{can you match employment spikes given shock process?} \]
  \[ \Rightarrow \text{Is the employment growth rate distribution unchanged? Do just fewer establishments experience similarly sized employment growth?} \]
  Or did the covariance between size and JC/JD become smaller?

Difference between \( g_{et} \) and \( X_{et}/X_t \) distributions.

\[ \text{credit constraints hamper worker reallocation (Donangelo, JF, 2014)} \]
\[ \Rightarrow \text{JR decline stronger in small establishments in privately held firms?} \]
\[ \Rightarrow \text{different types of labor \- adjustment costs; search \& matching frictions stronger for non-production labor?} \]
\[ \Rightarrow \text{models of learning and ambiguity aversion in hiring} \]
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Further possibilities

Modeling and quantitative suggestions:

How much can each portion of the model – adjustment costs, frictions, shock processes – explain individually? Do they interact in quantitatively relevant ways?

Fixed and convex adjustment costs throw a spoke in the wheel of the efficiency of labor allocation; but these are all proportional, so there is no rank reversal in the allocation of labor ⇒ limited aggregate effects.

Does net hiring become less sensitive to TFPR shocks because of rank reversal?

I.e., did just the responsiveness of net hiring decline (weakly detrimental) the correlation of TFPR and net hiring decline (strongly detrimental)?
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