

European business dynamism, firm responsiveness, and the role of market power and technology

Author: Biondi, Inferrera, Mertens & Javier Miranda
Discussant: Francesco Venturini

Manchester, October 13, 2022

- **AIM:** describe business dynamism in Europe and identify the driving factors, paralleling earlier analyses conducted for the US

CONTRIBUTION: Create a large harmonized firm-level dataset for 19 European countries. Build industry-level measures of business dynamism (job reallocation and share of young firms). Estimate labor demand responsiveness to technology (TFP) upgrade using detailed data for German companies.

- **RESULTS:** decline in business dynamism is pervasive across countries (except CH, NL), among industries (except ICT, Accommodation) and persistent over time (except some Services from the mid-2010s). German data reveals that responsiveness of business dynamism to technology upgrades fell mostly in medium- and large-sized companies and older firms.

- 1 Interpretation of results
- 2 Identification of effects
- 3 Modelling framework

- 1 Job reallocation decreasing in all countries, except CH, NL, **but** also in Germany in last years
- 2 Share of young firms decreasing in all countries, except NL **and** IT since 2013-14 (a bit unexpected)
- 3 Heterogeneity in job reallocation is across sectors (clearly!). Falling trend common to all sectors until 2013-14... since then **flat** for manufacturing, **increasing** in services

COMMENTS

Are the observed changes the long-lasting effect of the financial crisis of 2008-09, that may have speeded up structural change and the adjustment to globalisation wave? ..In other words, is the fall in business dynamism a **short-run** phenomenon?

- 1 Firm responsiveness to technology upgrade identified with a static regression
- 2 Endogeneity of TFPR to inputs' choice addressed with Wooldridge (2009) procedure

COMMENTS

Is this **enough** to address simultaneity and dynamic adjustment (German data spans from 1995-2017)?

Is it possible to exploit cross-country (and cross-industry) variation in the **policy setting** to identify the effect of TFP on business dynamism (e.g., tax changes affecting user cost, or else)?

- 1 The relation between labor demand, TFP, and market power is modelled as a static production framework

COMMENTS

A dynamic **structural** model could address the issue that TFP explains/responds to changes in market power. This would help understand the **ultimate** source of labor reallocation.