Discussion of

'Declining Business Dynamism in Europe: The Role of Shocks, Market Power, and Technology'

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Summary

- Job reallocation declines across 19 European countries.
  - Within effects (sectors, size, age) not composition.
  - Large & old firms greatest decline in job reallocation
  - Young firms lose sales and employment share
- Employment responsiveness declines (in response to productivity shocks)
- All the same as US **but** in Europe firm productivity shock dispersion declines too.
- **Framework:** firms' productivity, technology & market power $\Longrightarrow$ job reallocation & firm responsiveness

Comment 1 – Entry and Exit

- Can't measure entry and exit. But can measure expanding/downsizing firms, which is a crucial factor
- Can we understand what we're missing? Direction of bias.
- Statistical framework

$$JR = \text{entrants} + \textbf{incumbent expansion/downsize} - \text{death}$$

- Is entry declining (like elsewhere) reinforcing the effect?
- Assume size of entrants/exiters not changing, observe agg. changes (e.g. Eurostat business demography).
- Your declining dynamism results are potentially an upper bound (i.e. declining entry would exacerbate JR decline)

Comment 2: Selection

- Two channels of falling JR:
  1. $\downarrow$ dispersion of firm-level productivity shocks
  2. $\downarrow$ firm response to productivity shock
- Europe satisfies both but US only 2 (dispersion $\uparrow$)
- Why US and Europe diverge?
- Measurement: Not observing entrants and exiters winsorizes the tails (don't observe the high and low realizations).
- Testable implications: 1. US greater churn 2. Europe less churn
- Novel result: Large firms less responsive to productivity shocks.
  - Consistent with large firms having lower revenue elasticities i.e. higher profit shares (either from RTS$\downarrow$ or markups$\uparrow$).

Comment 3: A meta view – the practice of economics

- A big part of this paper is the contribution of CompNet
- See also, Bighelli, di Mauro, Melitz, Mertens (JEEA 2023)
- Advancing the *economic method*.
- Raising the bar for cross-country analyses, pioneering '*harmonized* cross-country analyses'
- Criticisms of traditional cross-country analyses are many:
  - Hard to compare across different institutions, politics, cultures.
  - Comparability of data measurement and treatment
- First step: Long-running efforts to harmonise data by issuing best practice guidelines
- Work around: International conventions e.g. accounting practices for publicly-traded firms (but limits to ORBIS cross-country analyses).
- The future: uniform code distribution, harmonised data, satisfying regulatory and legal frameworks

Conclusion – Where next?

- This is a great positive economics paper which details the state of business dynamism in Europe and micro drivers.
- It provides a foundation to explore many new avenues:
  - Normative questions: Are these changes good or bad? Not immediately obvious. Lower job turnover $\implies$ more security vs. less reallocation. Optimal level of JR?
  - Measurement: How far off entry/exit measures are we? Can aggregate measures help?
  - Policy: How does this square with increased flexibility in European labour markets over the same period? Should policy intervene to address BD?

Minor Points

- Figure 2 to 3 the UK is dropped
- Typo 'the the' in a couple of places
- The tail of firms with $P < MC$ (i.e. markup below 1) is significant (Table A.6)
- The mapping from sample of (large) German manufacturing firms to the general facts would benefit from further discussion.
- More radical... are there two papers in here: general facts vs micro drivers in German manufacturing.