



# From Micro to Macro: Market Power, Firms' Heterogeneity and Investment

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# Overview – Macro and Methodological Issues

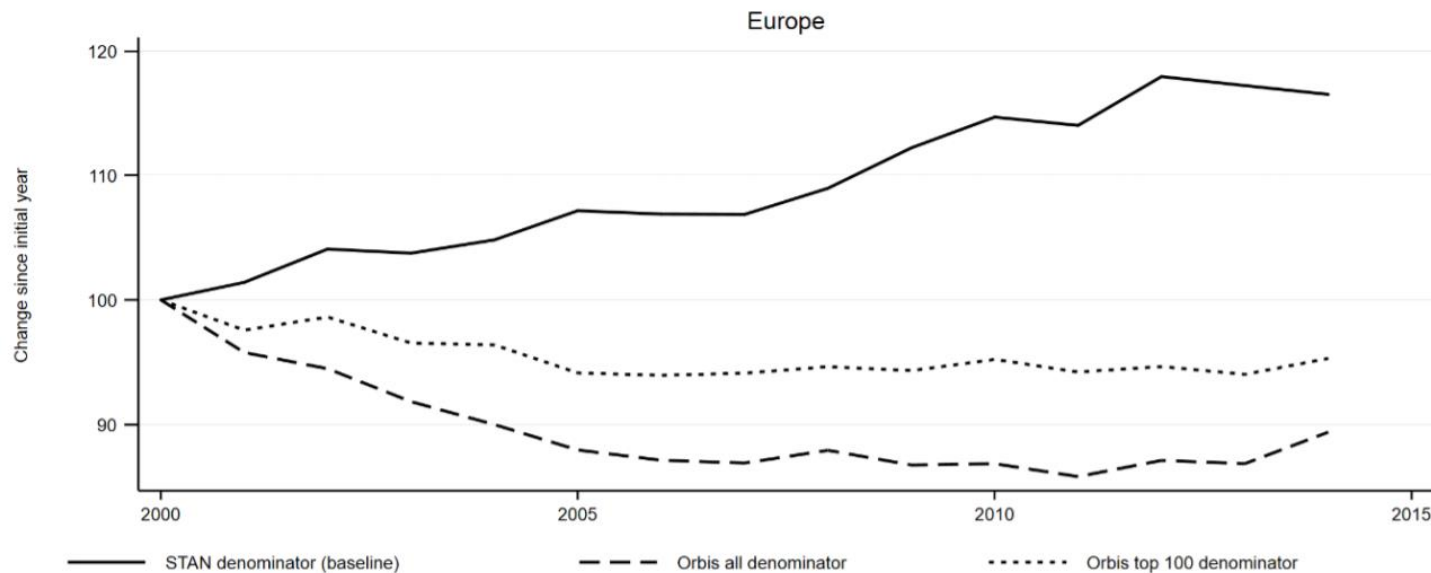
1. Two great papers that demonstrate the importance of measurement to understand differences in the cross-section and over time:
  - a) Resource misallocation in the US and India
  - b) Industry concentration in Europe and the US
2. Implications of changing patterns of industry concentration

# Cian: Misallocation or Mismeasurement?

1. Correcting for mismeasurement has non-trivial effects on HK misallocation estimates
  - Reallocation gains  $\downarrow$  (102% $\rightarrow$ 61%) but remain large
  - Smaller  $\downarrow$  in AE (-1.75% $\rightarrow$ -1%) but still a big drag on TFP
2. How to best measure misallocation? HK, BF, OP?
  - HK + model mis-specification (Haltiwanger et al 2018)
3. Assumption: measurement error is additive + orthogonal to true marginal product. Challenges?
  - Rising assortative matching (Song et al, 2019)  $\rightarrow$  measurement error  $\rightarrow$  overstate TFPR dispersion?

# Chiara: Industry Concentration in Europe and North America

1. Uses OECD Multiprod and ORBIS to show that industry concentration has risen in Europe
  - Group structure + apportion group sales to cty\*ind
  - Choice of denominator → looms large



# Paper #2: Industry Concentration in Europe and North America

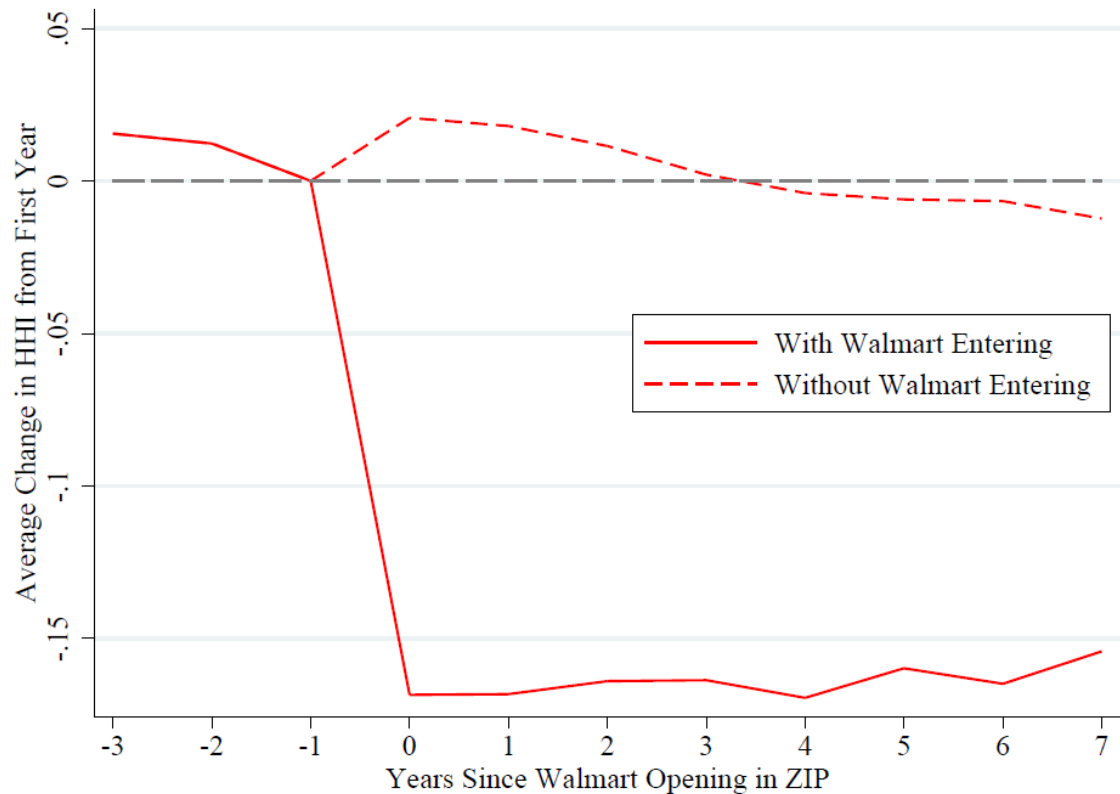
1. Uses OECD Multiprod and ORBIS to show that industry concentration has risen in Europe
  - Group structure + apportion group sales to cty\*ind
  - Choice of denominator → looms large
2. A careful and nuanced interpretation
  - “Industry concentration is distinct from market concentration”
  - Use other metrics (mark-ups, profits, M&A and entry) to measure competition

# National vs Local

## *When Walmart comes town*

Rising national concentration has been accompanied by falling local concentration as large firms opened new plants in new local markets.

Figure 17: Effect on concentration when Walmart enters a local market



Source: Rossi-Hanberg et al, (2019), "Diverging Trends in National and Local Concentration"

# Implications of rising industry concentration

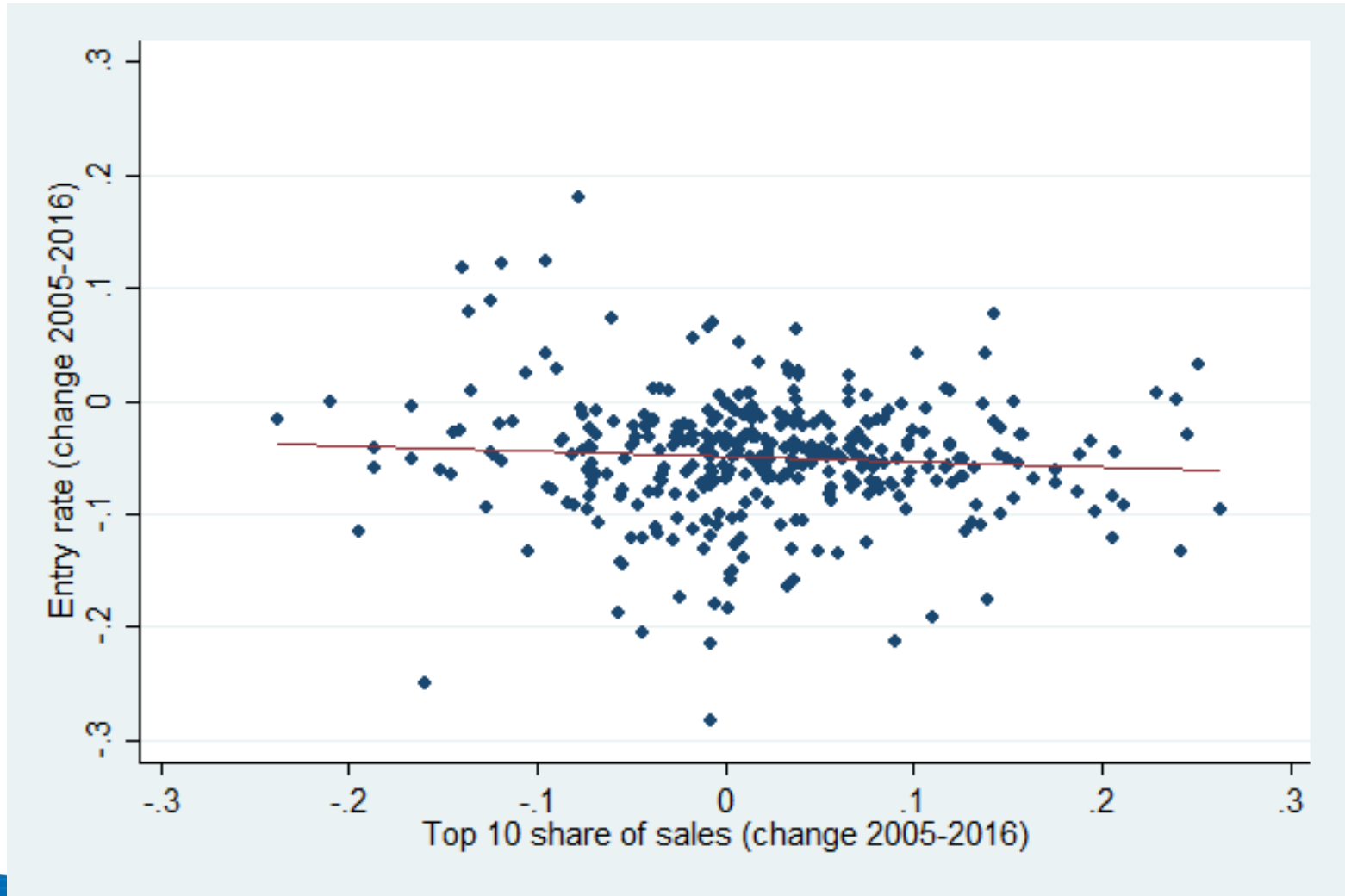
1. Rising industry concentration has coincided with rising mark-ups, declining biz and labour market dynamism
  - Symptomatic of ↓ competition and policy weakness.
  - More innocuous technology story (but may be a concern for policy in the future)
2. Cross-country data (cty-ind-year) can help
  - Technology: how much of the rise in concentration can be accounted for by industry\*year fixed effects?
    - **Repeat this exercise for firm entry rates + job reallocation rates**
  - If unexplained variation remains, has ↑ concentration been associated with less jobs, investment, wages, innovation?

# Concentration and young firms: *preliminary evidence from Downunder*

- If industry concentration was a problem, presumably young firms would find life more difficult in more concentrated environments (via barriers to entry).
- Within industries, how is changes in industry concentration associated with:
  - Entry rates
  - Survival of young firms
  - Post-entry growth of young firms



# Modest negative relationship between changes in concentration and firm entry rates



# Nuanced relationship between concentration and post-entry performance

Concentration (Top 10 share of sales), exit and post-entry growth

	Probability of exit	Firm employment growth
Concentration	0.0077	-0.0629*
Concentration*Young	0.0130**	0.0986***
Concentration*Middle age	0.0131***	0.0124
Observations	20,177,869	6,506,652

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ;  $\Delta$ SU = change in state unemployment rate

Young is below 3 years old, middle age 3-5, and old above 5

All specifications include industry fixed effects, industry growth rates and year fixed effects as controls. Errors clustered at the industry level.

Higher concentration is also associated with a weaker the connection between exit and labour productivity

Faster post-entry growth for young firms: selection at entry?