

The Reallocation Myth

Discussant: Gita Gopinath

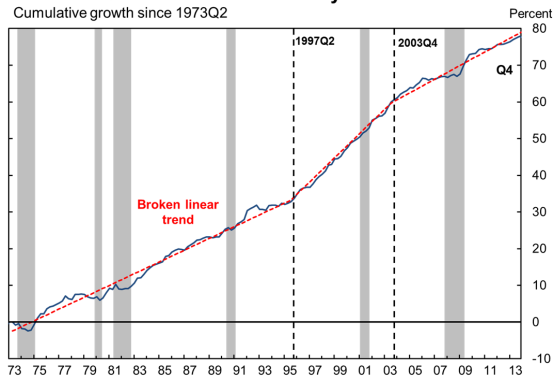
Harvard

Trends in Labor Productivity in U.S.

Business Sector, Source: Fernald (2014)

Business Sector Labor Productivity

Cumulative growth since 1973Q2



- 1 Measurement?
- 2 Lack of Ideas?
- 3 Lack of Dynamism?

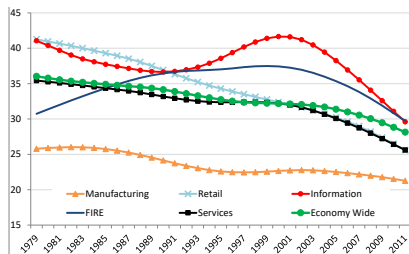
Driven by IT intensive sectors

Dynamism: Good? Bad? Irrelevant?

- ① **Fact:** Decline in reallocation
 - Lower rates of firm entry & exit; job creation & destruction
- ② **Myth:** Reallocation important driver of growth
 - Myth 1: Lower reallocation → lower allocative efficiency
 - Myth 2: Lower reallocation → lower innovation
- ③ **Chang-Tai & Pete:** Reallocation not a major driver of growth
 - No evidence of improving allocative efficiency at any point
 - Most innovation by slow growing incumbents, not entrants or 'gazelles'
 - LBD: Average growth over 5 years: Reallocation explains at most 25%

Myth 1: Lower reallocation \rightarrow lower allocative efficiency

- 1 Beyond dispute: Wrong to infer that resources moving from low to high productivity firms is a sign of better allocation
- 2 Sectoral Trends in Job Reallocation: Decker, Haltiwanger, Jarmin, Miranda (2017)



- 3 Retail Sector Vs. Information Sector

Myth 2: Lower reallocation → lower innovation

- Major contribution: Provide decomposition for all non-farm private businesses

Table 5: Sources of Growth, 1976–1986

	Entrants	Incumbents	
Creative destruction	19.1%	8.2%	27.3%
New varieties	0.0%	7.6%	7.6%
Own-variety improvements	-	65.1%	65.1%
	19.1%	80.9%	

Table 6: Sources of Growth, 2003–2013

	Entrants	Incumbents	
Creative destruction	12.5%	6.4%	18.9%
New varieties	0.3%	4.1%	4.4%
Own-variety improvements	-	76.7%	76.7%
	12.8%	87.2%	

Comment # 1: What about the years when TFP growth was high?

- Analysis covers 1976-1986 and 2003-2013

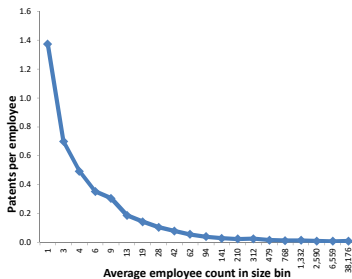
	TFP Growth	Job Destruction	Job Creation
1976-1986	1.03%	32%	45%
2003-2013	1.44%	28%	33%

- 1996-2003 & 2003-2013: TFP declines and reallocation declines
- Sector specific analysis: IT producing and using sectors

Comment # 2: Is it the right model?

- Decomposition based on indirect inference using model + job flow data
 - CD: lumpy distribution with thick tails
 - Own innovation: continuous distribution
- Model assumptions
 - Step size of innovation independent of firm size and firm age
 - No interaction between CD and own innovation
- Akcigit and Kerr (2016): 1982-97: 75% reallocation, 25% own innovation

FIGURE 2: INNOVATION INTENSITY BY FIRM SIZE



Comment # 3: About symptoms, not about cause

- Accounting model: exogenous innovation
- Limits to policy analysis: Hard to do counterfactuals
 - Higher costs on firm entry dampens innovation
- Independent measures of rising frictions associated with business dynamism?
 - De Loecker & Eeckhout: Rising market power (publicly held firms)
 - Starting 1980, average markups rise from 18% above marginal cost to 67% now
- What explains the slow down in TFP?