

Market Power and Business Dynamism in the US and around the World

Norman Loayza

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Development Economics | Global Indicators

The Schumpeterian process of firm renewal

- **The positive view:**
 - Creative destruction: as less productive firms exit, better ones appear, driving economic growth
 - Shocks and crises can accelerate this process

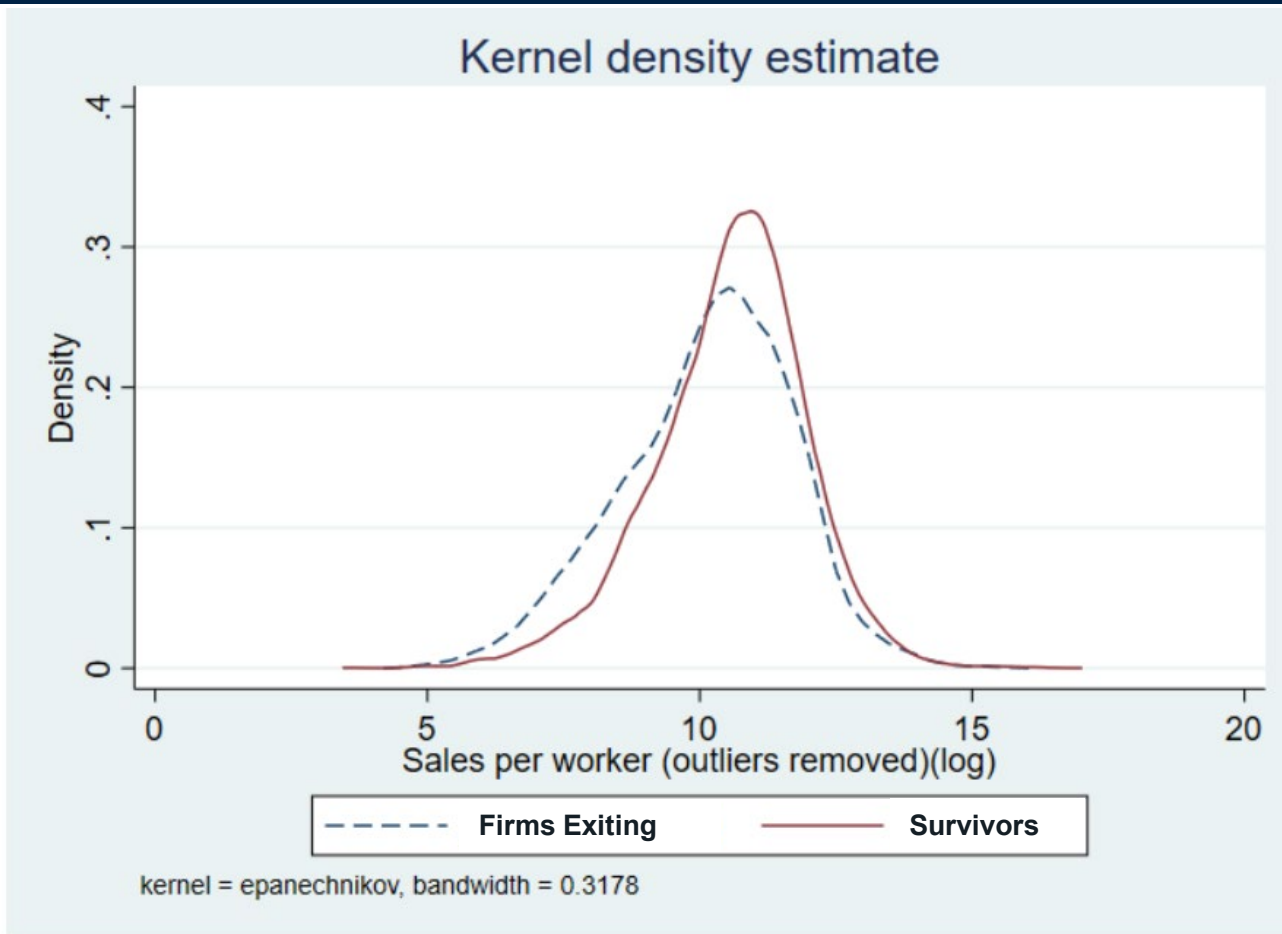
The Schumpeterian process of firm renewal

- **The positive view:**
 - Creative destruction: as less productive firms exit, better ones appear, driving economic growth
 - Shocks and crises can accelerate this process
- **The negative view:**
 - Destructive destruction: when firms exit, valuable resources are lost, leading to stagnation or contraction
 - Shocks and crises can worsen this process

Which view is right?

- **This is in an empirical question**
 - It may depend on the shock
 - It may also depend on the economy
- **The COVID-19 pandemic**
 - "Productivity and Firm Exit during the COVID-19 Crisis: Cross-Country Evidence," by Muzi, Jolevski, Ueda, and Viganola (Enterprise Analysis team)
 - ES-Covid-19 surveys build a panel using the ES conducted immediately before the pandemic as baseline
 - 31 countries (24 in ECA)

Exit or survival by firm (labor) productivity



Source: Muzi, S., Jolevski, F., Ueda, K., and Viganola, D. (2021). Productivity and Firm Exit during the COVID-19 Crisis: Cross-Country Evidence. Policy Research Working Paper Series 9671

Baseline Results

Baseline logistic regression marginal effects.
Dependent variable: Permanent Exit

	(1)	(2)	(3)	(4)	(5)
Sales per worker (log)	-0.025*** (0.004)	-0.023*** (0.004)	-0.023*** (0.004)	-0.020*** (0.004)	-0.019*** (0.004)
Retail	0.051*** (0.013)	0.046*** (0.013)	0.034** (0.015)	0.031** (0.015)	0.026* (0.015)
Hospitality	0.058*** (0.020)	0.044** (0.019)	0.041* (0.021)	0.043** (0.022)	0.040* (0.021)
Age of firm (log)		-0.038*** (0.007)	-0.035*** (0.008)	-0.034*** (0.009)	-0.035*** (0.009)
Senior management spent time on dealing with regulations Y:1 N:0			0.019* (0.010)	0.025** (0.011)	0.026** (0.011)
Introduced product innovation Y:1 N:0				-0.037*** (0.011)	-0.040*** (0.012)
Firm characteristics – general (Investments, Size, Exporter, Multi-Establishment, Foreign Ownership, Manager Experience and Gender)			YES	YES	YES
Firm characteristics – Website and Training				YES	YES
Firm characteristics – Bank Financing and Line of Credit					YES
Country FE	YES	YES	YES	YES	YES
Number of observations	15,552	15,322	13,020	12,941	12,593

In conclusion

- **In normal times:** maybe “creative destruction”
- **In crisis times:** destruction is destructive unless specific interventions prevent it

Control variables

- Purchased fixed assets Y:1 N:0
- Size (log employment)
- Part of multi-establishment firm
Y:1 N:0
- Exports directly 10% of more of sales Y:1 N:0
- Foreign ownership (10%) Y:1 N:0
- Top manager female Y:1 N:0
- Top manager experience in sector (years)
- Experienced electrical outages
Y:1 N:0
- Has its own website Y:1 N:0
- Offers training Y:1 N:0
- Bank financing of working capital Y:1 N:0
- Has bank loan or line of credit
Y:1 N:0