

Discussion of

Haltiwanger, Jarmin and Miranda

Who Creates Jobs?

Small vs. Large vs. Young

Contribution of the paper

- A lot of facts! Careful analysis of establishment and firm-level *net* employment changes.
- Evaluation of the role of size, age and ownership jointly and separately.
- Useful **checklist** for models of firms dynamics and job/worker flows. Among the facts listed:
 - Ageing is not associated with lower JD rates (p. 26) once we control for size.
 - Young firms create jobs by expanding establishments rather than by creating new plants (p.27). Large firms do the opposite.

Key motivating issue - finding

- Is it true that SMEs are the engine of *net* employment growth?
- No. Controlling for age, “no systematic relation between growth and size”.
Gibrat’s Law holds.
- Focus on **NET** flows. Inverse relationship between firm size and gross job creation and destruction (hence job turnover) is still unchallenged stylized fact.

A very nice table!

Firm Age	Firm Size (Base Year)												All
			c) 10 to	d) 20 to	e) 50 to	f) 100 to	g) 250 to	h) 500 to	i) 1000 to	j) 2500 to	k) 5000 to		
	a) 1 to 4	b) 5 to 9	19	49	99	249	499	999	2499	4999	9999	l) 10000+	
a) 0	731,515	503,644	498,317	553,181	313,511	292,348	157,120	151,518	186,087	131,178	D	D	3,518,419
b) 1	79,759	-12,547	-20,836	-47,837	-41,006	-57,188	-48,830	-5,476	-14,532	-20,131	211	-408	-188,821
c) 2	26,506	-24,840	-31,883	-44,488	-26,738	-18,026	-9,049	-13,579	-23,615	-12,782	D	D	-178,494
d) 3	7,535	-22,650	-26,855	-37,824	-15,918	-14,813	-8,981	-7,548	-11,581	-12,114	D	D	-150,749
e) 4	20,456	-18,442	-23,212	-29,616	641	-9,816	-4,301	-5,436	-298	-4,011	D	D	-74,035
f) 5	4,808	-19,792	-24,392	-29,425	-14,870	-6,222	-2,449	-6,849	-293	-3,418	D	D	-102,902
g) 6 to 10	14,577	-71,332	-99,235	-110,111	-40,652	-1,324	-9,452	5,437	-20,693	-13,945	-9,903	17,928	-338,705
h) 11 to 15	15,663	-47,730	-67,923	-81,876	-40,432	-27,666	-9,530	2,179	-2,028	22,441	6,140	69,409	-161,353
i) 16 to 20	5,673	-36,856	-58,236	-71,299	-35,979	9,780	-5,725	10,200	3,204	12,615	10,491	2,158	-153,974
j) 21 to 25	2,923	-28,173	-42,609	-51,490	-22,246	-13,346	3,901	10,269	36,484	10,075	9,889	-56,563	-140,886
k) 26+	1,016	-38,599	-71,235	-107,390	-48,873	10,309	19,924	85,473	56,436	143,701	58,245	307,517	416,524
m) ALL	910,431	182,683	31,901	-58,175	27,438	164,036	82,628	226,188	209,171	253,609	90,973	360,214	2,481,097

Comments

- Why Gibrat's holds only for larger or older firms.
- Economics behind the facts: some proposed interpretation.
- Firms vs. Establishment: an Important Dimension!
- Relevance in the context of the Great Recession

Testing Gibrat's

- Gibrat's Law is $E[s_{t+1} - s_t | s_t] = 0$
- *Economic issue*: Gibrat's holds above firm-specific minimum efficient scale, k_i .
- *Statistical issue*: representation of the smallest units (below some threshold k). How about LBD in sampling the micro-firms?
- In both cases the **bias** is
- $E[s_{i,t+1} - s_{it} | s_{it}; s_{it} \geq k_i] = \beta s_{it} + E[\varepsilon_{i,t+1} | s_{it} \geq k_i]$

Selection bias, size and age

- If statistical problem, then estimates on cells well above the common threshold, should be less affected (early studies with data only on large units found support for Gibrat's Law)
- If economic problem, as MES is firm-specific, then there is a composition problem.
- However, in presence of frictions at entry and selection of the fittest (as suggested by HJM), then older (continuing) firms should have reached the MES. Age provides the common threshold.

Table 2

- Coefficient of past size lower than 0.01 when
- $s_t > 100$ (with base size; no age controls)
- $s_t > 2.500$ (with current size; no age controls)
- $s_t > 500$ (with base size; *with* age controls)
- $s_t > 500$ (with current size; *with* age controls)
- Coefficients for Age almost unaffected by inclusion of Base Size
- Always greater than .01 in modules when Current Size is used. Age matters.

Interpretations

- Common support for size and age, conditioning on survival
- What is behind age effects for older firms? Any cohort effect? Can we use longitudinal features of LBD to identify longer-term effects of recessions on firms' dynamics?
- Age matters not only because of startups, but also after birth. Entry is easy, survival is not.
- Why? Selection effects, learning How about finance? Access to finance should mean less fluctuations in employment when experiencing transitory shocks (preserving a job is an investment)

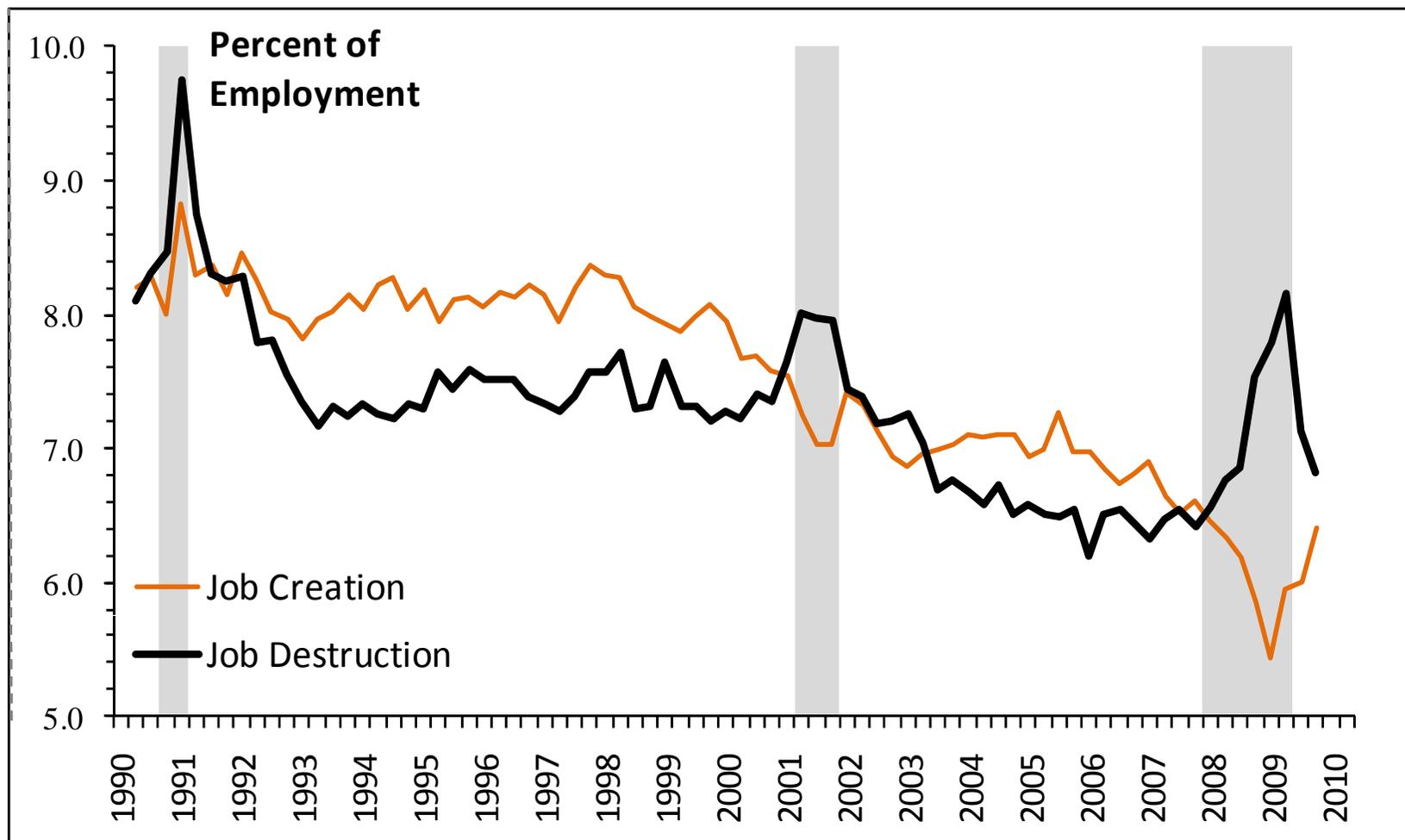
Firms and Establishments

- Explore the relationship between Firm's Size and number of Plants.
- If growth for large firms means creating new plants, and different plants are subject to independent shocks, then the cross-sectional variance of growth rates (Job Turnover) should decline with firm size.
- Does this explain why JD and JC decline also for very large units when the focus is on firms rather than establishments?

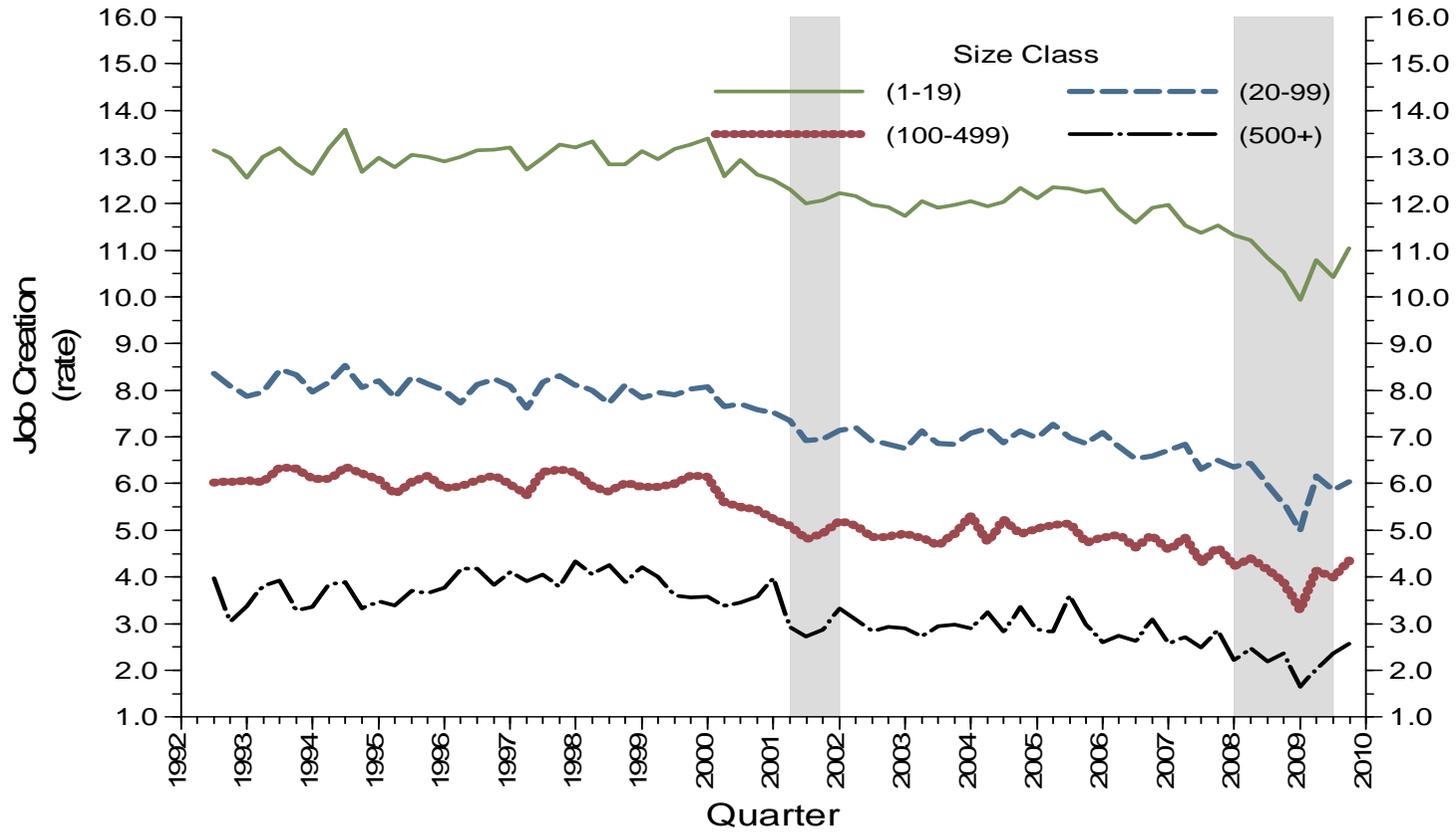
Are we Barking up the Wrong Trees?

- A lot of rethorics on SMEs but they did not receive much state support during the recession
- Fiscal stimulus packages involved cosmetic measures for SMEs which could have faced very serious liquidity problems. Disproportionate support to the **so big to matter**.
- Decline in startups may also anticipate future liquidity problems. And how to support greenfield startups without targeting small units?

Financial Deepening associated with declining Job Turnover



Notably for the smallest units



Financial Crises, JD and JC

- Finance is good only in normal times. It reduces employment volatility in SMEs.
- More leveraged firms experiencing a financial shock with liquidity being suddenly pulled back cut down employment and postpone projects and *jobs*, thus increasing **job destruction** and reducing **job creation**.
- The effect should be stronger in more leveraged sectors during financial recessions.

A back of the envelope dd using BED

		High Leveraged Manufacturing	Low Leveraged Trade	$\Delta\Delta$
ΔJD	Financial recession	27.81%	4.46%	23.35%
	Non-financ.recession	14.37%	3.56%	10.81%
	Δ	13.45%	0.91%	12.54%
ΔJC	Financial recession	-20.45%	-16.10%	-4.36%
	Non-financ.recession	-18.85%	-8.86%	-9.99%
	Δ	-1.61%	-7.24%	5.63%
ΔEX	Financial recession	19.35%	7.82%	11.53%
	Non-financ.recession	5.13%	2.15%	2.98%
	Δ	14.23%	5.67%	8.56%
ΔEN	Financial recession	-1.92%	-5.30%	7.22%
	Non-financ recession	-3.23%	1.22%	4.45%
	Δ	5.15%	6.52%	-2.77%

Source: Business Employment Dynamics, 2000-2010.

Notes: Financial related recession 2008q1-2009q2; Non-financial recession 2001q2-2001q4. Delta are calculated with respect to the period predating the recession.