



Business Dynamism in Japan: Some Expositions

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Discussion by
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Intro

- Talk about presentation.
 - Puzzle is decline in concentration.
- Compare to U.S. results.
- General comment on dynamism.

What the Authors Do / Find

- Motivated by claim that there is stagnation in many advanced economies.
- Studies business dynamism in Japan. Compares it to U.S.
 - Uses Japanese equivalent of D&B.
- Results similar to U.S.:
 - Decline in entry, young firms' empl. share, dispersion of firm growth, job creation and labor share.
 - Increase in profits.
- Two results differ:
 - Concentration is down (not up).
 - Markups are flat (not up); and
- Two other facts:
 - In addition to low entry rate, exit rate is also low in Japan.
 - Strong SME protection and subsidies have been employed.

What the Authors Do / Find

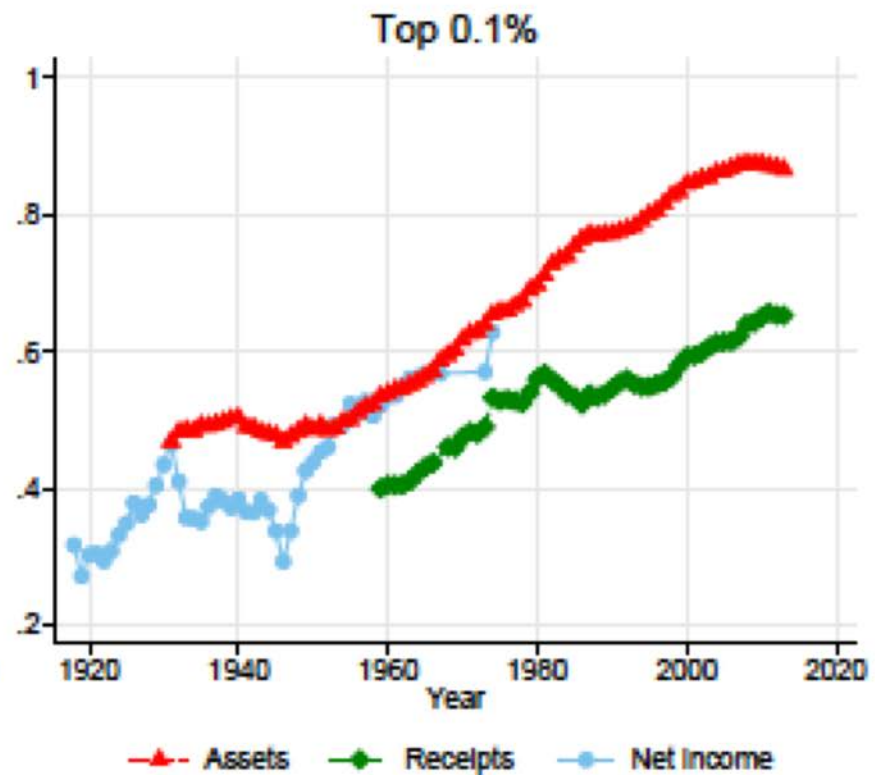
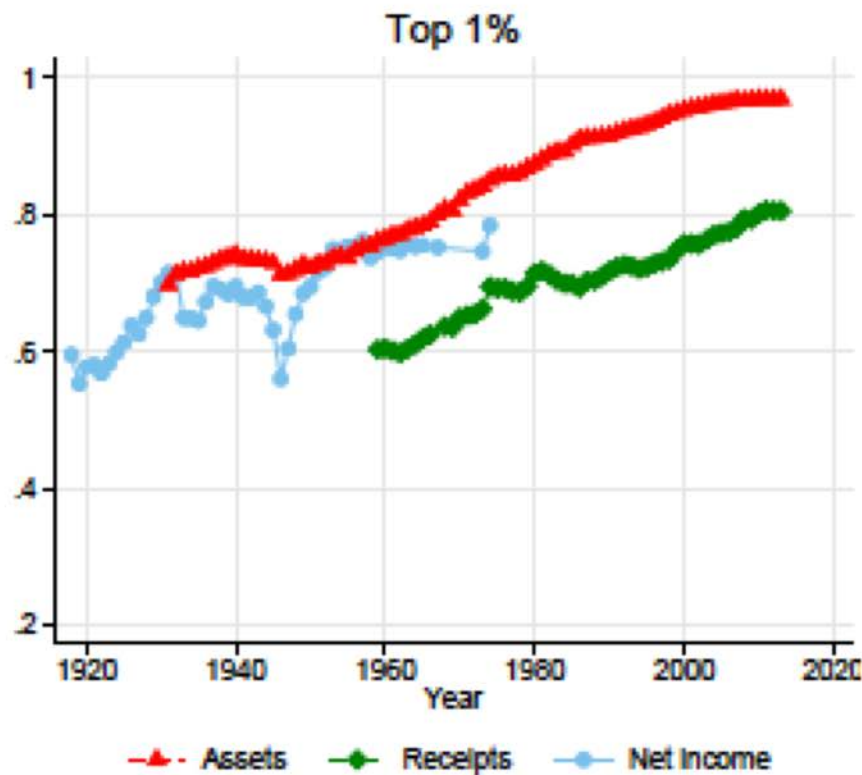
- Theoretical model to explain differences:
 - Endogenous innovation in GE-framework.
 - Assume that SMEs receive subsidies in Japan:
 - » exits are slower.
 - » sales decline more because there is less incentive to innovate / work hard.
 - Explains decline in concentration.
 - » => Regulation matters. Can retard innovation.
 - Explain most of empirical results except:
 - » Profits down.
 - » Labor share flat.

Some thoughts:

- Interesting and nice results.
 - Subsidies can explain decline (rather than increase) in concentration.
- More general thoughts relevant to conference.
 - Concentration has been increasing for a long time in U.S.
 - » Maybe 11 years is a short time?
 - What happened before GFC?
 - » Kwon, Ma and Zimmerman (2021).
 - Concentration in U.S. economy persistently up over past century.
 - With very different patterns of other variables.

Some thoughts:

- Kwon, Ma and Zimmerman (2021).



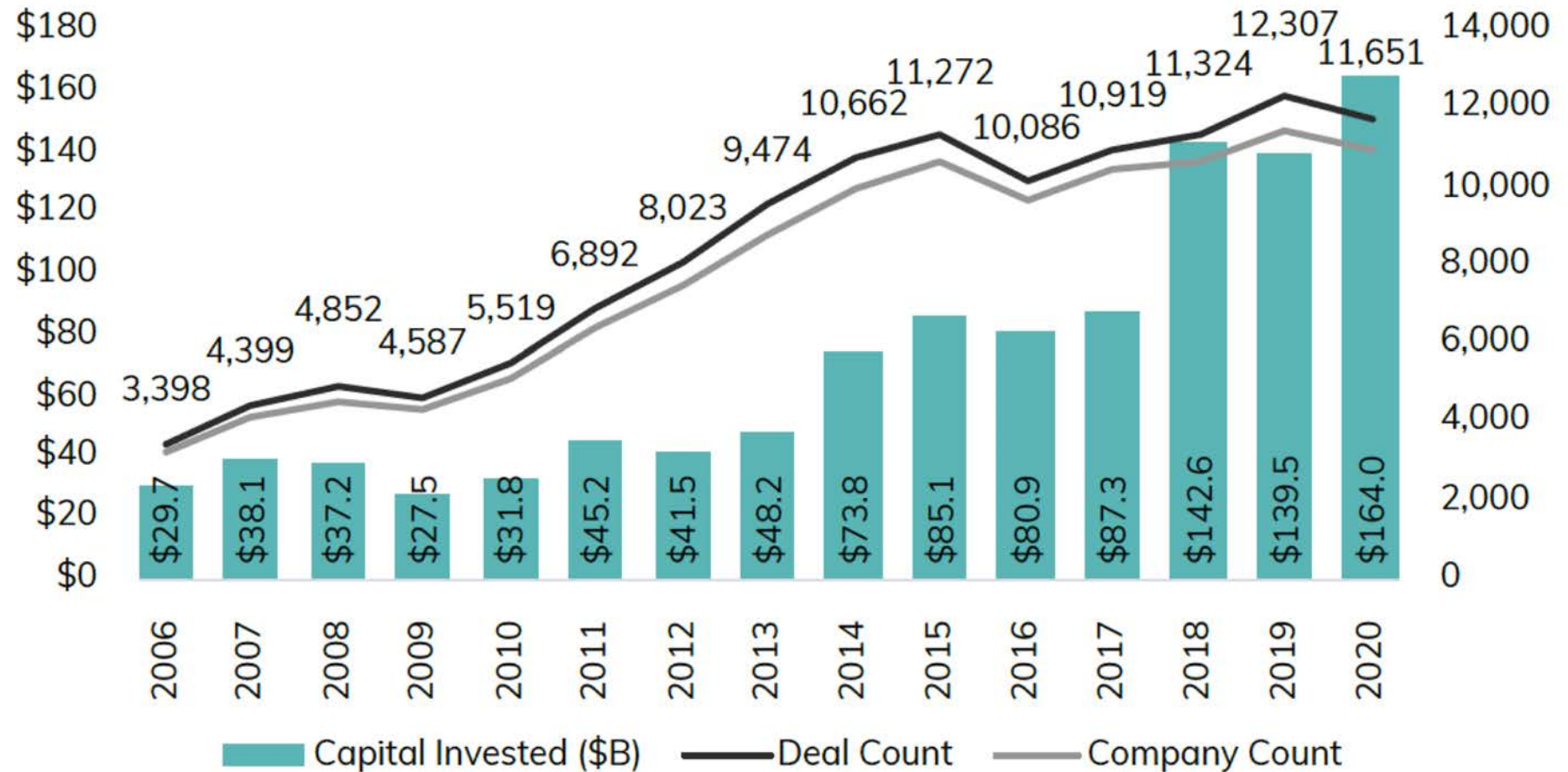
Some thoughts:

- Concentration has been increasing for a long time in U.S.
 - Kwon, Ma and Zimmerman (2021).
 - Concentration in U.S. economy persistently up over past century.
 - » With very different patterns of other variables.
 - Particularly labor share which may be changing now.
 - Timing and degree of rising concentration in an industry closely related to investment intensity in R&D and info tech.
 - Industries with higher increases in concentration grow output faster.
- Conclude that concentration = increasingly stronger economies of scale.
- » Not “an evil GAFA story.”
 - » More efficient firms get bigger.
 - » Other forces affect profits, labor share, etc. over time.

Some thoughts:

- Puzzled by the general assumption of reduced dynamism in U.S.
 - Concentration usually increases.
 - Does not seem like dynamism is low -- a new golden age of VC.
 - » Investment pace.
 - » Investment exits.
 - » Investment returns.

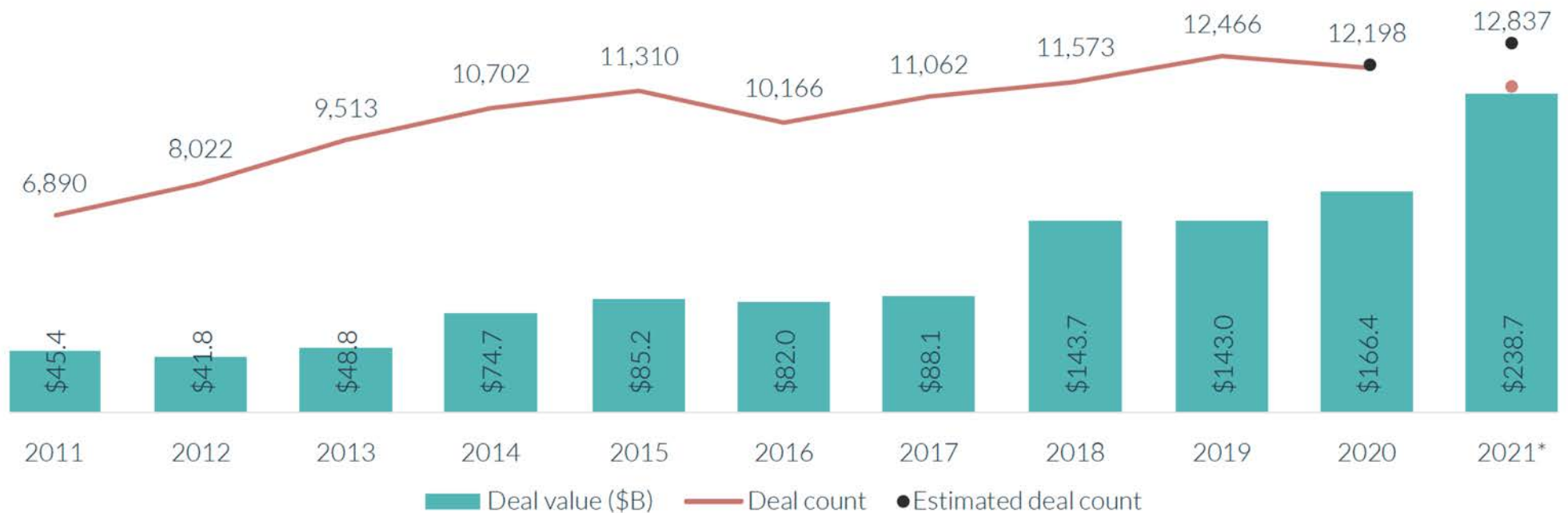
US VC Deal Flow



Record VC investment!

Capital investment hits new record through just three quarters

US VC deal activity

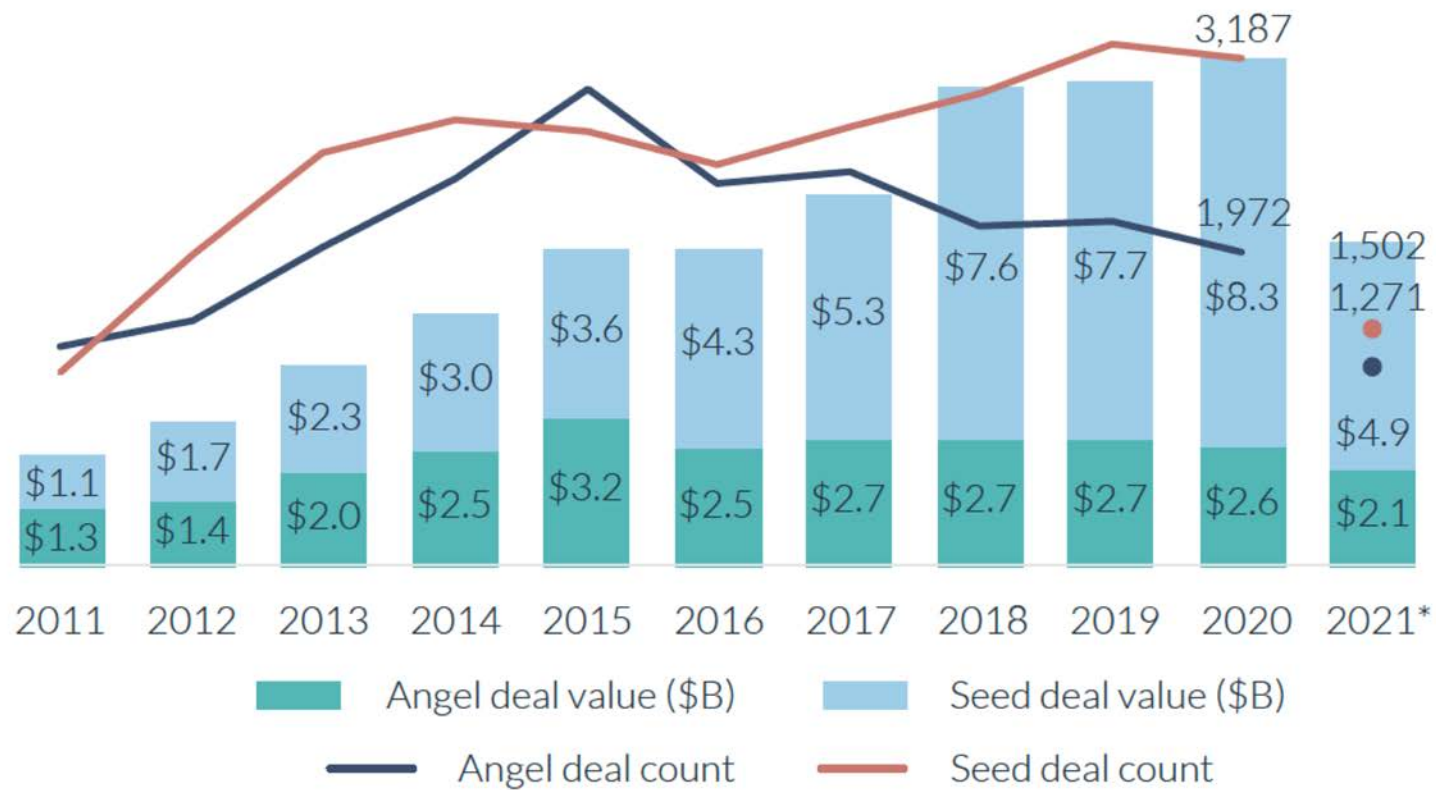


PitchBook-NVCA Venture Monitor

*As of September 30, 2021

Angel and seed deals setting high pace

US angel and seed deal activity by stage



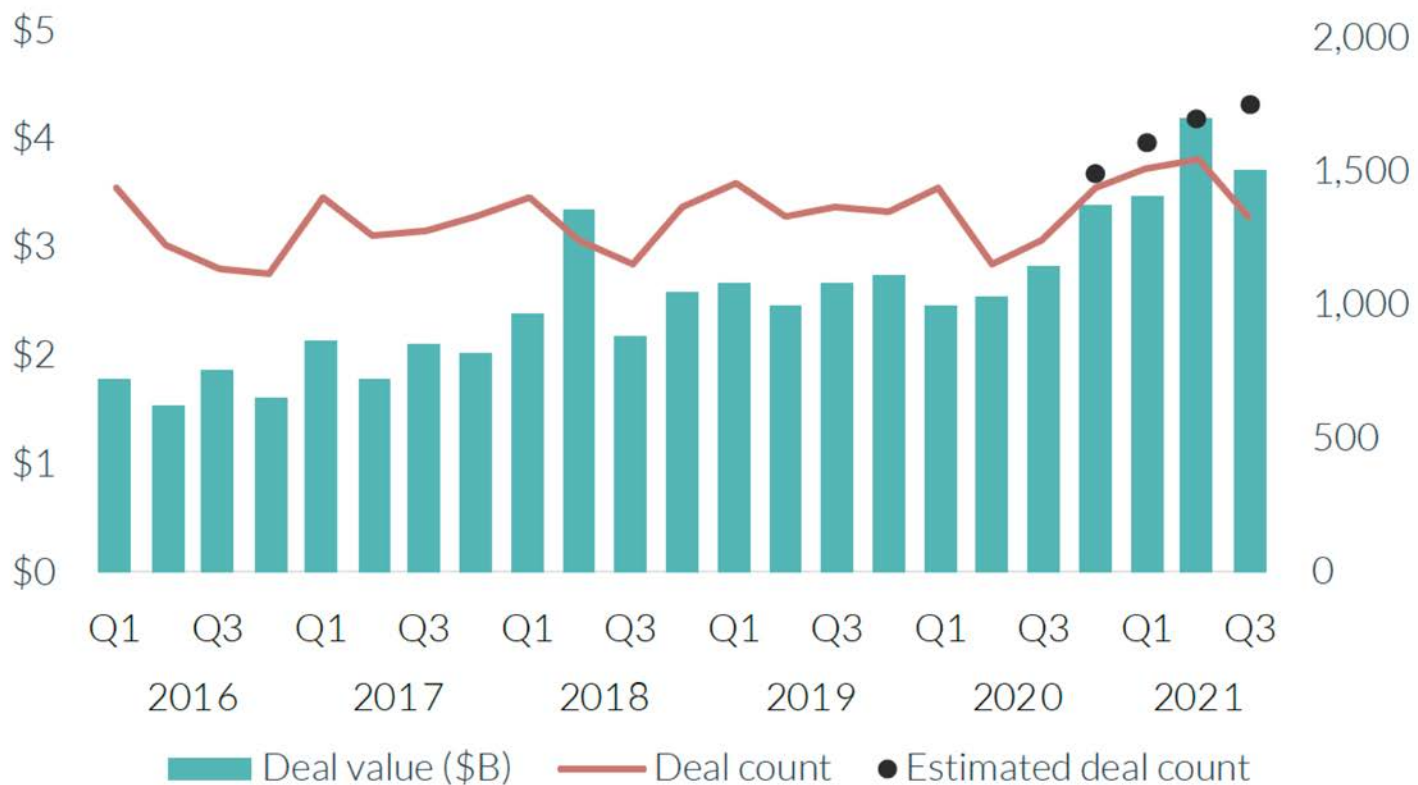
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Record VC investment!

Estimates put Q3 at record deal count

US angel and seed deal activity

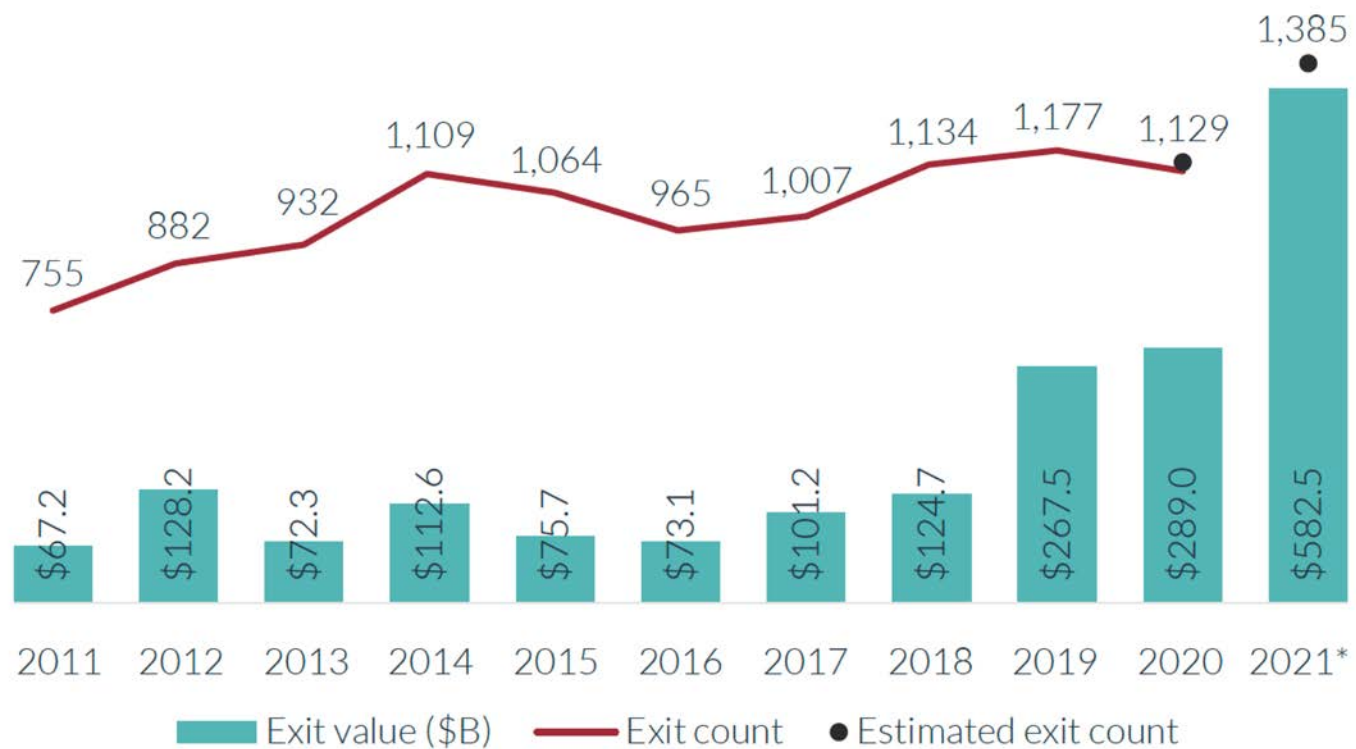


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Exit / IPO Market?

Exit value surpasses \$500 billion for first time ever

US VC exit activity



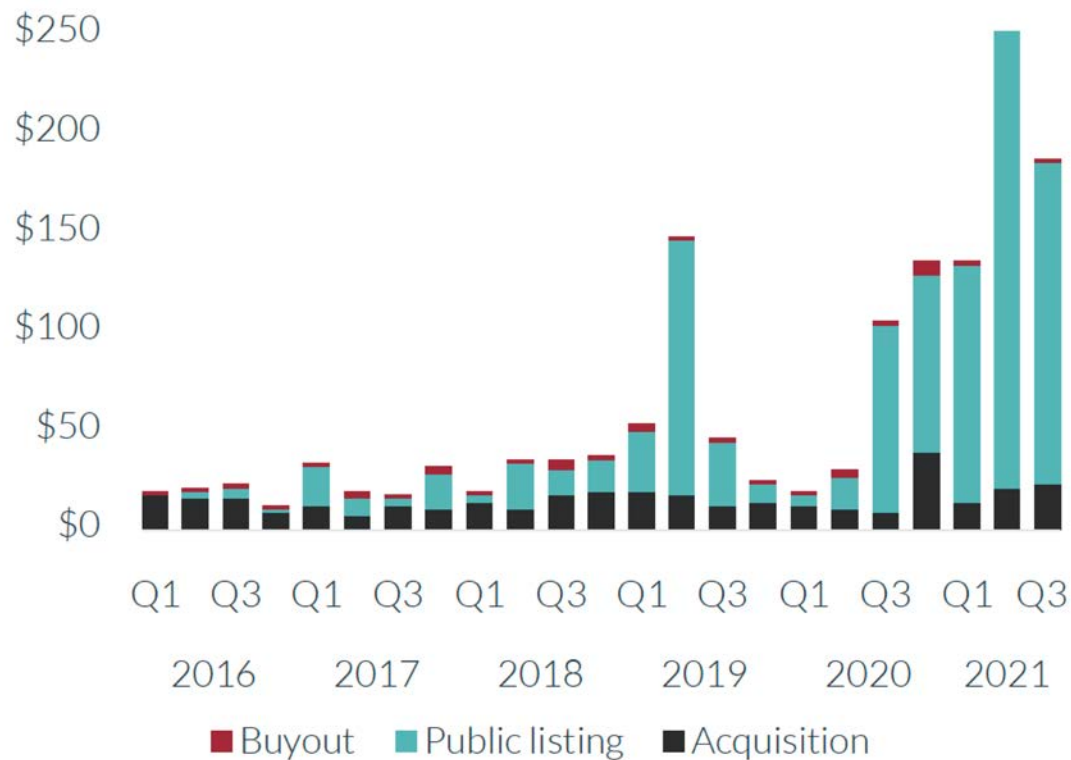
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Exit / IPO Market?

Open IPO window and SPAC combinations contribute to strong year for public listings

Quarterly VC exit value (\$B) by type

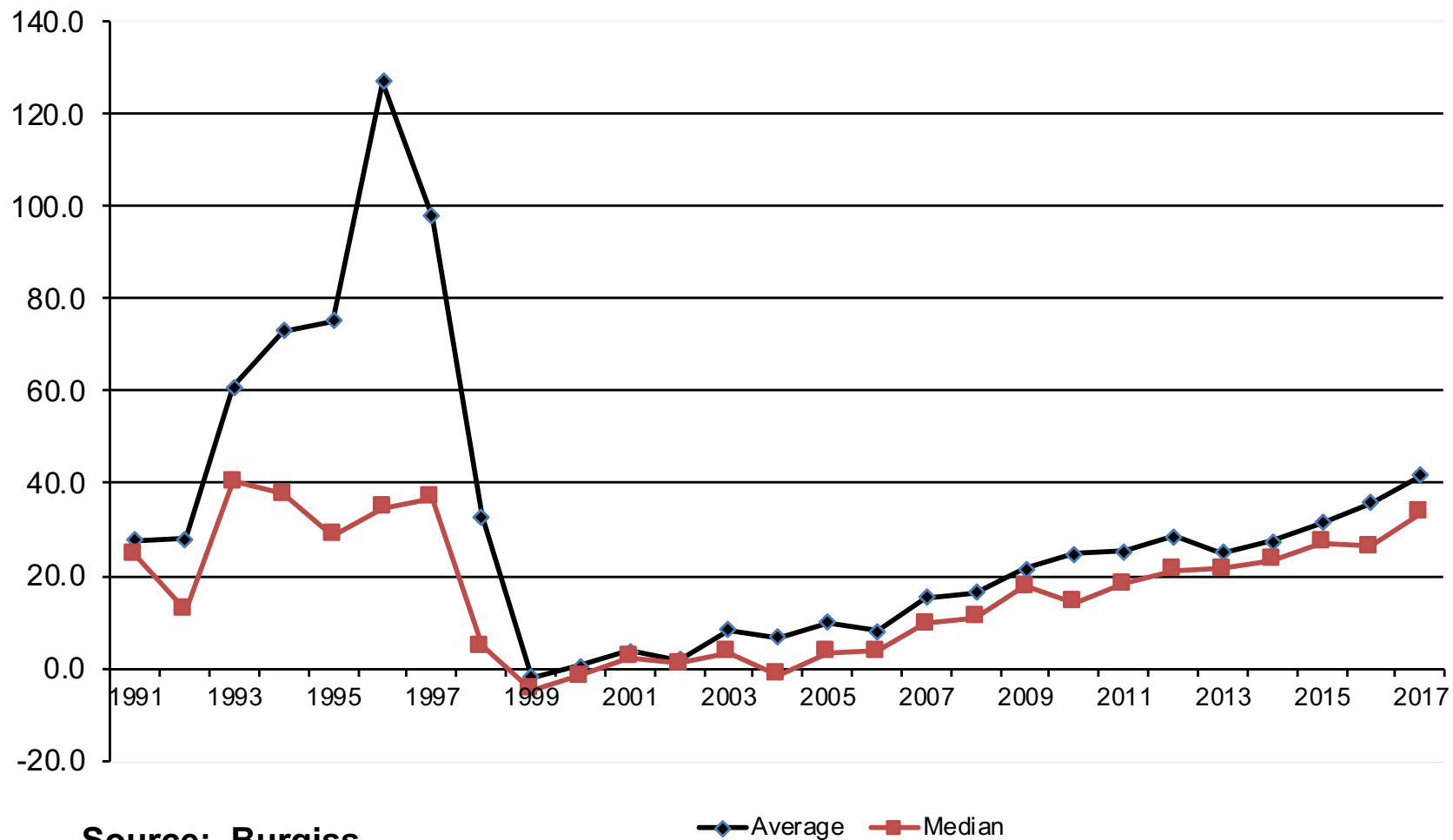


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U.S. VC IRRs by Vintage Year, 1991 - 2017

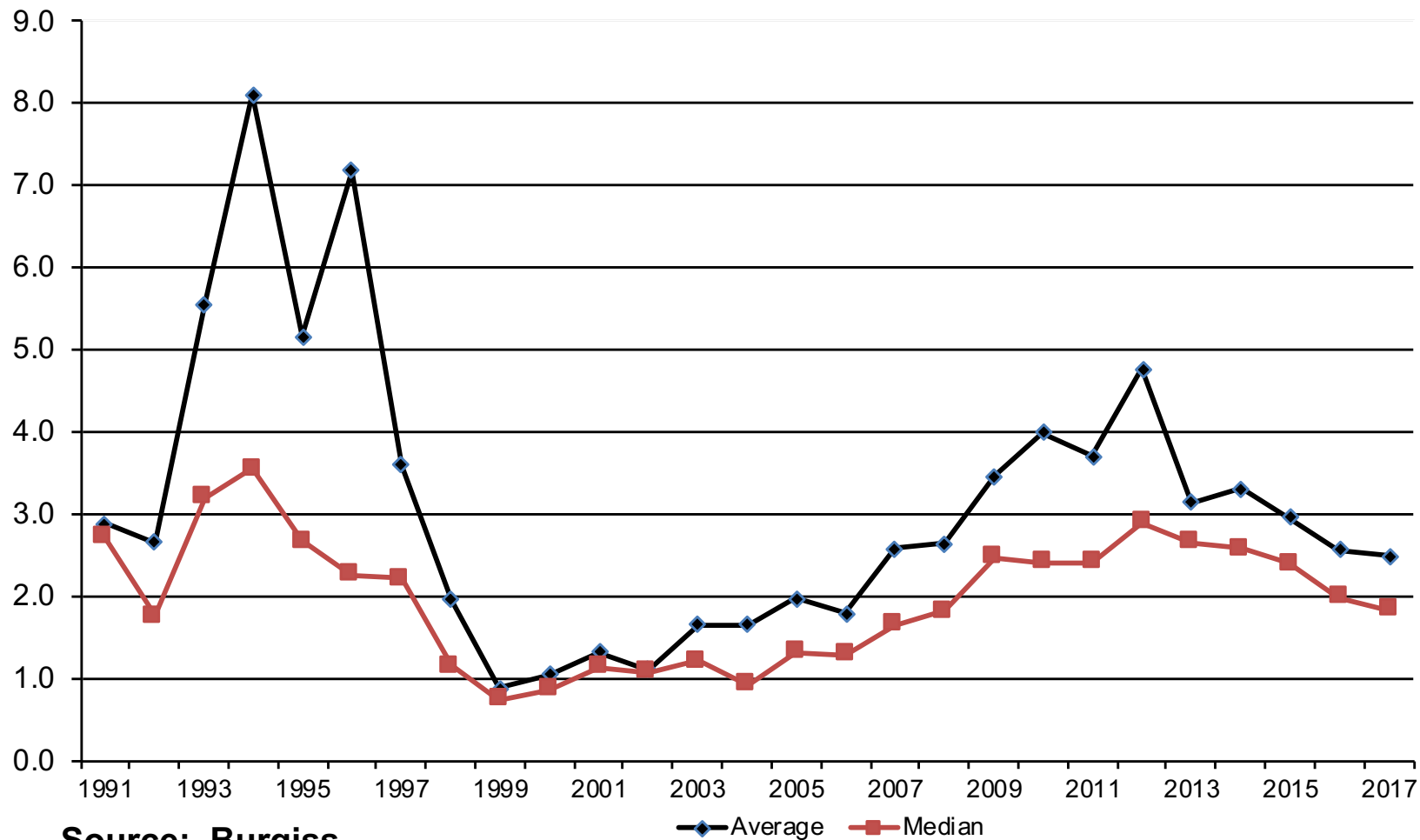
Pooled Ave. and Median as of 2021 Q2



Source: Burgiss

U.S. VC MOICs by Vintage Year, 1991 - 2017

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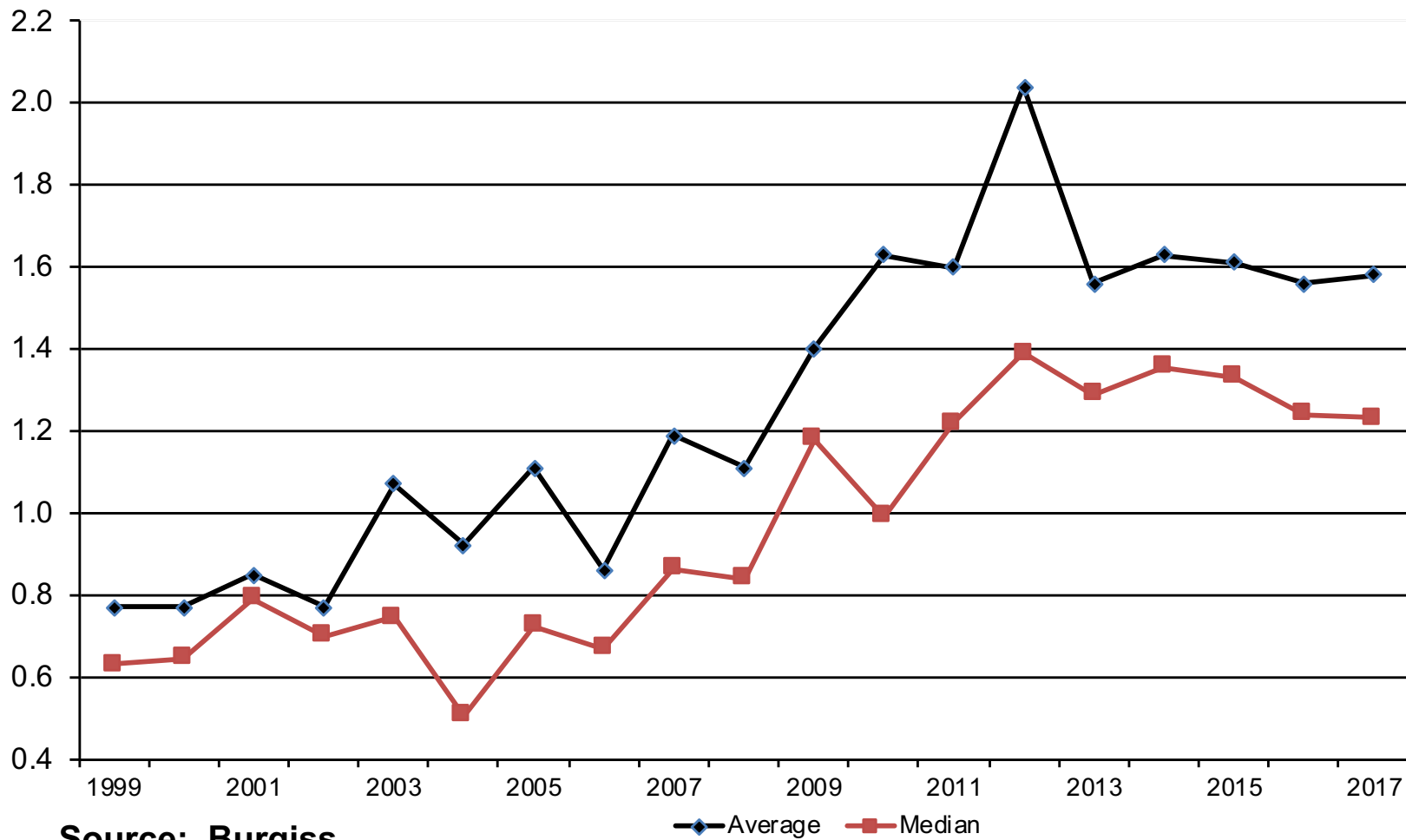


Source: Burgiss

U.S. VC PME by Vintage Year, 1999 - 2017

Pooled Ave. and Median as of 2021 Q2

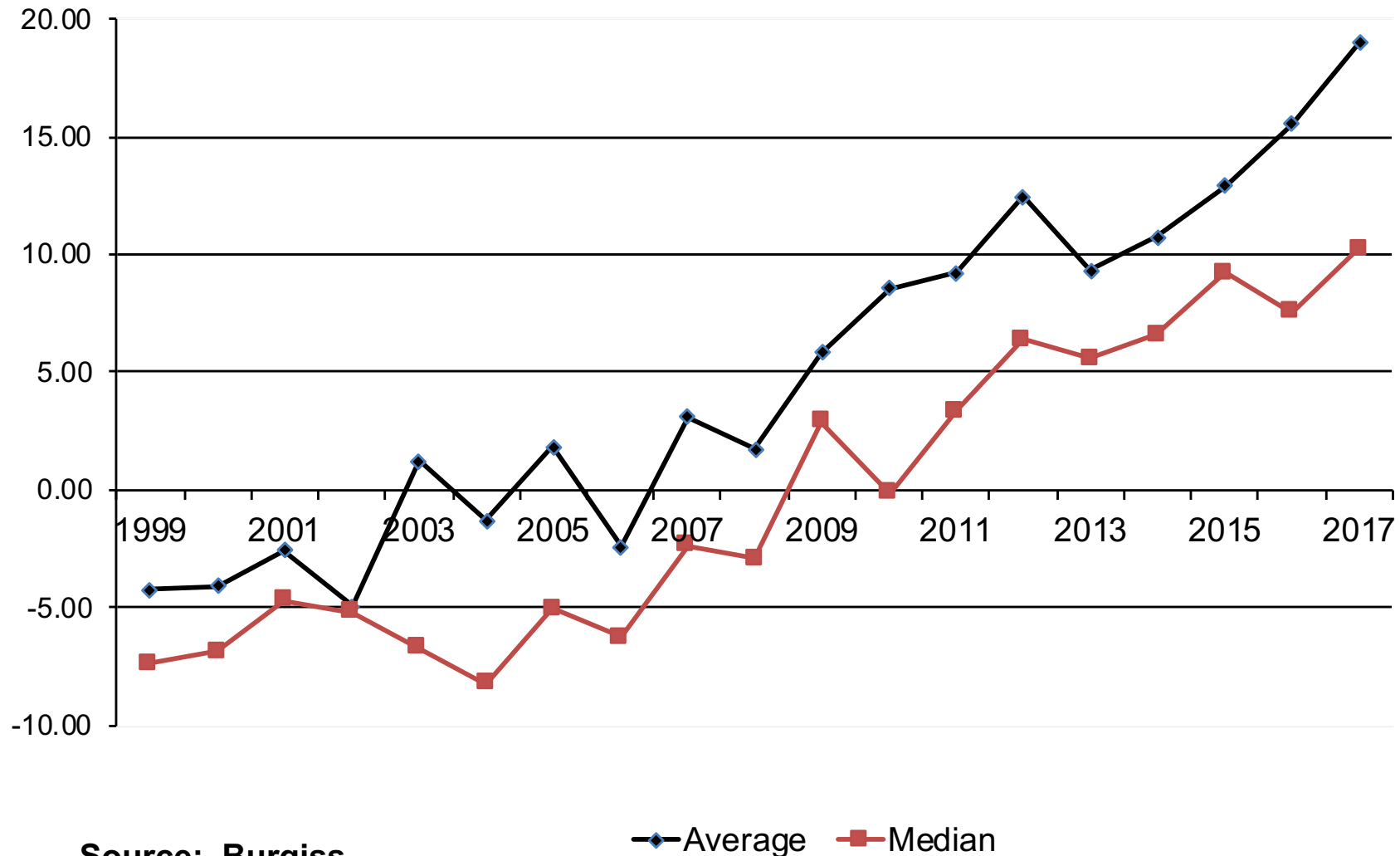
S&P 500



Source: Burgiss

U.S. VC Direct Alphas by Vintage Year, 1999 - 2017

Pooled Ave. and Median as of 2021 Q2



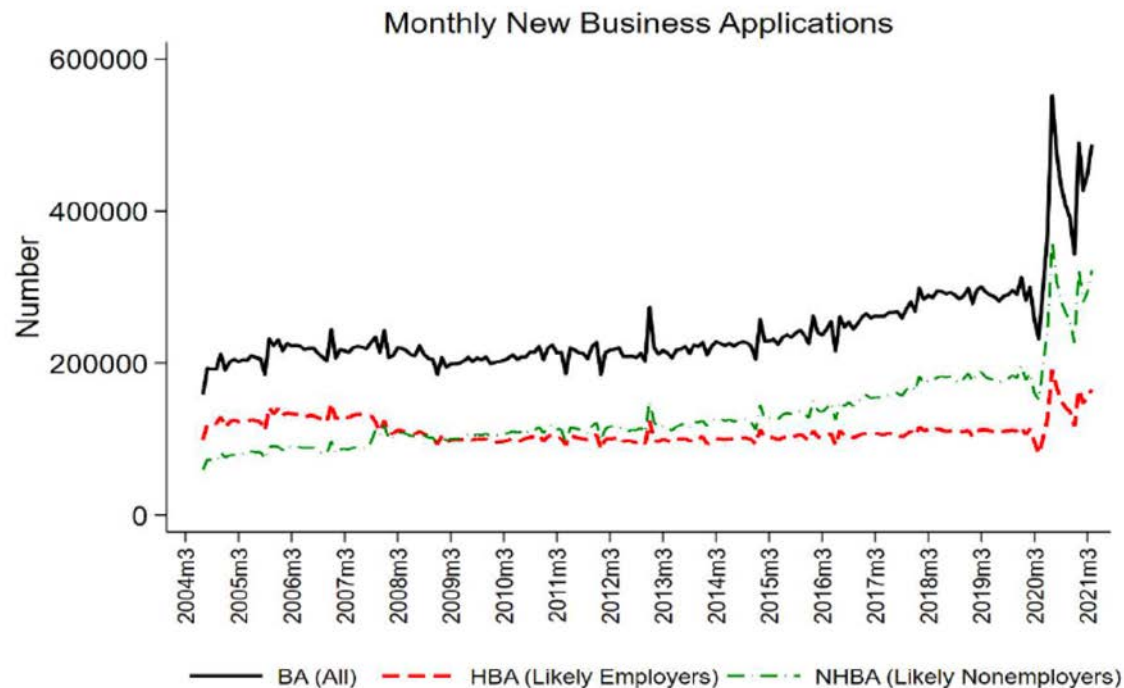
Source: Burgiss

Some thoughts:

- And, now, U.S. start-ups overall have taken off. From Haltiwanger (2021):

Figure 1. BFS Monthly Applications

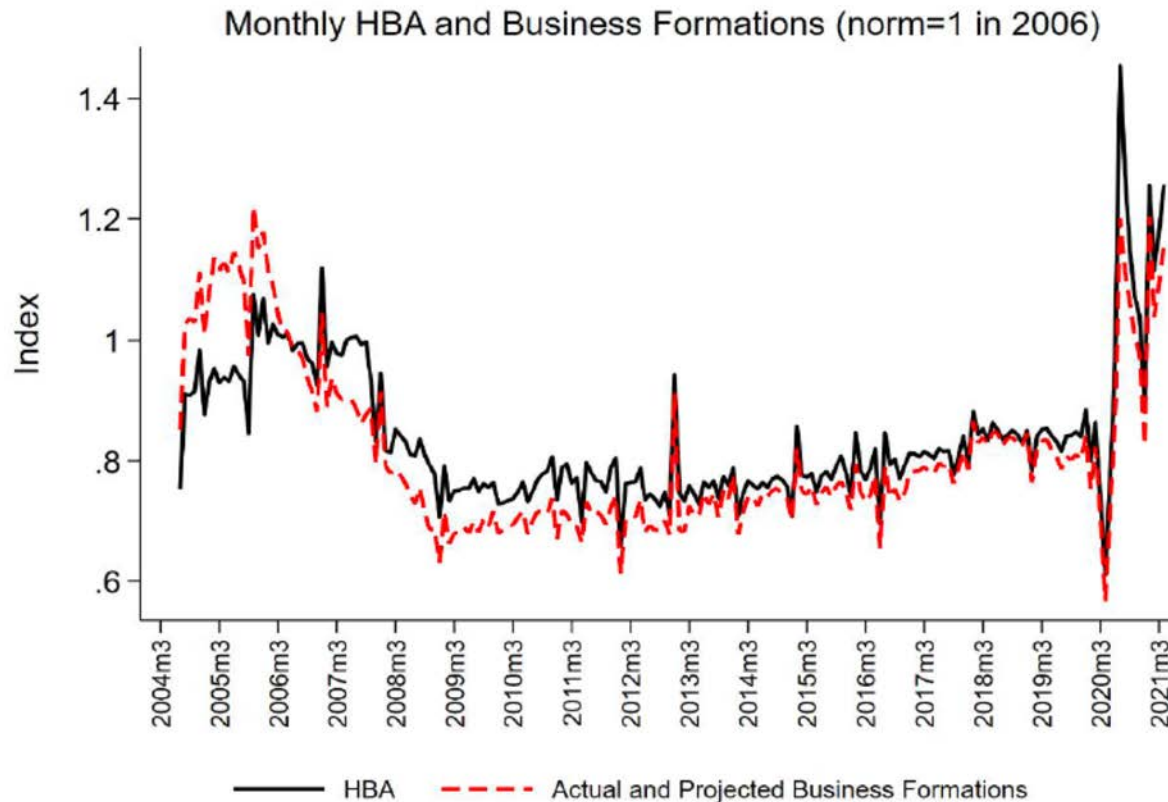
A. BFS applications 2004:m7-2021:4



Some thoughts:

- And, now, U.S. start-ups overall have taken off. From Haltiwanger (2021):

Figure 2. Monthly Applications for Likely Employers and New Employer Startups



Conclusion

- Paper finds inefficient subsidies responsible for differences in Japan vs. U.S.
 - Interesting and plausible result.
- Reasons to be optimistic about business dynamism in the U.S. (and Japan).
 - Explosion in VC investment and start-ups.
 - » Digital transformation.
 - » AI.
 - » Life sciences revolution.
 - » Intangible capital?
 - » Seems like the late 1990s?
 - Technological change strong.
 - Spillovers likely.
 - May continue to see increase in concentration in U.S.
- Increasing dynamism in coming years in U.S. (and Japan).
 - As in this paper, threat is regulation / taxation?

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