Pandemic and Productivity in Japan

Miho Takizawa, Gakushuin U.
Daisuke Miyakawa, Hitotsubashi U.

Discussion by
Chad Syverson, U. of Chicago Booth School of Business

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Overview

Study explores mechanics of aggregate productivity change in Japan over pandemic

Aggregate productivity change driven by both productivity change *within* producers as well as reallocation of activity *across* producers with different productivity levels

- A bit extra focus here on reallocation/entry effects
  - Literature has shown these are generically important
  - Might think this is component most affected by Covid-related policy

Overview

Productivity obviously a hugely important issue

Brought into sharp relief with ongoing worldwide productivity slowdown

And productivity is perhaps the best single summary measure of how an economy weathered the pandemic

- Might also hold clues as to any persistent effects

Overview

Japan is a productivity laggard, even during a time of slow productivity growth

Average annual labor productivity growth:

	2004-2021	2010-2021	2019-2021
Japan	0.7%	0.8%	-0.1%
G7	1.0	0.9	1.3
OECD	1.0	1.0	1.4
EU	0.9	1.0	0.8
US	1.3	0.9	2.3

Comment: Productivity Decompositions (1)

Interesting that reallocation effect in Japan has been negative since 2000, but has been getting better (that is, less bad)

The aggregate productivity slowdown reflected a notable drop in "within" growth

Authors conclude from decompositions that "Better firms shine and worse firms fade"

- Is it that, or is it "better firms fade and worse firms shine, but less than they used to"?

Comment: Productivity Decompositions (2)

Within growth in VA/L much more positive than in Sales/L

- Could be composition; VA data for larger firms
- Easy to check composition story: conduct Sales/L analysis on subsample of firms with VA data

Could it (also) be a broader phenomenon?

Comment: Productivity Decompositions (2)

Could it (also) be a broader phenomenon?

- More vertical integration?
- E.g.: A firm with L = 10 and sales = ¥20 once purchased inputs of ¥10 (VA = ¥10) from supplier with L = 10
  - Suppose it buys this supplier
    - Supplier disappears; effect does not show up in within component
    - Firm's change in VA/L = (20/20) – (10/10) = 0
    - Firm's change in Sales/L = (20/20) – (20/10) = -1
- Would this also explain large gains from exit in VA/L compared to Sales/L?

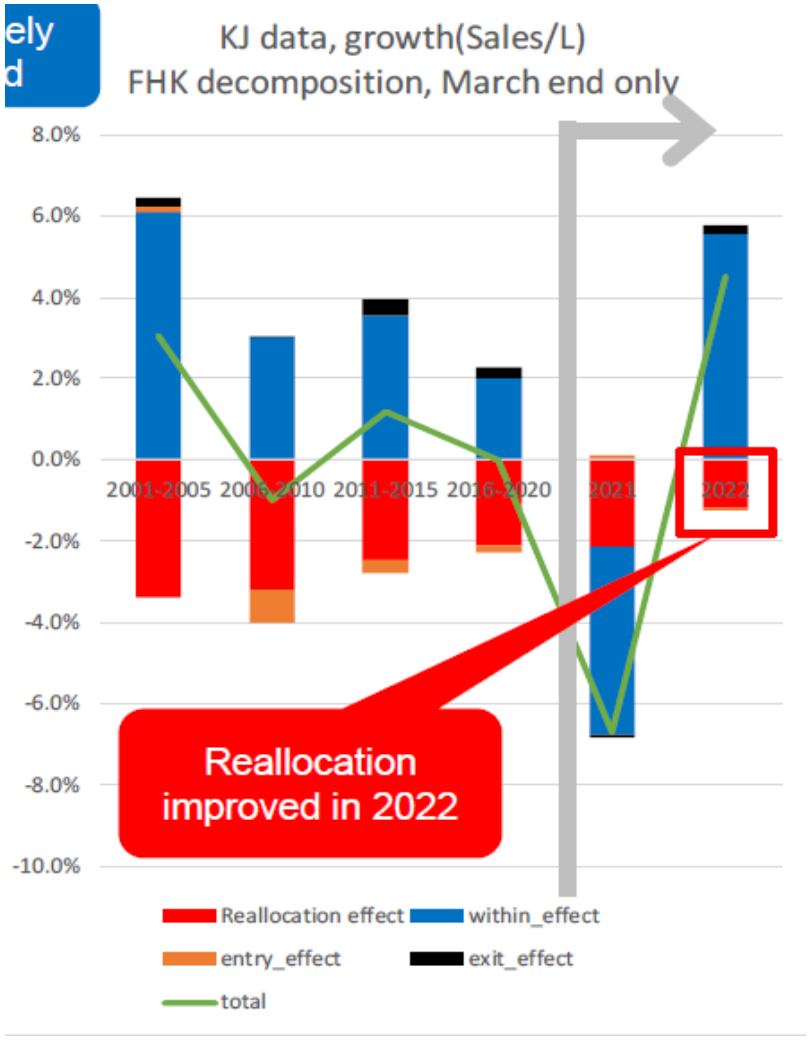
Comment: Productivity Volatility over the Pandemic

Japan one of multiple OECD economies to exhibit large, high-frequency productivity swings during pandemic

How much is “noise”?

- Less measurement issue than adjustment costs without LR implications

Fact that it’s mostly in within component suggests labor adjustment costs



Comment: Concentration and Welfare

The general case for an ambiguous relationship between concentration and performance (e.g., productivity growth, social welfare, etc.) is not due to nonmonotonicities

In other words, not a robust theoretical result that concentration growth is beneficial at low levels but eventually turns harmful above a threshold

Instead, many mechanisms *not inherently related to initial concentration level* can drive concentration growth; some tend to increase efficiency, others decrease it

Thoughts on Study's Conclusions

Think more seriously about entry, exit, and reallocation

- Hear, hear!

Think more about "better" labor market policy ⇒ we definitely need job-to-job transition data

- Hear, hear, hear!

Thoughts on Study's Conclusions

Move away from SME policy that encourages firms NOT to grow

- Hear, hear, hear, hear!

Keep "precautionary" competitive policy

- If this means encouraging competition (does it?), then hear (5X)!