Discussion: “Bank Concentration, Product Market Competition, and Productivity Growth”

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Summary

- This paper:
  - Identifies the rising U.S. bank concentration as a source of declining product market competition and productivity growth
  - Finds data evidence about:
    - (+) corr. b/w bank concentration and product market markups
    - (-) corr. b/w bank concentration and business dynamism
  - Provides a theoretical framework linking bank market structure and firms' incentive to innovate
    - $\uparrow$ Bank HHI

      $\rightarrow$ $\downarrow$ Firm entry rate

      $\rightarrow$ $\uparrow$ Product reallocation toward large firms

      $\rightarrow$ $\downarrow$ Aggregate productivity growth

Discussion

- Provide a linkage between business dynamism and financial market structure

$\Rightarrow$ Very interesting and novel idea!

- **Three comments** about:
  1. Any bank-firm level data evidence that directly maps into your story?
  2. Heterogeneous financing sources for young firms across industries; how important is bank to ”innovative” young firms?
  3. Implications on firm reallocation and product competition

- Many interesting/potentially important results that I would like to know in more detail

Firm-level Evidence?

- Currently, only the industry level corr. b/w bank HHI and markups, business dynamism
- It provides suggestive evidence, but any other alternative interpretation?
  - And how can we rule out these?
- Any bank-firm transaction level evidence to map your story into the data?
  - Useful to see the time trend of bank loan transactions across firm age

Financing Source of Innovative Young Firms

- There are heterogeneous financing sources for startups
  - The composition should vary across different industries!
- The paper focuses on “innovative” firms, but how important are bank loans to them?
  - VC is a potential catalyst for the growth of innovative startups (Akcigit et al. 2019)
  - Introduction of innovations has been largely driven by the availability of venture capital for new startups (Nanda and Rhodes-Kropf 2013)
- Quantitative importance (esp. for the ICT sector)?
  - Model: bank HHI leading to entry decline from 10.55% to 10.49%
  - ICT sector: 17.35% to 12.27% entry decline (post-2005)

Implications on Firm Reallocation and Product Competition

- The model suggests the increase of bank HHI leads to product reallocation toward large firms

$\Rightarrow$ But, it is also toward "better innovative" firms (high-type firms)

- Pronounced selection effects & better resource allocation?
- What would be the effect of this consequence on welfare and allocative efficiency?