Declining Dynamism at the Establishment Level

Russell Cooper, John Haltiwanger, and Jonathan L. Willis*

January 2017

Abstract

Recent papers have documented a decline in indicators of business dynamism (e.g., job reallocation) over time in the U.S. along with declining entrepreneurship. This decline in both dynamism and entrepreneurship has accelerated in the post 2000 period. In addition to the decline in the startup rate for new firms, there has been a substantial decline in the dispersion of firm and establishment growth rates over time for existing firms/establishments. Decker et. al (2016) undertake an empirical decomposition that concludes that the decline is dynamism is not due to a reduction in the dispersion of idiosyncratic productivity shocks. They find empirically that the decline is not a result of businesses facing a reduced dispersion of idiosyncratic shocks, but rather the businesses are not responding to those shocks as much as before.

This paper aims to develop a model that can account for the observed changes in dynamism among existing establishments. The paper builds upon the framework in Cooper and Haltiwanger (2006) in which frictions associated with adjustment costs of labor interact with idiosyncratic productivity shocks and have strong implications for the empirical moments documented above. Using the lens of the structural model, implied changed in adjustment costs parameters can be estimated in order to evaluate the productivity losses from changes in frictions.

Keywords: adjustment costs, dynamism, employment dynamics

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* Penn State University, the University of Maryland, and the Federal Reserve Bank of Kansas City. The views expressed here are solely those of the authors and do not necessarily represent the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.