Discussion
of
Bank Competition and Economic Growth: Job Security Channel

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In a nutshell

- Whether bank’s monopolistic power reduce firm’s productivity?
  - Channel: the job security of firm employees
  - Time inconsistency problem: Knowing that firm’s promise to keep workers employed can be broken ex post, employees have little incentives to invest in firm-specific human capital.
  - The interplay between bank’s monopolistic power and employment protection
  - Evidence from U.S. at the state level and the state-industry level
- Main findings
  - Financial deregulation leads to higher output growth
  - Stronger employment protection promotes growth for high-skilled industries
  - Positive interaction effects between bank branch deregulation and employment protection on output growth, especially for industry that are knowledge based and external finance dependent.

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My broad thoughts

- A new paper that considers the contemporaneous changes in the relative bargaining powers of different stakeholders (banks and employees) of firms.
    - Changes in firm’s monopolistic power (banking deregulation)
    - Changes in employment protection (wrongful discharges law)
- Great paper:
    - Important topic
    - Interdisciplinary research
    - Solid models supported by convincing evidence

Some minor comments to hopefully improve analyses/for follow up paper

Comments

- The monopolistic power of banks
  - Bank's ability to force firms to cut employment
  - Cross-state differences in the sensitivity of employment separation to business cycle after some states deregulate the banking sector
  - Will cutting employment prevent a bankruptcy?
  - Percentage of salary costs over total sales/assets
- Human capital *h* is firm-specific
  - Mechanism that prevent *h* from being used by other firms
  - Patent cross citations
  - Project length of R&D
- Impact of bank deregulation and
  - Decreases bank's monopolistic power
  - Increases firm's leverage ratio
  - Increase in default risk & θ^* - debt coordination problem
  - Workers choose to invest less-than-optimal level social capital

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Comments

- The randomness of bank deregulation
    - Kroszner and Strahan 1999 QJE
    - Extra controls for political dimension
- Measure for productivity
    - Bank deregulation improves firms' access to credit, then higher state output (knowledge intensive industries could be smaller firms that are more financially constraint e.g. IT firms)
    - Knowledge intensive industry & firm-specific knowledge
    - Firm-level measures for employee productivity (i) output (sales+Δinventories - Schoar (2002); Brynjolfsson and Hitt (2003)) per employee (ii) output per employee hour, and (iii) EBITDA per employee) (BLS, Compustat)
    - NAFTA as an alternative quasi-natural experiment for labor protection (different industries) (Kale et al. 2015 WP)
- Interaction terms

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Conclusion

- Great paper
- Modest suggestions for further improvement
- Thanks!