

Firm Foundation and Location Choices: The Effects of Public Good and Service Provision

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The paper in one slide

- ▶ **Do higher municipal public inputs, goods and services (PIGS) attract existing firms and foster the creation of new ones?**
- ▶ **Yes:** More PIGS spending is associated with
 - ▶ more firms arriving and being created in the municipality
 - ▶ less firms for close municipalities ('beggar thy neighbor' > spillovers)
- ▶ **Methodology** is based on Poisson Regressions with IVs

$$E[Firm_{it}|...] = \exp(\beta_1 CS_{it} + \beta_2 TAX_{it} + \gamma X_i + \lambda_i + \delta_t)$$

- ▶ fixed effects: municipality λ_i ; time δ_t
 - ▶ $Firm_{it}$: no of firms; CS_{it} : proxy for PIGS; TAX_{it} : tax rate; X_i : controls
 - ▶ CS instrumented with 'windfall revenue', TAX with 'reference tax'
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- ▶ **Panel data** linking municipalities and firms

Comments and Suggestions: PIGS Endogeneity

1. CS as a proxy for PIGS

- ▶ CS is extremely right skewed (table 1)
Are a few municipalities driving the findings?
→ Give more details on variation of CS (key variable!)
- ▶ CS constructed with uniform GDP growth rates, average operating lives
Does this assume away some endogeneity (overstate IV's strength)?
→ Discuss the construction of CS with respect to this concern

2. Identification assumption: 'windfall' income $\uparrow \Rightarrow$ PIGS \uparrow

- ▶ *Can municipalities run deficits to finance PIGS? (windfall relaxes b.c.)*
→ Add some explanation on the budgetary effects (table 4)

Comments and Suggestions: Firm Heterogeneity

1. Averaging firms restricts the estimation procedure and its results
 - ▶ *Do all firms respond equally to PIGS (size, industry)?*
 - Show which firms respond to treatment - and how (size change?)
 - ▶ *Would results look different conditional on firm characteristics?*
 - Check if it drives your findings and interpretation

2. Firm heterogeneity allows to explore sources of endogeneity
 - ▶ Example: Are firm size and 'bargaining power' correlated?
 - ▶ To test, partition small and big firms into four groups
 - ▶ Estimate Poisson Regression w/ and w/o IVs separately
 - ▶ Compare intra- and inter-group results
 - Might add another contribution to the paper
 - Could help to integrate theoretical model and empirical results

My final slide

I enjoyed reading this paper!

- ▶ It studies an interesting and relevant question
- ▶ It uses a unique and exciting dataset
- ▶ It applies a well-established methodology
- ▶ It relies on a genuine und convincing identification
- ▶ It is transparent about strengths and weaknesses