

European Deep Integration and Productivity Heterogeneity

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Abstract

This paper investigates how deep integration affects productivity levels within the EU by utilizing the CompNet database. For this purpose, the paper constructs a measure for deep integration in the case of the EU by capturing various components of the EU agreement. The paper utilizes the EU wave instrument based on geographical proximity to tackle the endogeneity problem. The results from Instrumental Variable (IV) strategy reveal that there is a causal effect of deep integration on total factor productivity, labor productivity, and capital productivity across various sectors. Moreover, the paper investigates how this deep integration affects productivity decomposition based on Olley and Pakes (1996) across sectors. The findings show that deep integration enhances aggregate productivity and within-firm productivity across the EU. For robustness, the paper utilizes two additional EU wave instruments based on cultural and trade proximities to support the main results.

Keywords: Total Factor Productivity, Aggregate Productivity, Within-Firm Productivity, Deep Integration, European Union