Testing for Convergence from the Micro-Level

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Empirical convergence analysis is typically envisaged from a macro aggregate perspective. However, researchers have recently highlighted how investigating convergence at the disaggregate level may yield interesting insights into the convergence debate. In this paper, we suggest an approach that allows exploiting large micro panels to test for convergence. Compared to the traditional convergence analysis, this approach allows obtaining β and σ like convergence parameters for both the micro and the macro level of interest. We provide a practical example that analyses productivity convergence across firms and provinces using a large sample of Italian firms. Our results indicate convergence at the micro-level, but not at the macro provincial level. This is in contrast to what is obtained in a standard β regression framework, where convergence is identified at both levels. Our results confirm that further examination of the growth dynamics at the micro-level and the relationship between the micro and macro levels may yield important insights into the convergence debate. Further, they highlight the importance to correctly choose the level of investigation for the convergence process and, more generally, call for a deeper investigation into the implications of aggregation for convergence analysis.

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