POST-CRISIS RECOVERY AND PRODUCTIVITY SLOWDOWN

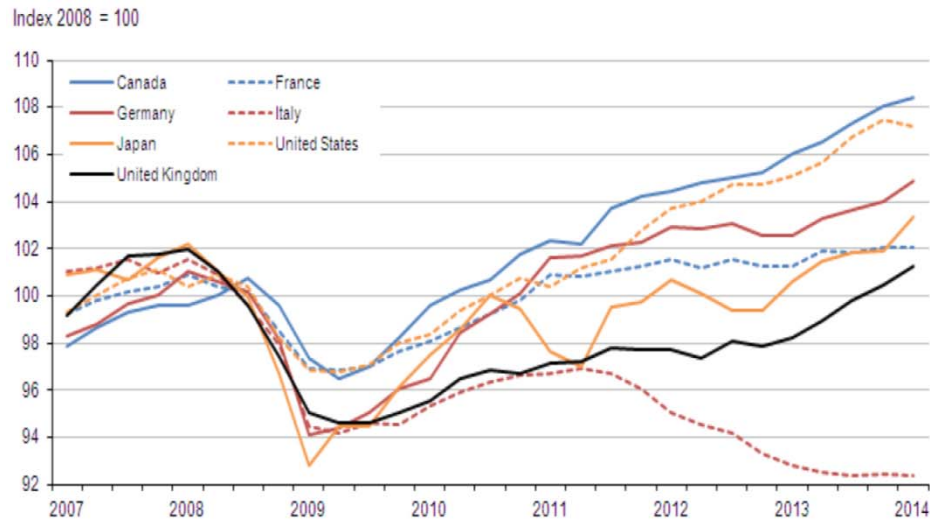## A Misallocation Perspective

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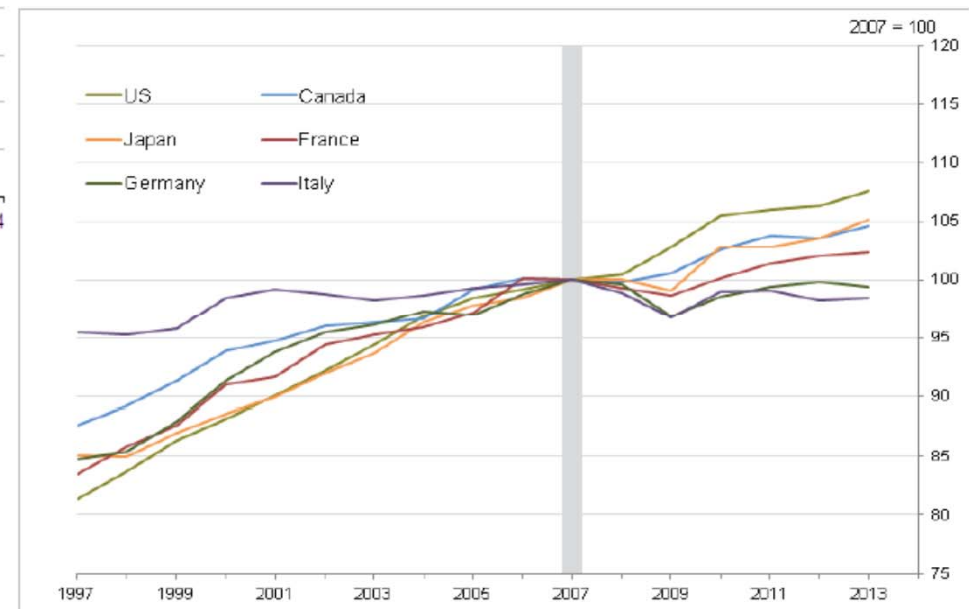# Post-Crisis Recovery

GDP recovery

Index 2008 = 100

Productivity slowdown

Figure 5: Constant price GDP per hour worked, selected G7 countries

Source: ONS UK

Misallocation

- **Productivity slowdown** may be due to (most) firms' productivity growth slowing down, … or to more sluggish reallocation of inputs (labour/capital) from low to high productivity growth firms (i.e., rising 'misallocation')

- How to check? Need a measure of **misallocation**:
  - Suppose a firm employs the same amounts of inputs as the average firm but it has higher-than-average **revenue productivity** (i.e. generates more revenue with those amounts of inputs)
  - Then, as the firm can offer higher remuneration to inputs, it would be efficiency enhancing to increase the its amounts of inputs
  - If the firm got more inputs it would produce more, the price of its output would fall, its revenue productivity would also fall until it reaches average (efficient allocation)

- Hence, the **variance** of revenue productivity across firms can be used to measure misallocation –**between** and **within** e.g. sector/country/firm-size categories

Italy - Within more than Between

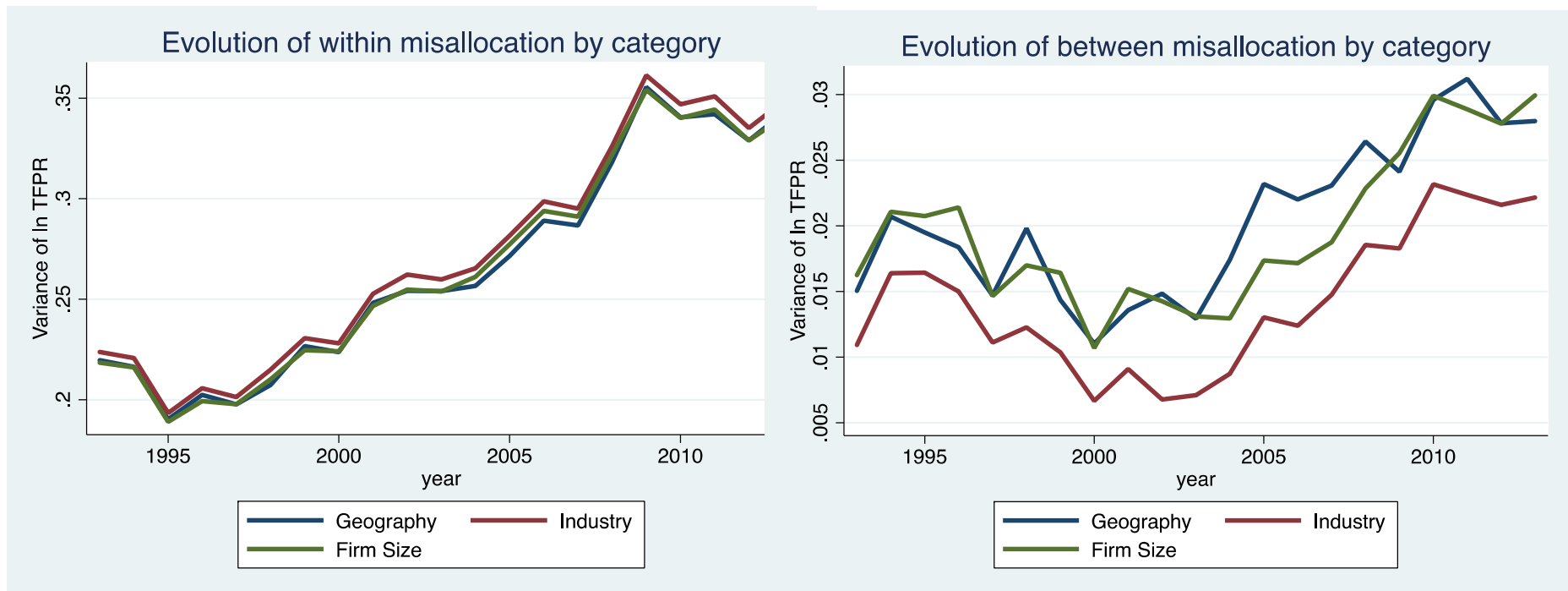Misallocation within vs. between categories
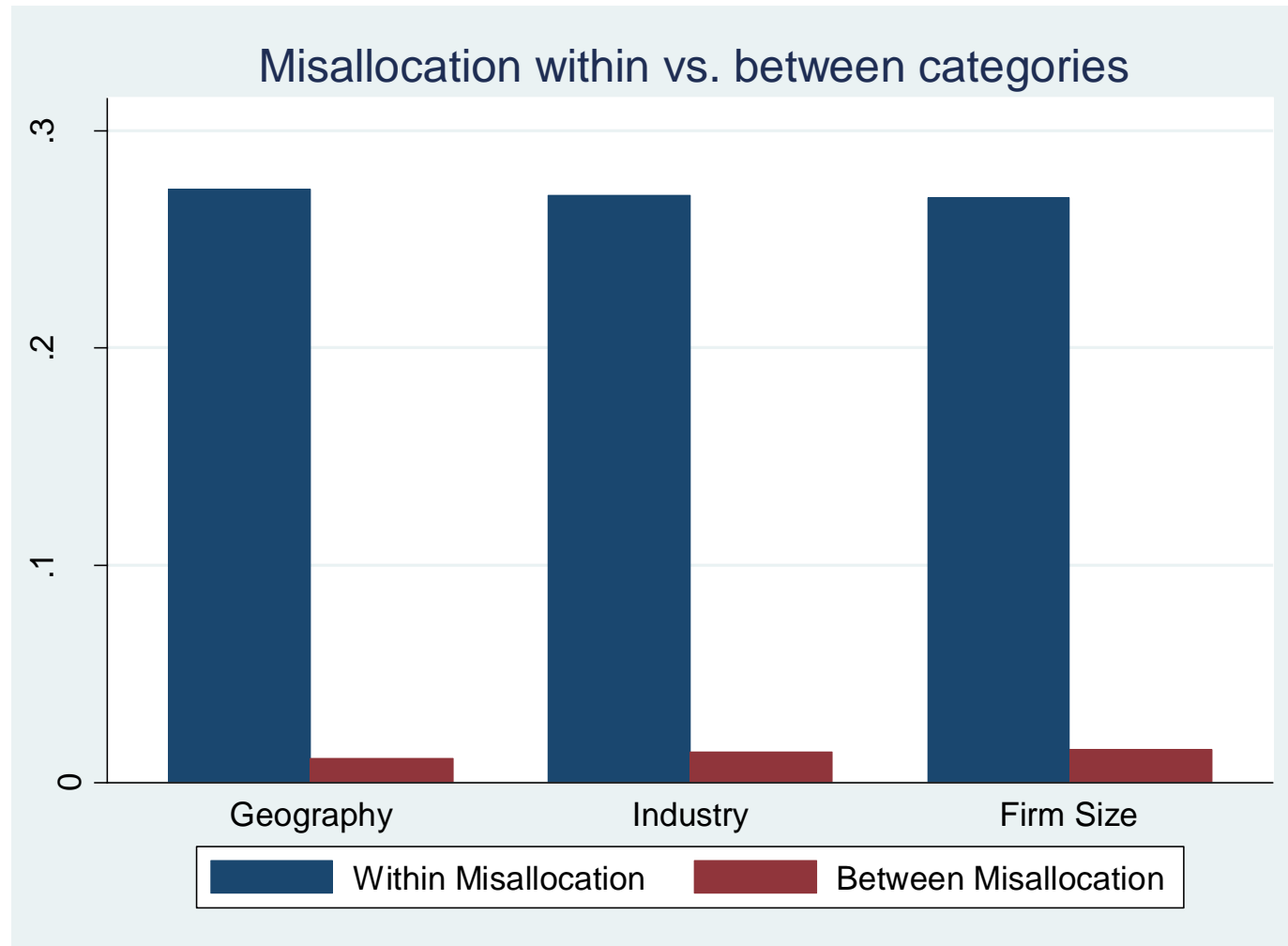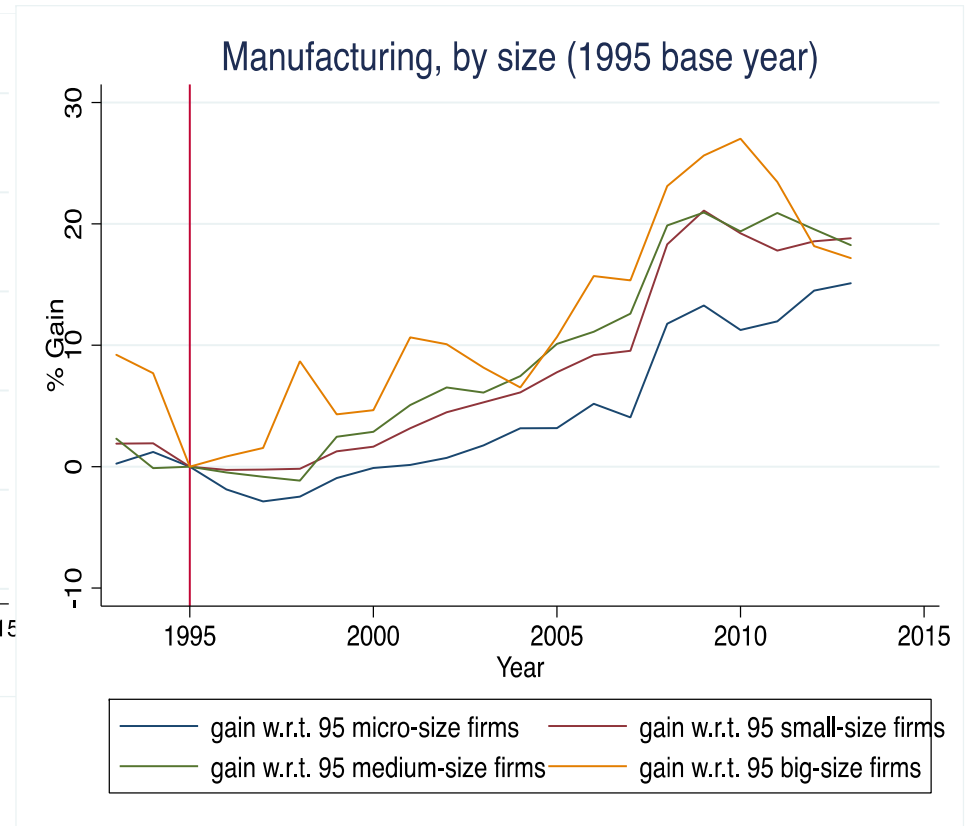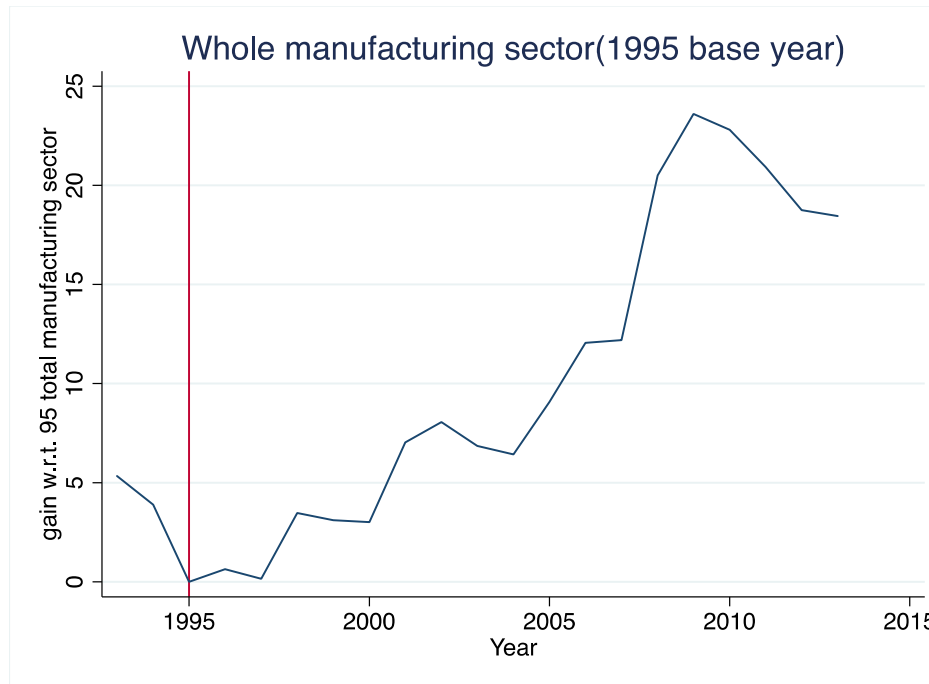
Geography: Northwest, Northeast, Centre, South with Islands

Sectors: manufacturing (2-digits ATECO) service (1-digit ATECO)

Firm size (definition by turnover, millions of euros): micro(<= 2m), small (<=10m), medium (<= 50m), big (>50m)

Italy – Within outpaced Between

Italy – Gains from Better Allocation

Whole manufacturing sector(1995 base year)

Manufacturing, by size (1995 base year)

gain w.r.t. 95 micro-size firms
gain w.r.t. 95 small-size firms
gain w.r.t. 95 medium-size firms
gain w.r.t. 95 big-size firms

- **Markers of within misallocation**: Ownership structure, Access to finance, Workforce composition, Internationalization, Innovation, Cronyism, Euro effect, …
- **For example**: Firms that have a higher share of **intangible assets** (so innovate more, invest more in branding, R&D etc.) are more productive and more misallocated