

POST-CRISIS RECOVERY AND PRODUCTIVITY SLOWDOWN

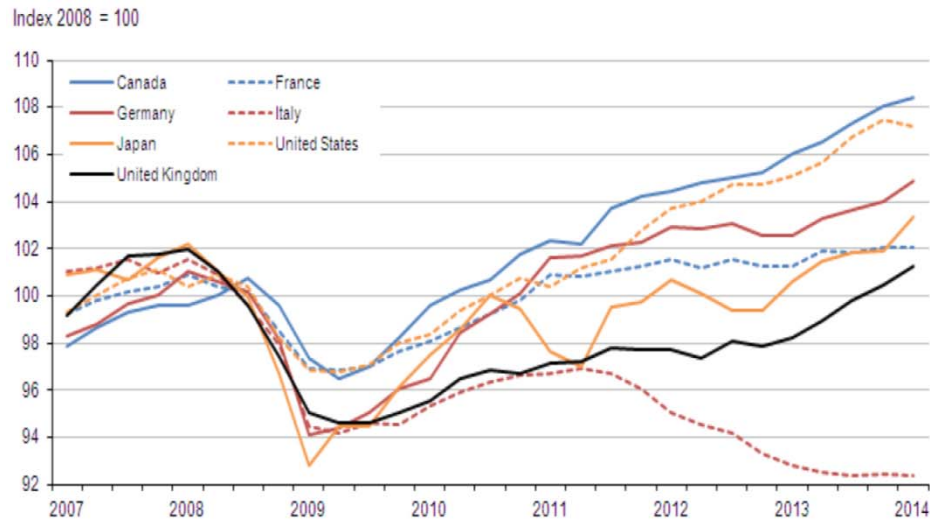
A Misallocation Perspective

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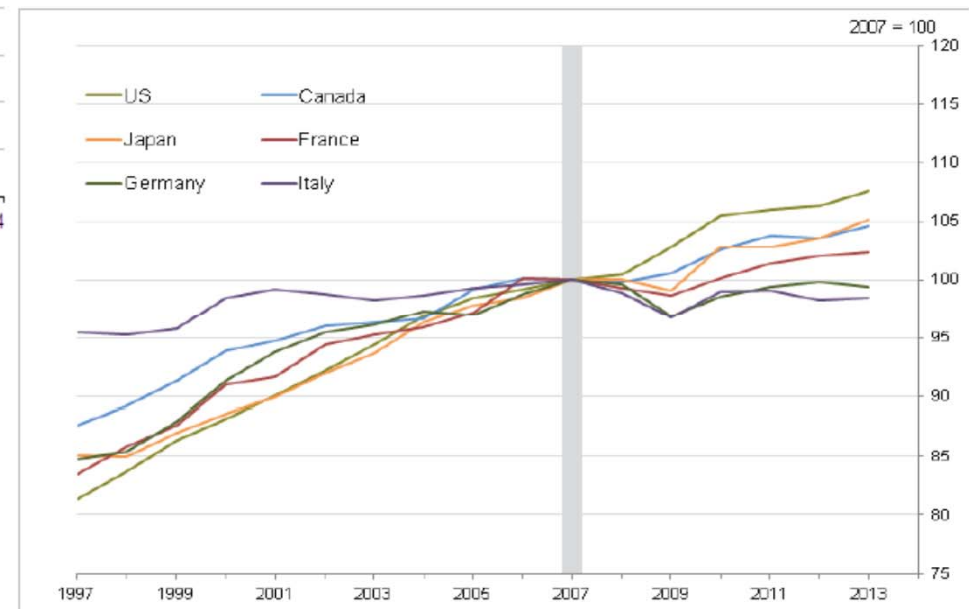
Post-Crisis Recovery

GDP recovery



Productivity slowdown

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

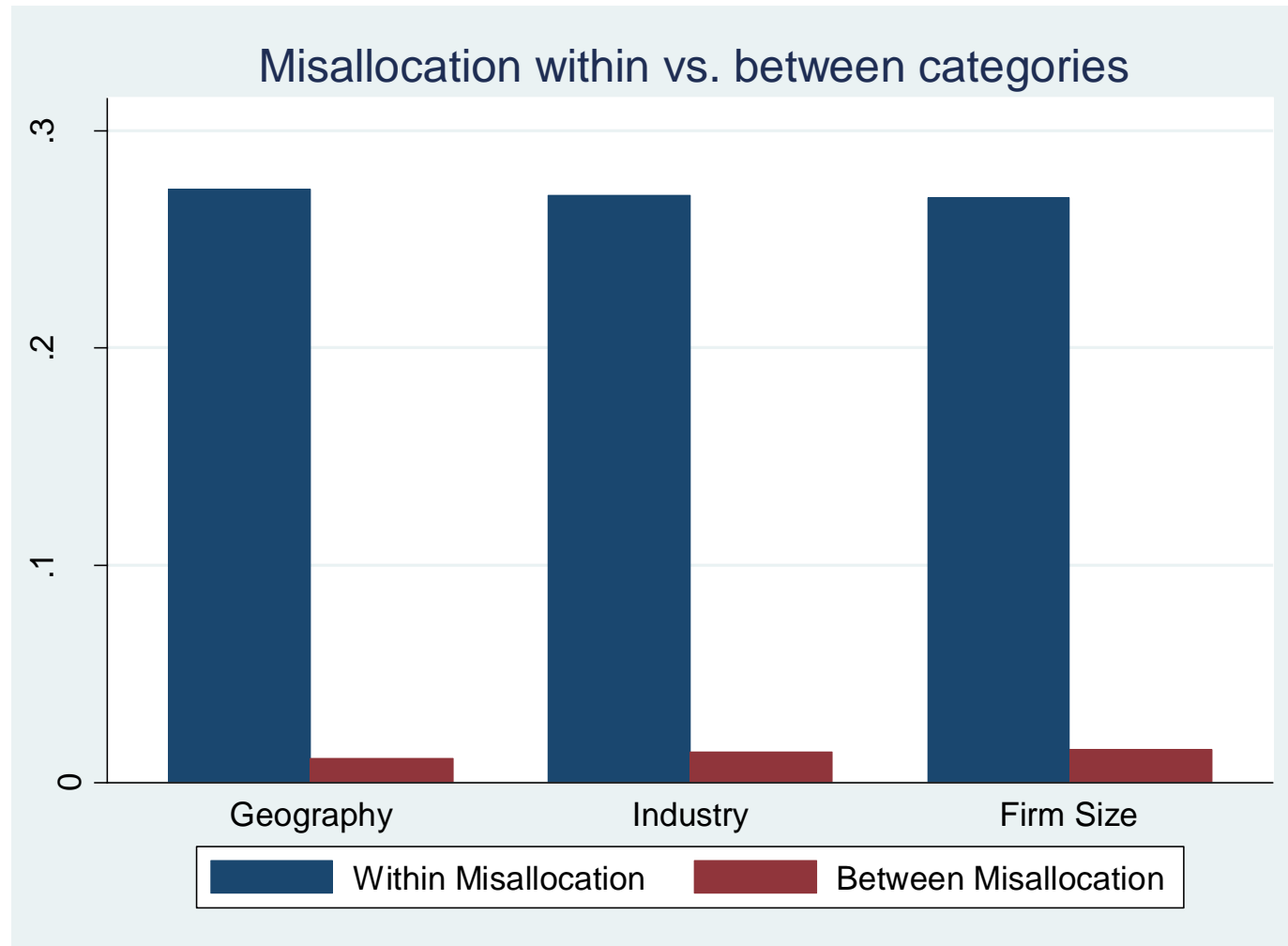


Source: ONS UK

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

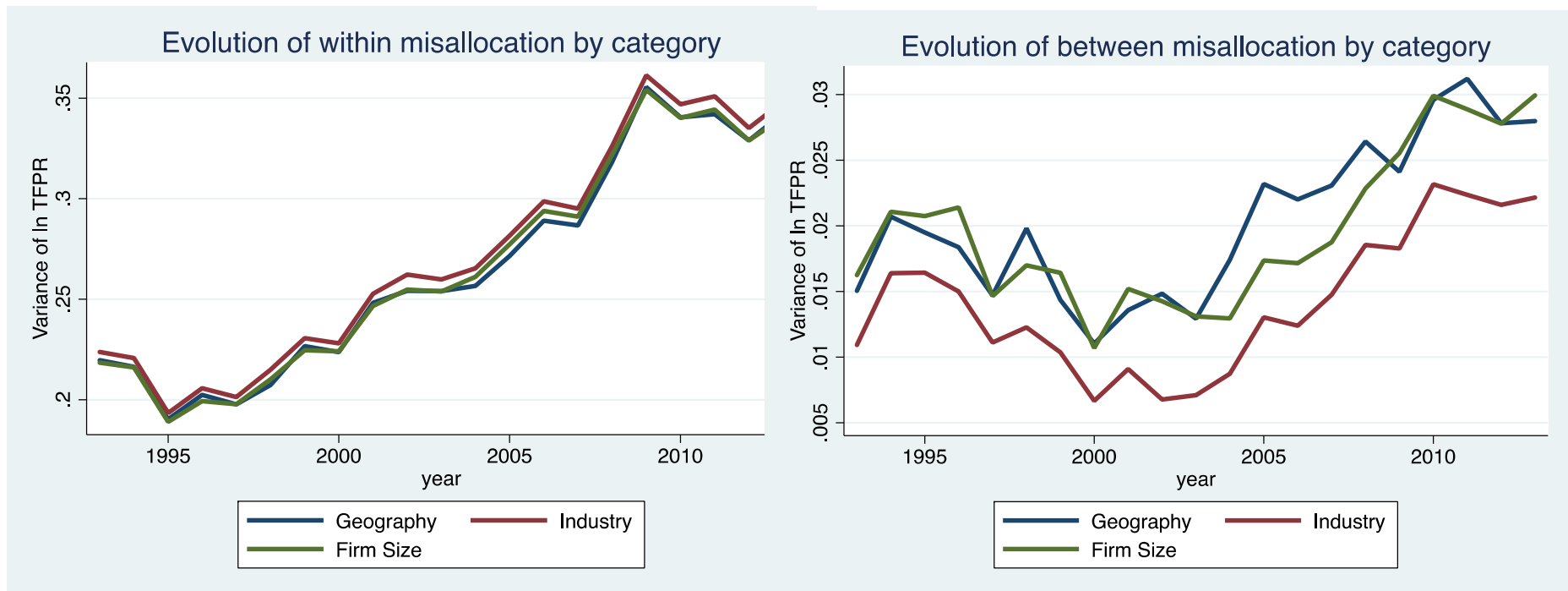


Geography: Northwest, Northeast, Centre, South with Islands

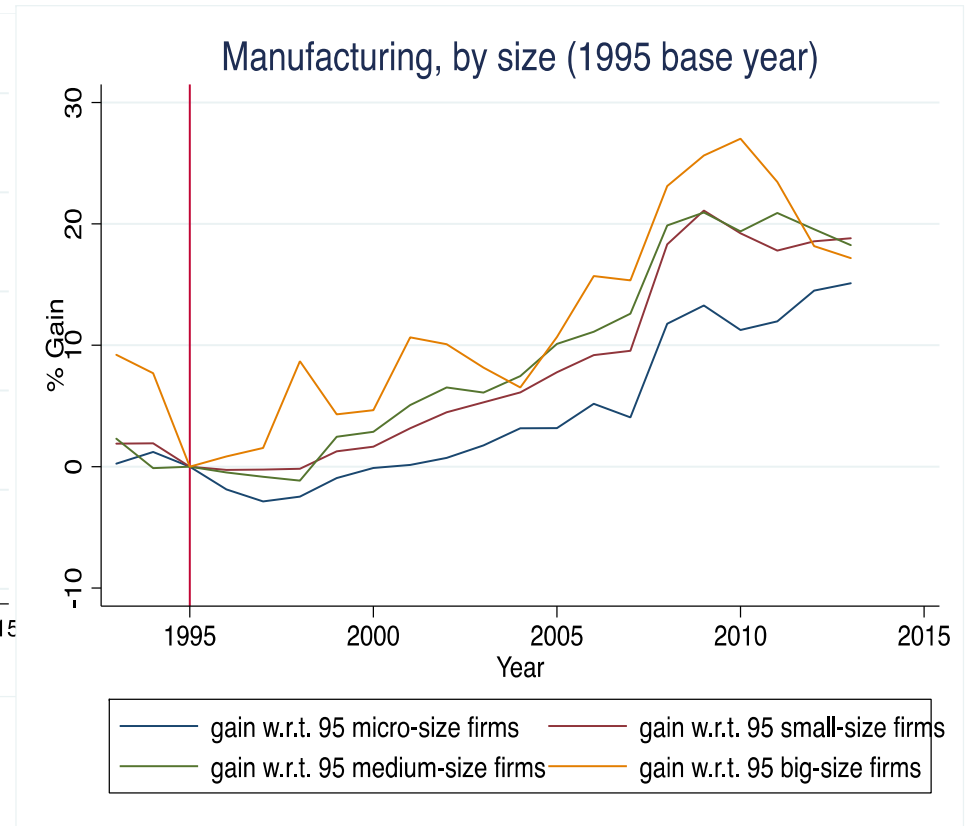
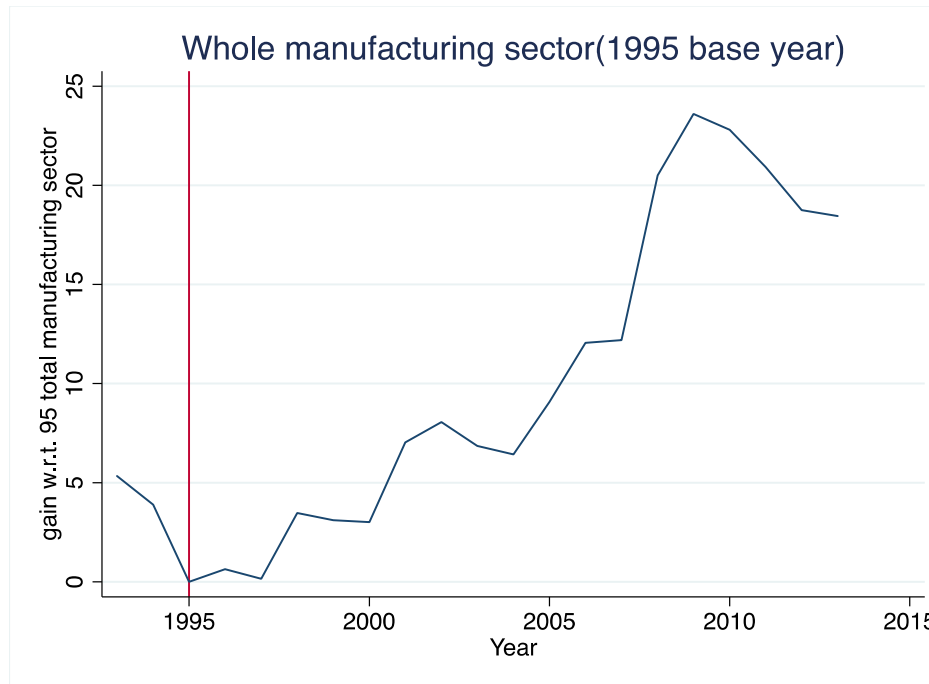
Sectors: manufacturing (2-digits ATECO) service (1-digit ATECO)

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

Italy – Within outpaced Between



Italy – Gains from Better Allocation



- **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