

DISCUSSION OF
"THE PRODUCTIVITY PUZZLE AND MISALLOCATION: AN
ITALIAN PERSPECTIVE"

BY SARA CALLIGARIS, MASSIMO DEL GATTO, FADI
HASSAN, GIANMARCO I.P. OTTAVIANO & FABIANO
SCHIVARDI

Kurt Mitman

Institute for International Economic Studies, Stockholm University, CEPR

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SUMMARY

- ▶ Motivated by recent productivity slowdown across developed world
- ▶ Observation: productivity slowdown in Italy started 20 year ago
- ▶ Can we use the Italian experience to learn about the broader slowdown?

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- ▶ Motivated by recent productivity slowdown across developed world
- ▶ Observation: productivity slowdown in Italy started 20 year ago
- ▶ Can we use the Italian experience to learn about the broader slowdown?
- ▶ In particular, follow the methodology of Hsieh & Klenow (2009):
 1. Measure misallocation at the firm level in Italy
 2. Calculate the effect on aggregate TFP
 3. Investigate what factors are correlated with misallocation

OVERVIEW

Main findings:

- ▶ Striking increase in capital misallocation over time
- ▶ Within sector misallocation much larger than between
- ▶ Can we use the Italian experience to learn about the broader slowdown?
- ▶ Misallocation increased the most in Northern Italy and among large firms

Clearly policy relevant. Thought provoking results.

THE HSIEH-KLENOW (2009) APPROACH

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- ▶ Problem: don't observe Y . Fix: use revenue PY then

$$TFPR = PA = \frac{PY}{K^\alpha L^{1-\alpha}}$$

- ▶ Additional assumption: CES demand within a sector, then can show $TFPR$ is proportional to sector specific variables and firm-level wedges in $MRPK$ and $MRPL$
- ▶ Once you measure $MRPK$ and $MRPL$, can aggregate to total effect on productivity

POTENTIAL DOWNSIDES OF HSIEH-KLENOW (2009) APPROACH

- ▶ Hsieh-Klenow accounting valid if:
 1. Frictionless reallocation of K, L
 2. Cobb-Douglas Production Function
 3. CES Demand within sector

- ▶ Adjustment costs, time-to-build, customer capital show up as misallocation when in fact they are not. Authors provide a test for simple time to build, but not convinced handles richer frictions with dynamic adjustment

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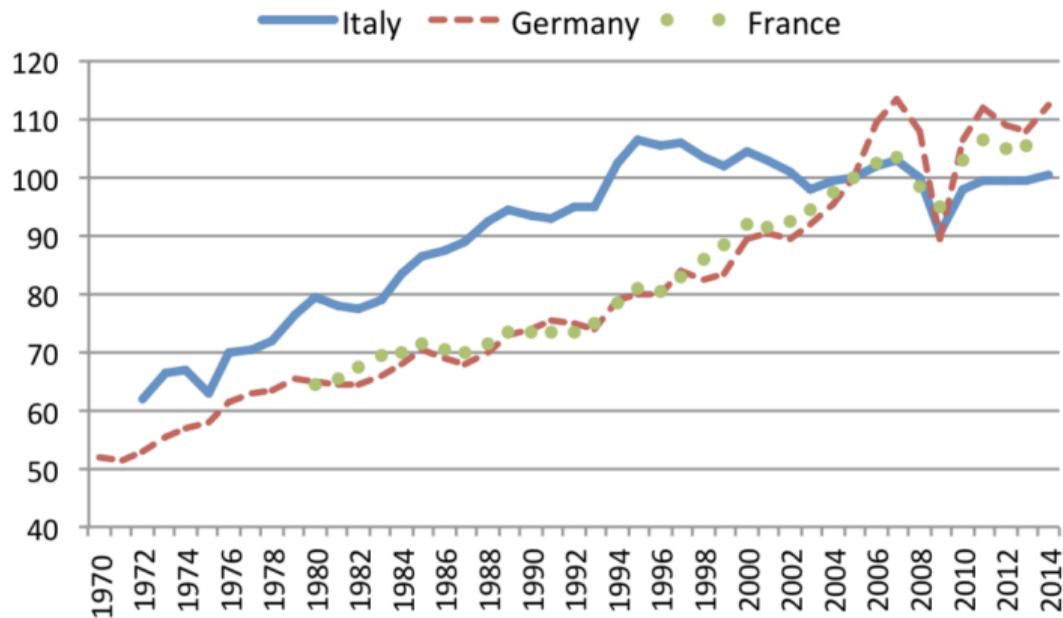
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- ▶ Micro evidence (e.g. Herrendorf, Herrington, and Valentinyi 2013, Oberfield and Raval 2014), suggests elasticity of substitution between capital and labor less than 1

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- ▶ Micro evidence (e.g. Herrendorf, Herrington, and Valentinyi 2013, Oberfield and Raval 2014), suggests elasticity of substitution between capital and labor less than 1
- ▶ Departures from CES imply in response to demand shocks that TFP will be positively correlated with $TFPR$ (Haltiwanger, Kulick and Syverson, 2017)

WHAT HAPPENED IN THE MID-1990S?

Figure 3: TFP in manufacturing for Italy, Germany and France (2005=100)

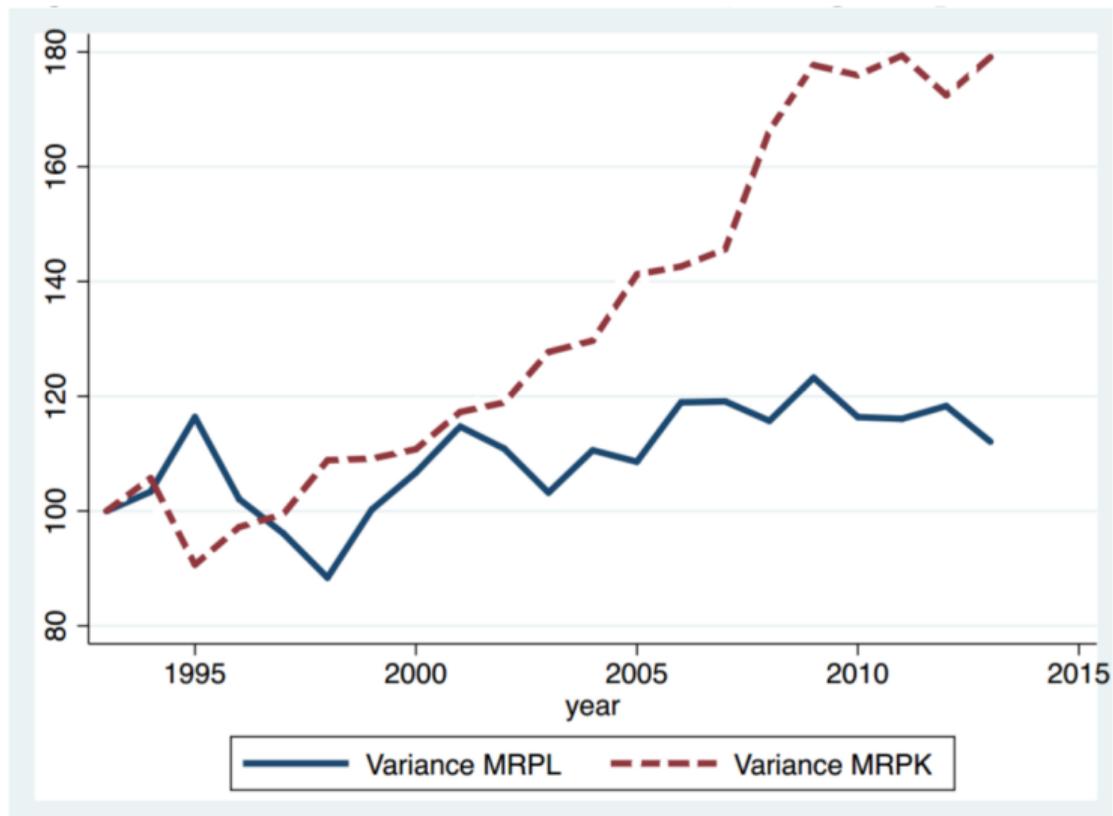


Source: Hassan and Ottaviano (2013)

WHAT HAPPENED IN THE MID-1990S?

- ▶ Paper is mostly focused on identifying factors that correlate with increased misallocation over 1995-2013 period
- ▶ Is the more policy relevant question trying to identify what explains the sudden change in the mid-1990s.
- ▶ The rise of the "Second Republic", policy uncertainty, Berlusconi?
- ▶ Other big policy changes around that time?
- ▶ Anything that resembles financial crisis followed by sovereign debt crisis?

TREND BREAK OR CONTINUING TREND?



EXTERNAL VALIDITY

- ▶ Average size of Italian firms are roughly half European average (Eurostat 1998)
- ▶ Not driven by sectoral composition, holds broadly across sectors in Italy (Scarpetta & Schivardi, 2003)
- ▶ Evidence by Pagano & Schivardi (2003) finds average firm size positively affects productivity growth, particularly in R&D intensive sectors
- ▶ How do other labor restrictions, e.g. *Statuto dei Lavoratori*, potentially impact the results?

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 - ▶ Could improve productivity by preventing inefficient separations
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- ▶ Shouldn't that correlation be there mechanically?
- ▶ Can you look at an impulse response to TFPR to using CIG?
- ▶ Regardless, policy advice to make UI more "worker" than "job" based seems misguided — subsidizing unemployment is a great way to get more unemployment

CONCLUSION

- ▶ Nice paper with lots of interesting results
- ▶ Hsieh & Klenow (2009) framework powerful, but has its limitations
- ▶ Would be interesting to investigate more of what changed around when the trend break in growth happened