Resource Misallocation in European Firms: The Role of Constraints, Firm Characteristics and Managerial Decisions

Discussion by Antonin Bergeaud (Banque de France)

BdF-Bdl-ScPo conference on investment
July 5 2018
Large productivity differences

TFP level, Italy and USA. Source: Bergeaud, Cette and Lecat (2016) - www.longtermproductivity.com
Misallocation has increased a lot

Evidence of larger misallocation in Europe than in US

What this paper does

- A large set of papers have replicated Hsieh and Klenow (2009): Dias et al. (2016); Libert (2017); Bellone and Mallen-Pisano (2013); Calligaris (2015); Gaecia-Santana et al. (2015) etc...
- Here: comparable figures for all EU28 countries, corrected for many sector/country/firm specific features.
- Very detailed information to give lead on the sources of misallocation.
- Which is a whole new challenge (Restuccia and Rogerson, 2017).
Direct Evidence?

Comments

- Rich theoretical framework (adjustment costs, capital utilization rate, labour quality etc...).
  - Yet at the end: $\text{MRPK} \approx \frac{\alpha}{\alpha + \beta} \frac{Y}{K}$
  - How about something more structural?

- Variance decomposition (within sector vs between sector; within country vs between country)
  $\rightarrow$ cross country differences driven by sector composition?

- What about dispersion of TFPR?
Event studies around single market integration?

Unrepresentativity of small firms, bias? Compare results to the literature using census data.

At the end, what explain differences with the US? Firm level variables that have the largest effect are related to dynamics of input and adjustments.

... but for this, don’t we need to interact $X$ with the fixed effects?
Causes of misallocation

- Restuccia and Rogerson (2017)
  - Regulation
  - Property Rights
  - Trade and Competition
  - Financial Frictions

- $\sigma(MRPK)$ and $\sigma(MRPL)$ are correlated with PMR, EPL, Doing Business indicators...

- For each of them, we can find an European country that perform better than the US.
Many information, easy to get lost and some are potentially very correlated. Maybe a PCA could help here?

Once sector $\times$ country fixed effects are taken out, not easy to understand what some firm survey variables captured (availability of skilled workforce for example).

Foreign owned firms? Groups? Measurement error? This has been shown to affect HS results in the US.