

The role of resource misallocation in productivity decreases since the 2007 financial crisis

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Since the financial crisis of 2007, productivity growth has been slowing in all the major economies for unknown reasons, and in 2016, labor

productivity in the U.S. recorded negative growth for the first time in 30 years. Part of the explanation of this productivity puzzle in advanced economies may lie in a generalized difficulty of reallocating resources between firms in the same industry and in the same geographical area, according to a new study by Gianmarco Ottaviano, Professor of Economics at Bocconi University, and colleagues. Surprisingly, more difficulties have been recorded in reallocating resources in industries where technology has been changing faster rather than between sectors with different speeds of technological change.

Even though a decade of sluggish productivity is a heavy burden for the countries involved, it hasn't produced enough data to explain the roots of the phenomenon. With 25 years of stagnating [productivity growth](#), Italy has decades of data available for study. A crucial problem with productivity, the Italian case suggests, is [resource](#) misallocation, the fact that resources don't smoothly flow from less productive to more productive uses. This is an important reason for the slowdown.

Misallocation is stronger within industries and geographical areas than between industries and areas. The most effective policies, in other words, don't promote reallocation of resources from less productive sectors to more productive ones, but from worse to better-performing firms in each sector or [geographical area](#).

In an ideal, frictionless condition, the ability to generate revenue from given inputs should be the same for all firms. When firms that generate paltry revenues don't release factors in favor of more productive firms, there is misallocation: The former firms remain inefficiently large and the latter inefficiently small.

Misallocation has substantially increased in Italy since 1995, and this accounts for a large fraction of the Italian productivity slowdown since then. If misallocation had remained at its 1995 level, aggregate total

factor [productivity](#) would have been 18 percent higher than its current level and GDP growth per year would have been 1 percent higher.

The worst-hit firms aren't the usual suspects, but rather large firms in Northwestern Italy, operating in industries where the technological frontier has expanded faster.

As the increase in misallocation is largely due to the increase in the share of firms that are inefficiently over-resourced, among the most effective policies to implement are a smoother regulation of firm bankruptcy procedures, the promotion of a more efficient credit market, financial operators specialized in firm restructuring and turnaround, and a reform of unemployment benefits focused on the worker more than on the job.

Among the under-resourced firms, there are firms with a higher investment share in intangible assets such as R&D, branding and marketing, which calls for the development of a non-banking component of the financial markets, as venture capital and private equity are more likely to fund highly innovative, risky firms. Firms with a higher number of graduates are also under-resourced, signaling that [firms](#) find it hard to fill positions requiring a high level of specific skills with the appropriate candidates.

More information: Sara Calligaris et al, The Productivity Puzzle and Misallocation: an Italian Perspective, *Economic Policy* (2018). [DOI: 10.1093/epolic/eiy014](#)

Provided by Bocconi University

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