

Resource Allocation and Growth: Metrics and Mechanisms

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Allocation and Productivity Growth

- Last 20 years of research has developed massive evidence that RE-allocation is crucial for productivity growth
 - Productivity growth either comes from “within” or “between” (reallocation) effects
 - Reallocation becomes more important at longer horizons
 - Reallocation matters more in some sectors than others (e.g., US retail—almost all productivity growth through reallocation)

Allocation and Productivity Growth

- So there's no question reallocation is important
- What do we need to learn most about it? That is, what are the big (descriptively important and policy relevant) reallocation-related questions?
- My discussion focuses on a set of key metrics and mechanisms which I put high priority on for study

Key Questions

- What is needed for reallocation to work?
- How big are the potential gains from reallocation?
- Why does reallocation differ over time and markets?

- Each of these is tied to metrics and mechanisms

What is needed for reallocation to work?

- Substitutability in output markets
 - Consumers need to be able to switch to better producers
 - I could say “competition” instead of substitutability, but I don’t for a reason that will become clear
- Flexibility in input markets
 - Intensive: How easily can better operators obtain labor and capital?
 - Extensive: How easily can new producers enter and bad ones exit?

[What is needed for reallocation to work?]

Metrics

- Substitutability in output markets
 - How do we measure substitutability?
 - How do we do it in nonmarket sectors, or nonpriced sectors?
 - E.g., hospitals and Medicare patients in the U.S.
- Flexibility in input markets
 - Even more difficult concept to measure than in output markets
 - E.g., huge literature on firms' access to capital, and no solid agreed-upon way to do it

[What is needed for reallocation to work?]

Mechanisms

- Substitutability in output markets
 - What are the barriers that matter the most?
 - Distance, differentiation, switching costs, etc.
 - How do policies affect these barriers?
- Flexibility in input markets
 - How do input reallocations raise productivity?
 - E.g., M&A in Japanese cotton spinning industry in 19th century
 - What is the cyclical nature of churning?
 - Why the long-run downward trend in churning?

[How big are the potential gains from reallocation?]

Metrics

- Productivity dispersion?
 - We know there's plenty
 - Is there an easy mapping from, say, 90-10%ile TFP ratio to gains?
- Hsieh-Klenow misallocation model? (Related: MRP-MC “wedges” from PF)
 - How much of measured frictions/wedges are real?
 - Are frictions/wedges quantitatively comparable across settings (industry, time period, country)?

[How big are the potential gains from reallocation?]

Mechanisms

- Productivity dispersion?
 - What things predict dispersion, either in levels or gradients?
 - What fraction of churning moves things the “right” way?
- Hsieh-Klenow misallocation model? (Related: MRP-MC “wedges” from PF)
 - What are those frictions/wedges anyway?
 - How are they affected by policy?

[Why does reallocation differ over time and markets?]

Metrics

- How quantitatively comparable are measures of market flexibility, gains from reallocation, etc., across settings?

[Why does reallocation differ over time and markets?]

Mechanisms

- Are the differences a result of inherent features of the market or are they malleable?

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