

firms misallocation and aggregate productivity a review

[#firms misallocation](#) [#aggregate productivity](#) [#resource misallocation](#) [#economic efficiency](#) [#productivity review](#)

This comprehensive review delves into the critical issue of firms misallocation and its profound impact on aggregate productivity. It examines how inefficient allocation of capital and labor across businesses can significantly hinder economic efficiency and slow overall growth. The document provides a thorough productivity review, analyzing various factors contributing to resource misallocation and exploring potential policy implications for enhancing national economic output.

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Information, Misallocation and Aggregate Productivity

We propose a theory linking imperfect information to resource misallocation and hence to aggregate productivity and output. In our setup, firms look to a variety of noisy information sources when making input decisions. We devise a novel empirical strategy that uses a combination of firm-level production and stock market data to pin down the information structure in the economy. Even when only capital is chosen under imperfect information, applying this methodology to data from the US, China, and India reveals substantial losses in productivity and output due to the informational friction. Our estimates for these losses range from 7-10% for productivity and 10-14% for output in China and India, and are smaller, though still significant, in the US. Losses are substantially higher when labor decisions are also made under imperfect information. We find that firms turn primarily to internal sources for information; learning from financial markets contributes little, even in the US.

The Economics of Firm Productivity

Provides empirical evidence on how firm-level data can help governments strike the right policy balance and ultimately achieving higher aggregate productivity.

Optimal Unemployment Insurance

Designing a good unemployment insurance scheme is a delicate matter. In a system with no or little insurance, households may be subject to a high income risk, whereas excessively generous unemployment insurance systems are known to lead to high unemployment rates and are costly both from a fiscal perspective and for society as a whole. Andreas Pollak investigates what an optimal unemployment insurance system would look like, i.e. a system that constitutes the best possible compromise between income security and incentives to work. Using theoretical economic models and complex numerical simulations, he studies the effects of benefit levels and payment durations on unemployment and welfare. As the models allow for considerable heterogeneity of households, including a history-dependent labor productivity, it is possible to analyze how certain policies affect

individuals in a specific age, wealth or skill group. The most important aspect of an unemployment insurance system turns out to be the benefits paid to the long-term unemployed. If this parameter is chosen too high, a large number of households may get caught in a long spell of unemployment with little chance of finding work again. Based on the predictions in these models, the so-called "Hartz IV" labor market reform recently adopted in Germany should have highly favorable effects on the unemployment rates and welfare in the long run.

Resource Misallocation and Aggregate Productivity

Recent empirical studies document that the level of resource misallocation in the service sector is significantly higher than in the manufacturing sector. We quantify the importance of this difference and study its sources. Conservative estimates for Portugal (2008) show that closing this gap, by reducing misallocation in the service sector to manufacturing levels, would boost aggregate gross output by around 12 percent and aggregate value added by around 31 percent. Differences in the effect and size of productivity shocks explain most of the gap in misallocation between manufacturing and services, while the remainder is explained by differences in firm productivity and age distribution. We interpret these results as stemming mainly from higher output price rigidity, greater labor adjustment costs and more informality in the service sector.

A Tale of Two Sectors

Why are some countries much more prosperous than others? This book argues that differences in average labor productivity, patterns of structural change, and labor misallocation across sectors explain most of the observed differences in economic prosperity around the world. Using a quantitative (calibration) approach, it first shows that cross-country differences in per-capita income are mostly explained by cross-country differences in labor productivity. Moreover, the dynamics of the world income distribution are largely consistent with those of the world productivity distribution. Next, based on recently updated data sources, it reexamines the relative contribution of the proximate determinants of labor productivity: physical capital, human capital, and aggregate efficiency. Finally, taking the structural change patterns of Latin America and East Asia as an example, it shows how labor misallocation across sectors generates large losses in aggregate efficiency and economy-wide productivity. Over time, workers in Latin America keep gravitating to sectors in which the scale of production is minuscule, mostly non-tradable, and hardly standardizable.

Essays in Aggregate Productivity, Structural Change, and Misallocation

The purpose of this book is to honour D.S. Prasada Rao and his many outstanding contributions to economic measurement, including index number methods for international comparisons of prices, real incomes, output, and productivity; stochastic approaches to index numbers; purchasing power parities for the measurement of regional and global inequality and poverty; and measurement of income and economic insecurity. This book brings together contributions by well-known and influential researchers in the field of economic measurement with special focus on topics in productivity measurement (Part I); income and health inequality, inequality of opportunity, and measurement of insecurity (Part II); index number theory and applications to consumer price index numbers, international comparisons of prices and real expenditures, and housing price index numbers (Part III). The chapters are authored by eminent researchers including Conchita D'Ambrosio, Bert Balk, Erwin Diewert, Robert Hill, Robert Inklaar, Knox Lovell, Robin Sickles, Jacques Silber and Marcel Timmer. The contributed papers offer in-depth reviews of the state of the art in these areas with a focus on the existing methods and applications, making the volume an invaluable source for both experienced researchers and new researchers, including PhD and other postgraduate students.

Advances in Economic Measurement

This paper explores the role for specific structural distortions in explaining Mexico's weak productivity growth through the resource misallocation channel. The paper makes two contributions. First, we validate the approach of measuring misallocation indirectly (Hsieh and Klenow, 2009) by illustrating a close correlation between misallocation and per capita incomes across Mexican states. Second, we exploit the large variation in resource misallocation within industries and across states together with unusually rich data at the firm, local, and industry level to shed light on its determinants. We identify several well-defined distortions that have a statistically and economically meaningful effect on productivity via resource misallocation.

Resource Misallocation and Productivity: Evidence from Mexico

East Asia and the Pacific does not so far conform to the current narrative of stagflation. The region, with some exceptions, is growing faster and has lower inflation than other regions. And prospects for several countries have improved, as they bounced back from the distress of the Delta wave in a still buoyant global economy. But this rosy picture must not obscure four impediments to inclusive and sustainable growth: disease, deceleration, debt, and distortions. In particular, current policies to contain inflation and debt are distorting the markets for food, fuel and finance in ways that could compromise development goals. In each case, more efficient measures could address current difficulties without undermining longer term objectives.

World Bank East Asia and Pacific Economic Update, October 2022

This open access book encompasses a collection of in-depth analyses showcasing the challenges and ways forward for macroeconomic modelling of R&D and innovation policies. Based upon the proceedings of the EC-DG JRC-IEA workshop held in Brussels in 2017, it presents cutting-edge contributions from a number of leading economists in the field. It provides a comprehensive overview of the current academic and policy challenges surrounding R&D as well as of the state-of-the-art modelling techniques. The book brings to the forefront outstanding issues related to the assessment of the macroeconomic impact of R&D policies and its modelling. It speaks to the rising importance of R&D and innovation policy, and the proliferation of macroeconomic models featuring endogenous technological change. The contents of this book will be of interest to both academic and policy audiences working in the fields of R&D and innovation.

Macroeconomic Modelling of R&D and Innovation Policies

With its per capita income surpassing US\$10,000, China has now drawn up ambitious plans to further lift its income to the level of developed countries. Yet various constraints need to be overcome if China is to build on the achievements of the last 40 years and further boost its growth potential. Besides these constraints, the year 2020 saw human societies hit heavily by the COVID-19 pandemic and the global economy caught off guard and dipped into recessions caused by lockdown measures for controlling the spread of the pandemic. Nations around the world have experienced grave loss of human life and lockdown measures have knocked economies from their normal growth trajectories. Even as the pandemic continues to unfold, all signs point to China as being the first major economy to have emerged out of the crisis. But many questions remain. Has the Chinese economy emerged from the pandemic crisis relatively unscathed? What are the long-term prospects for its economy? This year's Update book, *China's Challenges in Moving towards a High-income Economy*, explores the challenges faced by the Chinese economy in the transition towards a high-income economy, including agricultural development, finance and fiscal system reform, RMB internationalisation, trends in urbanisation, as well as topics related to innovation, corporate sector development and market competition. China's growth experience has been full of exciting changes and important lessons for reform and structural changes, and this year's China Update is again the way to gain insights into these.

China's Challenges in Moving towards a High-income Economy

Explanations of procyclical productivity play a key role in a variety of business-cycle models. Most of these models, however, explain this procyclicality within a representative-firm paradigm. This procedure is misleading. We decompose aggregate productivity changes into several terms, each of which has an economic interpretation. However, many of these terms measure composition effects such as reallocations of inputs across productive units. We apply this decomposition to U.S. data by aggregating

from roughly the two-digit level to the private economy. We find that the compositional terms are significantly procyclical. Controlling for these terms virtually eliminates the evidence for increasing returns to scale, and implies that input growth is uncorrelated with technology change.

Aggregate Productivity and the Productivity of Aggregates

Why has an economy that has done so many things right failed to grow fast? Under-Rewarded Efforts traces Mexico's disappointing growth to flawed microeconomic policies that have suppressed productivity growth and nullified the expected benefits of the country's reform efforts. Fast growth will not occur doing more of the same or focusing on issues that may be key bottlenecks to productivity growth elsewhere, but not in Mexico. It will only result from inclusive institutions that effectively protect workers against risks, redistribute towards those in need, and simultaneously align entrepreneurs' and workers' incentives to raise productivity.

Under-Rewarded Efforts

Economic growth in the Sub-Saharan Africa region has been plagued by a series of shocks—wars, political instability, natural disasters, epidemics, terms-of-trade deterioration, and sudden stops in capital inflows—that have had lingering effects on productivity and growth. Within the overall productivity gap of the region are substantial differences across the sectors of economic activity and production units. Boosting Productivity in Sub-Saharan Africa: Policies and Institutions to Promote Efficiency documents the productivity trends in Sub-Saharan Africa in three different dimensions, assessing productivity at the aggregate level, the sectoral level, and the establishment level. It characterizes the evolution of productivity in the region relative to other countries and regions, as well as country groups in Africa, classified by their degree of natural resource abundance and condition of fragility. The volume suggests that the persistence of the productivity gap in Africa vis-à-vis the technological frontier can be attributed to the slow accumulation of physical and human capital relative to the region's growing population, as well as the poor allocation of these resources. These allocative inefficiencies are the outcome of policies and institutions that introduce distortions in the decision-making process of individuals. Hence, the volume assesses the implications of production decisions across agricultural farms and manufacturing firms. It presents evidence on aggregate productivity from the perspective of production units, using recent household surveys for farmers and firm-level surveys for select countries, as well as frontier estimation techniques. It documents the extent of severe resource misallocation across agricultural and manufacturing production units. These distortions decelerate the growth of the production units, disincentivize their adoption of productivity-enhancing technologies, and reduce the ability of their peers to learn new techniques. Boosting Productivity in Sub-Saharan Africa highlights the adoption of digital technologies to reduce some of these market frictions. Mobile money has increased financial inclusion in several countries, and digital financial technologies have given individuals access to savings instruments and loan products. Enhancing access to credit can help individuals invest in schooling and overcome the costs of formality. The volume discusses further avenues of research that may provide additional insights on the productivity dynamics across countries in the region, and it identifies the different channels of policy transmission to enhance productivity. The empirical work presented can help to guide the design of policy in the region.

Boosting Productivity in Sub-Saharan Africa

Productivity has again moved to center stage in two critical academic and policy debates: the slowing of global growth amid spectacular technological advances, and developing countries' frustratingly slow progress in catching up to the technological frontier. Productivity Revisited brings together the new conceptual advances of 'second-wave' productivity analysis that have revolutionized the study of productivity, calling much previous analysis into question while providing a new set of tools for approaching these debates. The book extends this analysis and, using unique data sets from multiple developing countries, grounds it in the developing-country context. It calls for rebalancing away from an exclusive focus on misallocation toward a greater focus on upgrading firms and facilitating the emergence of productive new establishments. Such an approach requires a supportive environment and various types of human capital—managerial, technical, and actuarial—necessary to cultivate new transformational firms. The book is the second volume of the World Bank Productivity Project, which seeks to bring frontier thinking on the measurement and determinants of productivity to global policy makers.

Productivity Revisited

This paper develops a framework for studying the macroeconomic costs of resource misallocation. The framework enables the assessment of the conditions under which the existing estimates in the misallocation literature, which are largely based on a value-added production structure and ignore inter-sectoral linkages, provide an unbiased estimate of misallocation costs in relation to a more general setting, in which production of gross output relies upon input-output linkages across sectors. We show that in the absence of intermediate input distortions, the two approaches are isomorphic and will yield the same estimated aggregate productivity loss. When firm-specific intermediate input distortions are present, however, the value-added model produces biased estimates of TFP losses due to both model misspecification and incorrect inferences of firms' productivity and distortions. Using Chinese and Indian enterprise data, we find quantitatively similar TFP losses from resource misallocation for China, regardless of the model used, while for India, we infer significantly larger TFP losses under the gross output model.

Input-Output Networks and Misallocation

At the macro level, productivity is driven by technology and the efficiency of resource allocation, as outcomes of firms' decision making. The relatively high level of resource misallocation in India's formal manufacturing sector is well documented. We build on this research to further investigate the drivers of misallocation, exploiting micro-level variation across Indian states. We find that states with less rigid labor markets have lesser misallocation. We also examine the interaction of labor market rigidities with informality which is a key feature of India's labor markets. Our results suggest that reducing labor market rigidities in states with high informality has a net positive effect on aggregate productivity.

Resource Misallocation in India: The Role of Cross-State Labor Market Reform

Why isn't the whole world as rich as the United States? Conventional views holds that differences in the share of output invested by countries account for this disparity. Not so, say Stephen Parente and Edward Prescott. In *Barriers to Riches*, Parente and Prescott argue that differences in Total Factor Productivity (TFP) explain this phenomenon. These differences exist because some countries erect barriers to the efficient use of readily available technology. The purpose of these barriers is to protect industry insiders with vested interests in current production processes from outside competition. Were this protection stopped, rapid TFP growth would follow in the poor countries, and the whole world would soon be rich. *Barriers to Riches* reflects a decade of research by the authors on this question. Like other books on the subject, it makes use of historical examples and industry studies to illuminate potential explanations for income differences. Unlike these other books, however, it uses aggregate data and general equilibrium models to evaluate the plausibility of alternative explanations. The result of this approach is the most complete and coherent treatment of the subject to date.

Barriers to Riches

Gross domestic product (GDP) per capita in Latin America is low -- about one fifth of that of the United States. In addition, in the last five decades, Latin America has been unsuccessful to catch-up in wealth to the United States level while other countries at similar or lower stages of development have been successful. The failure to achieve higher levels of relative income embodies so called the development problem of Latin America. According to the publication, the bulk of the difference in GDP per capita between Latin America and the United States is explained by low GDP per worker and, especially, low total factor productivity (TFP) in Latin America.

The Latin American Development Problem

We document that publicly listed Chinese state-owned enterprises (SOEs) are less productive and profitable than publicly listed firms in which the state has no ownership stake. In particular, Chinese listed SOEs are more capital intensive and have a lower average product of capital than non-SOEs. These productivity differences increased between 2002 and 2009, and remain sizeable in 2019. Using a heterogeneous firm model of resource misallocation, we find that there are large potential productivity gains from reforms which could equalize the marginal products of listed SOEs and listed non-SOEs.

Resource Misallocation Among Listed Firms in China: The Evolving Role of State-Owned Enterprises

Productivity Accounting offers in-depth analysis of variation in business performance, providing an analytical framework which accounts for causes and consequences.

Productivity Accounting

Growth in Sub-Saharan Africa is expected to slow to 2.5 percent in 2023 from 3.6 percent in 2022. It is projected to increase to 3.7 percent in 2024 and 4.1 percent in 2025. However, in per capita terms, the region is projected to slightly contract over 2015-2025. The region faces many challenges, including a "lost decade" of sluggish growth, persistently low per capita income, mounting fiscal pressures exacerbated by high debt burdens, and an urgent need for job creation. Tackling these multifaceted issues requires comprehensive reforms to promote economic prosperity, reduce poverty, and create sustainable employment opportunities in the region. This will require an ecosystem that facilitates firm entry, stability, growth, and skill development that matches business demand.

Delivering Growth to People Through Better Jobs

This paper develops a multi-industry general equilibrium model where entrepreneurs within each industry can decide to operate formally or informally. The model generates a rich set of predictions including productivity cut-offs for formal and informal firms to operate within different industries. In doing so, it matches empirical research that finds an overlap in the aggregate productivity distributions of formal and informal firms, while being consistent with theoretical predictions of strict duality within industries. Our explanation for this outcome is that it is natural result of fixed costs varying across industries. We offer evidence that the overlap between formal and informal firms in the aggregate is larger than the overlaps within industries for the case of Indian manufacturing establishments. Our model is also consistent with other features of the data in that it can explain high levels of competition between formal and informal firms that decrease with formal firm size.

Strict Duality and Overlapping Productivity Distributions Between Formal and Informal Firms

A large part of the existing stock of capital is frequently reallocated between firms. This capital reallocation is procyclical and leads to variations in measured aggregate productivity. In this paper we ask how much of the cyclical variation in measured productivity is the consequence of capital reallocation. We study a heterogeneous-firm model that generates both realistic amounts of capital reallocation, as well as the observed relationship between the intensive and extensive margins of reallocation. We investigate the effects of exogenous shocks to total factor productivity (TFP) and to the costs of reallocation. These shocks induce changes in the amount of capital reallocation and thus cause an endogenous cyclical variation of measured aggregate productivity. We find that only a model driven by exogenous TFP shocks is able to generate both data-consistent cyclical movements in reallocation and sizeable variations in measured aggregate productivity.

Capital Reallocation and the Cyclical variation of Aggregate Productivity

This paper reviews the process of job creation and destruction across a sample of 16 industrial and emerging economies over the past decade. It exploits a harmonized firm-level data set drawn from business registers and enterprise census data. The paper assesses the importance of technological factors that characterize different industries in explaining cross-country differences in job flows. It shows that industry effects play an important role in shaping job flows at the aggregate level. Even more importantly, differences in the size composition of firms-within each industry-explain a large fraction of the overall variability in job creation and destruction. However, even after controlling for industry/technology and size factors there remain significant differences in job flows across countries that could reflect differences in business environment conditions. The authors look at one factor shaping the business environment, namely, regulations on hiring and firing of workers. To minimize possible endogeneity and omitted variable problems associated with cross-country regressions, we use a difference-in-difference approach. The empirical results suggest that stringent hiring and firing costs reduce job turnover, especially in those industries that require more frequent labor adjustment. Regulations also distort the patterns of industry/size flows. Within each industry, medium and large firms are more severely affected by stringent labor regulations, while small firms are less affected, probably because they are partially exempted from such regulations or can more easily circumvent them.

Assessing Job Flows Across Countries

In this paper, we propose an extension of the productivity decomposition method developed by Olley & Pakes (1996). This extension provides an accounting for the contributions of both firm entry and exit to aggregate productivity changes. It breaks down the contribution of surviving firms into a component accounting for changes in the firm-level distribution of productivity and another accounting for market share reallocations among those firms -- following the same methodology as the one proposed by Olley & Pakes (1996). We argue that the other decompositions that break-down aggregate productivity changes into these same four components introduce some biases in the measurement of the contributions of entry and exit. We apply our proposed decomposition to the large measured increases in Slovenian manufacturing during the 1995-2000 period -- and contrast our results with those other decompositions. We find that, over a 5 year period, the measurement bias associated with entry and exit is substantial, accounting for up to 10 percentage points of aggregate productivity growth. We also find that market share reallocations among surviving firms played a much more important role in driving aggregate productivity changes.

Dynamic Olley-Pakes Productivity Decomposition with Entry and Exit

Productivity underpins business success and national well-being and thus it is crucial to understand the factors that influence productivity growth. This volume provides a comprehensive exploration into the significance of productivity growth for business, the economy, and for social economic progress. It examines how productivity is defined, measured and implemented. It also surveys the dispersion of productivity across time and place, focusing on the productivity dynamics that either leads to a reallocation of resources that reduces dispersion and increases aggregate productivity or, conversely, allows dispersion to persist behind barriers to productivity-enhancing reallocation. A third focus is an investigation of the drivers of, or impediments to, productivity growth, some of which are organizational in nature and under management control and others of which are institutional in nature and subject to public policy intervention. The Oxford Handbook of Productivity Analysis contains contributions of distinguished productivity experts from around the world who analyze a wide range of timely issues. These issues concern purely analytical topics surrounding the measurement of productivity in various situations, beginning with the ideal situation in which all inputs and all outputs, and their prices, are observed accurately. They also include service sectors such as education in which the services provided are hard to define, much less measure, and other sectors that generate undesirable environmental externalities that are difficult to price and complicate the very definition of productivity. The issues also involve business management topics ranging from the role of business models and benchmarking to the quality of management practices, the adoption of new technologies, and possible complementarities between the two. The relationship between productivity and business performance is also explored. At a more aggregate level the issues range from the impacts of market power, incentive regulation, international trade and global value chains on productivity, to the contribution of productivity to economic development and economic welfare.

The Oxford Handbook of Productivity Analysis

The 32nd issue of the International Productivity Monitor is a special issue produced in collaboration with the OECD. All articles published in this issue were selected from papers presented at the First Annual Conference of the OECD Global Forum on Productivity held in Lisbon, Portugal, July ...

International Productivity Monitor

Handbook of Industrial Organization, Volume Four highlights new advances in the field, with this new volume presenting interesting chapters written by an international board of expert authors. Presents authoritative surveys and reviews of advances in theory and econometrics Reviews recent research on capital raising methods and institutions Includes discussions on developing countries

Handbook of Industrial Organization

This volume considers the American manufacturing industry, and develops a statistical portrait of the microeconomic adjustments that affect business and workers. The authors focus on the employer rather than worker side of the process aiming to show the processes that will be relevant to economists.

Job Creation and Destruction

We study the role of financial frictions in explaining the sharp and persistent productivity growth slowdown in advanced economies after the 2008 global financial crisis. Using a rich cross-country, firm-level data set and exploiting quasi-experimental variation in firm-level exposure to the crisis, we find that the combination of pre-existing firm-level financial fragilities and tightening credit conditions made an important contribution to the post-crisis productivity slowdown. Specifically: (i) firms that entered the crisis with weaker balance sheets experienced decline in total factor productivity growth relative to their less vulnerable counterparts after the crisis; (ii) this decline was larger for firms located in countries where credit conditions tightened more; (iii) financially fragile firms cut back on intangible capital investment compared to more resilient firms, which is one plausible way through which financial frictions undermined productivity. All of these effects are highly persistent and quantitatively large—possibly accounting on average for about a third of the post-crisis slowdown in within-firm total factor productivity growth. Furthermore, our results are not driven by more vulnerable firms being less productive or having experienced slower productivity growth before the crisis, or differing from less vulnerable firms along other dimensions.

Financial Frictions and the Great Productivity Slowdown

We examine the effect of size-dependent policies in developing economies by focusing on a set of regulations that are applicable to firms with 20 or more formal employees in Peru. Firms can adjust to the regulations by (a) reducing their size, (b) shifting employment composition, or (c) splitting into subunits that fall below the regulatory threshold. We show that these actions are consistent with observed discontinuities in the distributions of firm size and employment composition. We extend the framework proposed by Garicano et al. (2016) to model and estimate the Peruvian economy and perform counterfactual exercises. Size-dependent regulations are costly for the economy, especially in the presence of labor market rigidities, and lead to lower aggregate wages, profits, and output. We also find that access to informal labor does not mitigate the economic impact of the size-dependent regulations, as the increase in informal employment is largely offset by a decline in formal employment.

Size Dependent Policies, Informality and Misallocation

Productivity growth in Italy has been persistently anemic and has lagged that of the euro area over the period 1999-2015, while the indebtedness of its corporate sector has increased. Using the ORBIS firm-level database, this paper studies the long-term impact of persistent corporate-debt accumulation on the productivity growth of Italian firms and investigates whether total factor productivity growth varies with the level of corporate indebtedness. We employ a novel estimation technique proposed by Chudik, Mohaddes, Pesaran, and Raissi (2017) to account for dynamics, bi-directional feedback effects, cross-firm heterogeneity, and cross-sectional dependence arising from unobserved common factors (for example, oil price shocks, labor and product market frictions, and stance of global financial cycle). Filtering out the effects of unobserved common factors and controlling for firmspecific characteristics, we find significant negative effects of persistent corporate debt build-up on total factor productivity growth, and weak evidence of a threshold level of corporate debt, beyond which productivity growth drops off significantly. Our results have strong policy implications, for example the design of the tax system should discourage persistent corporate debt accumulation, and effective and timely frameworks to reduce corporate debt overhangs are essential.

Corporate Indebtedness and Low Productivity Growth of Italian Firms

Despite various reform efforts, Mexico has experienced economic stability but little growth. Today more than half of all Mexican workers are employed informally, and one out of every four is poor. Good Intentions, Bad Outcomes argues that incoherent social programs significantly contribute to this state of affairs and it suggests reforms to improve the situation. Over the past decade, Mexico has channeled an increasing number of resources into subsidizing the creation of low-productivity, informal jobs. These social programs have hampered growth, fostered illegality, and provided erratic protection to workers, trapping many in poverty. Informality has boxed Mexico into a dilemma: provide benefits to informal workers at the expense of lower growth and reduced productivity or leave millions of workers without benefits. Former finance official Santiago Levy proposes how to convert the existing system of social security for formal workers into universal social entitlements. He advocates eliminating wage-based social security contributions and raising consumption taxes on higher-income households to simultaneously increase the rate of growth of GDP, reduce inequality, and improve benefits for workers. Good Intentions, Bad Outcomes considers whether Mexico can build on the success of

Progres-a-Oportunidades, a targeted poverty alleviation program that originated in Mexico and has been replicated in over 25 countries as well as in New York City. It sets forth a plan to reform social and economic policy, an essential element of a more equitable and sustainable development strategy for Mexico.

Good Intentions, Bad Outcomes

Age of Productivity offers a look at how the low productivity in Latin America and the Caribbean is preventing the region from catching up with the developed world. The authors look beyond the traditional macro explanations and dig all the way down to the industry and firm level to uncover the causes.

The Age of Productivity

This paper identifies a new mechanism leading to inefficiency in capital reallocation at the extensive margin when an economy experiences a sectoral boom. I argue that imperfections in the financial market and capital barriers to entry in the booming sector create a misallocation of managerial talent. Using comprehensive firm-level data from China, I first provide evidence that more productive firms reallocate capital to the booming real estate sector, and demonstrate that the pattern is likely driven by fewer financial constraints on these firms. I then use a structural estimation to verify the talent misallocation. Finally, I calibrate a dynamic model and find that the without the misallocation, the TFP growth in the manufacturing sector would have improved by 0.5% per year.

Sectoral Booms and Misallocation of Managerial Talent: Evidence from the Chinese Real Estate Boom

Presents a new research program that is transforming the study of international trade. Until a few years ago, models of international trade did not recognize the heterogeneity of firms and exporters, and could not provide good explanations of international production networks. Now such models exist and are explored in this volume.

The Organization of Firms in a Global Economy

Explores the effects of various legal institutions and policies on economic development. This work presents an analysis of the conditions of numerous legal traditions and strategies, both nationally and globally. It is suitable for those interested or involved in the development of legal policy.

Legal Institutions and Economic Development

Productivity Perspectives offers a timely and stimulating social science view on the productivity debate, drawing on the work of the ESRC funded Productivity Insights Network. The book examines the drivers and inhibitors of UK productivity growth in the light of international evidence, and the resulting dramatic slowdown and flatlining of productivity growth in the UK. The reasons for this so-called productivity puzzle are not well understood, and this book advances explanations and insights on these issues from different disciplinary and methodological perspectives. It will be of value to all those interested in, and engaging with, the challenge of slowing productivity growth.

Productivity Perspectives

Handbook of Macroeconomics Volumes 2A and 2B surveys major advances in macroeconomic scholarship since the publication of Volume 1 (1999), carefully distinguishing between empirical, theoretical, methodological, and policy issues, including fiscal, monetary, and regulatory policies to deal with crises, unemployment, and economic growth. As this volume shows, macroeconomics has undergone a profound change since the publication of the last volume, due in no small part to the questions thrust into the spotlight by the worldwide financial crisis of 2008. With contributions from the world's leading macroeconomists, its reevaluation of macroeconomic scholarship and assessment of its future constitute an investment worth making. Serves a double role as a textbook for macroeconomics courses and as a gateway for students to the latest research Acts as a one-of-a-kind resource as no major collections of macroeconomic essays have been published in the last decade Builds upon Volume 1 by using its section headings to illustrate just how far macroeconomic thought has evolved

Handbook of Macroeconomics

