

# Resource Allocation and Growth: Metrics and Mechanisms

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ECB CompNet Conference

June 25-26, 2015



The University of Chicago Booth School of Business

# 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 19<sup>th</sup> 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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