



You are cordially invited to

UCLouvain Economics Seminar

On **Thursday** December 8, 2016 from **12:45 to 14:00**
Doyen 22, Place des Doyens, 1

John S. Earle
(Central European University)

Will give a presentation on

Does Higher Productivity Dispersion Imply Greater Misallocation? A Theoretical and Empirical Analysis

Abstract: Recent research maintains that the observed variation in productivity within industries reflects resource misallocation and concludes that large GDP gains may be obtained from market-liberalizing policies. Our theoretical analysis examines the impact on productivity dispersion of reallocation frictions in the form of costs of entry, operation, and restructuring, and shows that reforms reducing these frictions may raise dispersion of productivity across firms. The model does not imply a negative relationship between aggregate productivity and productivity dispersion. Our empirical analysis focuses on episodes of liberalizing policy reforms in the U.S. and six East European transition economies. Deregulation of U.S. telecommunications equipment manufacturing is associated with increased, not reduced, productivity dispersion, and every transition economy in our sample shows a sharp rise in dispersion after liberalization. Productivity dispersion under central planning is similar to that in the U.S., and it rises faster in countries adopting faster paces of liberalization. Lagged productivity dispersion predicts higher future productivity growth. The analysis suggests there is no simple relationship between the policy environment and productivity dispersion.

(Joint paper with J.David Brown and Emin Dinlersoz)

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