

## Discussion of

- “*Capital Misallocation and Secular Stagnation*”
  - By Andrea Caggese and Ander Pérez-Orive
- “*Unbalanced Growth Slowdown*”
  - By Georg Duernecker, Berthold Herrendorf and Ákos Valentiny

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# Discussion outline

- Common ground
- Paper 1, “*Capital Misallocation and Secular Stagnation*”  
By Andrea Caggese and Ander Pérez-Orive
- Paper 2, “*Unbalanced Growth Slowdown*”  
By Georg Duernecker, Berthold Herrendorf and Ákos Valentinyi
- Misallocation in general
- Direction of the literature

# Common ground of the two papers

- Enjoyed to read the papers.
- They provide solid underpinnings to analyze concerns about slow growth
- Explanation is sought in the role of Intangibles:
  - Capital in paper 1
  - Sectors (services) in paper 2
- Methodology. Build a model to incorporate the Intangibles
- Empirical evidence. Mostly based on aggregation, without accounting for firm heterogeneity
- Their bottom line.....they appear to have a bias **against** more intangible and services

# Summary paper 1 – Andrea Caggese & Ander Pérez-Orive

- You may think that a higher degree of more productive intangible capital is good for the economy. But this is not the case according to the authors. They predict a productivity decrease of 6.5%.
- And, if combined with lower interest rates, more intangibles can actually hurt growth.
- Via:
  - Low collateral value of intangibles (financial constraints)
  - The firms in intangible sectors become net savers.
  - Low rates trigger low returns on savings and higher prices of capital.
- Thus, **capital misallocation** arises and **growth** is lowered.
- The paper is **Very** ambitious as it tries to link 5 stylised facts into one model
- The overall set up is smart but at times there is a rather tenuous link between the presented stylised facts, and the chosen direction of causality is problematic.
- Couple of examples

## Financial Frictions:

### Causality concerns:

- In the paper ....Financial frictions → increase in cash holdings → more R&D → higher share of intangible sectors.
- But what about Google? More intangible is **The** business model, and profitability and cash is very abundant

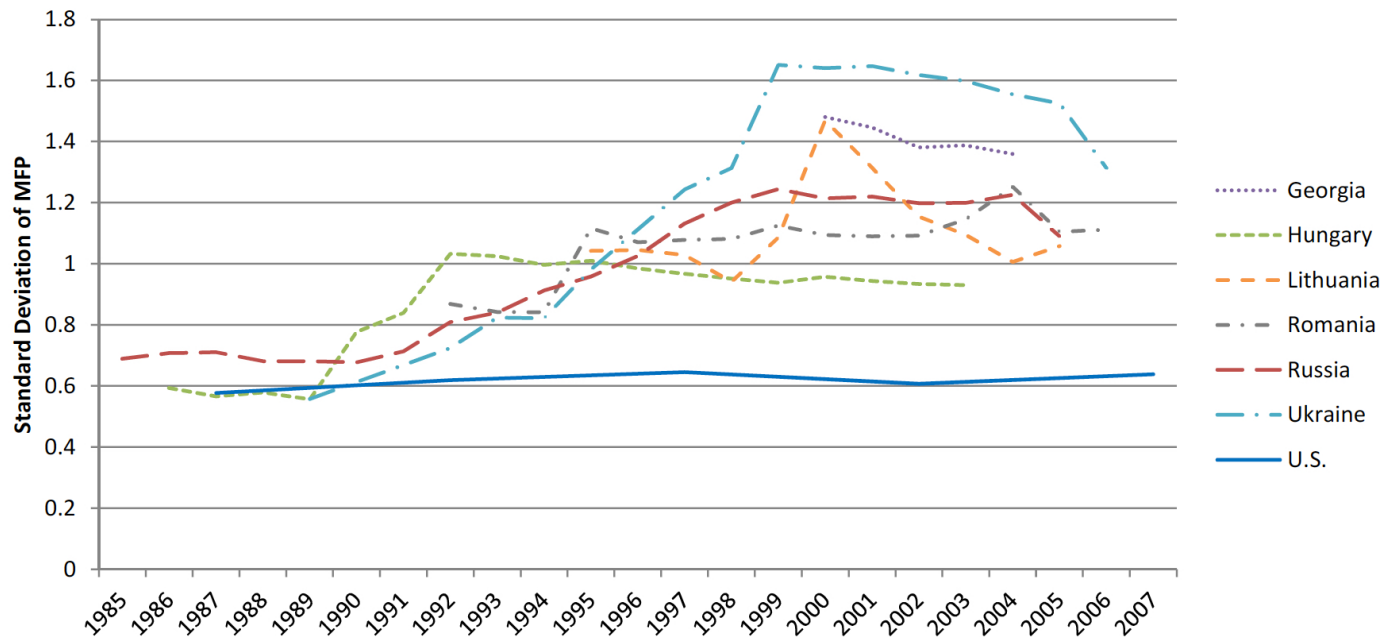
### Collateral

- In the paper....Intangible capital → lower collateral value (low  $\theta$  in the model) → constraints to available financing
- Is this a good representation of reality? How about huge financing for loss making businesses with high intangibles (**Uber**)?
- What about other constraints?
  - Search frictions (Mortenson and Pissarides (1994))
  - Entry and exit fluctuations (Hopenhayn (1992))

## Misallocation:

- Productivity dispersion  $\neq$  Misallocation
- Dispersion is not necessarily bad. See Brown, Dinlersoz, Earle (2016)
  - there is no negative relation between aggregate productivity and dispersion.

Figure 5a. Evolution of Productivity Dispersion with Market Liberalization, MFP Standard Deviation



## Unbalanced growth Slowdown.

- A similar motivation as paper 1 → find a reason for slow productivity growth
- And emphasis on intangibles, at sector level, Manufacturing versus services

Message of the paper → Productivity slowdown results from inefficient sector reallocation over time

My main/only point → How much does sectoral allocation really matter for productivity?

→ Is it really so that there are more productive sectors?

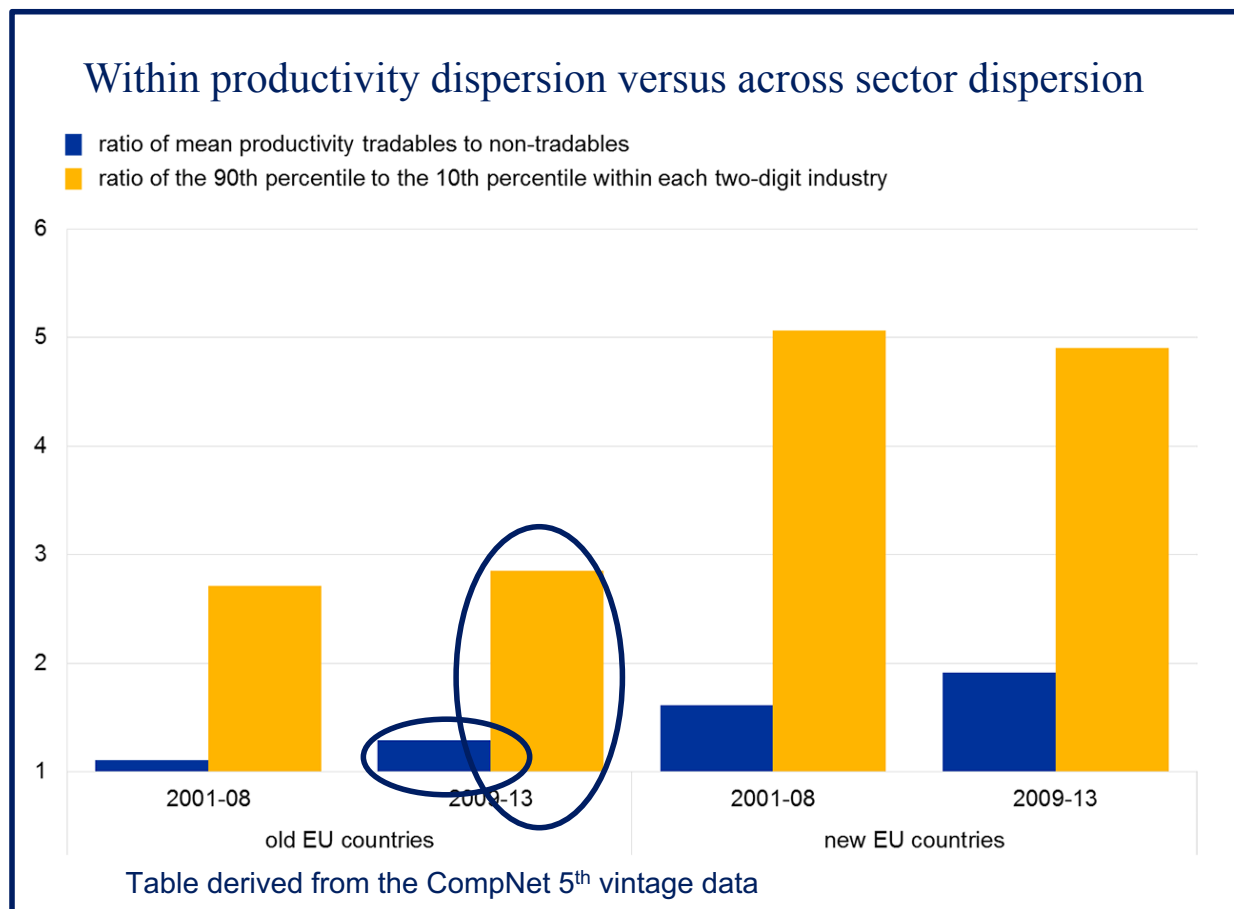
→ Empirical evidence actually shows that FIRM HETEROGENEITY is the real driver and that there are excellent and very productive firms in ALL SECTORS

## Discussion paper 2- Duernecker, Herrendorf, Valentinyi.

- Sector aggregates are very crude (including the assumptions in the paper on whether low and high productive services are substitute) and
- The cross-sector productivity dispersion is not so elevated. Example
- In the chart is the ratio for a set of EU countries (both old and new members) between productivity in the tradable sectors (normally most productive) and the non-tradable

→ for old EU tradable sectors are at most 30% more productive

→ But the Productivity Dispersion between High-Productive and low productive Firms (no matter from which Sector) is SEVERAL folds Higher





## Overall assessment – Going forward

- Are the causality directions (e.g. more intangible → lower productivity) suggested really robust?
- Do they imply we should go back to a tangible economy?



More importantly:

→ Is the emphasis on sectors still appropriate?

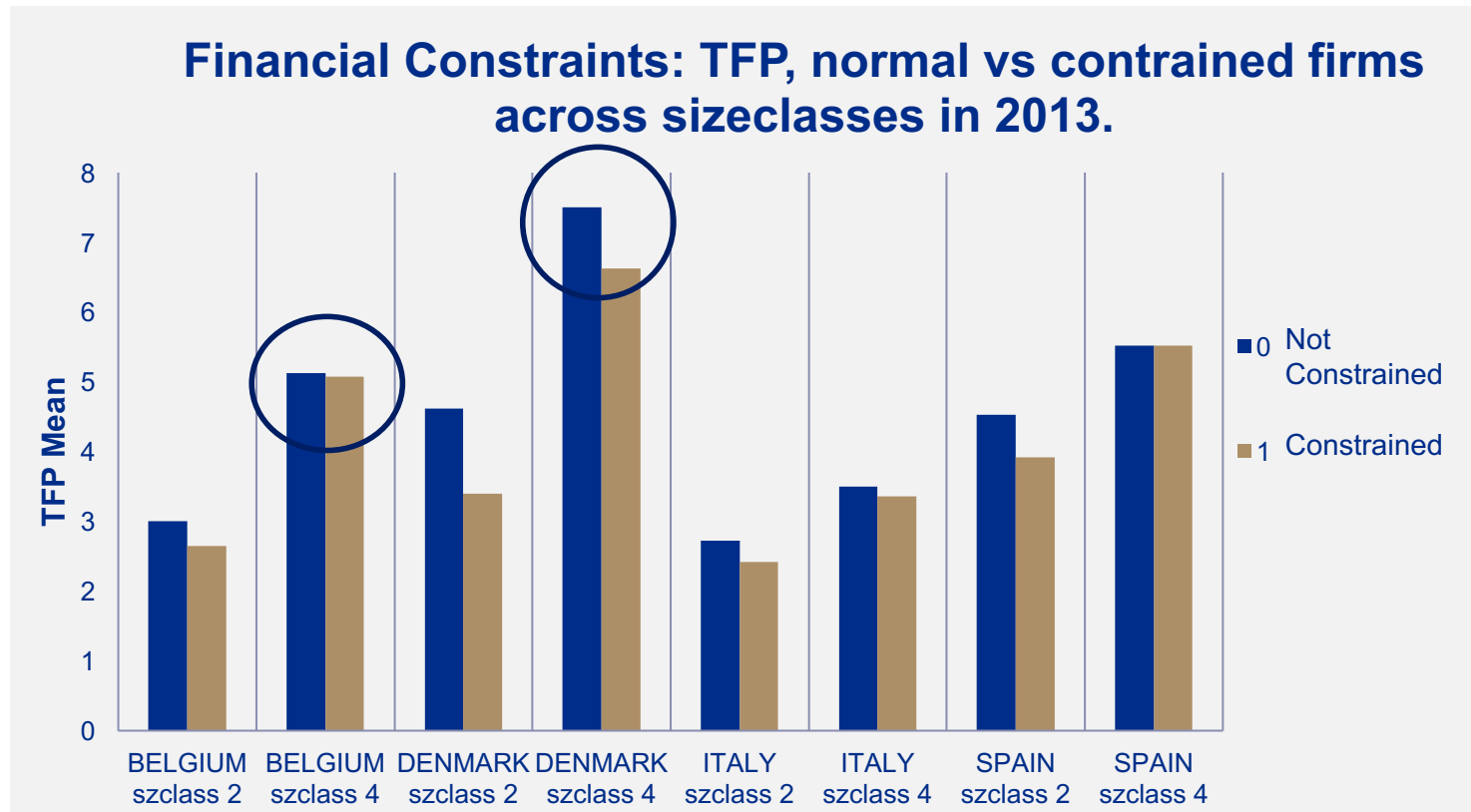
→ My point → **We need to take the firm level perspective seriously. Data is more available now**

# Where do we go from here?

## Compnet: Firm level analysis on productivity drivers

- 6<sup>th</sup> vintage contains 16 EU countries.
- aims at providing a robust theoretical and empirical link between productivity outcomes and their drivers (e.g. exports, finance, labor markets..)

- Confirms the correlation between size and TFP
- Heterogeneity in how firms are affected by financial constraints



## Compnet: Firm level analysis on productivity drivers

- All the above empirical results are very important since they allow also to disentangle how these drivers differ across countries and **sectors**
- This allows a much finer analysis of the underlining stumbling blocks which hamper higher productivity

→ Authors are encouraged to look at the dataset

→ [www.comp-net.org](http://www.comp-net.org)

**Thanks for their excellent contribution**

**Thank you for your attention**