The Productivity Gap: Determinants of Productivity and Misallocation Among Foreign and Domestic Firms in Slovakia

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Summary

- Explaining slow down of TFP growth Slovakia specifically
- Hsieh and Klenow (2009) model with three inputs: labor, capital, and intermediate goods. Resource allocations can deviate from optimum because of distortions, which in turn drive productivity down
- Misallocation leads to substantial productivity shortfalls in Slovak firms, primarily in services and construction, and among domestic firms
- Potential gains from improved allocation were high after the Great Recession but have been falling since then

Domestic vs Foreign Firms

- Most productive firms (mainly large and/or foreign) employ 1/3 of workers but produce 2/3 of output → is this really different from other countries?
- Many small firms are new and will fail within their first 2-3 years so their average productivity is lower
- Large firms are those that were sufficiently productive to survive and grow
- Similarly, foreign firms invest in Slovakia only if they expect to have competitive edge there

Model

- Calibration: labor and capital shares of Germany used for Slovakia → is this justified? Slovakia used to be a low-wage economy, so the labor share should be higher than in Germany
- How much do the findings depend on the choice to use a three-factor production function?

General Comments

- Some misallocation is normal – is Slovakia out of line with respect to other countries at similar level of economic development?
- Which factors cause misallocation of resources?
  - Inefficient allocation more common in the aftermath of the Great Recession
  - Non-tradeable sectors less efficient
- Foreign firms more efficient → do domestic firms learn from them?
  - Account for foreign-firm presence in the sector
  - What about domestic firms that produce primarily for export, are they more productive than those that merely cater to the domestic market?