GLOBALIZATION, STRUCTURAL CHANGE, AND PRODUCTIVITY GROWTH
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Comments: Bill Maloney
What are we measuring?

- In a competitive context w/o distortions, labor productivity driven by K/L where K could be
  - Physical capital
  - Knowledge capital (in TFP)
  - Natural resources (Natural capital)
  - Human capital
- There should be differentials between industries of different K intensity (at given factor prices)
  - eq dispersion depends on technologies, endowments
What is structural change here?

- Competitive: With K accumulation, reallocate toward more K-intensive goods: Rybczynski

- Dualistic: Agriculture to Manufacturing

Structural Change is welfare improving and pro-growth.
Three sets of countries that show negative structural change.
- Africa
- Latin America
- Singapore and S. Korea?

What is responsible for this?
- Raw materials/exports
- Exchange rate undervaluation
- Employment rigidity
- Initial share in agriculture
Productivity in My ‘Hood: LAC

- Productivity higher when Tariffs and Monopoly power raise final goods prices- (e.g. Telmex)
- Unless there are externalities, shifting towards such high productivity sectors
  - Allocates resources suboptimally and does not increase overall welfare
  - Does not promote growth
Chile- the case study in “premature de-industrialization” you must do

- Pre reform: had as many automotive assembly plants as the US!!!!!
- ERP obscene by global standards (Jeanneret 1972)
  - Chile: -100 to 650
  - Brazil: -50 to 500
  - Malaysia: -25 to 200
  - Norway: -17 to 106
- 10/21 industries studied could export only at a loss: wood, paper, paper products, fish, and [noncopper] minerals. Exports of fruit, seafood, oils, wine lagging
After reforms in LA “The question left unanswered is what happens to the workers who are thereby displaced?”

“rationalization of manufacturing industries may have come at the expense of inducing growth-reducing structural change.”
Mystery

- Three sets of countries that show negative structural change: $Y'\Delta$ labor share < 0
  - Africa
  - Latin America
  - Singapore and S. Korea

- What is responsible for this?
  - Raw materials EXPORTS
  - Exchange rate undervaluation
  - Employment rigidity
  - Initial share in agriculture
Natural resources

- Conceptually
  - Monster rents - makes NRs so excellent and high productivity - but don’t employ many people
  - What would diversification cum increased labor force participation/expansion do?

- Probably the wrong measure
  - Net Resource Exports/Labor a better measure of Comparative advantage (Leamer)
  - NR exports/Exports is a measure of concentration
  - Also confuses entrepots like.....
Singapore ... the culprit?

Lederman and Maloney (2007)
Undervaluation

- Conceptually: Maintaining a below eq ER over the medium term
  - Subsidy to exporters/tradeables, tax on others (consumers)
  - Only optimal if there are externalities (see for example Korinek and Serven 2011)

- Practically, are you measuring
  - These externalities?
  - The massive overvaluations in LAC during Stabilization cum Liberalization?
  - The lessons are radically different
Initial share in ag? Why not initial dispersion?
More focus on within industry margin?

- M and R note that Singapore and Korea had high growth within industries so offset negative reallocation effect.
  - Why doesn’t this happen LAC?
  - Singapore: Young (1992), Fernald and Neiman (2011). In “favored sectors” technology grew less. Singapore achieve “less with more” Lots of K, not much TFP

- Eastern Europe: within industry margin is only real margin to exploit (Caselli and Tenreyo 2005)

- Low growth in service sector productivity causes LAC lag (Silva and Ferreira 2010)

- Schott (2004)- within differences in export quality within HS10 categories huge.
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