

Discussion of “Allocative Efficiency and the Productivity Slowdown”

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My overall take

- **Interesting question:** what is the role of cross-sectoral allocative efficiency in explaining the productivity slowdown of the 1970s and 2000s in the US?
- **Methodologically solid and convincing:** The authors expand the framework of Oberfield (2013) and derive metrics of efficiency for two economies: 1) value added economy, and 2) the IO economy.
- **Reasonable findings:** Allocative efficiency plays an important role in the US' productivity slowdown: roughly two-thirds. Volatility hampers allocative efficiency.
- **Comments mostly on extensions/ideas for future research.**

Quick Summary

Quick summary of methodology, data and results

- The paper starts by laying out a simple model with a single consumption good that aggregates the production of N sectors.
- Each sector uses labor and capital as inputs of production, and they differ in their (i) productivity level and (ii) Cobb-Douglas parameters.
- They also extend the set-up to allow for IO linkages across sectors, international trade, and alternative production functions (CES).
- In each case, the authors derive the optimal cross-sectoral allocation emerging from the social planner's problem and construct a measure of allocative efficiency
 - The ratio between the observed allocation and the efficient one.
 - They provide an exact decomposition of observed labor productivity between “fundamental” productivity and allocative efficiency.

Quick summary of methodology, data and results

- The authors take their measures of allocative efficiency and apply it to the US.
- Data are from:
 - KLEMS: time series from 1947 to 2010
 - WIOT: IO linkages but shorter horizon (1995-2011)
- Data is sufficiently reach to calibrate key parameters and quantify allocative efficiency.

Quick summary of methodology, data and results

- The paper shows that allocative efficiency explains two thirds of the slowdown in labor productivity in the 70s and 2000s.
- The explained share of lp growth is even larger when using the WIOT data (although period do not coincide exactly)
- Allocative efficiency declined in the 1970s in services and manufacturing, but in the 2000s it fell only in manufacturing.
- Higher volatility is associated with lower allocative efficiency.

Comments

THANK YOU!