WHY CONSIDER THE DYNAMICS OF PRIVATE FIRMS?

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ECONOMIC TRANSFORMATION RE-CAP

Macroeconomists monitor “structural change” in 3 dimensions

**Shares of Consumption**

As countries improve productivity and relative prices fall, consumers demand more income elastic manufactured goods and services.

**Shares of Production (GDP)**

Investors respond by increasing production to supply more manufactures and services and employ labor released from agriculture.

**Shares of Employment**

Labor moves from less to more productive work.

The demand for labor derives from the demand for goods and services.
WHAT DO WE NEED TO LOOK FOR IN FIRM DYNAMICS FROM A JOBS PERSPECTIVE?

- Investment climate
- Price signals

- + Competition
- + Trade openness
- - Disruption costs

motivation/channels
- Spillovers (copy, adapt)
- Selection (survival fittest)

Firms Enter

- Entry: New firms bring new products and innovations
- Create Jobs

Efficient firms Grow

Inefficient firms shrink

- Selection: Incumbant firms adapt to new products and new innovations. Workers move to new occupations and more productive firms

Productivity and Output Rises

Prices Fall

- Transformation: Productivity rises (employment creation may slow, wages may rise), prices should fall through competition

Employment rises with output, may rise (or fall) with productivity, should increase wages
WHAT DO WE NEED TO LOOK FOR IN FIRM DYNAMICS FROM A JOBS PERSPECTIVE?
CAVEATS FOR THE INTERPRETATION OF RESULTS FROM FIRM DYNAMICS IN JOBS DIAGNOSTICS

Data Comparability for Benchmarking – We need global data standards that address comparability:

- **Firm type**: definitions of formality; plant vs HQ
- **Formality**: defined by enterprise or define by worker?
- **Sampling**: representative of ISIC, firm size, firm age and location?
- **Data sources**:
  - Surveys vs Censuses
  - Response bias in tax data vs other firm data.

Some Methodological Considerations:

- **Demand for labor** derives from demand for goods and services: need trends in consumption of goods and services
- **Cyclicality** matters (firms behave asymmetrically in booms vs recessions).
- **Product prices** are needed to truly assess competition:
  - **Valuing capital is tough**: Want both labor intensity and K/L augmentation: we want both investment to give economies of scale and capital augmentation for waged workers, but we also want labor augmentation not displacement
  - **Direct vs indirect jobs**: need to consider multipliers when looking at priority sectors – eg what are the multipliers of food processing vs garments? Or retail vs transport and communications jobs. Looking at firms gives direct effects only
A GUIDED ENQUIRY FOR FIRM DYNAMICS

- Uses economic censuses, national accounts surveys, business establishment surveys
- Maps the profile of firms and jobs in the formal private sector
- Observes trends over time in aggregate and firm-level and points to anomalies using cross-country comparisons and economic deduction
- Examines anomalies specifically looking into investment climate and doing business indicators
STEP-WISE GUIDED ENQUIRY – FIRM DYNAMICS

Step 1: Profile formal firms and jobs over time:
- Age
- Size
- Ownership
- Sector
- Location

Step 2: Trends in:
- Output
- Employment
- Unit labor costs
- Capital/Labor
- Productivity
- Labor share

Step 3: Trends at firm level in
- Entry, exit, growth,
- Shrinkage
- Survival rate
- Who grows?
- Who hires?

Step 4: Spatial patterns

Step 5: What factors determine Firm level:
- Employment
- Productivity,
- Labor costs,
- Growth

Wrap up:
Benchmark to identify anomalies
Interpretation To Identify Challenges

Step 4: Spatial patterns

Wrap up:
Benchmark to identify anomalies
Interpretation To Identify Challenges
The jobs diagnostic for Zambia:

- Verified the economic importance of the line of rail for waged jobs
- Identified some locations with market potential which were not favored locations for firms
- Began a discussion about productive alliance models and agro-firm location in the context of jobs
Private sector is an engine of good jobs when firms:

- Acquire more knowledge, better human capital and inputs and services
- Allocate and use inputs more efficiently
- Invest and innovate
- Firms enter and compete
Key jobs outcomes:

employment, value added and labor productivity

Key dimensions:

sector, location, size, age, and ownership

Step 1: Profile of the private sector

Step 2: Trends in economic transformation

Step 3: Firm performance in relation to job outcomes
**STEP 1: PROFILE**

*Where are the firms, workers and value added?*

*In which sectors and locations? In which type of firms: size, age, and ownership*

*Is the composition of the private sector healthy? How is changing over time?*

*What can we say about it when benchmarked against other countries?*
In Macedonia, almost half of the firms are in retail. The share decreased slightly while services grew. Retail firms tend to be smaller (42% of firms, but only 26% of workers). More than half of value added is generated by services (slow industrialization). Textile has large firms but little value added. Other manufacturing became more productive overtime.
Turkey’s firms are also overwhelmingly in services but manufacturing firms are large and generate most value added (more industrialized).
75% of formal firms in Turkey are micro (less than 10 workers) but they employ less than 20% of employment and generate less than 10% of value added (decreasing over time). In contrast, 5% of large firms employ half of workers and generate 60% of value added (increasing over time).
Young firms are great contributors of job creation but in Paraguay young firms generate little jobs.

In many countries, employment and market share are concentrated in a handful of firms (in South Africa, 50% of workers are in 1% of firms. In Vietnam 1% of firms hold 75% of the market share)
STEP 2: TRENDS IN ECONOMIC TRANSFORMATION

Aggregate employment, labor productivity and unit costs

In aggregate, which sectors are growing (labor productivity) and expanding (employment)?

Are unit labor costs increasing with growing labor productivity?

Are sectors becoming more capital intense?

Is aggregate productivity growth due to within sector productivity growth or to allocation of resources to more productive sectors?
In food & beverages in Ethiopia, labor and labor unit costs increased with productivity. In metals productivity and employment growth were associated, but it did not lead to higher wages.

In Ethiopia, firms operating in food & beverages and textile sectors are more capitalized. But only food & beverage is rapidly becoming more capital intense.
Food and beverages growth contributed most to aggregate productivity growth in Ethiopia. Allocation was beneficial for plastics, cement and metals, but was inefficient in textiles.

Most sectors did not expand between 2011 and 2016 in Macedonia. Few sectors of mediocre productivity in 2011, became more productive. Most productive sectors contracted severely.
Dynamism of the formal private sector: entry, exit, job creation, firm labor productivity and wages

Are firm labor productivity and wages rising across the distribution of firms? What type of firms and in which sectors and locations?

Which sectors and locations are more dynamic (new firms and jobs)?

Do firms grow? What type of firms grow?

Which type of firms are more productive, grow, and pay better wages? Do workers move to better firms?
In Macedonia, firms’ productivity fell slightly between 2011 and 201. Productivity by firms’ on the top of the distribution (9th decile) dropped harder. Workers felt firm’s poor performance “multiplied” in their empty pockets.
Vietnam services’ firms were more productive. Domestic and s.o.e. firms lagged behind foreign owned and exporters. Older firms are more productive.
Between 2005-2014, Vietnam created around 500,000 new jobs per year but churning was much higher ~1 M jobs are created and destroyed. Expanding incumbents accounted for most new jobs (job creation at entry was weak). More jobs were destroyed by shrinking incumbents than by exiting firms. Young firms were the source of job creation, old firms destroyed jobs.
South Africa’s private sector is stagnant. Entry and exit are negligent. Small firms are old, do not grow or exit.
A cross-sectional analysis suggests firms grow very slowly as they age in Peru and India (reforms in India made a difference); manufacturing firms do better.
More productive, larger and older firms in Ethiopia are likely to pay higher wages.
There is suggestive evidence of worker misallocation in the textile sector in Ethiopia, it reversed in 2016. In Vietnam, however, allocation of workers in manufacturing is efficient.
In Kosovo, a large share of micro firms exit by age 5. In Moldova 2/3 do and more firms contract than expand.

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In Macedonia:

The larger and younger the firm, the more likely to expand but the more productive, to contract. Textiles firms are the least expected to grow.

Younger and medium-large firms are likely to increase productivity.
Firm Dynamics

Job Diagnostics Enquiry

“the end”

Thank you!