Growth Potential and Macroeconomic Policy: What Reforms? When? And What Role for Macro Policy?

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Growth Potential and Macroeconomic Policy
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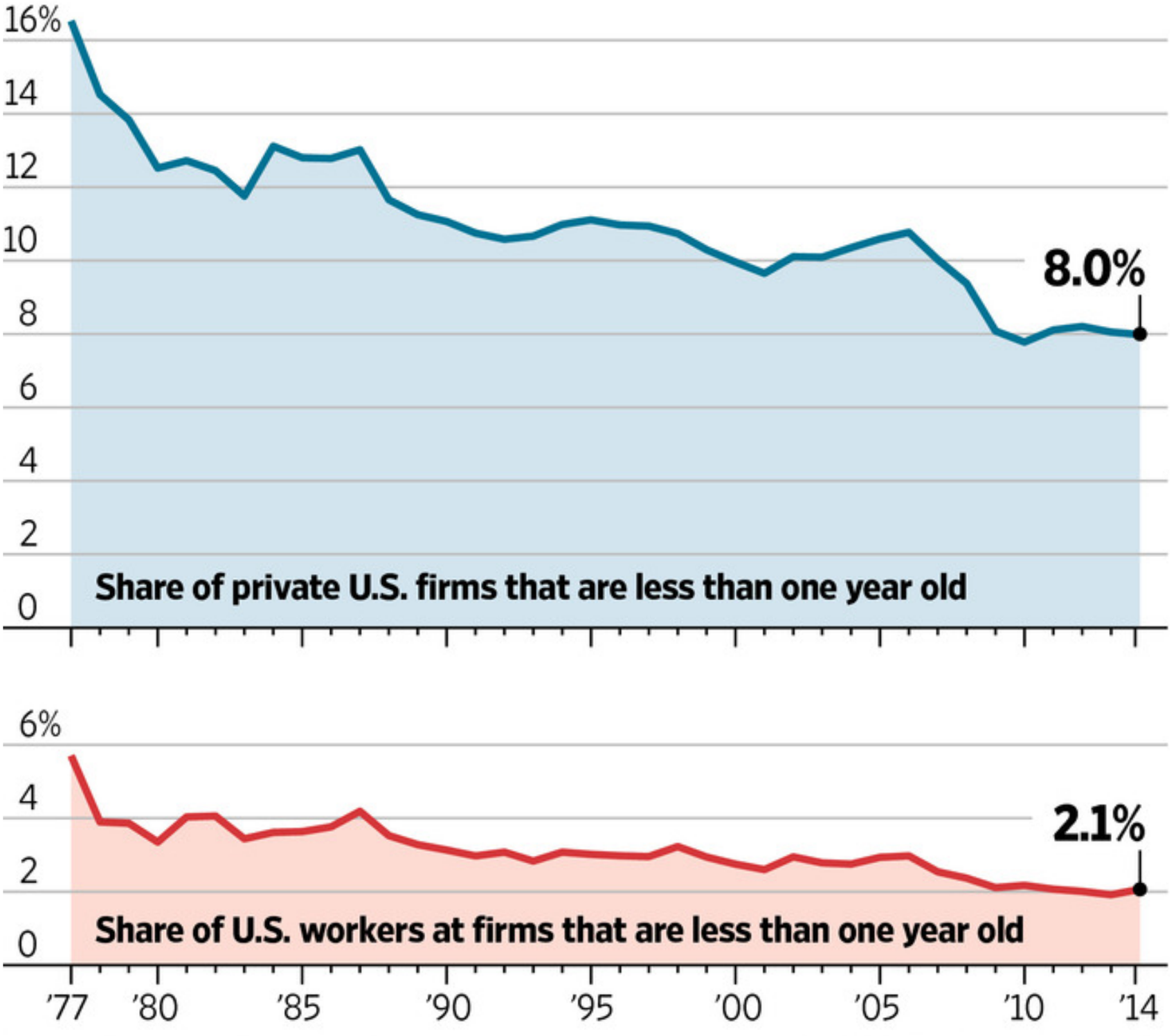
What Reforms?

The figures and slides in this part of the presentation are borrowed from the following sources:
Slide 3: Sparshott, J., "Sputtering Startups Weigh on U.S. Economic Growth," *Wall Street Journal*, October 23, 2016.
Slide 4: Djankov, S., "Why Is America Not Improving Its Business Regulation?" Peterson Institute for International Economics, October 26, 2016.
Slide 5: di Giovanni, J., and A. A. Levchenko (2012): "Country Size, International Trade, and Aggregate Fluctuations in Granular Economies**,"** *Journal of Political Economy* 120: 1083-1132.
Slides 6-12: Lee, Y. (2016): "Excessive Firm Turnover in the Shadow of Unemployment," manuscript, University of Washington.

Start Me Up

The rate of startup formation has been declining in the U.S. for decades.



Source: Commerce Department

THE WALL STREET JOURNAL.

TOP REFORMERS AND LAGGARDS IN IMPROVING BUSINESS ENVIRONMENT SINCE 2005

Rank	Reformers	Laggards
1	Rwanda	United States
2	Georgia	Malta
3	Macedonia (former Yugoslav Republic)	Antigua
4	Belarus	Equatorial Guinea
5	Colombia	Maldives
6	Poland	Micronesia
7	Armenia	St. Lucia
8	Vietnam	Belize
9	Portugal	Bolivia
10	Russia	Luxembourg
11	Kazakhstan	Papua New Guinea
12	Ukraine	San Marino
13	Croatia	Dominica
14	Romania	Eritrea
15	Latvia	Marshall Islands
16	Lithuania	Barbados
17	Czech Republic	Iraq
18	Azerbaijan	Kiribati
19	Mauritius	Libya
20	Moldova	South Sudan

Sources: World Bank's Doing Business reports (2005-17); author's calculations.

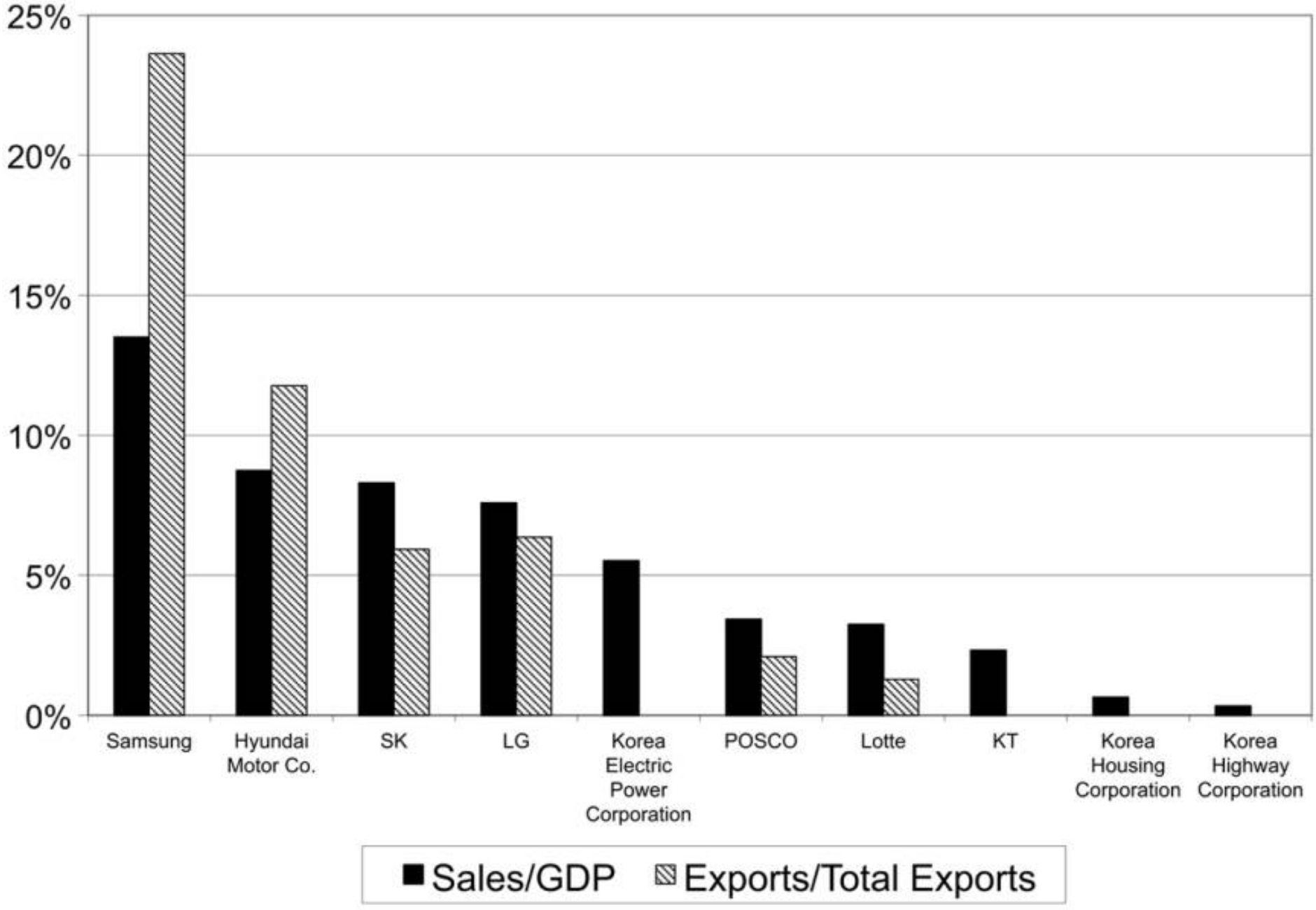
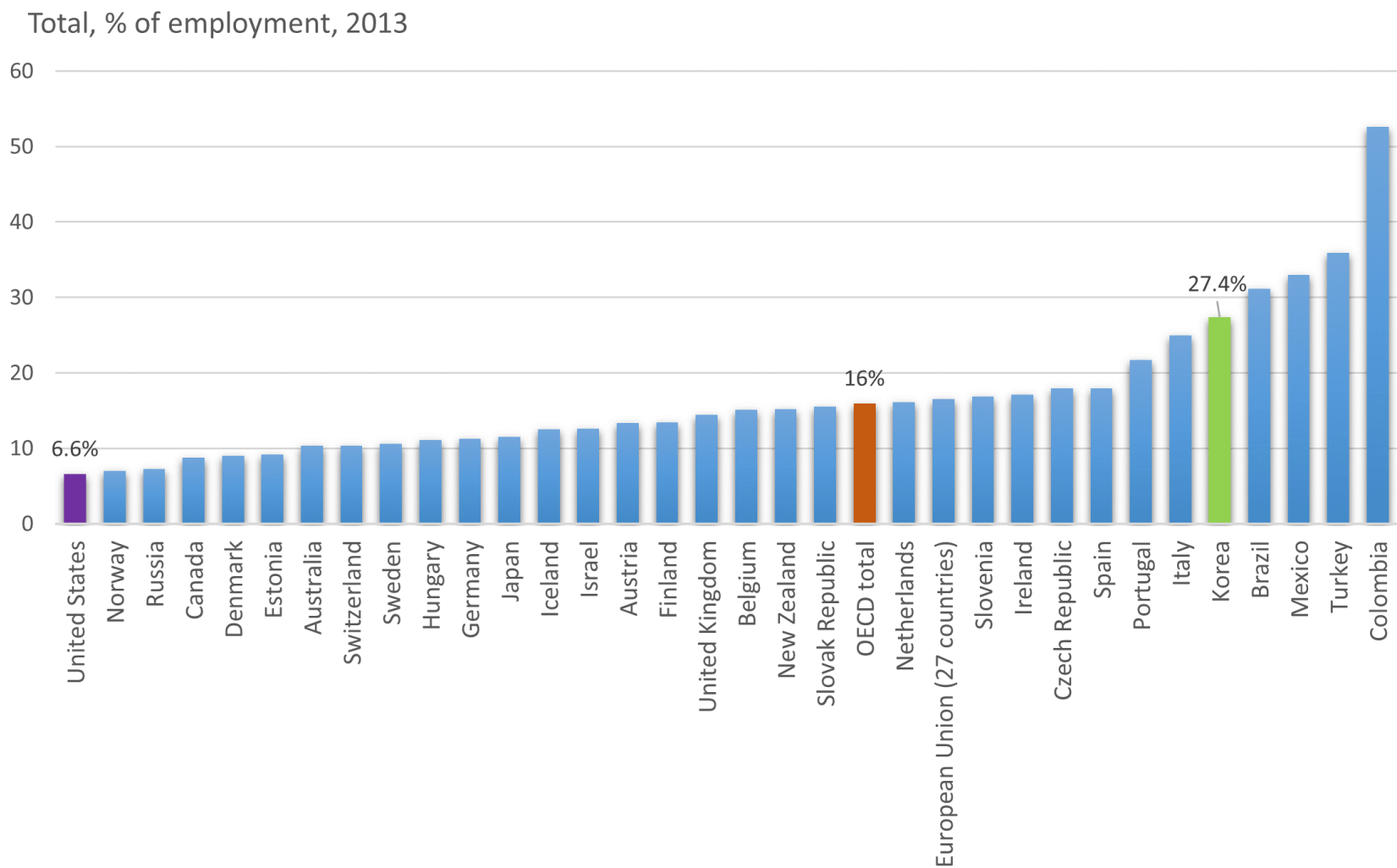
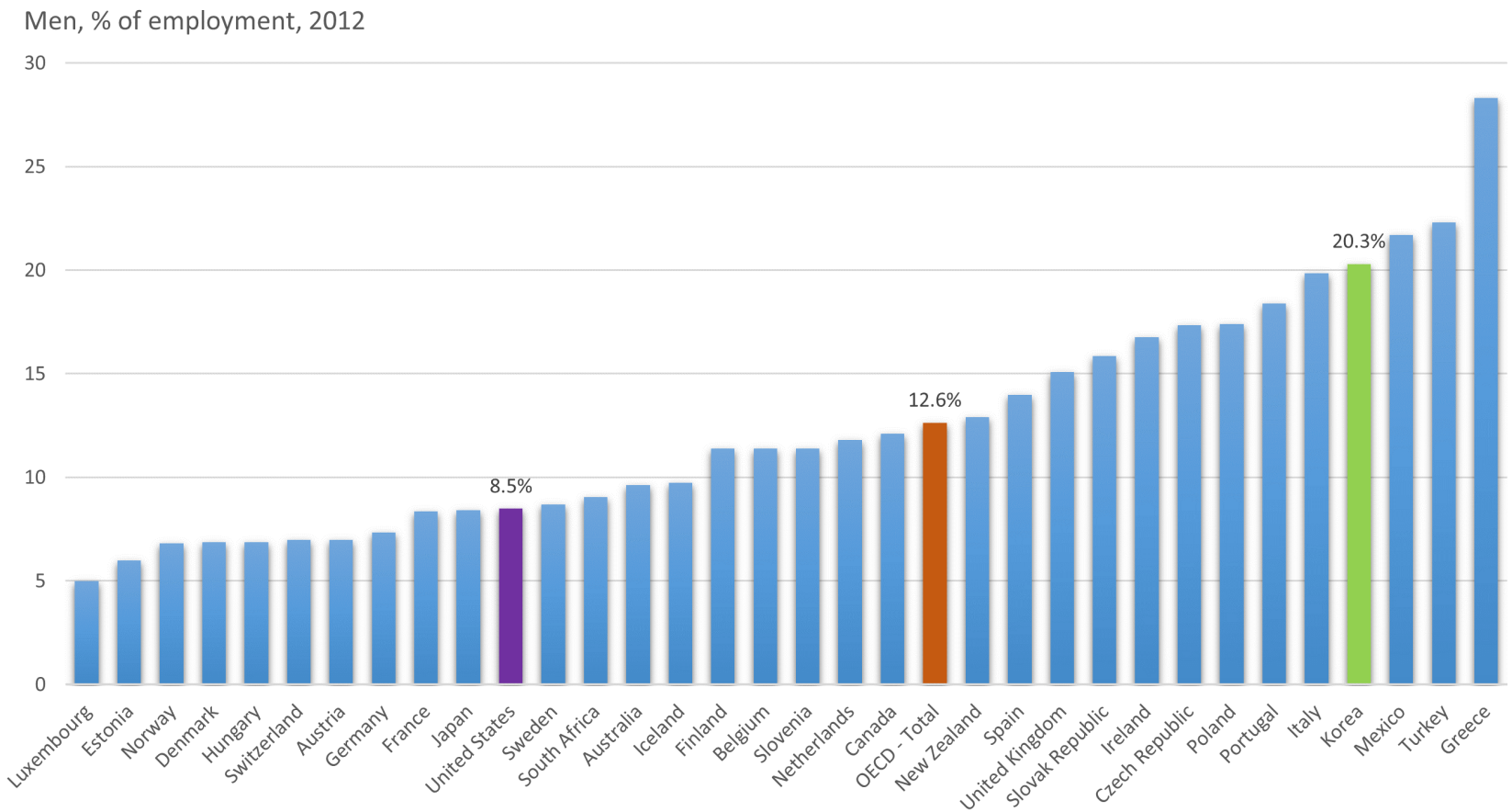


FIG. 2.—Korean business groups' sales as a share of GDP and total exports. This figure reports the 2006 sales of the top 10 Korean business groups, as a share of Korean GDP (dark bars) and total Korean exports (light bars). Source: Korean Development Institute.

Self-Employment in Korea

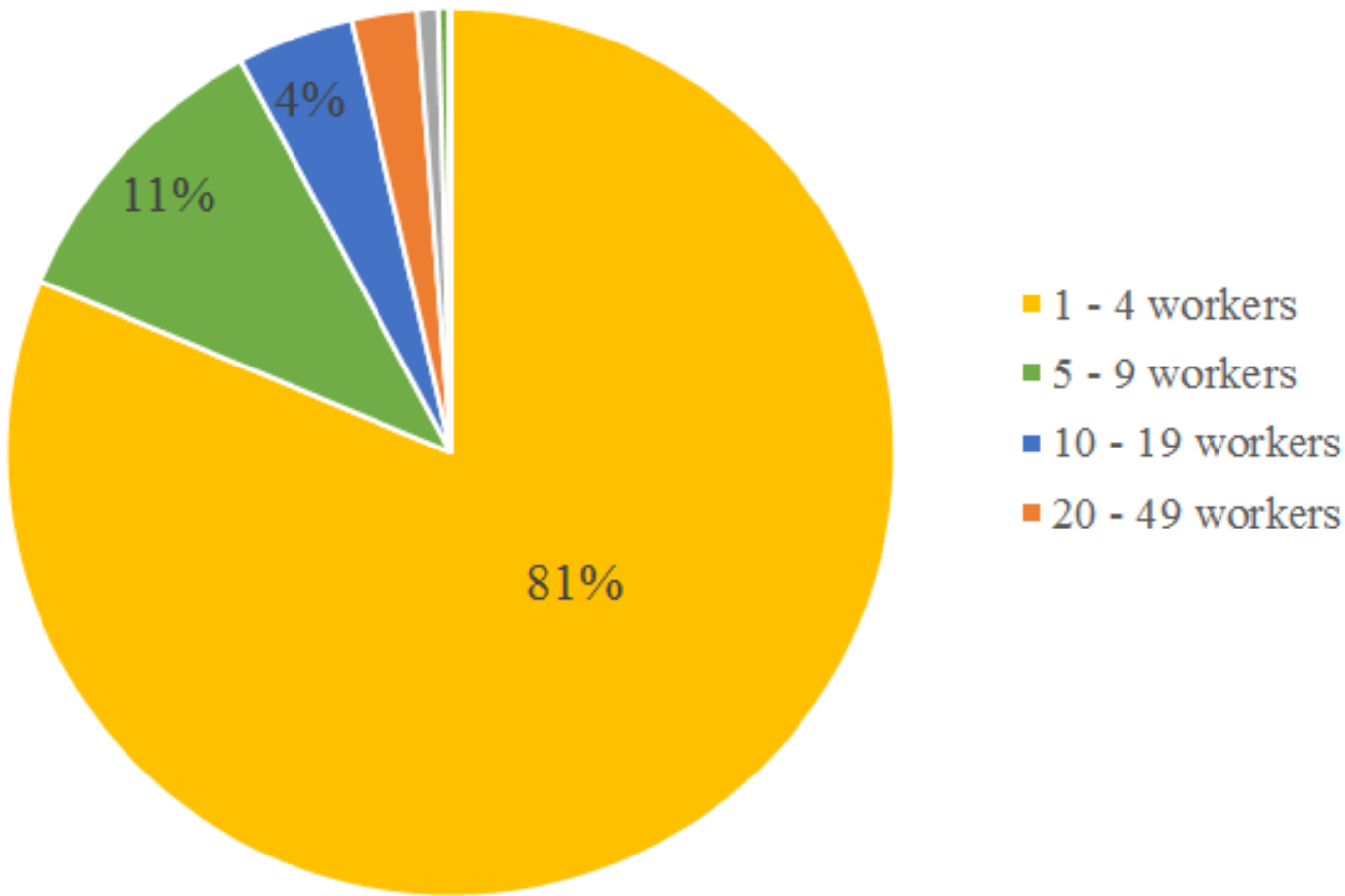


Self-Employment without Employees in Korea



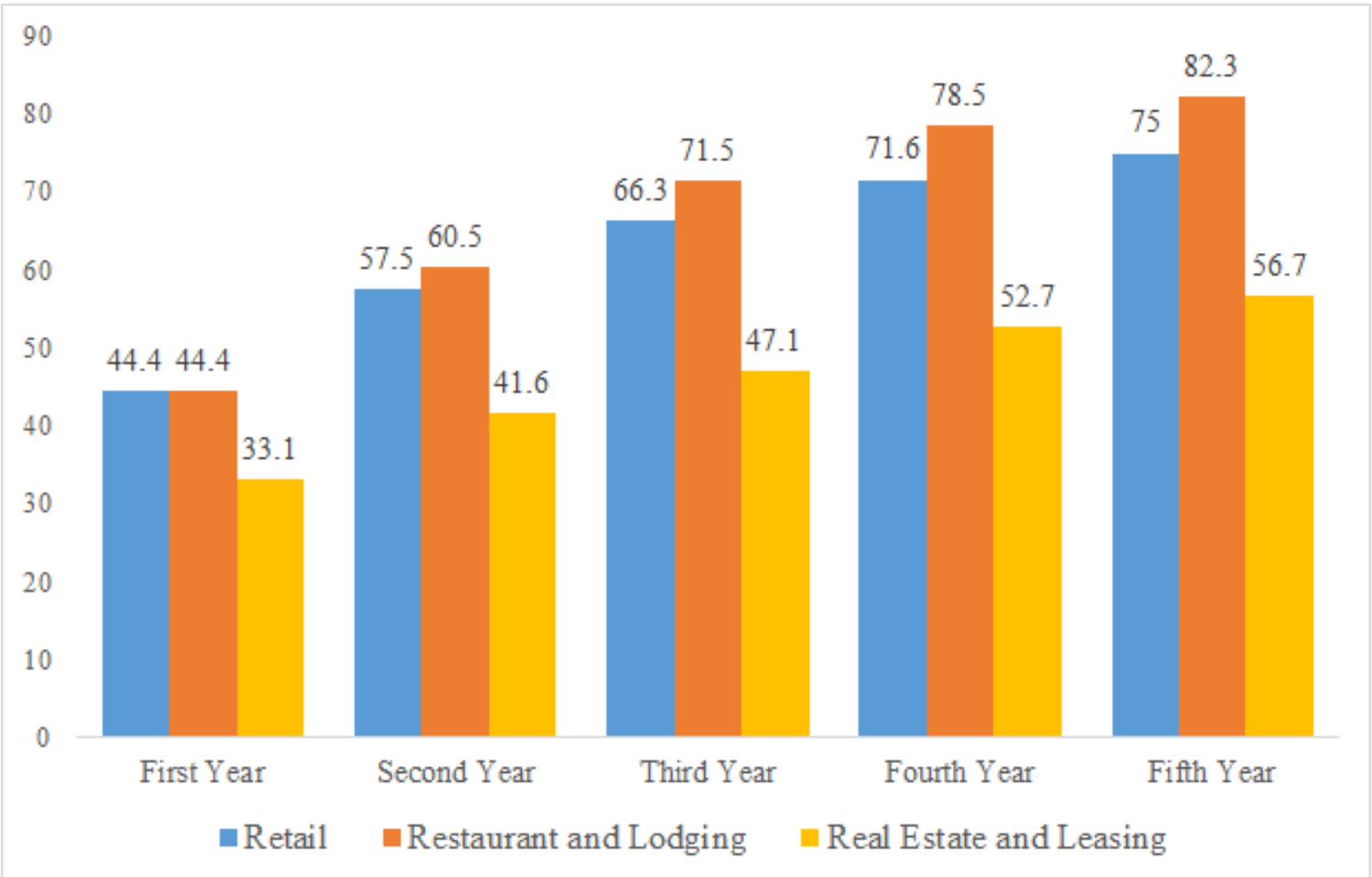
Majority of firms are small

Fig 3 Firm Size by Number of Workers (2014)



High Turnover Rates

Fig 4 Exit rate for the first 5 years (2013, %)



Composition of Entry and Exit

Industry	Entry (%)	Exit (%)
Restaurant and lodging	20.1	21.7
Retail	17.3	19.4
Real estate and leasing	16.1	16.5
Sum	53.5	57.6

Table 1 Composition of entry and exit (2012)

Self-Employment Dynamics in Korea

- Majority of businesses are small (1-4 workers)
  - More than 80% of businesses
- Concentration of firms in a few industries
  - Three sectors (restaurant and lodging, retail, and real estate) consisting more than half of total entry and exit
  - Per 1,000 people, Korea has 13.5 restaurants and lodging - much higher than Japan (5.6) or the US (2.1)
- Higher turnover rate of firms in these industries
  - Up to 45% of firms in these sectors do not last a year

Different from the U.S.

- In contrast to the small businesses in the U.S., Korea shows a high rate of subsistence business
  - 80% of the self-employed replied that they became entrants because they could not get a job elsewhere
  - 68.7% replied that age was a barrier when finding a job

When?

The figures in this part of the presentation are from Cacciatore, M., R. Duval, G. Fiori, and F. Ghironi (2016): "Market Reforms in the Time of Imbalance," *Journal of Economic Dynamics and Control* 72: 69-93.

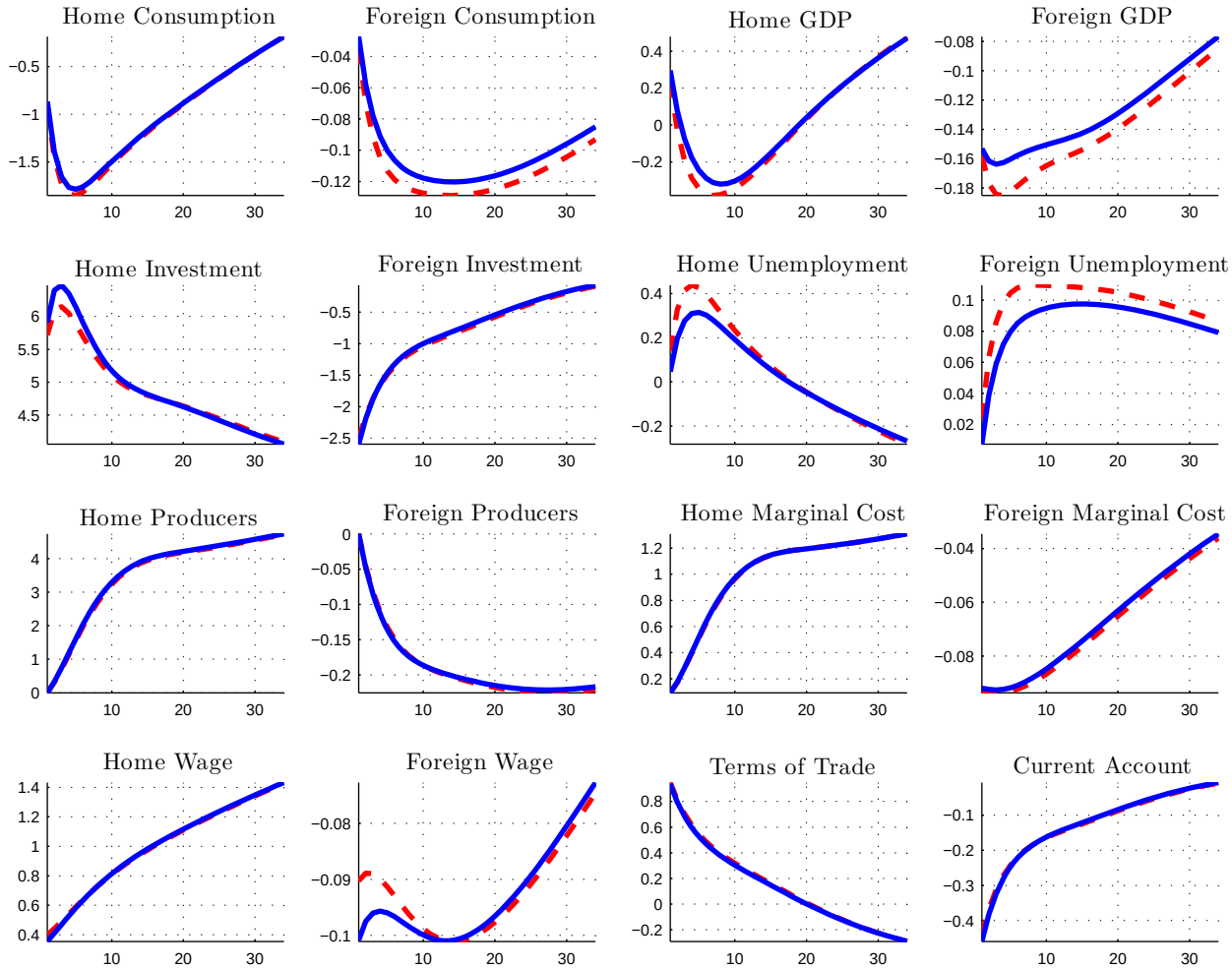


Figure 1. Home product market reform, normal times (continuous lines) versus recession (dashed lines). Responses show percentage deviations from the initial steady state. Unemployment is in deviations from the initial steady state.

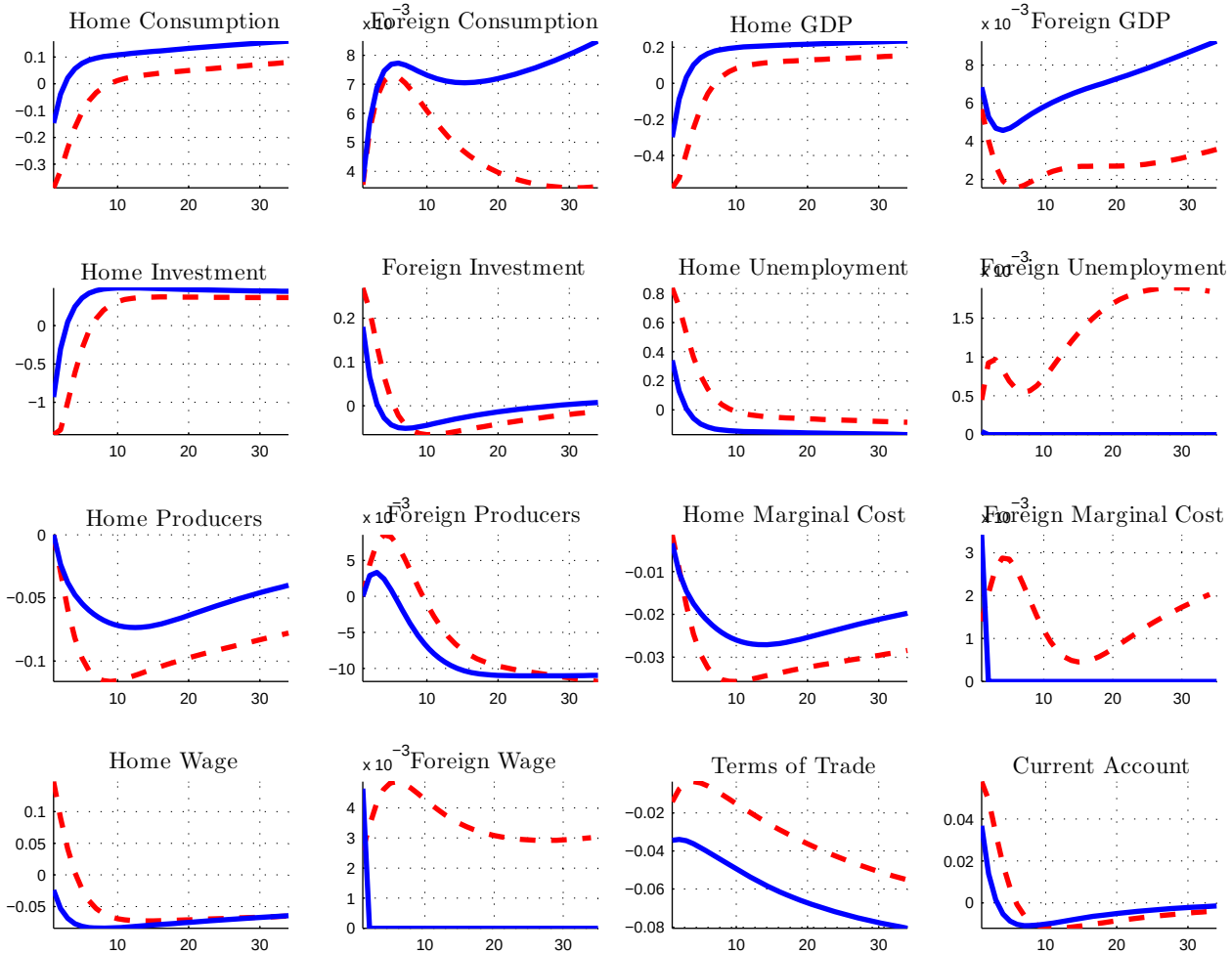


Figure 2. Home firing costs reform, normal times (continuous lines) versus recession (dashed lines). Responses show percentage deviations from the initial steady state. Unemployment is in deviations from the initial steady state.

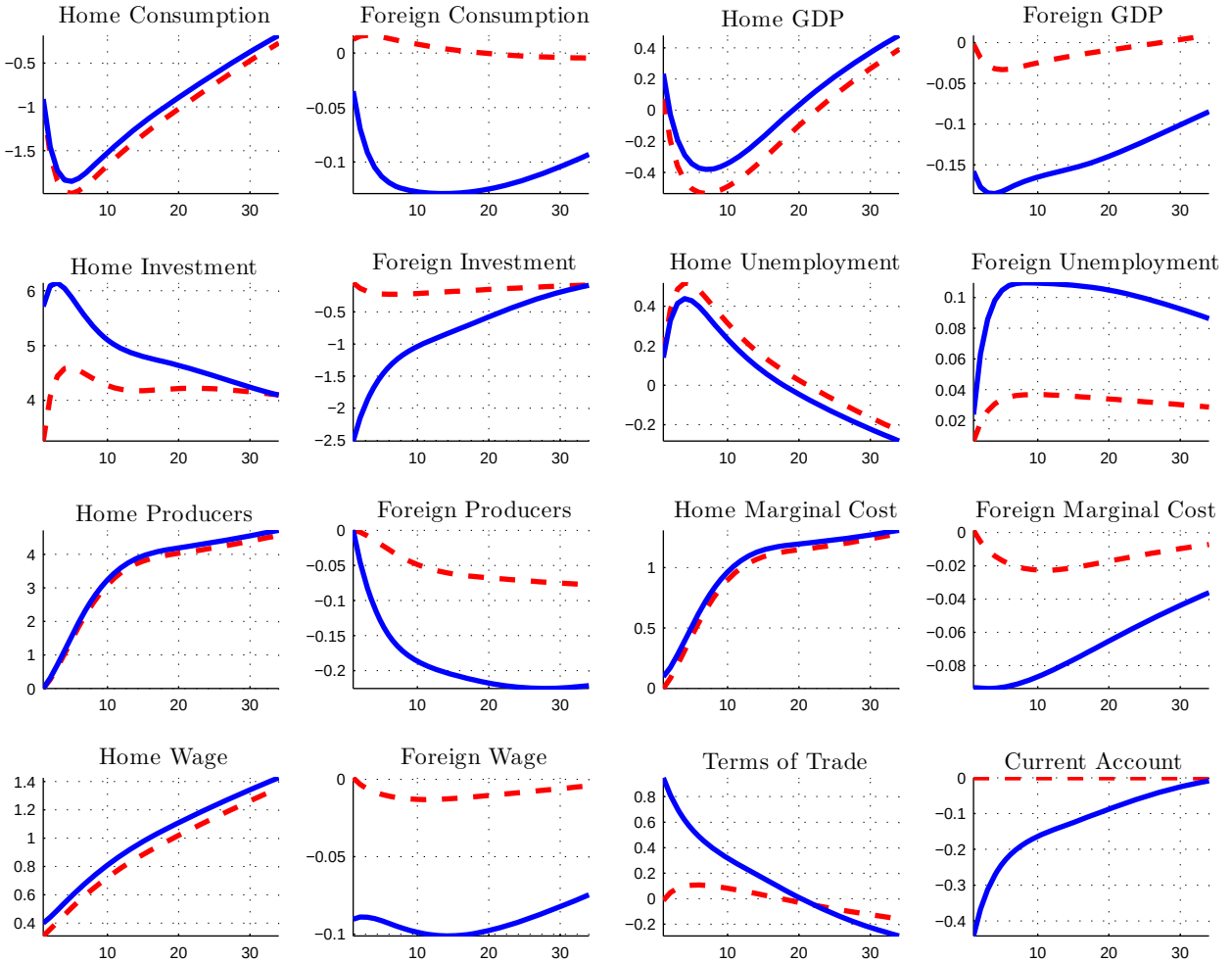


Figure 8. Home product market reform in a recession, open capital account (continuous lines) versus financial autarky (dashed lines). Responses show percentage deviations from the initial steady state. Unemployment is in deviations from the initial steady state.

And What Role for Macro Policy?

The figures in this part of the presentation are from the following papers:
Slide 18: Cacciatore, M., G. Fiori, and F. Ghironi (2016): "Market Deregulation and Optimal Monetary Policy in a Monetary Union," *Journal of International Economics* 99: 120-137.
Slides 19-20: Cacciatore, M., G. Fiori, and F. Ghironi (2015): "The Domestic and International Effects of Euro Area Market Reforms," *Research in Economics* 69: 555-581.

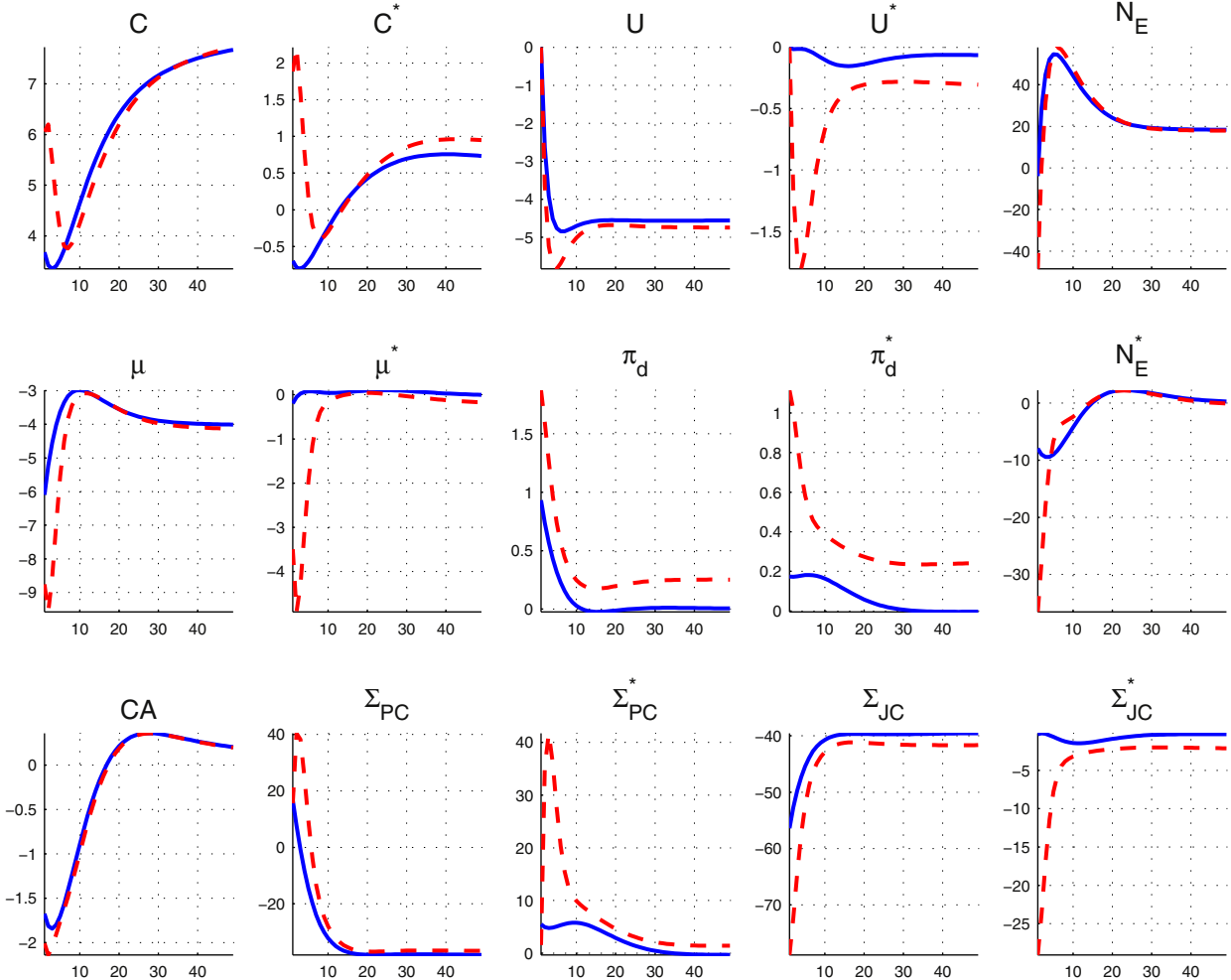


Fig. 1. Home product and labor market reform, historical policy (continuous lines) versus Ramsey-optimal policy (dashed lines). Responses show percentage deviations from the high-regulation steady state under historical policy (zero steady-state inflation). Unemployment and inflation are in deviations from the steady state.

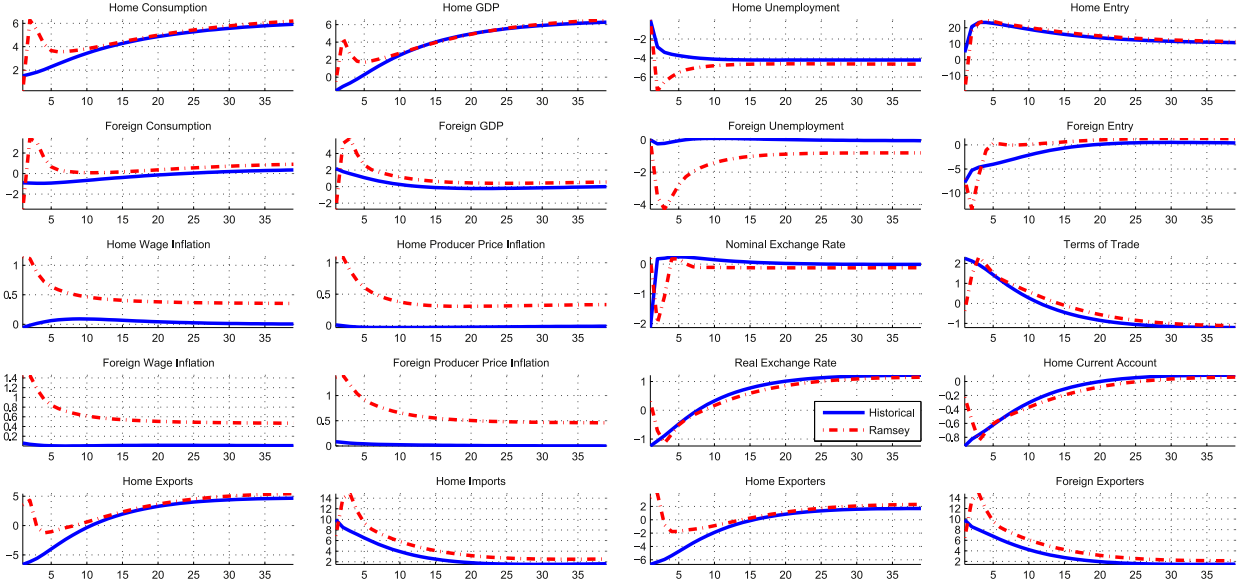


Fig. 4. (a) Home product and labor market deregulation, flexible regulation in foreign. Historical policy (solid) versus optimal policy (dashes).

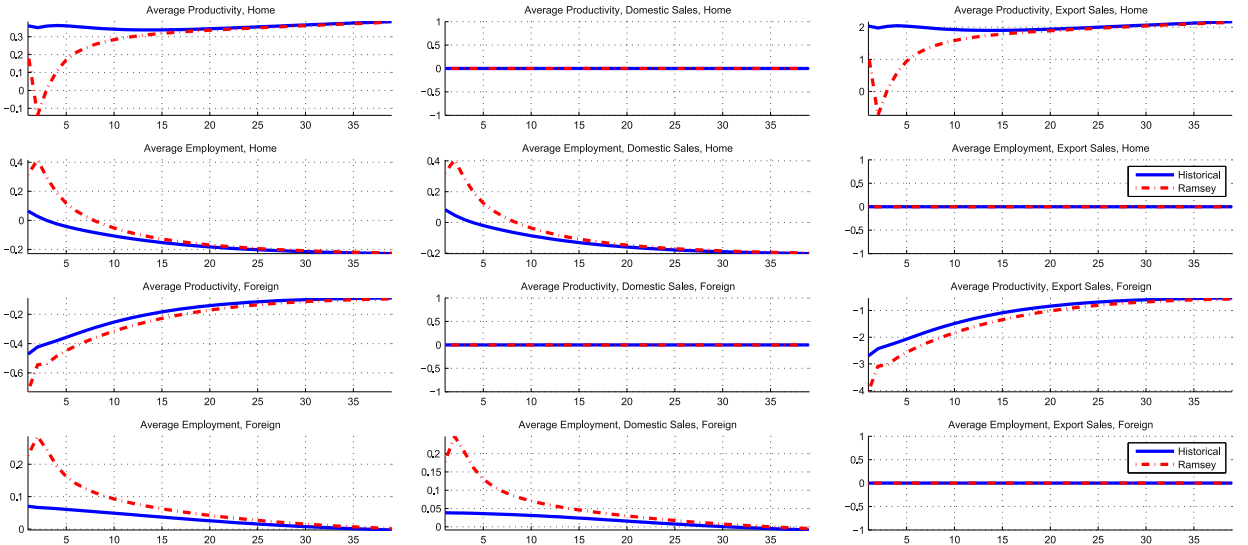


Fig. 4. (b) Home product and labor market deregulation, productivity and labor reallocation effects.

Extras

The figures in this part of the presentation are from the following papers:
Slide 22: Cacciatore, M., R. Duval, G. Fiori, and F. Ghironi (2016): "Market Reforms in the Time of Imbalance," *Journal of Economic Dynamics and Control* 72: 69-93.
Slides 23-26: Cacciatore, M., G. Fiori, and F. Ghironi (2015): "The Domestic and International Effects of Euro Area Market Reforms," *Research in Economics* 69: 555-581.

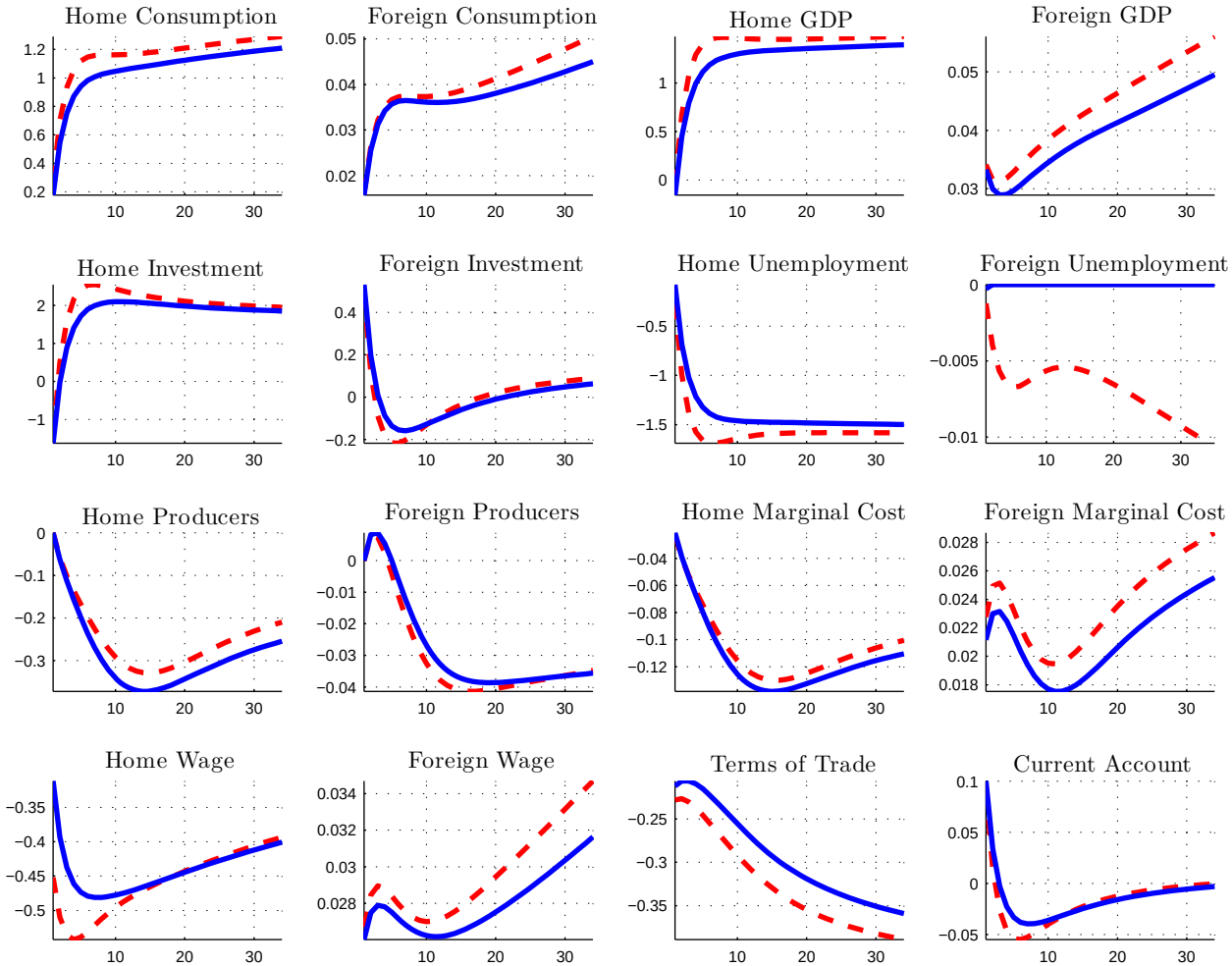


Figure 3. Home unemployment benefits reform, normal times (continuous lines) versus recession (dashed lines). Responses show percentage deviations from the initial steady state. Unemployment is in deviations from the initial steady state.

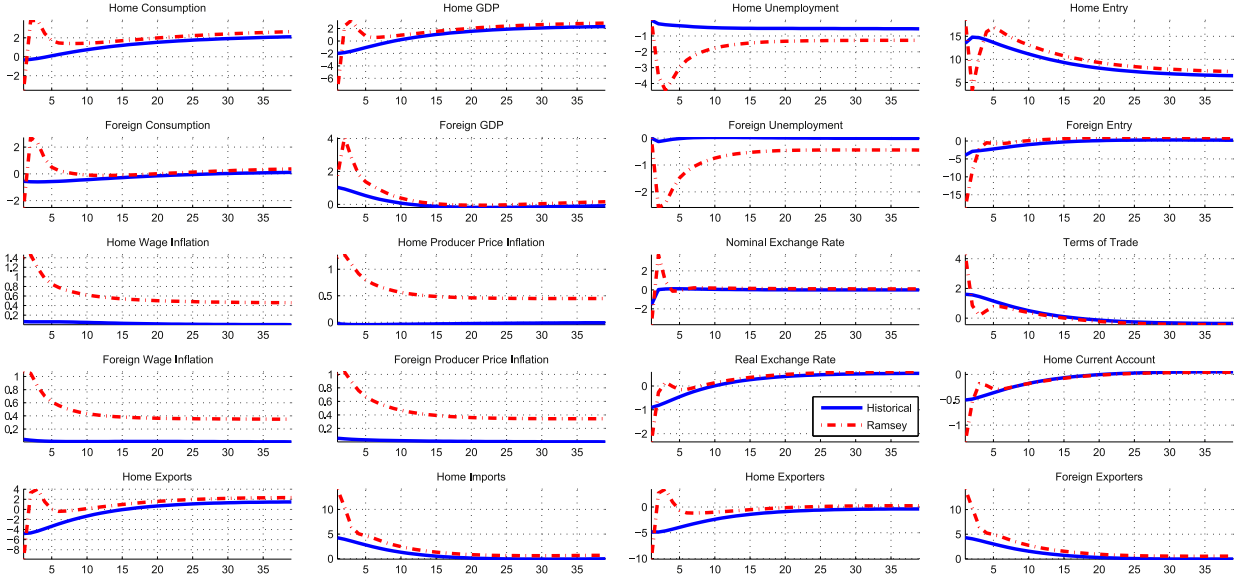


Fig. 2. (a) Home product market deregulation, flexible regulation in foreign. Historical policy (solid) versus optimal policy (dashes).

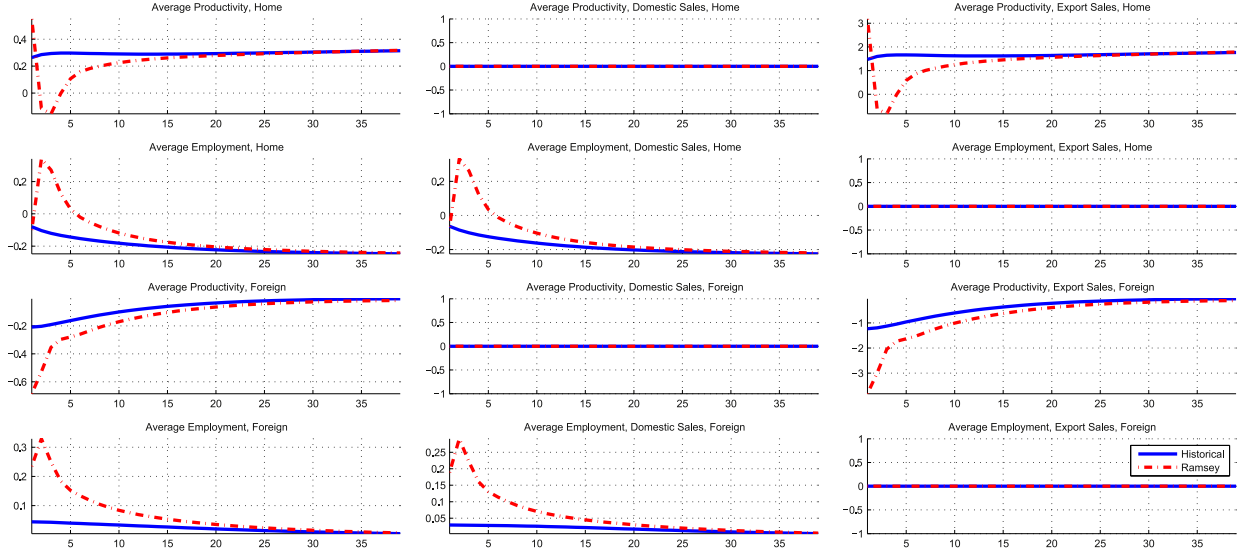


Fig. 2. (b) Home product market deregulation, productivity and labor reallocation effects.

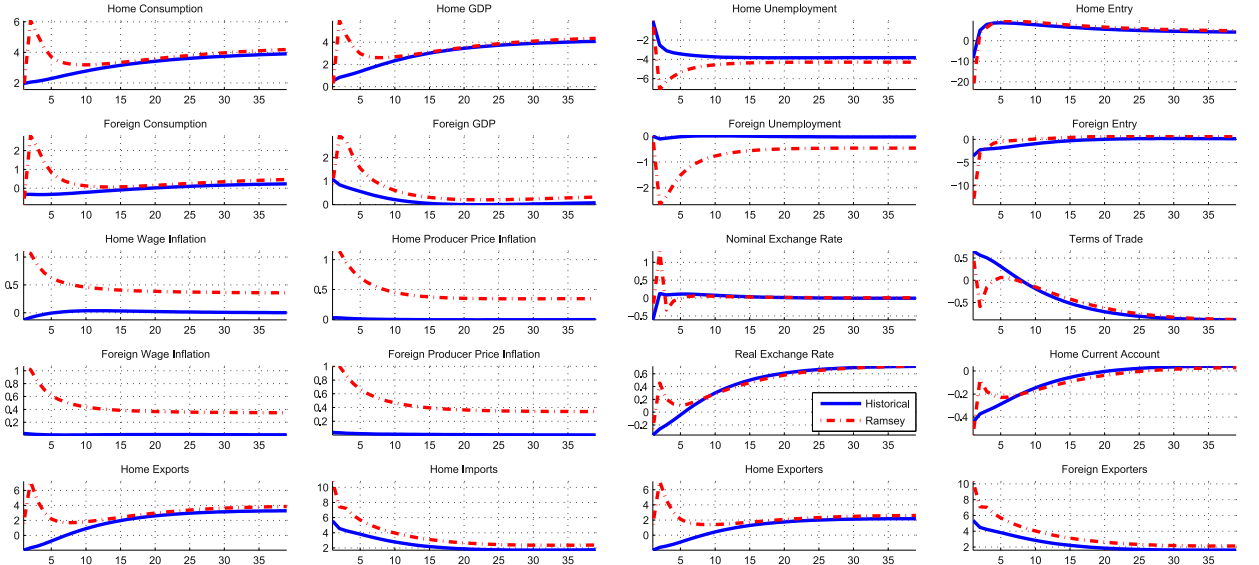


Fig. 3. (a) Home labor market deregulation, flexible regulation in Foreign. Historical policy (solid) versus optimal policy (dashes).

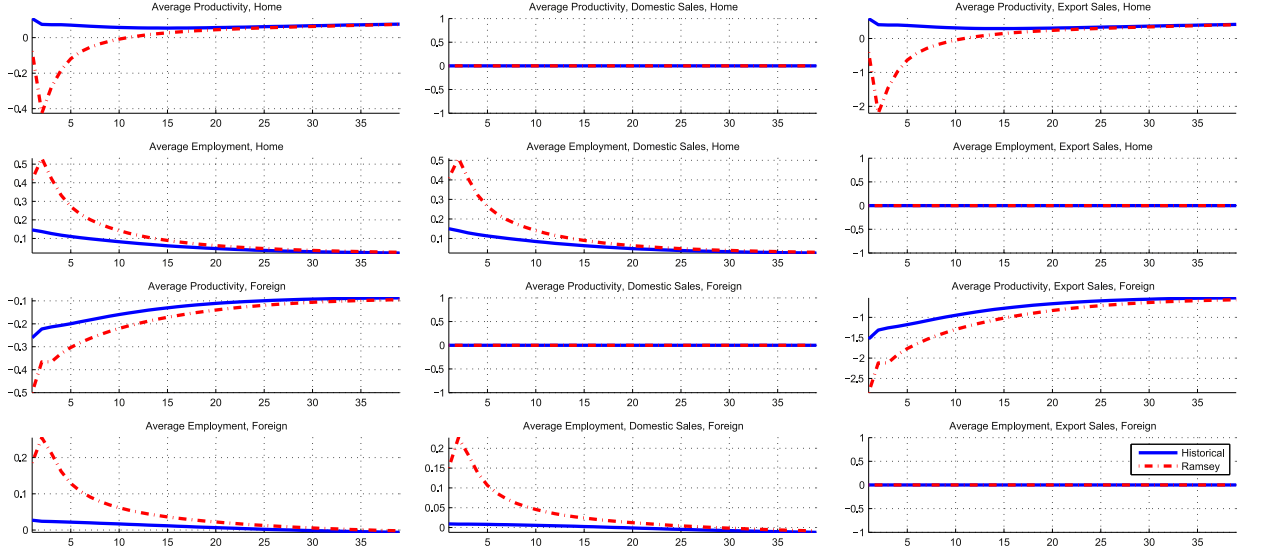


Fig. 3. (b) Home labor market deregulation, productivity and labor reallocation effects.