



Job reallocation and productivity growth in a post-socialist economy: Evidence from Slovenian manufacturing

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Abstract

This paper studies whether job reallocation in Slovenia, a post-socialist economy, has been associated with gains in total factor productivity (TFP). We document the importance of entry and exit in job reallocation and show that TFP has increased mainly due to existing firms' increasing efficiency and through net entry of firms. Underlying aggregate TFP growth is job destruction by state firms and reallocation of employment to private firms.

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1. Introduction

High labor market turbulence in market and non-market economies has been documented many times.¹ Gross flows of jobs relative to net flows are high, persistent, fluctuate over the business cycle, and vary between countries (e.g. Messina et al., 2004; Goos, 2003), and simultaneous job

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¹ For market economies see Davis et al. (1996), for emerging markets see e.g. Konings et al. (1996); Brown and Earle (2004) and Faggio and Konings (2003).

creation and destruction take place even within narrowly defined sectors, regions and firm types, indicating a high degree of firm heterogeneity. While documenting and comparing job flows has been fruitful and complementary to aggregate data, the question remains to be answered whether high gross flows of jobs are desirable. In most post-socialist countries the aggregate evidence suggests destruction of jobs due to the legacy of communism, where over-manning was the norm. A pessimistic interpretation of this aggregate pattern is that manufacturing industries in central and eastern Europe have been unable to compete on world markets after the collapse of communism and the opening of trade, and so job destruction reflects declining industries. An optimistic interpretation is that the aggregate collapse in employment hides a process of creative destruction. This would involve substantial gross job reallocation, with a decline of unproductive jobs accompanied by increases in new productive jobs.

This paper investigates these two interpretations for the case of Slovenia. We first document gross job flows for the Slovenian manufacturing sector. In contrast to slowly reforming post-socialist economies where the transition process in manufacturing is characterized by little job creation and high job destruction, we find simultaneous job creation and job destruction, indicating that restructuring in Slovenia has involved a substantial reallocation process. Second, we estimate total factor productivity (TFP), using a new method to estimate production functions, due to [Olley and Pakes \(1996\)](#), to document the evolution of productivity and to analyze the importance of reallocation in TFP growth.

Slovenia is of particular interest to study, as it has been a successful transition economy reaching a level of GDP per capita over 65% of the EU average in the year 2000. Given that aggregate data suggest substantial productivity growth, it is interesting to identify micro-economic determinants through answers to the questions: can a process of creative destruction explain Slovenia's aggregate success story; how important has job creation and destruction been in private firms compared to state firms; and is aggregate productivity growth driven by firm-specific productivity improvements or by reallocation of resources from less efficient to more efficient firms?

In the next section we introduce the data set and document the basic patterns of gross job flows between 1994 and 2000. In Section 3 we estimate TFP. We then decompose TFP to illustrate the importance of net entry and reallocation in explaining TFP growth. Section 4 concludes.

2. Data and basic patterns of gross job flows

2.1. Data

The data, which are from the company accounts of manufacturing firms available at the Slovenian Central Statistical Office, have been used for various applications and are representative for the manufacturing sector (e.g. [Damijan et al., 2004a,b](#)). Information is available on 7915 firms between the years 1994 and 2000. However, if we only take into account those firms that report employment, we have a sample of 6391 firms. We cover each year, on average, more than 75% of total manufacturing employment. Self-employed individuals are excluded. 45% of all firms are active in export markets, while 55% are only in the domestic market. Within the sample period we observe entry and exit of firms.² Appendix A describes the

² The data on exit and entry are from the Slovenian statistical office and there is no re-entry possible. Exit is defined as no longer being active in the market.

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