

Public Policy and Resource Allocation: Evidence from Firms in OECD Countries

The correlation between a firm's size and its productivity level varies considerably across OECD countries, suggesting that some countries are more successful at channelling resources to high productivity firms than others. Accordingly, we examine the extent to which regulations affecting product, labour and credit markets influence productivity, via their effect on the efficiency of resource allocation. Our results suggest that there is an economically and statistically robust negative relationship between policy-induced frictions and productivity, though the specific channel depends on the policy considered. In the case of employment protection legislation, product market regulations (including barriers to entry and bankruptcy legislation) and restrictions on foreign direct investment, this is largely traceable to the worsening of allocative efficiency (i.e. a lower correspondence between a firm's size and its productivity level). By contrast, financial market underdevelopment tends to be associated with a higher fraction of low productivity relative to high productivity firms. Furthermore, stringent regulations are more disruptive to resource allocation in more innovative sectors, though the nature of innovation turns out to be important.

LinkToContentAt: <http://dx.doi.org/10.1787/5k9158wpf727-en>

Knowledge Type: [Thematic report](#) [1]

Other Tag: [industry level](#) [2]

[framework policies](#) [3]

[resource allocation](#) [4]

[policy resources](#) [5]

[foreign direct investment](#) [6]

[worker productivity](#) [7]

[capital markets](#) [8]

[productivity](#) [9]

[bankruptcy](#) [10]

[product market](#) [11]

[endogeneity](#) [12]

[market regulation](#) [13]

Source URL: <https://www.innovationpolicyplatform.org/document/public-policy-and-resource-allocation-evidence-firms-oecd-countries>

Links

[1] <https://www.innovationpolicyplatform.org/knowledge-type/thematic-report-0>

[2] <https://www.innovationpolicyplatform.org/topic/industry-level>

[3] <https://www.innovationpolicyplatform.org/topic/framework-policies>

[4] <https://www.innovationpolicyplatform.org/topic/resource-allocation>

[5] <https://www.innovationpolicyplatform.org/topic/policy-resources>

[6] <https://www.innovationpolicyplatform.org/topic/foreign-direct-investment>

[7] <https://www.innovationpolicyplatform.org/topic/worker-productivity>

[8] <https://www.innovationpolicyplatform.org/topic/capital-markets>

[9] <https://www.innovationpolicyplatform.org/topic/productivity>

[10] <https://www.innovationpolicyplatform.org/topic/bankruptcy>

[11] <https://www.innovationpolicyplatform.org/topic/product-market>

[12] <https://www.innovationpolicyplatform.org/topic/endogeneity>

[13] <https://www.innovationpolicyplatform.org/topic/market-regulation>