The Missing Middle Managers: Labor Costs, Firm Structure, and Development[*†]

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Abstract

This paper shows that the high price of middle management in developing countries inhibits the diffusion of large, multi-establishment business enterprises. We provide new empirical evidence using a database with wages and quality-adjusted job titles for 300,000 middle managers working at leading firms in 146 countries. The elasticity of real manager wages with respect to GDP per worker is close to zero. We quantify the importance of this finding using an appropriate technology framework where firms choose whether to adopt a large-scale modern business organization. The model is calibrated to be consistent with the historical expansion of middle management and modern business in the United States. A lower relative wage of middle management in poor countries would raise the employment share of modern business organizations from 18 percent to 40 percent of the labor force, and increase aggregate output by 40 percent.

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