

Productivity Growth and Resource Reallocation in France: The Process of Creative Destruction*

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Key Question

An “effective” market selection process should result in the resources of the least efficient firms being reallocated to the most efficient firms, thereby increasing their productivity and that of their sector of activity. In France, the slowdown in Total Factor Productivity (TFP) since the early 2000s is partly attributable, according to some recent studies, to poor resource reallocation. This paper re-examines this finding based on a large sample of French firms.

Methodology

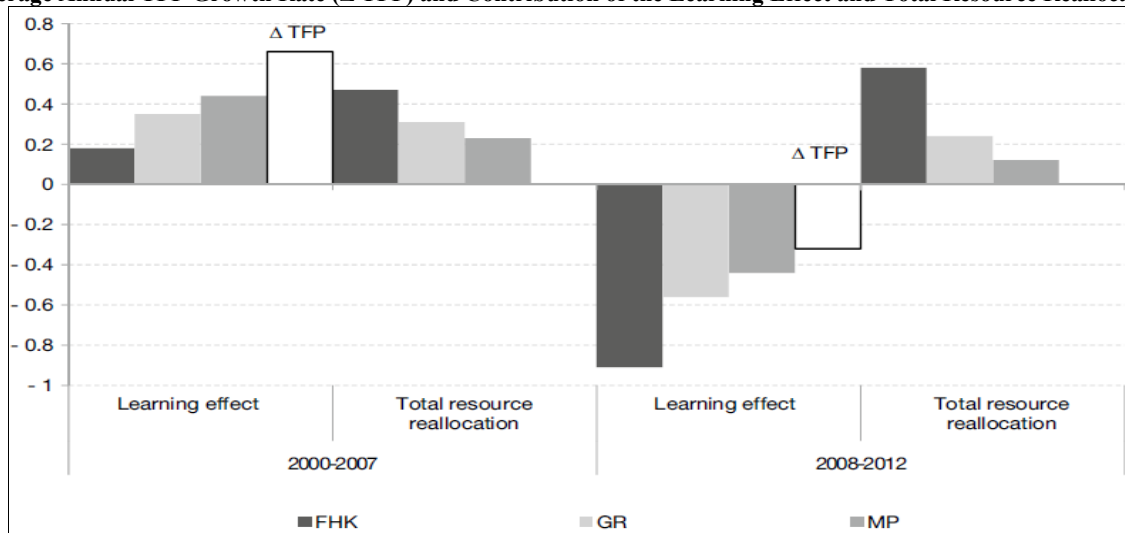
TFP is estimated by sector based on a sample group of firms over the period 2000-2012. Its evolution is then broken down into three main terms that measure the contribution of (i) internal firm performance, (ii) resource reallocation between continuing firms and (iii) the process of creative destruction to the change in aggregate productivity in France, using 3 methods: Foster *et al.* (2001, FHK below), Griliches & Regey (1995, GR) and Melitz & Polanek (2015, MP).

Main Results

The results confirm the decline in productivity in France seen in the 2000s. TFP growth is primarily dependent on the *learning effect*, which measures the internal performance of firms. Its negative contribution after the 2008 crisis is indicative of the difficulties experienced by firms in France in adjusting their production scale rapidly and effectively. The negative contribution of the learning effect was mitigated by total resource reallocation through two mechanisms:

- A mechanism of resource reallocation towards the most productive continuing firms, which only truly took hold from 2009 onwards;
- An earlier Schumpeterian process of creative destruction, in evidence as early as 2008.

Average Annual TFP Growth Rate (Δ TFP) and Contribution of the Learning Effect and Total Resource Reallocation



Firms with more than 9 employees. Sources: FICUS-FARE-DADS (INSEE) and LIFI (Insee and DGFIP).

Message

These results challenge the assumption that allocative inefficiency is the main cause of the slowdown in productivity in France. They suggest that the inability of firms to adapt to an increasingly changing and highly competitive environment is a serious candidate for explanation and that resource reallocation, whether through the reallocation of resources between continuing firms or through a Schumpeterian mechanism of creative destruction, plays a very significant role in France in improving the performance of the productive system.