

The Microfoundations of Aggregate Productivity Growth: Firm Level Evidence From the Brazilian Wholesale and Retail Trade Sector

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Abstract

In this paper we examine the relationship between services liberalization under the GATS agreement and the Sixth Constitutional Amendment of 1995, and the magnitude and efficiency of resource reallocation in the Brazilian Wholesale and Retail sector. A strong increase in foreign direct investment into wholesale and retail services followed services liberalization, but at the same time aggregate productivity growth in this sector remained lackluster. We aim to explain this paradox using a rich micro data set from the annual census of distributive trade firms during 1996 to 2004. We: *i*) decompose productivity growth into the contribution from continuing, entering, and exiting firms at detailed industry levels, *ii*) examine static and dynamic allocative efficiency by studying whether more productive firms have a larger market share, and whether the reallocation of outputs and inputs shifted resources from less to more productive firms, *iii*) compare our findings for a developing country with recent evidence on resource reallocation in the retail sector of the U.S. and U.K. (Foster, Haltiwanger, and Krizan, 2006; Haskel and Sadun, 2007).
