

Market Reform and Productivity-Enhancing Reallocation in Transition Economies

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Abstract

This paper investigates the effects of market-liberalizing reform on the contribution of reallocation to aggregate productivity growth using manufacturing census data in Hungary, Romania, Russia, and Ukraine. Reallocation provides a smaller contribution to productivity growth during the centrally planned period than in developed market economies, but a larger one after reform. An increased volume of reallocation and greater productivity dispersion have contributed to the rise in the contribution of reallocation to productivity growth in all four countries. Increased correlation between reallocation and productivity differentials is an even more important factor in Russia in Ukraine, while this correlation has actually fallen in Hungary and Romania. As a result, the overall effects are stronger in Russia and Ukraine than in Hungary and Romania, despite having experienced less reform progress.

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