

# Productivity, structural change and economic growth



For the economist Dani Rodrik, the institutional dialogue and collaboration between the public and private sectors are fundamental elements for the growth of productivity and economic development in the country.

**In his dissertation “The challenge of productivity: growth beyond the boom of commodities”, Dani Rodrik, PhD from Princeton University and professor at Harvard University, spoke about structural change in developed countries and not developed, characterized by the transfer of resources from traditional to modern activities. In this process, which also includes Peru, the productivity gaps be-**

**tween sectors and companies are the subject that must be analyzed in order to promote sustainable economic growth.**

**P**eru has experienced successful growth since the 1990s. However, the global scenario is different from the one we met decades ago. Professor Dani Rodrik raises three elements that illustrate these changes: the end of the supercycle of commo-

dities, a process of premature deindustrialization and a globalization that reached its limit.

Definitely, these are dramatic processes that pose challenges and priorities to those who design economic policies, both globally and nationally. Rodrik proposes to put emphasis on national productive integration, against the limits reached by international integration; generate decent and well-paid jobs for young people, and not concentrate

1/ Master conference by economist Dani Rodrik. Julio Velarde, president of the Central Reserve Bank of Peru (BCRP) and Piero Ghezzi, former Minister of Production, were part of the panel. Roxana Barrantes, a researcher at the Peruvian Studies Institute (IEP) and the Pontifical Catholic University of Peru (PUCP), was a moderator and also a commentator on this event.

only on sectors of innovation and technology that are not labor-intensive. Finally, he suggests achieving a fluid dialogue between the public sector and the private sector. Is it possible? Yes, but in your opinion, an adjustment is required in the focus of the public policies that have prevailed in Peru.

The renowned economist cites, as examples, developed economies whose improvements in productivity come from innovation processes based on research and the development of new products and technology. Along the same lines, improvements in the country's productivity should imply the adoption of existing technologies in the world, many of which are already present in Peru.

But reducing the gaps between high and low productivity economic sectors does not necessarily mean the creation of new technologies, but rather the diffusion and reallocation of resources in low productivity sectors, explains Rodrik.

In fact, productivity (labor) gaps between sectors such as manufacturing and agriculture are higher in Peru than in developed economies. This dualism also extends to productivity gaps between companies in the same sector.

According to the Harvard economist, these evidences allow us to affirm that policies aimed at reallocating factors of production

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to the most productive companies and sectors can give a high boost to growth.

## STRUCTURAL CHANGE

In the Peruvian case, this structural change has been generated by the reallocation from the sectors of lower productivity to those with higher productivity. In the manufacturing sector, there is a contraction between the least productive firms and an expansion of the most productive firms.

However - he explains - it is a small sector, and structural change towards more productive firms is not happening in the service sector, mainly because of the creation of new, low productivity informal enterprises, which pull average productivity down.

In Rodrik's opinion, placing emphasis on the development of productivity, based on manufacturing, has limitations. The global trend shows that economies industrialize in their early stages of development and increase productivity by concentrating the labor force. However, in later stages of development, this process gives way to deindustrialization, whose greatest effect is a lower demand for labor. This process is currently underway; and everything indicates that it is secular and global, due to technology, global competition and changes in the composition of product demand.

Thus, manufacturing is becoming less labor-intensive and more intensive in productivity. The data suggest that Peru is at the peak of its industrialization, so it does not seem that it can experience reindustrialization in the future.

For Rodrik, the most productive sectors of the economy (agribusiness, mining) can not grow enough

to absorb low-productivity workers engaged in traditional agriculture and informality. The solution to this problem, he explains, would be rapid industrialization, but as he points out, it is unlikely that Peru will reindustrialize precisely because of the process of premature deindustrialization, which is considered a secular and global phenomenon, which also reaches Peru.

Thus, the focus of productivity policies has to change towards services and non-tradable goods, via the integration of the most productive sectors of the economy with the least productive segments; for example, by targeting exports. Also, through spatial groupings and connection between exporting and non-exporting companies, and between formal and informal companies.

However, in the absence of a standard policy plan for productivity development, it is a difficult process. The World Bank offers a suggested standard list as a roadmap to improve productivity. Among its points, are increasing the innovation, improving the competition in the market, and the expense in I + D. In addition, improve education, through increased spending in this sector and better teacher training. It is also optimizing the infrastructure, through the provision of roads, ports, energy, etc. and finally, improve governance through better regulation.

For Rodrik, it is a very long-term, demanding and unfocused list. Therefore, it is not useful for the country, because it requires doing things right now and generating productive jobs for today's workforce, with the current institutional capacities.



For the economist Dani Rodrik, the institutional dialogue and collaboration between the public and private sectors are fundamental elements for the growth of productivity and economic development in the country.

An alternative way of doing economic policy in favor of productivity, and associated with an Asian style, explains the economist, focuses on the search for specific problems and not predetermined roadmaps. What factors block the expansion of new activities of emerging and modern companies? This approach recommends being more experimental in terms of requirements and requires greater interaction of the public sector with the private sector.

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In particular, says Rodrik, is to think of productive policy as a process of strategic collaboration between the public and private sectors via learning (what are the limitations faced by companies in different activities?), Experimentation (what are the better ways to eliminate/compensate for restrictions?), coordination (are all relevant branches of government involved?), monitoring and evaluation (how good are we?) and review (do new policies incorporate learning?).

This collaborative process -says Rodrik- can be seen in agribusiness in Peru since the 1990s, which has allowed a significant diversification in non-traditional fruits and vegetables. The sector concentrated a considerable public investment in irrigation, experienced the easing of land use restrictions, relied on labor flexibility and managed to reduce the corporate tax rate.

#### **GLOBALIZATION IS NOT ALWAYS DEVELOPMENT**

Rodrik says that the last 30 years reinforce the lesson that globaliza-

tion is not a development strategy. "We are entering a new global context, which means that the political lessons of the past will be less relevant for the future, in particular, less emphasis will be placed on the development of traditional industrial sectors," he says.

Finally, the professor emphasizes the importance of experimental pragmatic policies, and in this line he insists that institutional dialogue and collaboration between the public and private sectors must be key. The growth frontier for Peru has been reduced due to the end of the commodities super cycle; however, with a pragmatic and non-dogmatic policy, the country has the potential to achieve growth rates of between three and four percent per year. "This would allow a convergence towards a developed economy, and above all, it would generate greater social inclusion and peace for the Peruvian economy," he concludes.

## COMMENTS

### ***Julio Velarde, president of the Central Reserve Bank of Peru***

The differences in productivity are high in Peru. Small businesses have low productivity, large companies are very productive and there is an almost empty middle sector. Large companies absorb technology quickly. The low productivity of some sectors (services) may be related to demand.

### ***Piero Ghezzi, former minister of Production***

The dualism has never gone away. Development has historically been related to the structural transformation that involves moving resources from low-productivity sectors to high-productivity ones from the informal to the formal sector, from traditional agriculture to modern sectors.

The path of a massive reindustrialization is half closed for Peru as there is a worldwide secular trend towards deindustrialization and particular issues in the country. We have to focus on sectors with the capacity to generate employment and productivity gains (regardless of whether it is industry or natural resources). The methodology of public-private work, which prioritizes interaction with the private sector, is essential to achieve productivity increases.

### ***Roxana Barrantes, main researcher of IEP***

The discussion on dualism and inequality in income distribution should be recovered even if it is now raised in terms of productivity gaps. The sectors that lead the growth of productivity assimilate the technological change that in the future will revolve around the intensive adoption of artificial intelligence, and this is where the problems of labor absorption that we have today will be more complicated.



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