Discussion of Can Foreign Competition Spur Productivity? by Dunne, Klimek and Schmitz

Richard Rogerson
Gary Stern Conference
Minneapolis April 2010
Basic Story Line of the US Cement Industry

1947-1965: Labor productivity grows at 5% per year.
1965-1982: Union forms, productivity growth drops to 0.
1983 on: Foreign producers enter, union is broken, productivity growth is roughly 6% per year.
Outline for Discussion

1. Link this paper to a broader literature
2. Raise some concerns about the consistency of the broader message
3. Suggest some possibility for taking the analysis further
Context for the Current Paper

Big Question: Why are some countries so much richer than others?

Partial Answer: TFP, not accumulation.

This leads to only more questions:

- What is the proximate source of low aggregate TFP: low adoption of technology, inefficient use of technology at the establishment level, misallocation.....

- What factors are influencing adoption, efficient use, misallocation etc...
Progress in this area requires measurement and theory. Ideally, we want to have measures of some factor across countries and across time, and then use theory to assess the quantitative effects of these measured differences.

In previous work, Jim and coauthors have explored the possibility that a lack of competition is an important factor in leading to low productivity.

Problem: We neither have good ways to measure competition, nor do we have established theories about the mechanisms that link competition and productivity.
Faced with this difficulty, Jim and coauthors have looked to case studies to build a case for the potential importance of competition.

Today’s paper presents one more case study. Mechanism in today’s paper:

- lack of (foreign) competition lead to a strong union
- union demands lead to bad outcomes
- entry of foreign producers lead to increased competition
- increased competition from abroad made the union demands unsustainable
- union was broken and outcomes improved
**Key message**: openness is an important source of competition

Nice feature of the paper: it examines specific actions that unions take and so helps us understand exactly what types of “distortions” or restrictive practices are quantitatively important.

It points to employment protection types of measures.
Questions

1. What was happening with prices, wages, profits, investment from 1947 on?

2. How well does the story fit the pre union period?

3. How well does the story fit the evolution in non-coastal areas?

4. How well do the various productivity measures fit with the story?

5. How compelling is the story about workforce restrictions?
Figure 1.
Total Factor Productivity
U.S. Cement Industry
(NBER Manufacturing Database, 1987=1)
Figure 2. Texas Cement Prices
(Dollars per ton)
Factory–Gate Prices and Port Prices (c.i.f.)
Figure 3. Labor Productivity

Tons of Cement per Employee (log scale)

Various Countries Relative to United States
Figure 4.
U.S. Cement Imports
(Relative to U.S. Production)
Figure 5.
U.S. Cement Production
(Million Metric Tons, log scale)
Figure 6.
Energy Productivity
U.S. Cement Industry
Figure 7.
Capital Productivity
U.S. Cement Industry
Figure 8. Labor Productivity
U.S. Cement Manufacturing

(Tons per hour, log scale, 1968=1)
Figure 9.
Total Employment, US Cement Industry
(in logs)
Figure 10.
Total Factor Productivity
US and Canadian Cement Industry
(1978=1)
Figure 11.
Labor Productivity
US and Canadian Cement Industry
(1978=1)
Figure 12. Labor Productivity
Plants "Close to" and Plants "Far From" a Port

(1972=1)