

**I am going to do something slightly odd:
present 2 papers**

1) 5 minutes on “uncertainty and growth”

2) 30 minutes on “management and growth”

Many people think uncertainty has been a key driver of the global recession and slow recovery

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How to make Europe's incipient recovery durable: End policy uncertainty

Marco Buti, Pier Carlo Padoan, 12 September 2013

The Eurozone is recovering but the revival is fragile – ringed by downside risks. This column argues that three steps – reducing policy uncertainty, repairing the financial system, and creating new investment opportunities – are essential. They could switch the negative confidence-growth feedback loop into a positive one, thus paving the way to robust medium-term growth. There is no room for complacency or procrastination.



A A

When leaders met for the G20 Summit in Saint Petersburg last weekend, they welcomed the incipient recovery in the Eurozone. However, they also recognised that "despite our actions the [global] recovery is too weak" and fraught with risks. This is particularly relevant for the Eurozone, firstly because GDP growth in the area itself is still very weak and uneven, and secondly because, in the current external

Related

[Did the euro kill governance in the periphery?](#)
Jesús Fernández-Villaverde, Luis Garicano, Tano Santos

[Eurozone: Looking for growth](#)
Laurence Boone, Céline Renucci, Ruben Segura-Cayuela

[Returning to growth in the UK: Policy lessons from history](#)



Marco Buti

Director General, DG Economic and Financial Affairs, European Commission



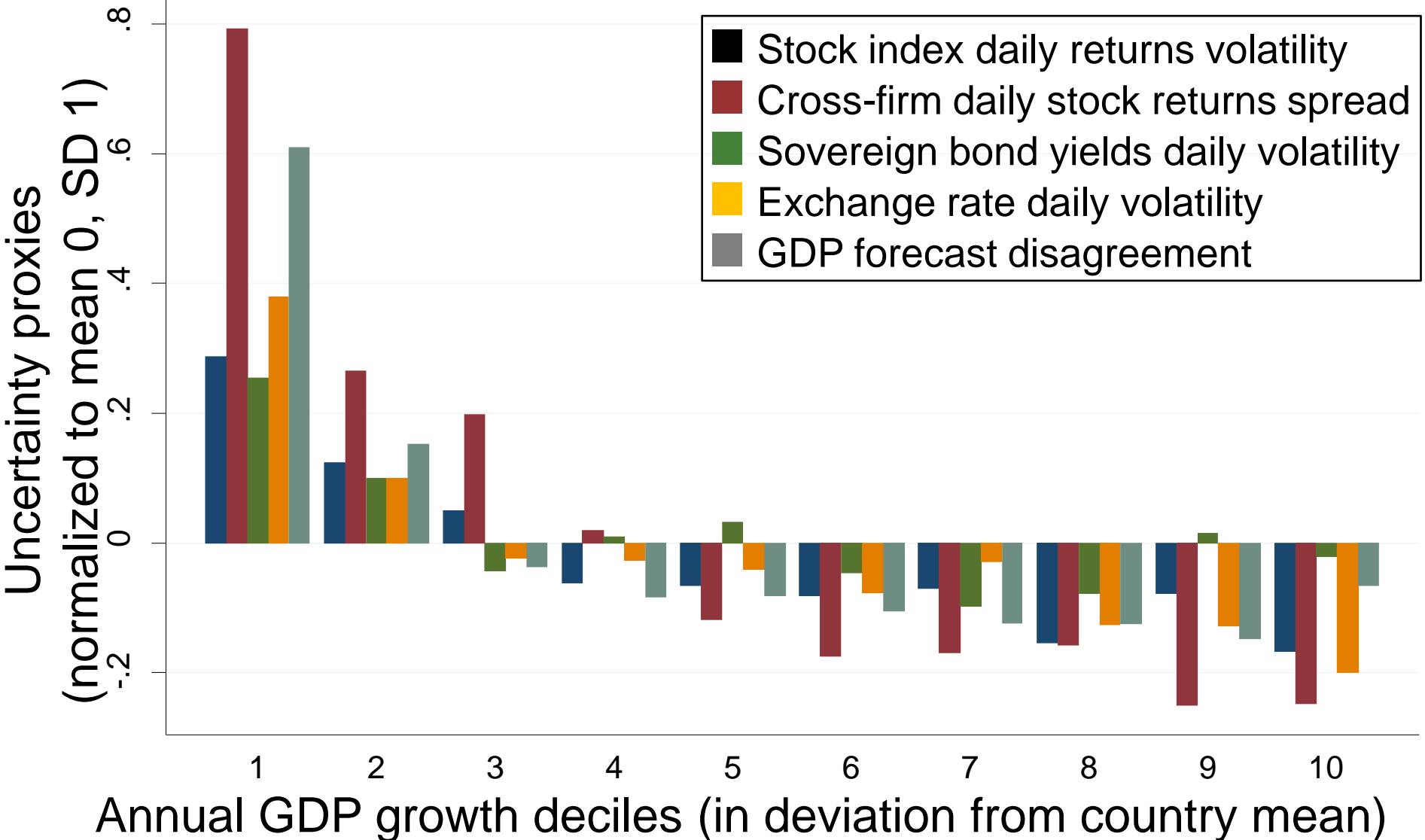
Pier Carlo Padoan

OECD Deputy Secretary-General

This raises two obvious questions

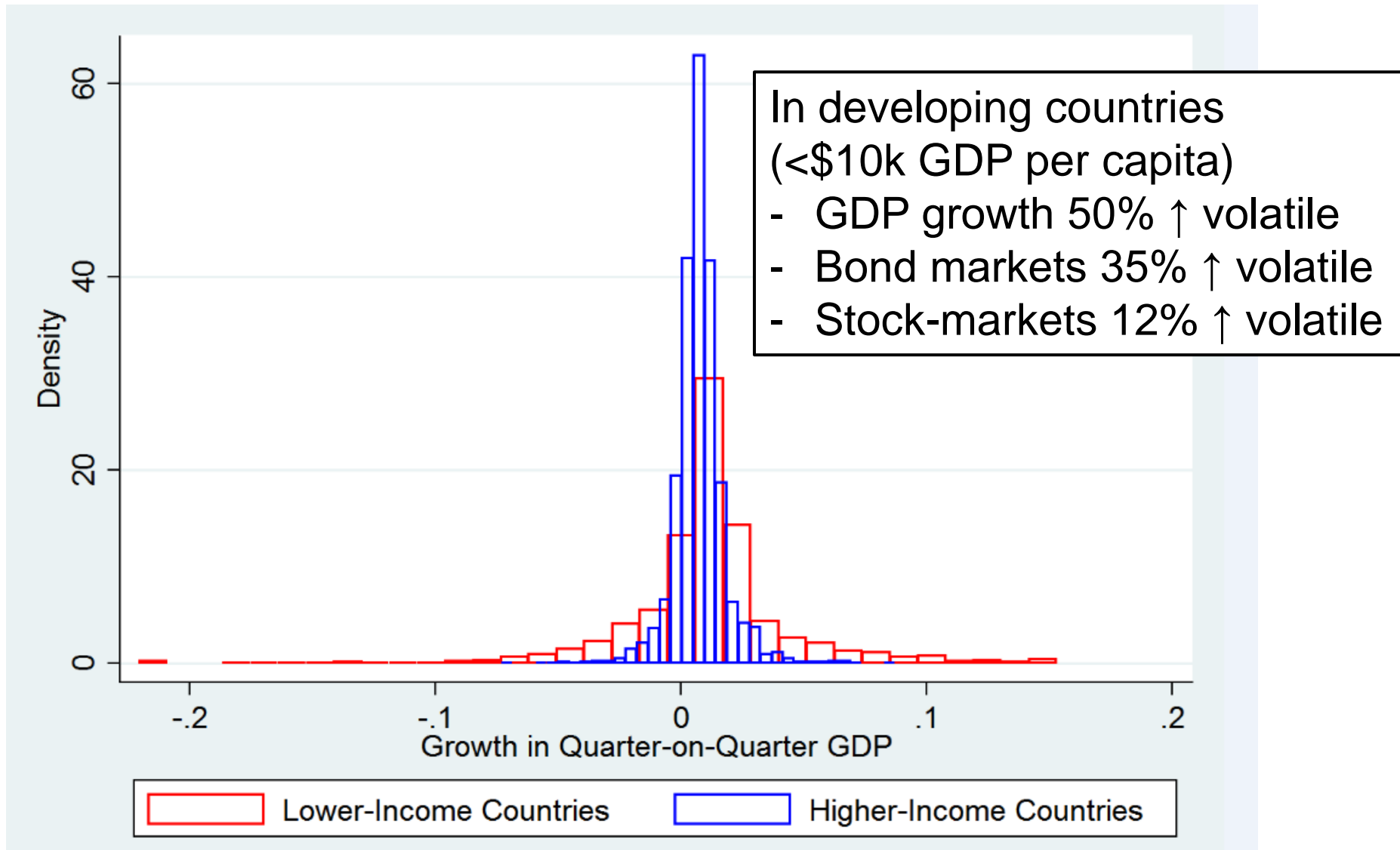
- 1) Cyclicality: Does uncertainty rise in recessions in all countries?
- 2) Causality: Is uncertainty a cause or effect of recessions?

Cyclicality: uncertainty proxies rise in recessions on average across our 60 country panel (1970-2012)



Notes: Volatility indicators constructed from the unbalanced panel of daily data from 1970 to 2012 from 60 countries. Volatility values are calculated across all trading days (forecasts) within each year, and then normalized for presentational purposes so each of the four indicators has a mean of 0 and a standard-deviation of 1 over the sample. The GDP growth quintiles are calculated using annual values in deviations from the country mean across the sample.

Side note: uncertainty also appears to be about 1/3 higher across the cycle in developing countries



Source: Baker and Bloom (2013) and Bloom (“fluctuations in uncertainty”, 2013)

Causality: Do recessions cause uncertainty or visa versa – here the literature has more mixed views

Empirical papers:

- uncertainty → slowdown: e.g. Bloom (2009), Arellano et al (2010), Christiano et al (2010), Gilchrist et. al (2010), Fernandez-Villaverde et al (2010, 2011), Basu & Bundick (2011), Ilut and Schneider (2011), Handley and Limao (2012) and Stein and Stone (2012)
- slowdown → uncertainty: e.g. Bachmann and Sims (2010), and Bachmann, Elster and Sims (2011), Kehrig (2011)

Theory papers:

- uncertainty → slowdown: e.g. Bernanke (1983), Dixit & Pindyck (1994), Abel and Eberly (1996), Caballero and Engel (1999)
- slowdown → uncertainty: e.g. Van Nieuwerburgh & Veldkamp (2006), Bachmann & Moscarini (2011), Fostel and Geanakoplos (2011), Boedo and D'Erasmus (2012), Fajgelbaum, Schaal and Taschereau-Dumouchel (2012)

This paper evaluates the causal impact of uncertainty in driving growth using exogenous disaster shocks

1. For 60 countries build a panel (from 1970-2012) of stock-market returns, volatility and GDP growth data
2. Regress GDP growth on stock returns and volatility (as 1st and 2nd moment proxies) instrumenting with natural disasters, terrorism, and political shocks
3. Find that uncertainty appears to be a key factor driving about 50% of business cycle variation.
 - So policy for dealing with and reducing uncertainty is key

Should note we have a lot of uncertainty data online (also in Bloomberg, FRED and Haver)

Data

[US Monthly Index](#)

[US Daily Index](#) Improved

[European Monthly Index](#)

[Canadian Monthly Index](#)

[Chinese Monthly Index](#)

[Indian Monthly Index](#)

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Economic Policy Uncertainty Index

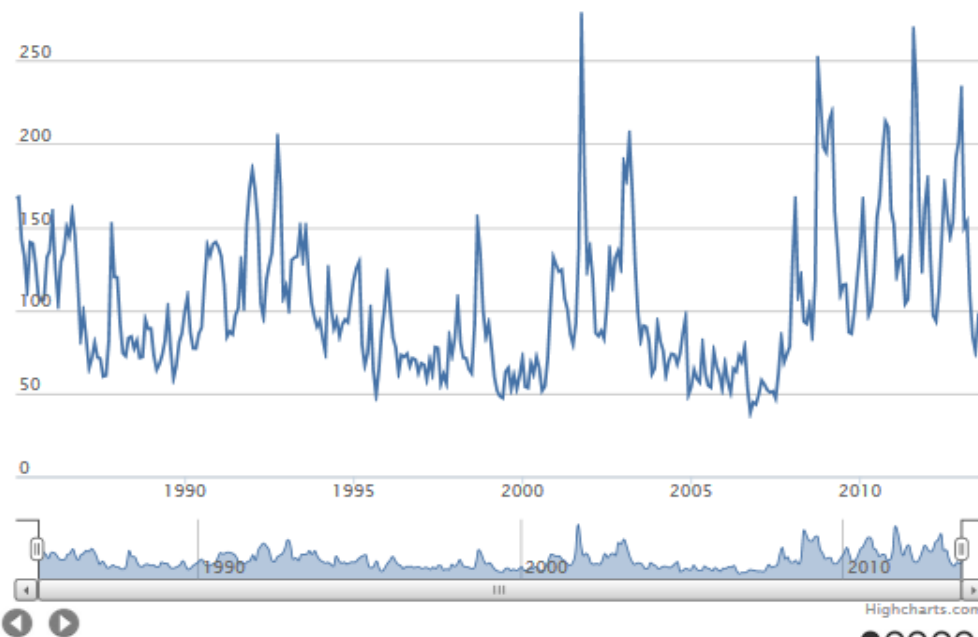
We develop indices of economic policy uncertainty for the world's major economies.

Daily News-based Economic Policy Uncertainty (Moving Avg)

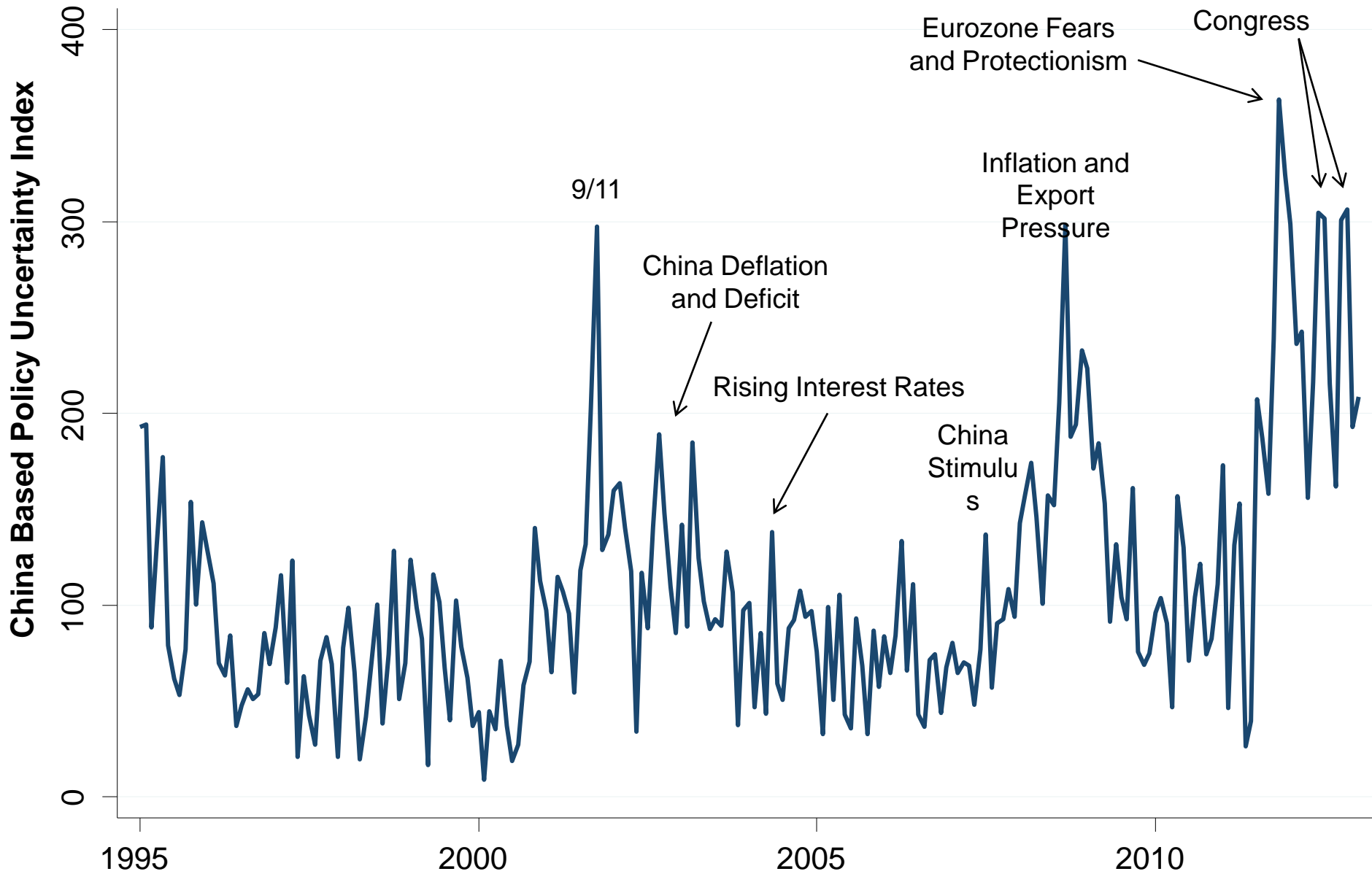


Zoom

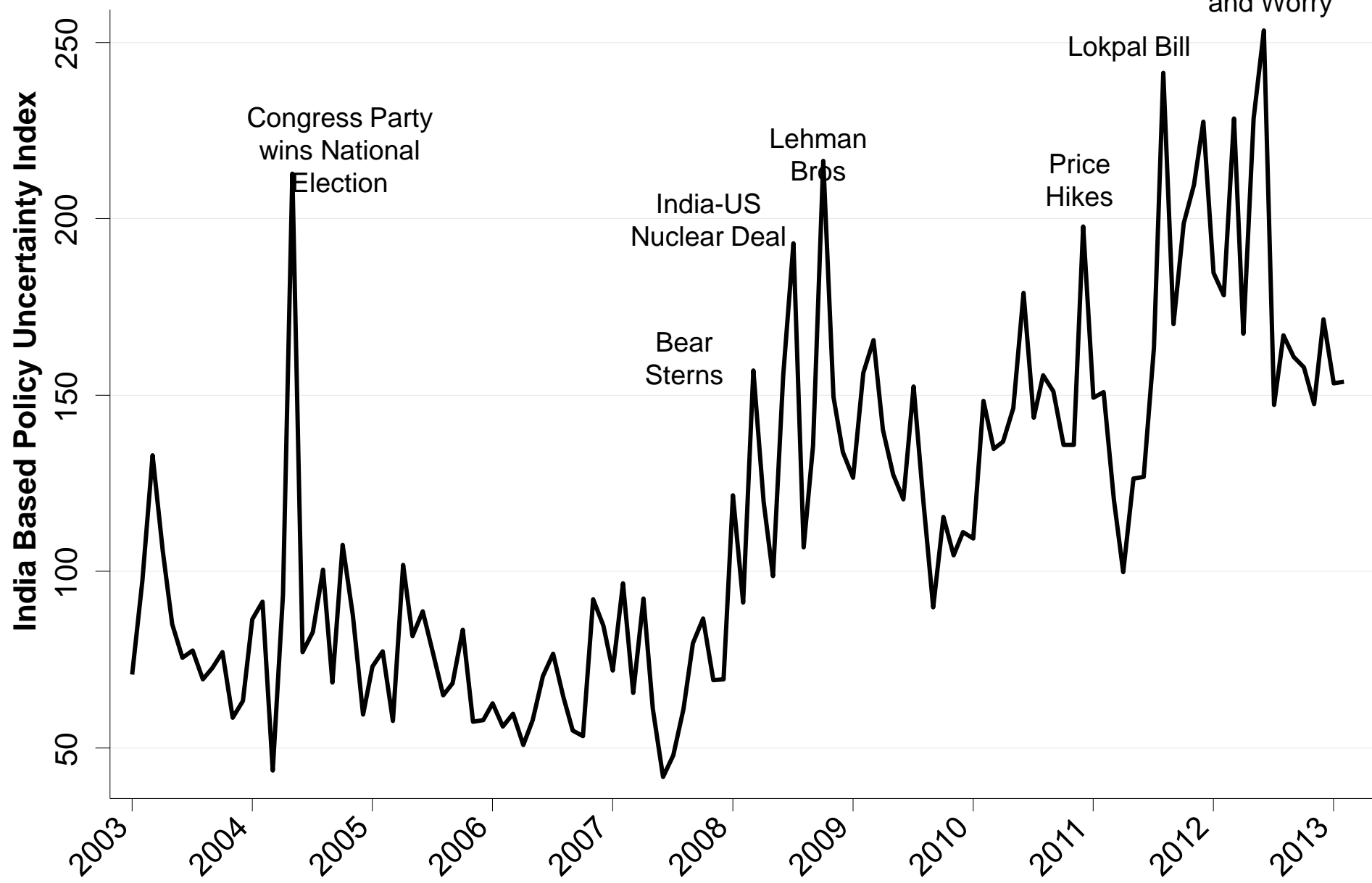
From: To:



China Economic Policy Uncertainty Index



India Economic Policy Uncertainty Index

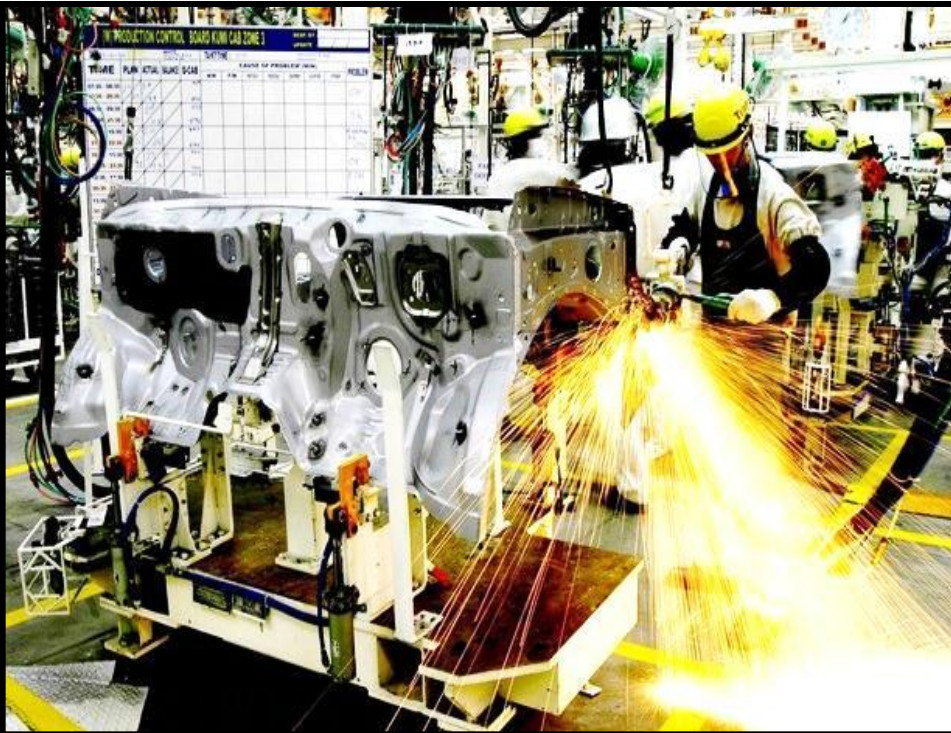


Source: www.policyuncertainty.com.

THE END
(OF THE UNCERTAINTY AND GROWTH PAPER)

Does (Bad) Management Hold Back Low-Income Countries?

Nick Bloom (Stanford), Raffaella Sadun (Harvard),
John Van Reenen (LSE)



Ohio, USA



Maharashtra, India

Two results from 10+ years of management research

1) Developing country management poor by global standards

2) Management practices play a key role in economic growth

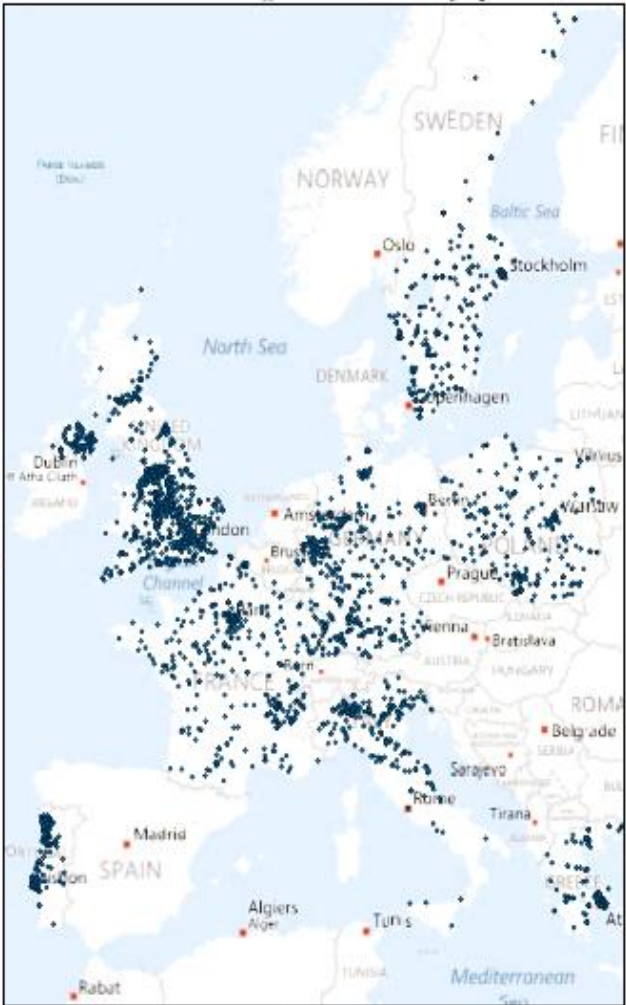
Very positive: huge potential for faster growth. Potentially raising Indian & African management to US levels could double GDP



Surveyed over 15,000 medium sized (50 to 5000 employee) manufacturing firms globally



Americas



Europe



Asia

Survey methodology (following Bloom & Van Reenen, 2007)

1) Developing management questions

- Scorecard for 18 monitoring, targets & people management practices ≈45 minute phone interview of plant managers

2) Getting firms to participate in the interview

- Introduced as “Lean-manufacturing” interview, no financials
- Official Endorsement: Bundesbank, RBI, World Bank etc.

3) Obtaining unbiased comparable responses, “Double-blind”

- Interviewers do not know the company’s performance
- Managers are not informed (in advance) they are scored

Example monitoring question, scored based on a number of questions starting with “*How is performance tracked?*”

Score

(1): Measures tracked do not indicate directly if overall business objectives are being met. Certain processes aren't tracked at all

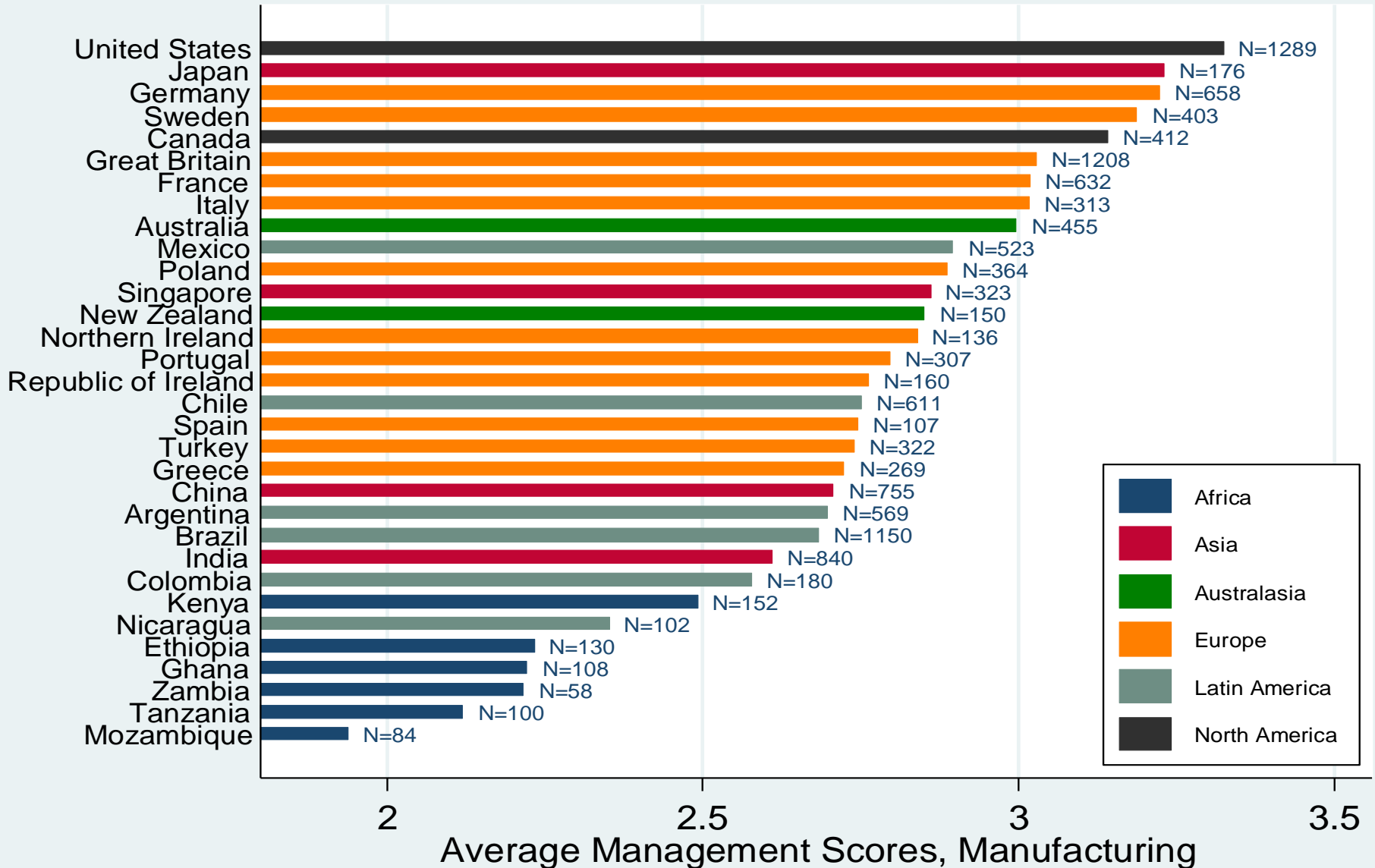
(3): Most key performance indicators are tracked formally. Tracking is overseen by senior management

(5): Performance is continuously tracked and communicated, both formally and informally, to all staff using a range of visual management tools

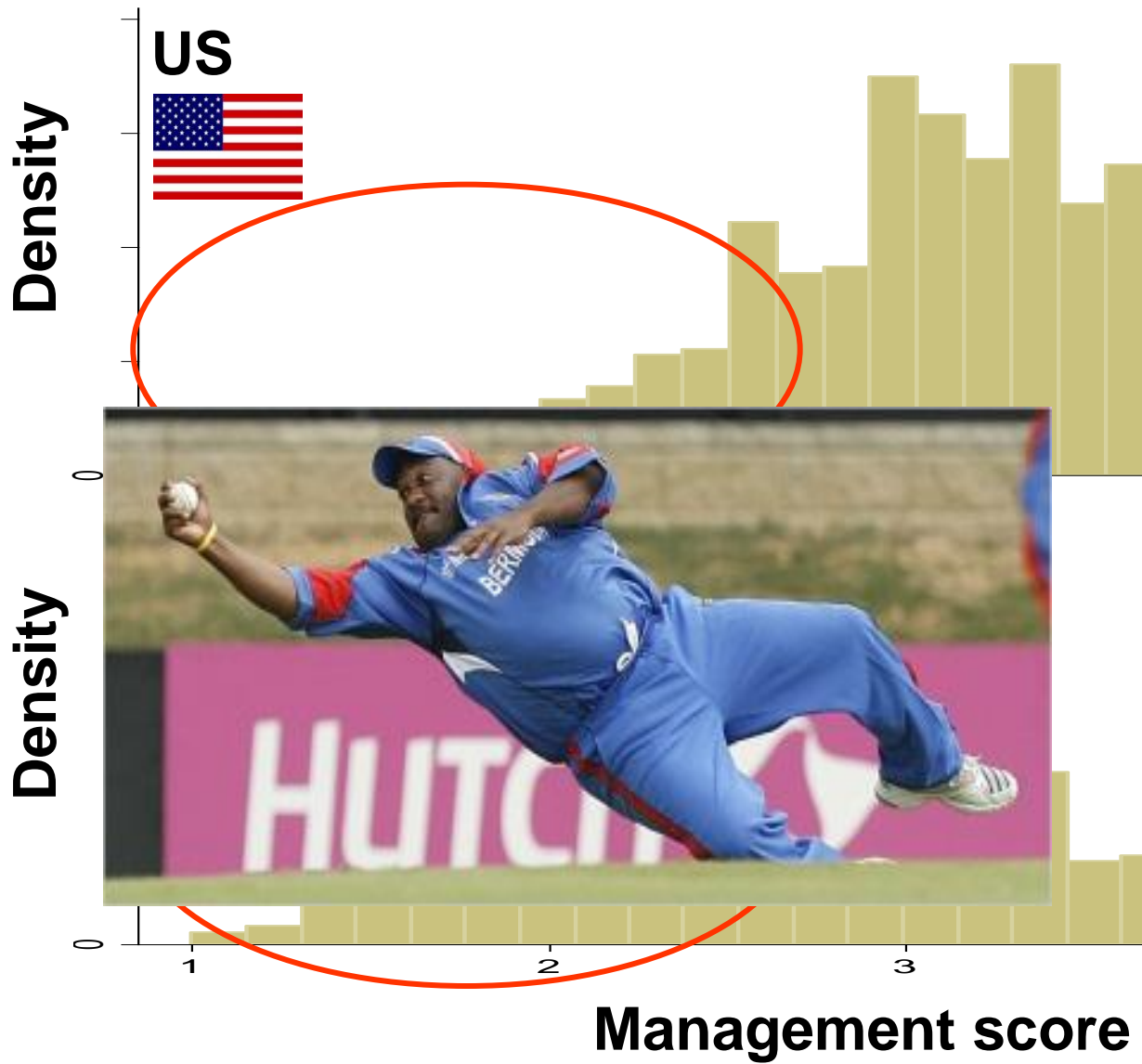
Example incentives question, scored based on questions starting with “*How does the promotion system work?*”

| | | | |
|--------------|---|--|---|
| Score | (1) People are promoted primarily upon the basis of tenure, irrespective of performance (ability & effort) | (3) People are promoted primarily upon the basis of performance | (5) We actively identify, develop and promote our top performers |
|--------------|---|--|---|

We find wide variation in management: US and Japan leading, and Africa, Central America and India trailing



In developing countries not all firms are bad – many are world class. The problem is the tail of bad firms



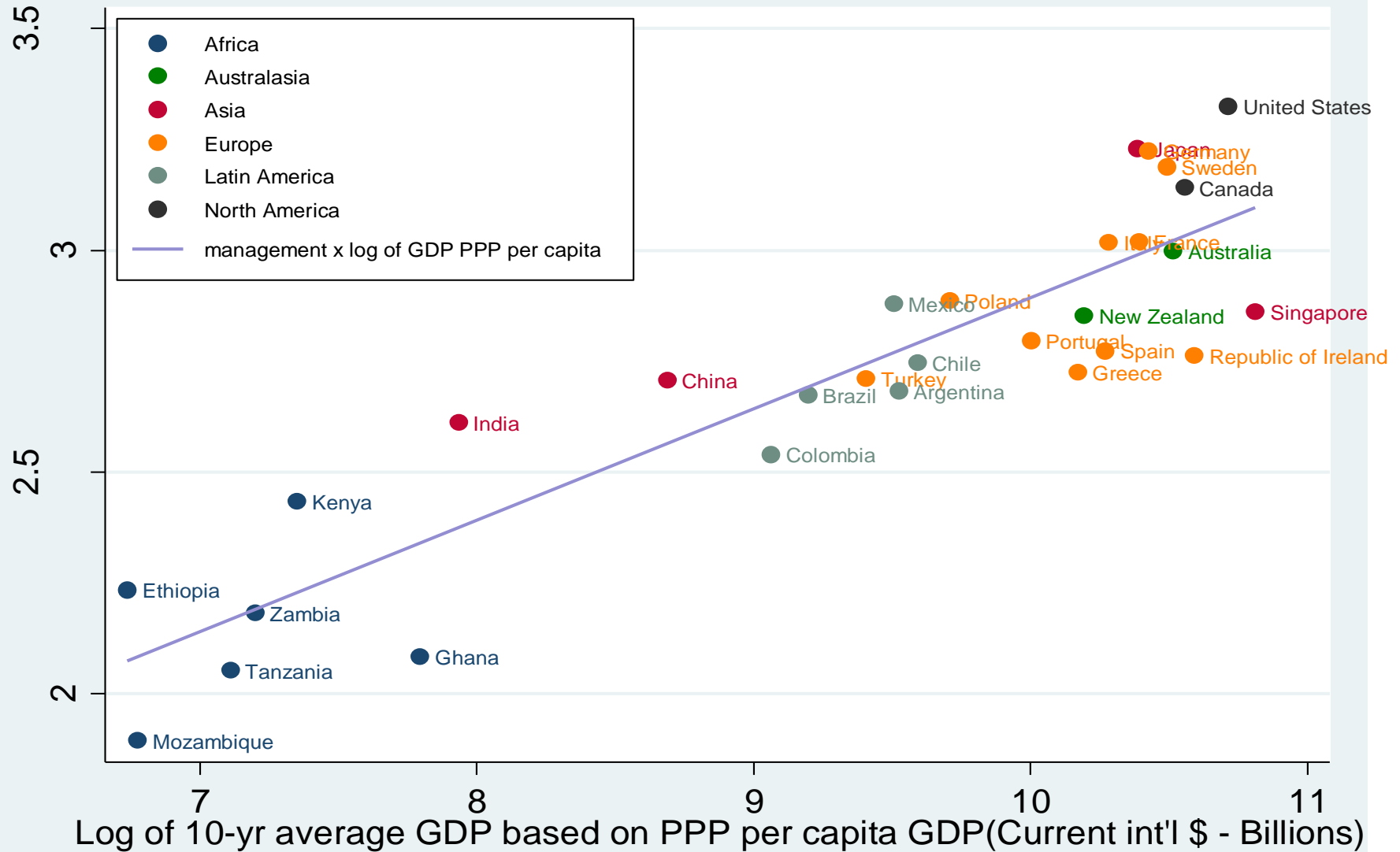
Two results from 10+ years of management research

1) Developing country management poor by global standards

2) Management practices play a key role in economic growth

Very positive: huge potential for faster growth. Potentially raising Indian & African management to US levels could double GDP

Management scores correlated with GDP per capita

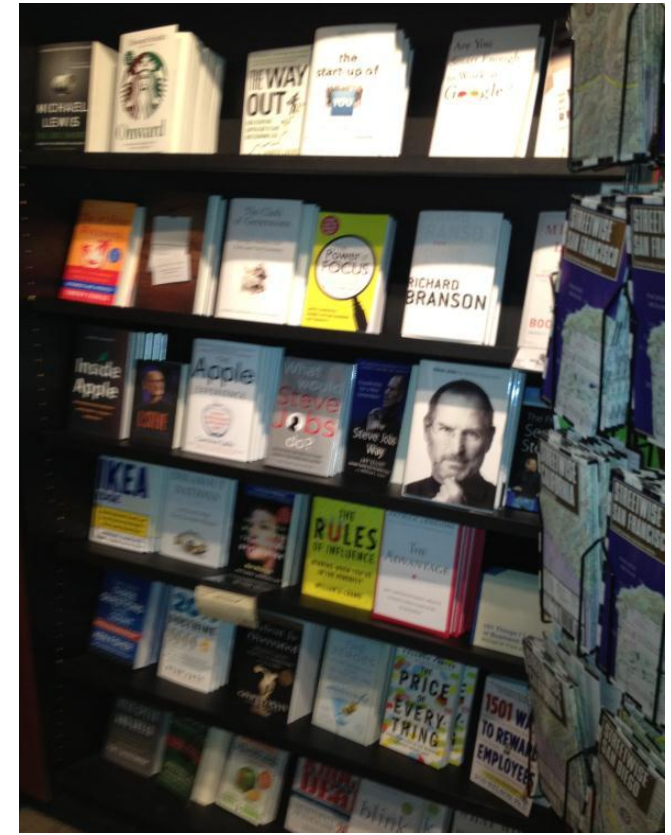


Note: April 2013, World Economic Outlook (IMF) indicator

But does management cause GDP differences between firms and countries?

Massive literature of case-studies and surveys but no consensus

Syverson (2011, JEL) “*no potential driving factor of productivity has seen a higher ratio of speculation to empirical study*”.



Took 28 large textile plants near Mumbai and randomized into treatment (improved management) & control (same as before)



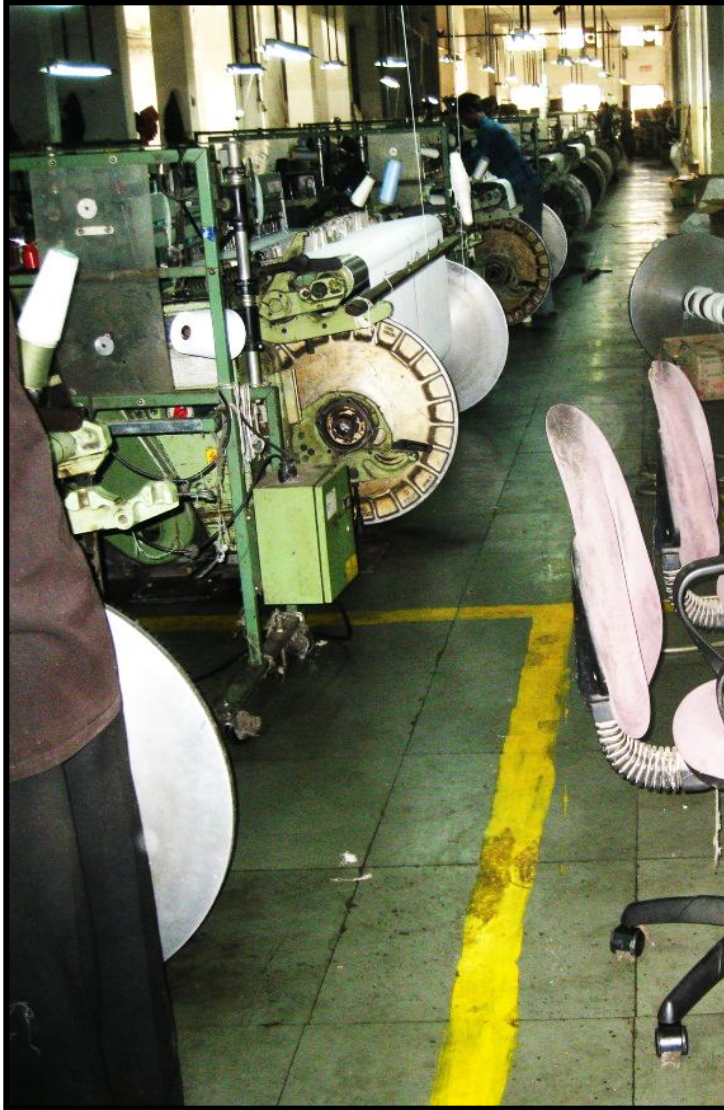
Inventory Control: Before



Inventory Control: After



Factory operations: Before



Factory operations: After



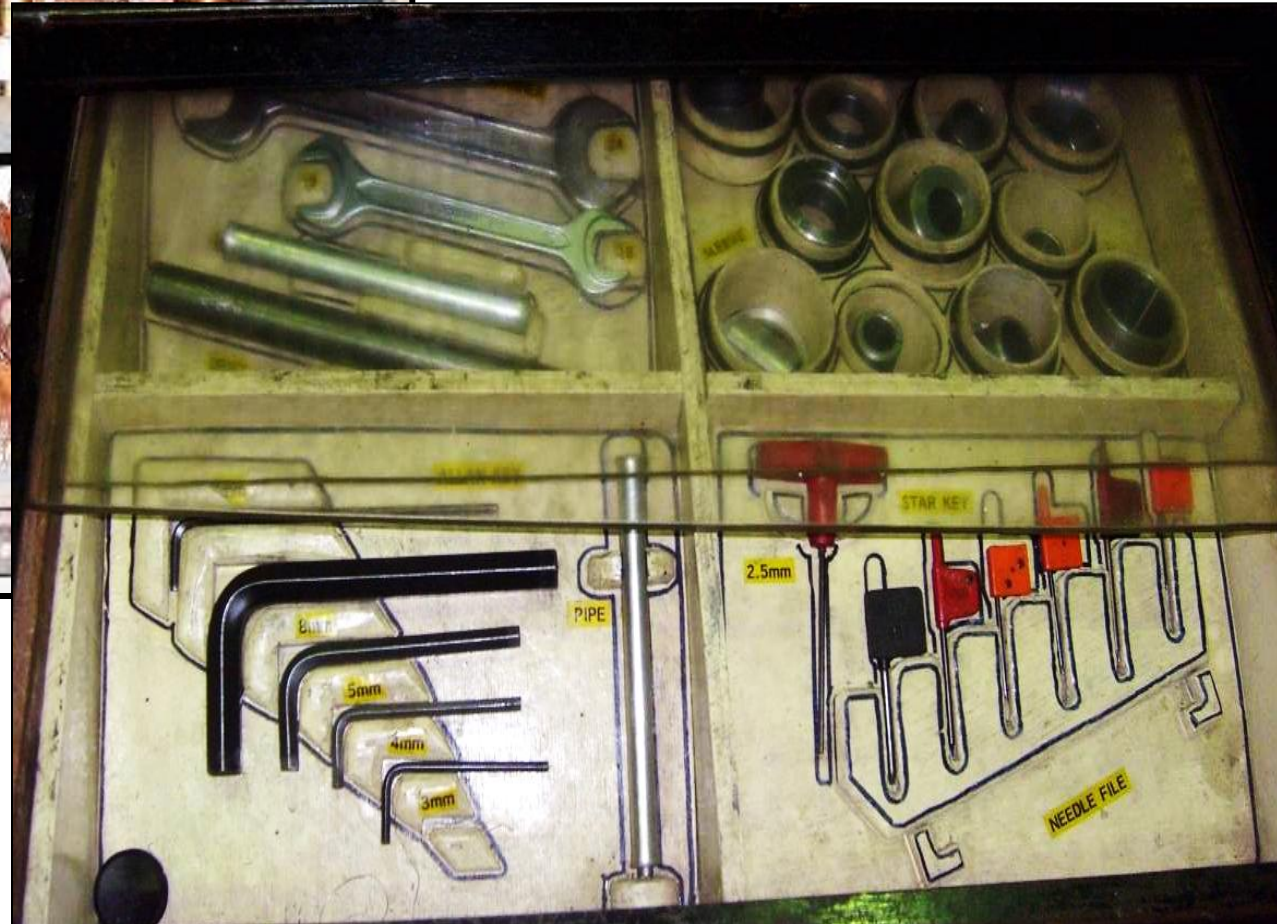
Spare parts: Before



Stores: After



Stores: After



Factory information: Before

FABRICS PVT. LTD.

Design No: SA 16003/2 Beam Length: 1150/1044 Getting Date: _____
 Beams No: 464 No. of Pieces: 10 x 100 Finish Date: _____
 Reel: 5215 Total Ends: 100 x 5180 + 108 Beam Weight: _____
 Reed Space: 65' Selvage: 8296 Warp Weight: _____
 Picks: 34 Gage 703 [15-51-47-28] Weft Weight: _____
 Loom No: (13) Total Quality Weight: 21-200

| WARP PATTERN | DRAWING PATTERN | PEG PLAN |
|--------------|-------------------|------------|
| 21-A | 1-2-3-4-5 - x4 | 1-2-3-5-7 |
| 1-B | 6-7-8-9-10 | 1-2-4-5-3 |
| 1-A | 1-2-3-4-5 - x4 | 1-2-3-4-6 |
| 1-B | 4-3-2-1-5 | 1-2-4-5-8 |
| 21-A | 2-4-1-2-5 | 2-3-4-5-10 |
| 21-C | 4-3-2-1-5 | 5 PIR |
| 5-A | 12 dent / 60 cent | |
| 1-C | | |
| 5-A | | |
| 21-C | | |
| 60 SFR | | |

A - 160 den. Cambridge 100-1113/507
 B - 160 den. White Top
 C - 160 den. Cambridge right white
 Size: _____
 100 x 50 = _____
 10 x 1 = _____
 8100
 Pakst 1126
 Rust

selvage
 12 dent = 26 x 120 P. 100
 2-1132
 8 dent = 20 x [1-1132
 2-1132
 2-1132
 25 dent = 108 ends

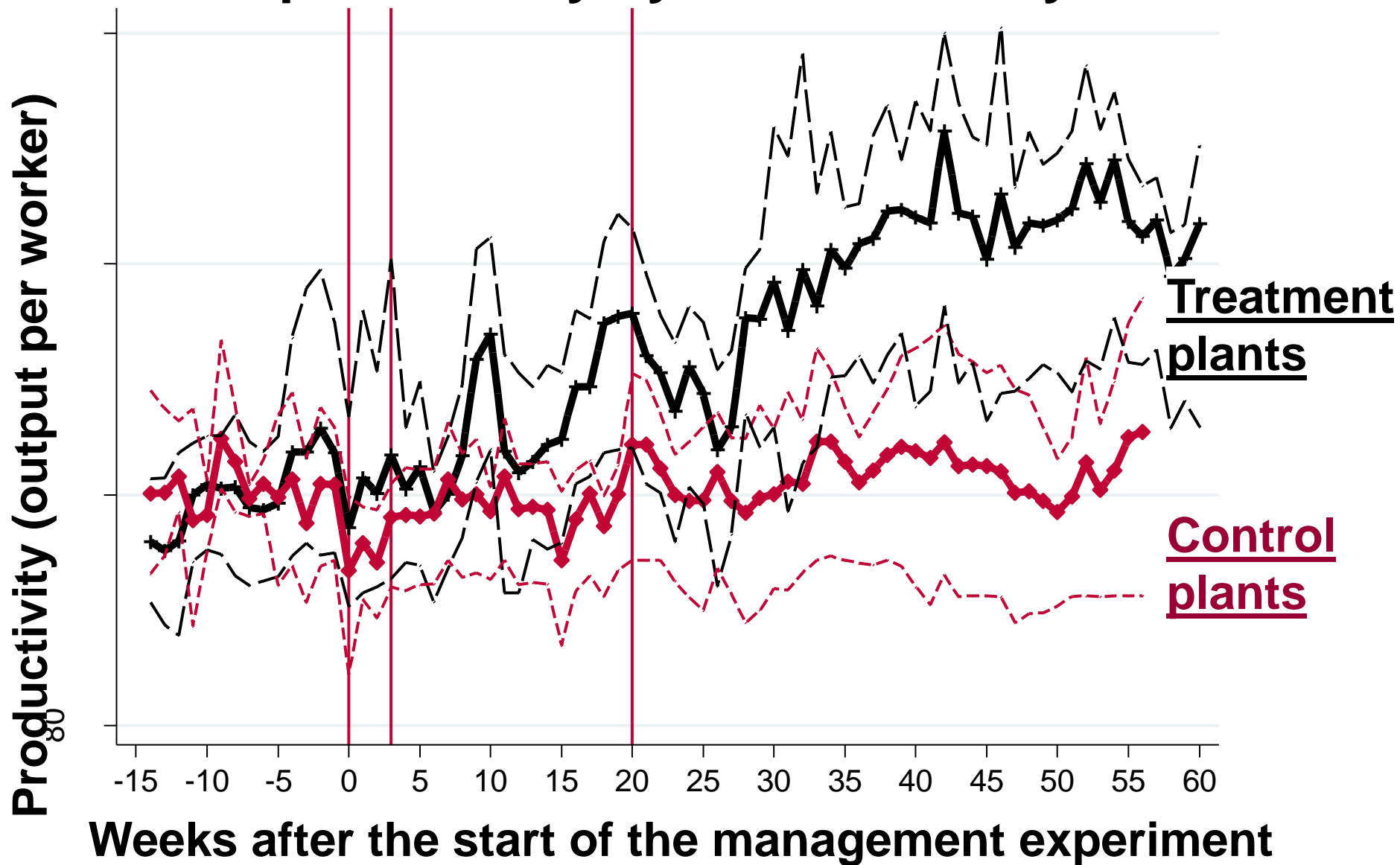
Before Mending was recorded only to cross-check against customers' claims for rebates



Factory information: After



Overall these simple management improvements increased productivity by 20% within 1 year alone



Also found longer run increase in employment

Because of the intervention treatment firms started expanding, adding about 25% more plants after improving management

And not a story about new technology....

Krill

Warp
beam



The warping looms at Lowell Mills in 1854, Massachusetts

Not just India - African factories look similar (if not worse)



No floor markings for equipment, WIP or finished goods

No performance indicators

Lax safety: no gloves, goggles, visors or fire-equipment

Inventory control?



Simple changes would help a lot, like flat packing. 3 men per truck could assemble on site and carry 5x more desks



So why do badly managed firms exist?

Competition heavily restricted by trade restrictions, the difficulty of new firms entering (finance is hard to raise), and the difficulty of good current firms expanding (limited by family size)

Information is limited: firms either not aware of modern practices or simply do not believe they matter (“not worth it”)

Policy implications

Macro

1. Stability and rule of law – allows good firms to expand
2. Trade and FDI – bring over best practices

Micro

1. Training – basic numeracy, problem solving and Lean
2. Demonstration projects – I think these could be successful

More results and data available here



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A background image showing a blue-toned financial chart with multiple lines and data points. The chart is overlaid with a semi-transparent dark grey box containing text.

The WMS generates data and reports that help managers and policy makers understand the drivers of better management practice.

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Benchmark your organization

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- ▶ [Management in Healthcare: Why good practice really matters](#)



MY FAVOURITE QUOTES:

The traditional British Chat-Up

[Male manager speaking to an Australian female interviewer]

Production Manager: “Your accent is really cute and I love the way you talk. Do you fancy meeting up near the factory?”

Interviewer “Sorry, but I’m washing my hair every night for the next month....”

MY FAVOURITE QUOTES:

The difficulties of defining ownership in Europe

Production Manager: “We’re owned by the Mafia”

Interviewer: “I think that’s the “*Other*” category.....although I guess I could put you down as an “*Italian multinational*” ?”

Americans on geography

Interviewer: “How many production sites do you have abroad?”

Manager in Indiana, US: “Well...we have one in Texas...”

MY FAVOURITE QUOTES:

Don't get sick in Britian

Interviewer : “Do staff sometimes end up doing the wrong sort of work for their skills?”

NHS Manager: “You mean like doctors doing nurses jobs, and nurses doing porter jobs? Yeah, all the time. Last week, we had to get the healthier patients to push around the beds for the sicker patients”

Don't do Business in Indian hospitals

Interviewer: “Is this hospital for profit or not for profit”

Hospital Manager: “Oh no, this hospital is only for loss making”

MY FAVOURITE QUOTES:

The bizarre

Interviewer: “[long silence].....hello, hello....are you still there....hello”

Production Manager: “.....I’m sorry, I just got distracted by a submarine surfacing in front of my window”

The unbelievable

[Male manager speaking to a female interviewer]

Production Manager: “I would like you to call me “Daddy” when we talk”

[End of interview...]

Survey methodology (following Bloom & Van Reenen (2007))

1) Developing management questions

- Scorecard for 18 monitoring (e.g. lean), targets & people (e.g. pay, promotions, retention and hiring) in \approx 45 minute phone interview of manufacturing plant managers

2) Obtaining unbiased comparable responses (“Double-blind”)

- Interviewers do not know the company’s performance
- Managers are not informed (in advance) they are scored
- Run from LSE, with same training and country rotation

3) Getting firms to participate in the interview

- Introduced as “Lean-manufacturing” interview, no financials
- Official Endorsement: Bundesbank, RBI, World Bank etc.
- Run >100 MBA types (loud, assertive & business experience)