

GROWTH IN A DUAL ECONOMY

Abstract

Growth and structural transformation of the manufacturing sector in developing countries are generally considered to be the result of the expansion of the "modern" (large-scale) sector relative to the "traditional" (small-scale) sector. Examining the sources of labor productivity growth in Mexican manufacturing, however, does not provide support for such a conclusion. Although we find that labor productivity levels vary almost in direct relation to establishment size, labor productivity growth shows no systematic variation by size class. In fact, small establishments have had the same rate of labor productivity growth as larger ones, partly because of the "excise-effect" (i.e. the exiting of low-productivity, small plants). Moreover, most of the variation in labor productivity across plant class sizes is found to be due to differences in capital intensity. The variation in TFP levels across size classes tends to be small. Thus, our results remove some justification of the policy measures that favor large firms in developing countries.

Magnus Blomström
Stockholm School of Economics
P.O. Box 6501
113 83 Stockholm
SWEDEN,
NBER and CEPR

Edward N. Wolff
Department of Economics
New York University
269 Mercer Street
New York, N.Y. 10003