

“Economic Development according to Chandler”

Nik Engbom joint work with Hannes Malmberg (Minnesota),
Tommaso Porzio (Columbia), Federico Rossi (Warwick)
Todd Schoellman (Federal Reserve Bank of Minneapolis)

Abstract

Business historian Alfred Chandler showed that firms in the Second Industrial Revolution had to adopt managerial capitalism to benefit fully from new technologies that leveraged economies of scale or scope and raised productivity. We show that the same forces are relevant for understanding economic development today. Large firms around the world use white-collar labor more intensively. Developing countries have low shares of white-collar workers, accounted for entirely by low skill levels. Motivated by these facts, we develop a multi-sector general equilibrium model of the link between skills and the adoption of managerial capitalism. The model extends the occupational choice model of \cite{luca78} by allowing entrepreneurs to decide the share of administrative tasks performed by hired professionals. Professionalizing a higher share of tasks brings the firm closer to constant returns to scale and leads to larger firm size. We calibrate the model to replicate joint patterns of education, firm size, sectoral choices, and occupational choices in the average middle-income country. Our counterfactuals show that growth in the supply of skills can help explain the adoption of managerial capitalism, whereas structural transformation by itself cannot.