

## **Misallocation and Total Factor Productivity in Italy: evidence from Firm-Level Data**

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Over the last two decades, TFP in Italy declined by 0.3% per year, while increasing on average in the Euro-area countries. This decline signals deep inefficiencies in the allocation of resources, making the Italian case particularly interesting and suitable in order to study the role of misallocation. In this work, I quantify the potential extent of intra-industry misallocation of inputs in Italy over the last twenty years applying the Hsieh and Klenow's (2009) methodology. Using a dataset on Italian manufacturing firms, I find that, in the hypothetical absence of distortions, aggregate manufacturing TFP would be boosted in 1993 by 58% and in 2011 by 80%. These results indicate, on the one hand, that inefficiencies due to misallocation are pretty large in Italy and, on the other hand, that there has been a worsening of the mechanism of resource allocation over time. Furthermore, I take a step ahead by checking to what extent the degree of misallocation can be attributed to specific peculiarities of the Italian manufacturing sector: it emerges that misallocation is higher for firms located in the South and at low-technological intensity, as well as for small or young firms.