Discussion of "Rebuilding Ukraine's Cities"

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A Crossroads for Ukraine's Economy

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- **Ukraine is at a historic crossroads**
  - History shows: Postwar reconstruction offers a rare opportunity to transform economies.
- **Germany's Postwar Economic Wirtschaftswunder**
  - After WWII, West Germany transformed from devastation to prosperity in just a decade.
  - Key ingredients:

    ✅ Market reforms ✅ Competitive institutions

    ✅ Investment in efficiency ✅ Dismantling of industrial cartels
- **Rebuild the past – or engineer a new future?**

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- **Rebuild the past – or engineer a new future?**
- **This paper says that it should build a new future (and I agree)**

Where The Paper Really Stands Out

- **Key contribution:** Novel and highly policy-relevant assessment of construction costs and how to reshape the cost curve.

  → **Openness:** Facilitate entry of foreign construction firms to boost capacity, competition, and expertise (especially for large-scale projects).

  → **Regulatory efficiency:** Standardize building codes and minimize land-use regulations to improve efficiency.

  → **Procurement reform:** Standardize public purchasing to enable scale, improve price transparency, and reduce corruption.

- **I like the term "Investing-in-Investing":** Preparatory phase before reconstruction

  → Institutional reforms (e.g., procurement systems)

  → Vocational training for construction skills

  → Stable electricity to power materials production (e.g., cement)

Stagnation Without Convergence

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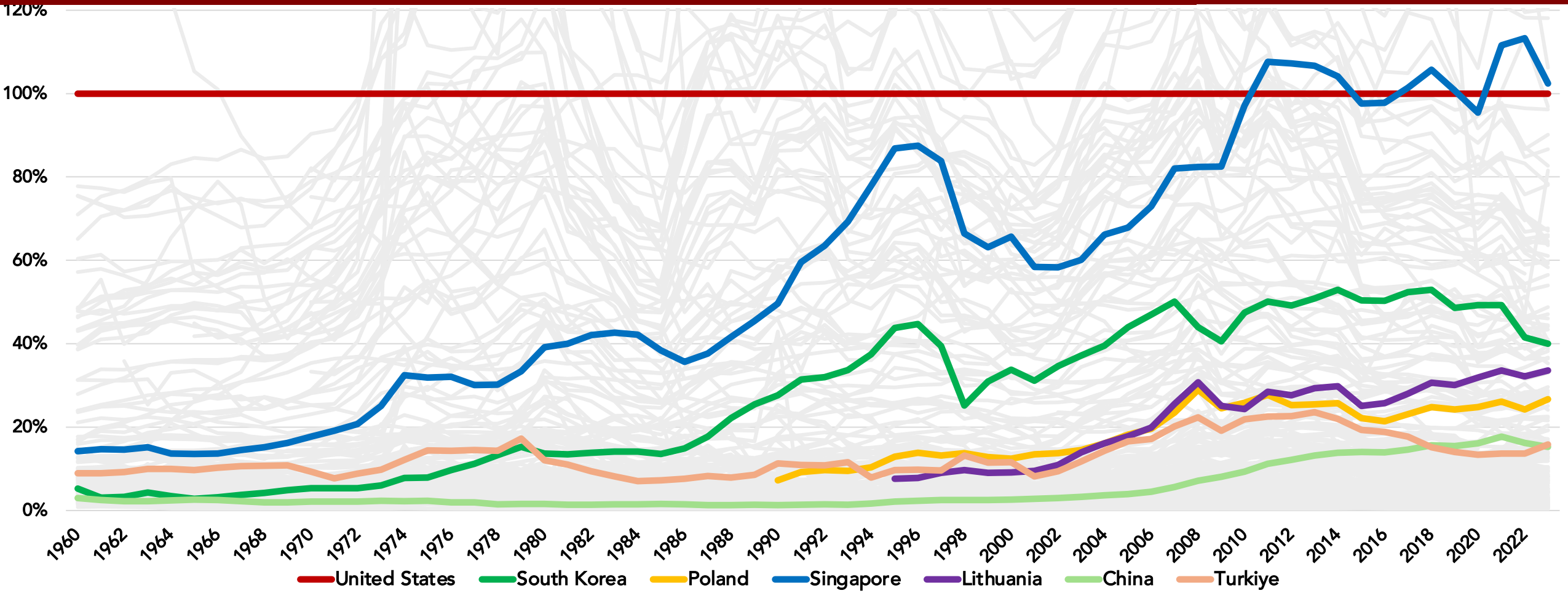

Analysis: Growth Academy Team **Data:** World Bank

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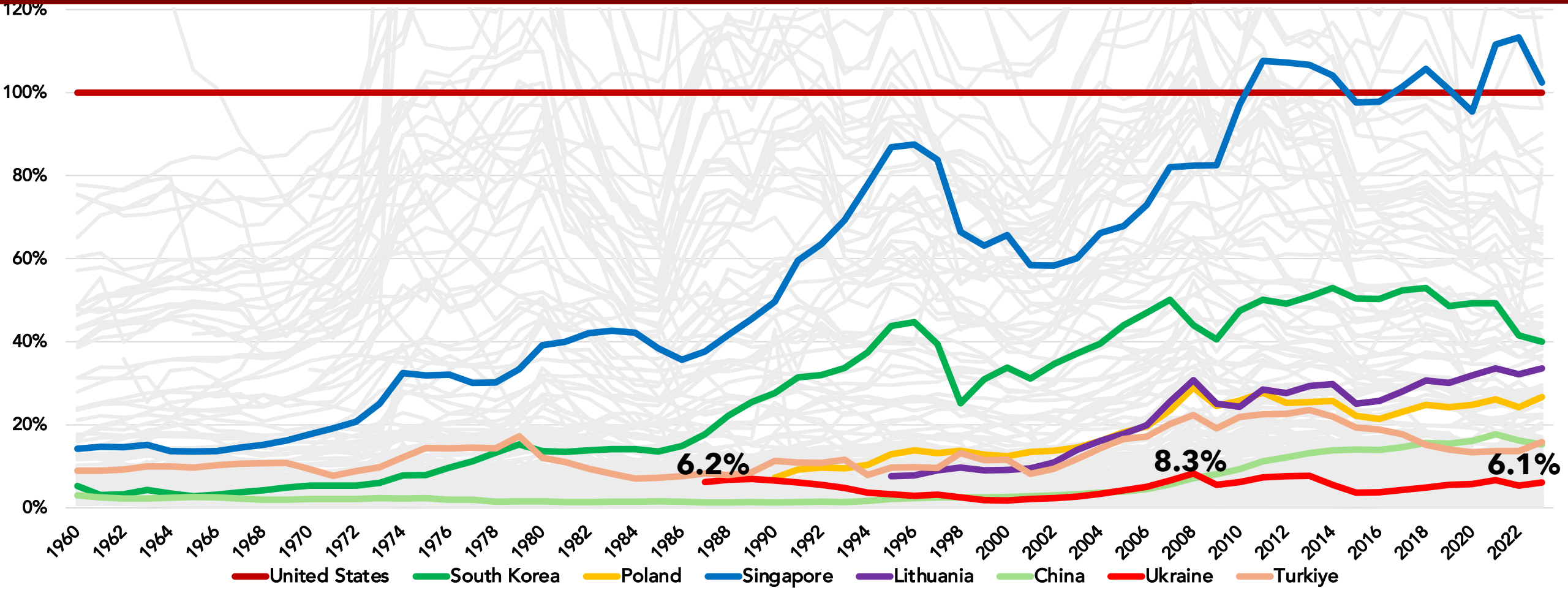

Analysis: Growth Academy Team **Data:** World Bank

Ukraine remained largely stagnant–
rising from 6.2% of U.S. income per capita to 8.3% in 2008, then falling back to 6.1% by 2020.

Labor Productivity Growth Over Time

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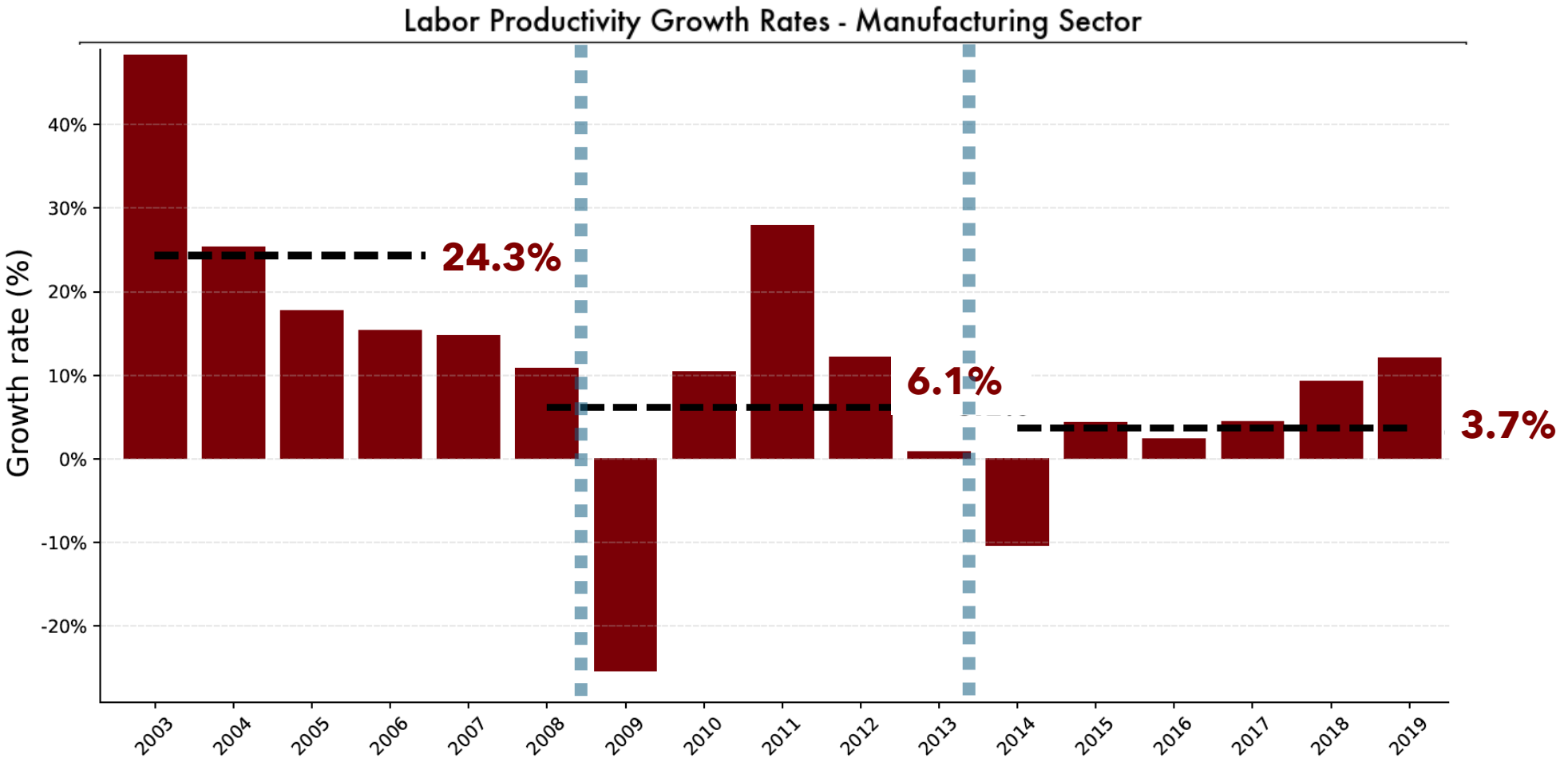

Analysis: Akcigit, Kilic, Lall, and Shipak (2025) "Engineering Ukraine's Wirtschaftswunder".
Data: Ukrainian Firm-Level Dataset, Comprehensive Balance Sheets and Financial Statements

Ukraine's productivity growth has visibly lost steam.

Highest Quality Data

High Quality Data Sources:

Firm-Level Balance Sheet Data (2002-2024):

Covers nearly entire universe of Ukrainian firms

Firm Registry Data

Contains registration date for all Ukrainian firms

Business Dynamism Over Time

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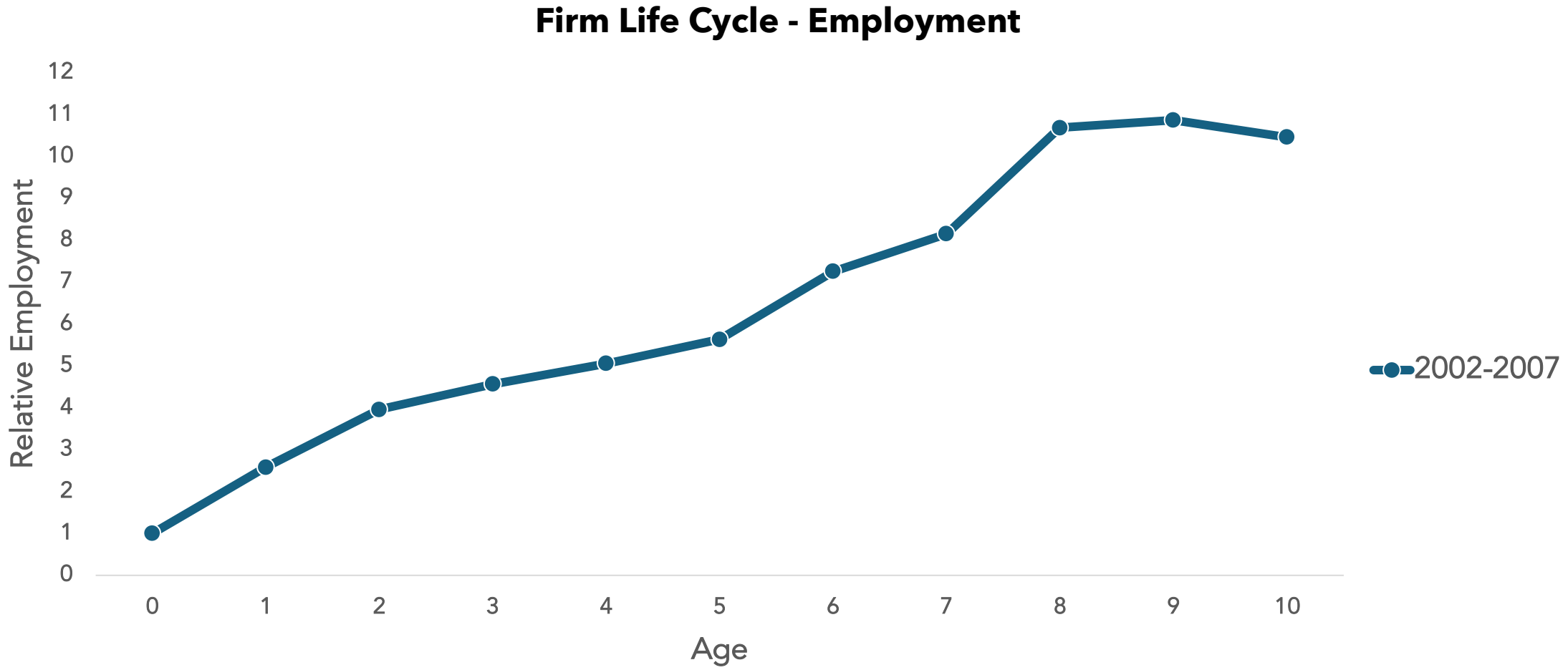

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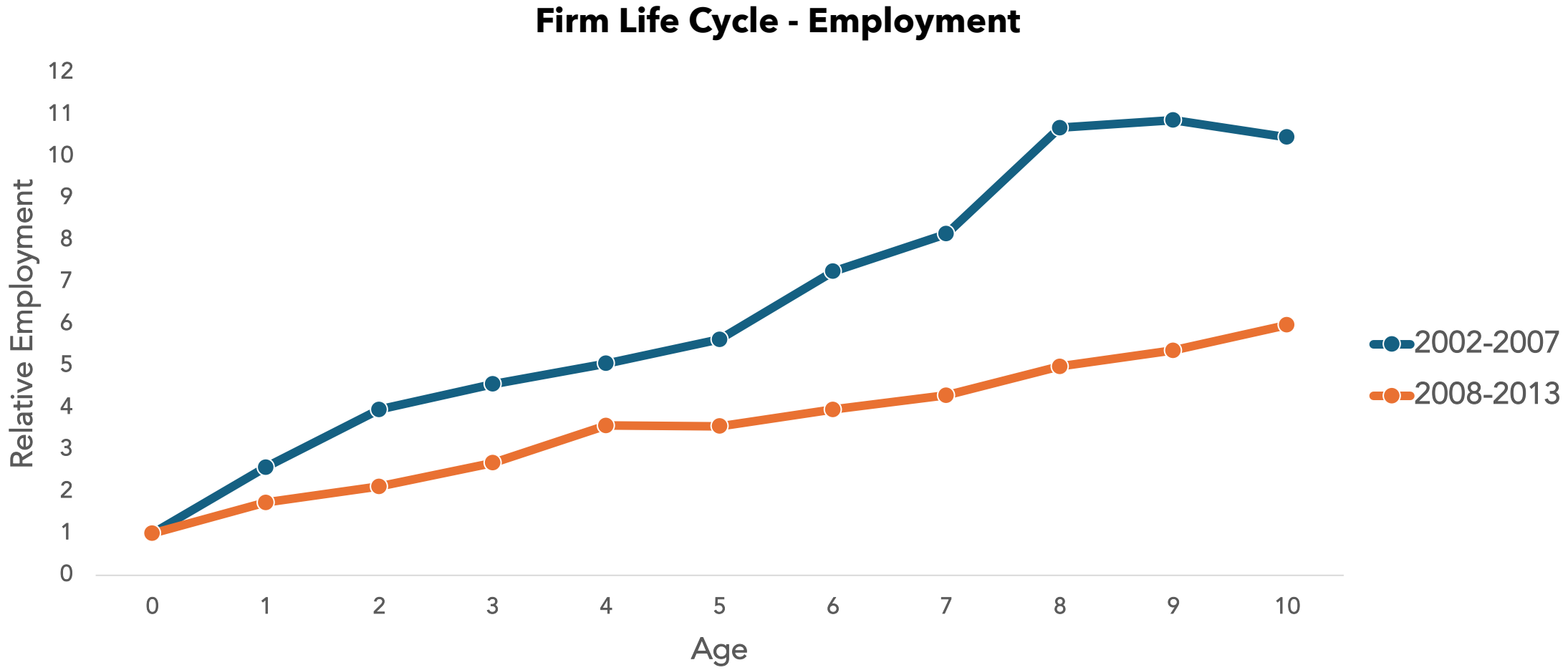

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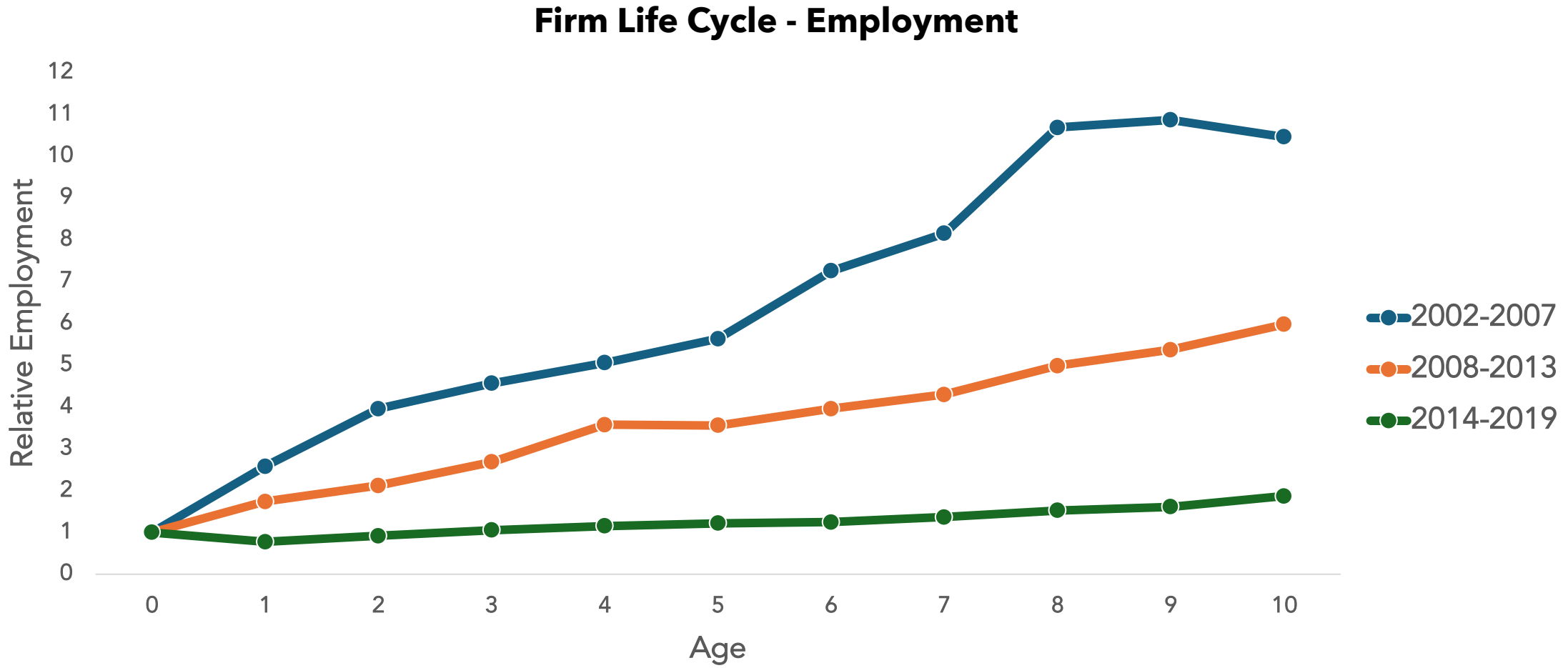
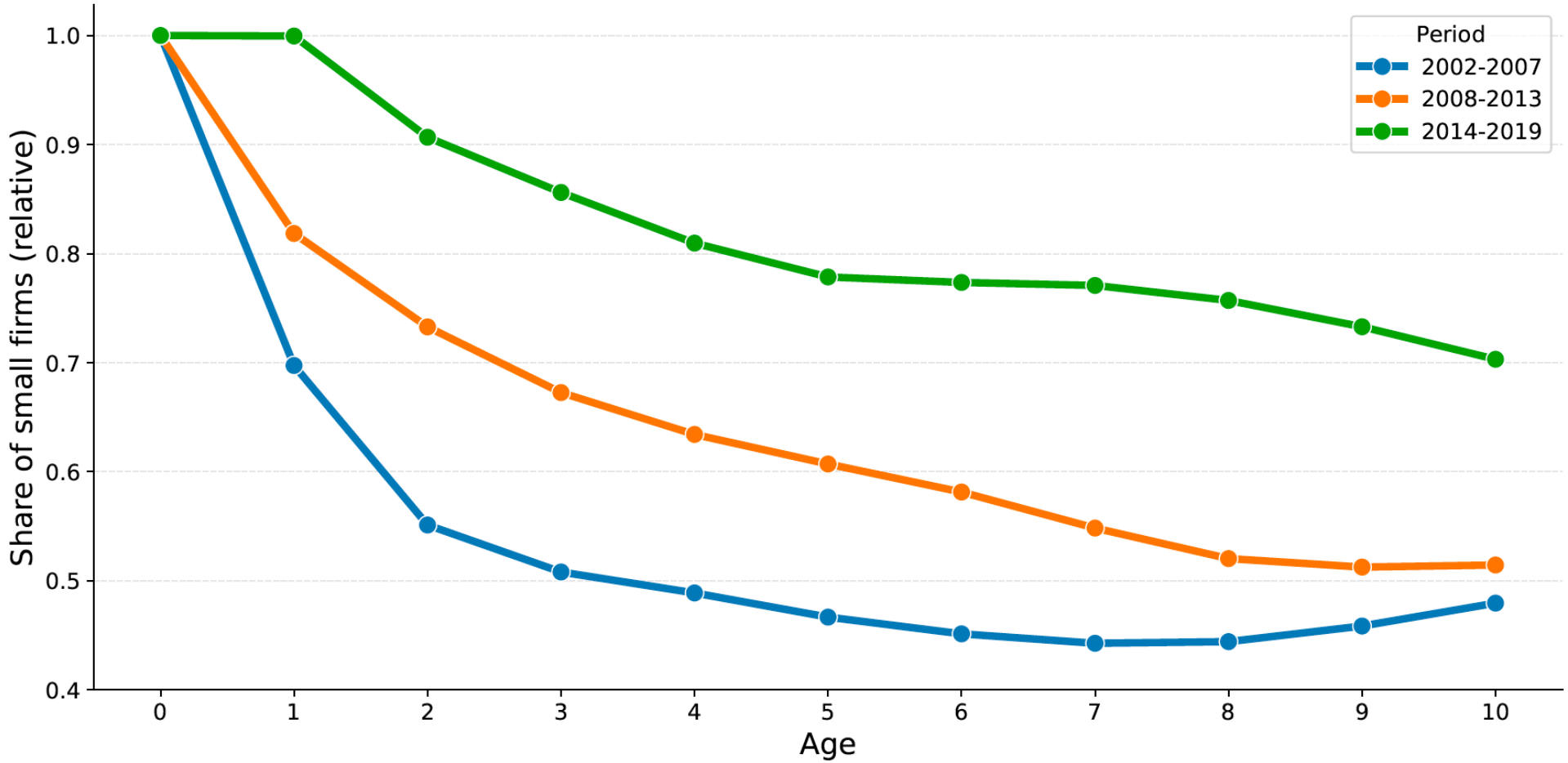


Early 2000s: Ukrainian firms resembled their U.S. counterparts—**dynamic and growth-oriented**.
A decade later: Their profile shifted closer to that of Mexican firms.
Over time: They increasingly resemble Indian firms — **stagnant with limited selection** dynamics.

Selection Mechanism Weakens



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Small firms now linger, not leap

"Up or out" dynamics have faded—inefficient firms survive longer.

Are Bigger Firms More Efficient? - Misallocated Resources

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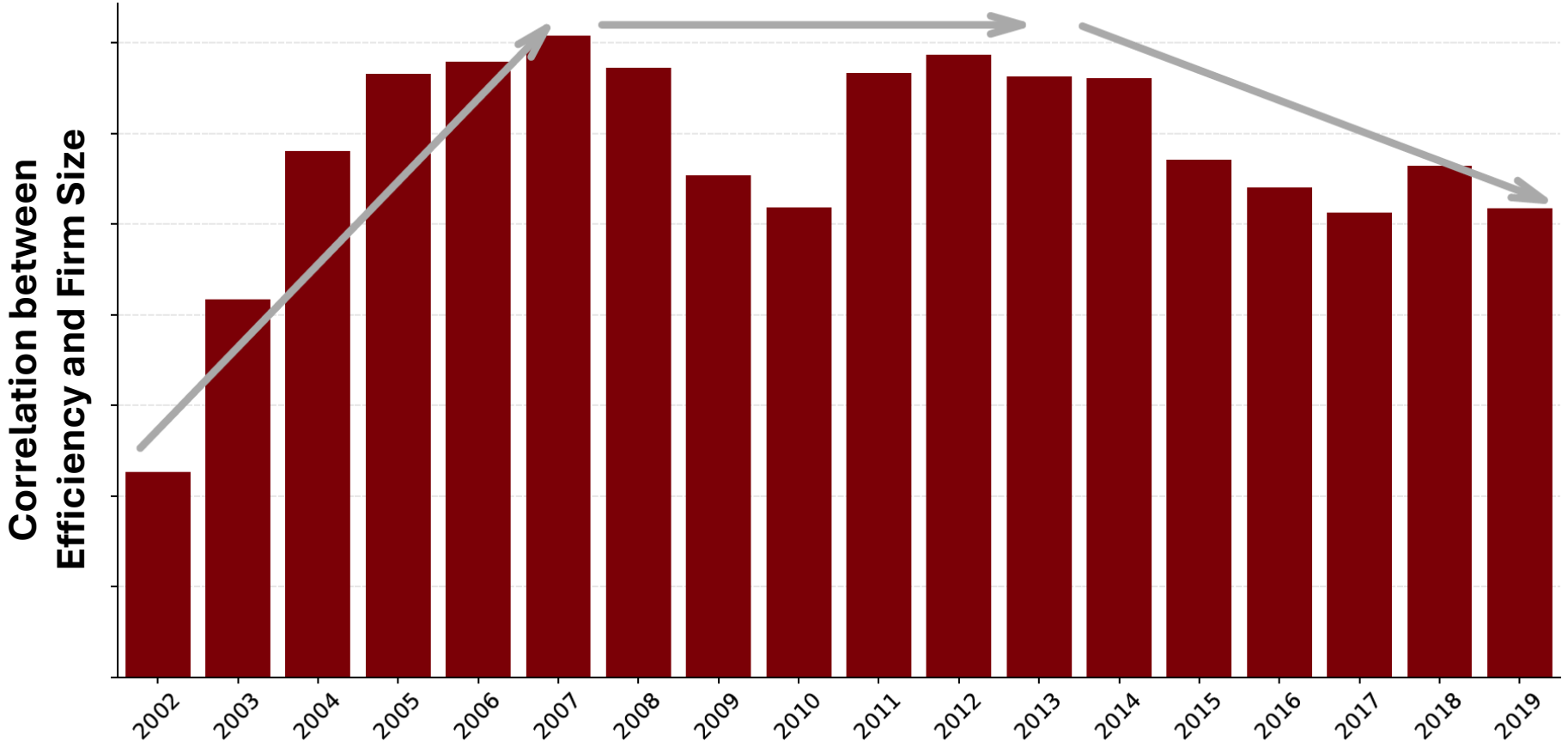

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Bigger no longer means better

The link between firm size and productivity is weakening.

The Link Between Productivity and Hiring

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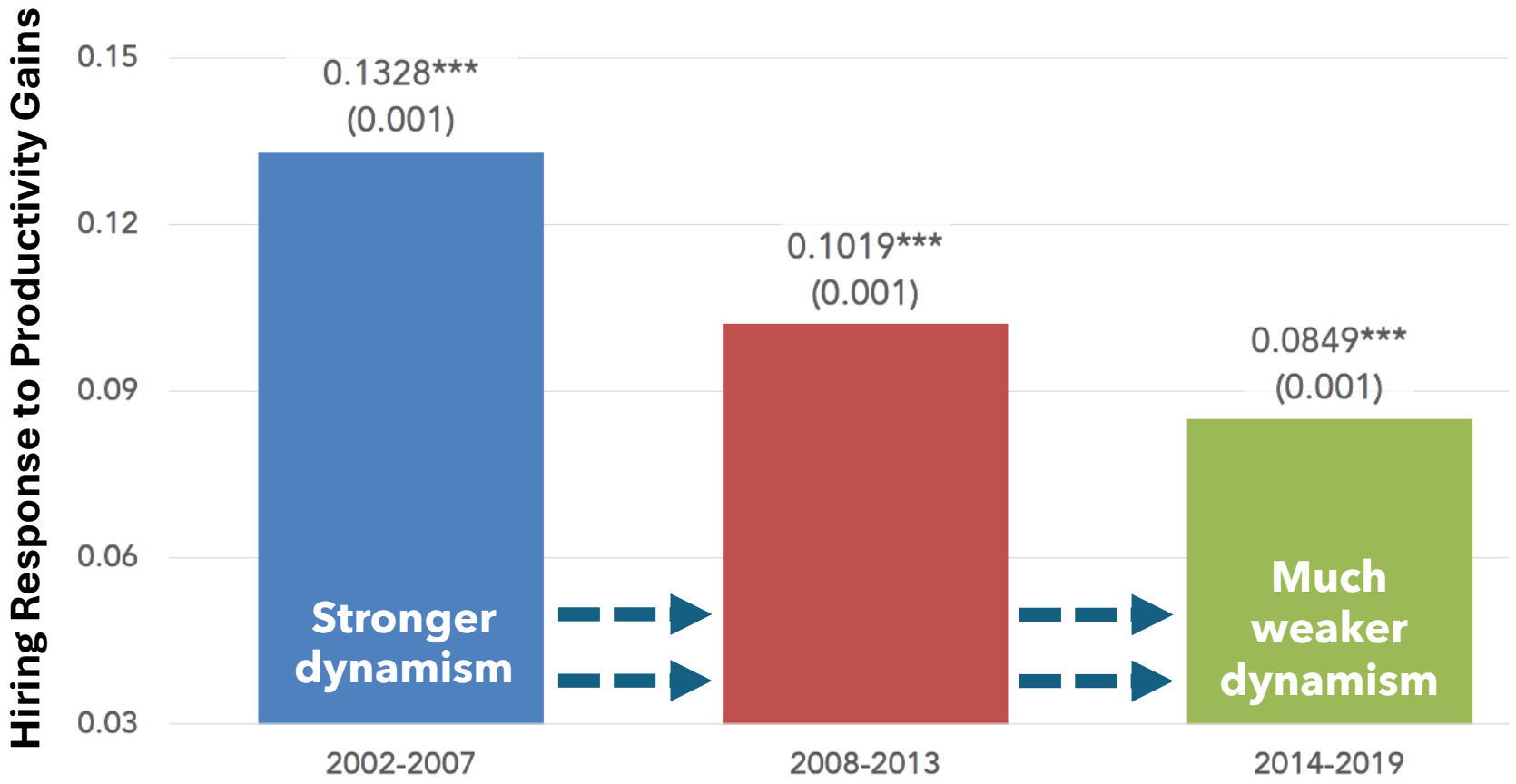

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Productivity gains aren't being translated into more jobs like they used to.

This Paper: 5 Facts about Ukraine

- **Population is declining**
  - From 52 mln (1991) to 38 mln (2021). Lower fertility, outmigration
- **Population is shifting west and to Kyiv**
- **Kyiv is becoming more attractive**
  - Population increased, GDP share from 21% (2002) to 30% (2021)
- **90% of housing built pre-1991**
- **Congested cities**
- **Policy Conclusion:** Reconstruction pays off most in Kyiv, Lviv, Odesa, Dnipro:
  → High productivity
  → Strong amenities

The paper: model for reconstruction

- **Individuals choose where to live**
  - Ukraine v/abroad, and cities within Ukraine. No relocation
- **Infrastructure matters for consumption and production**
- **Policy: infrastructure reconstruction**
  - Tension between accommodating population dynamics and rebuild in the East

Big Picture Reactions

- Economic activity shifted toward the east:
  "This shift might reflect the possibility that under communism, Ukraine was artificially overbuilt in regions that were closer to Moscow…"

- The time-series patterns/interpretations: Do they align with the broader decline in productivity and dynamism?

- In the cross section, the conclusions rely heavily on productivity estimates derived from later years.

- What do we observe in earlier years? Are the patterns consistent?

Total Factor Productivity 2002-2007

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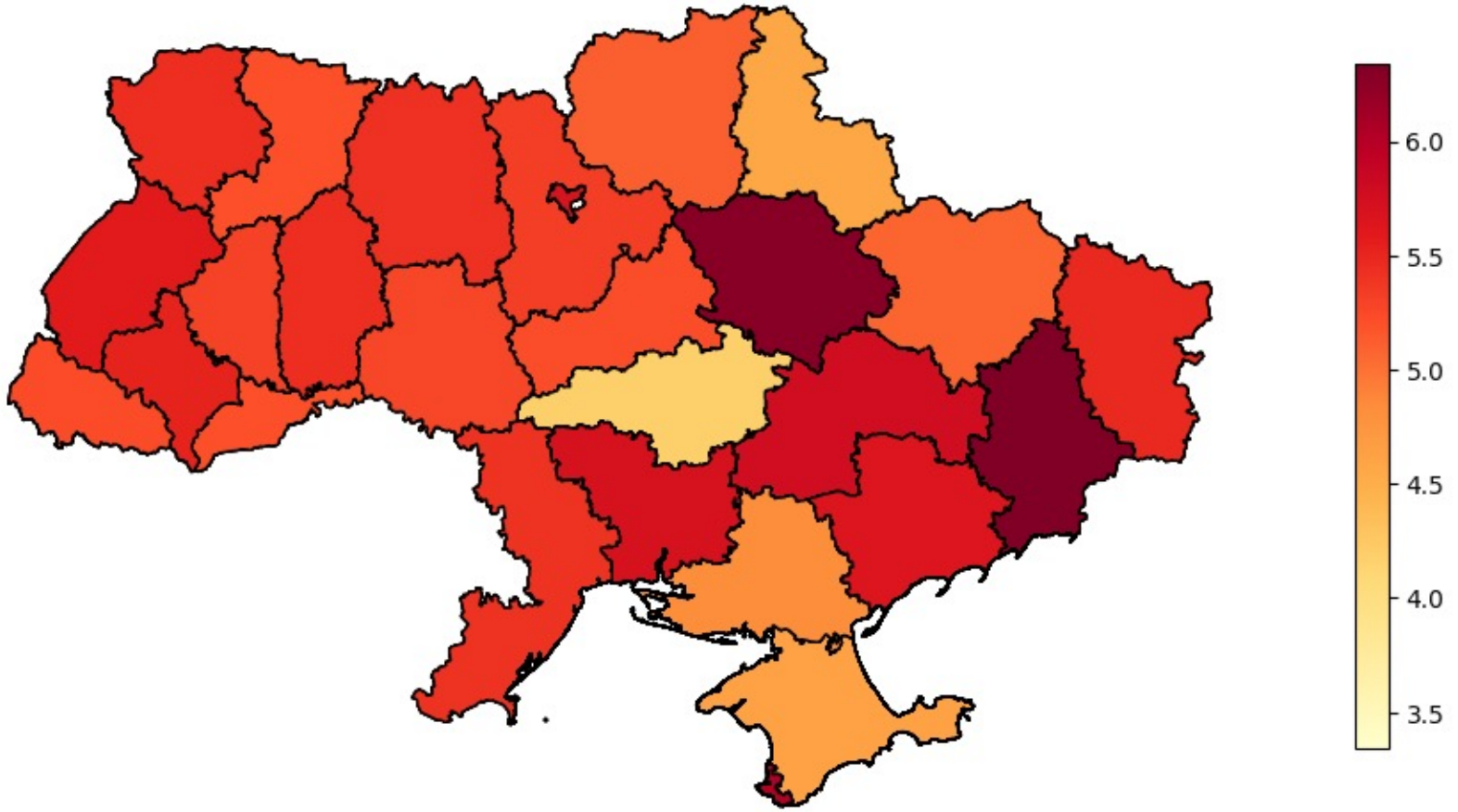

Total Factor Productivity 2008-2013

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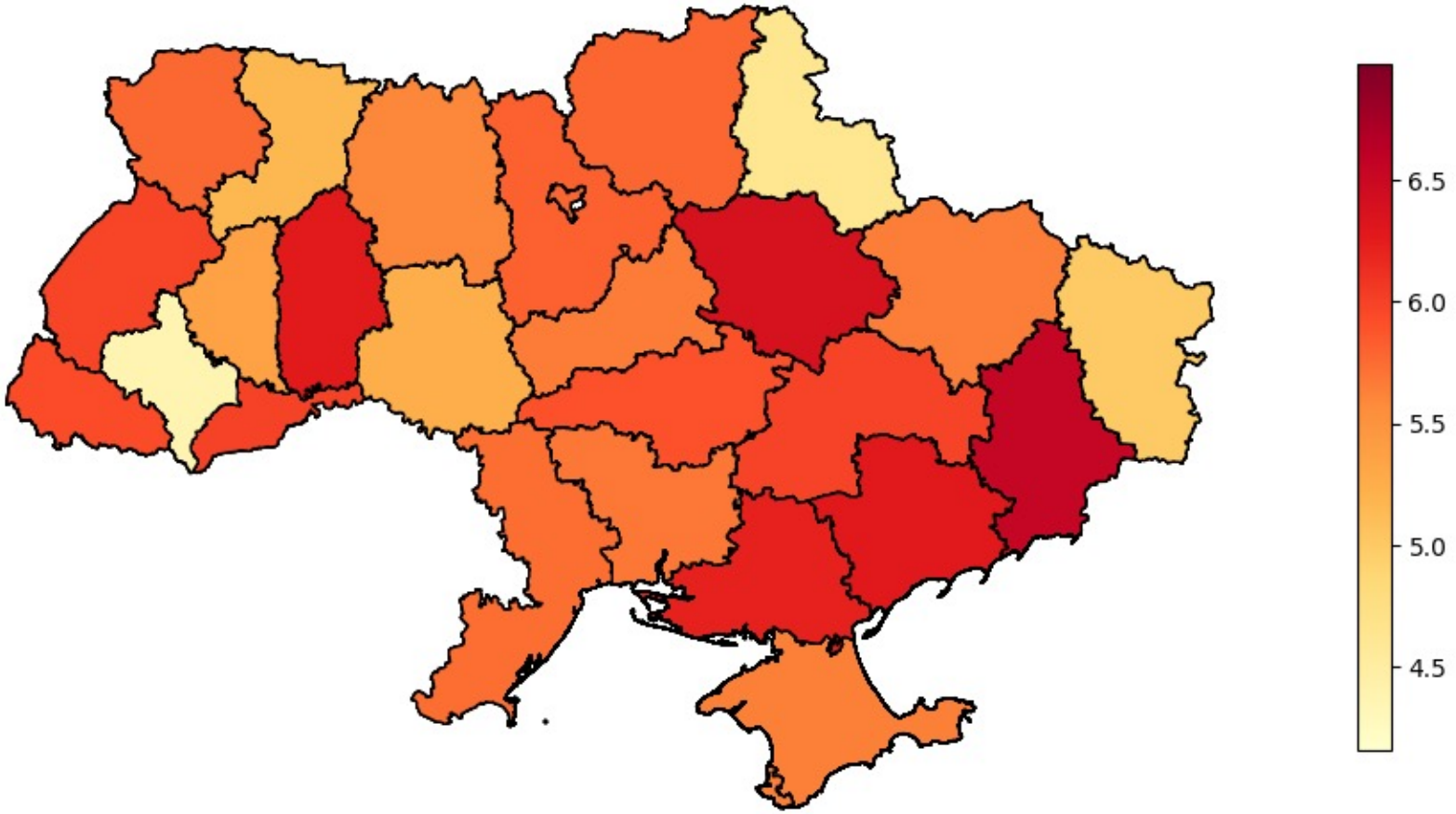

Total Factor Productivity 2014-2019

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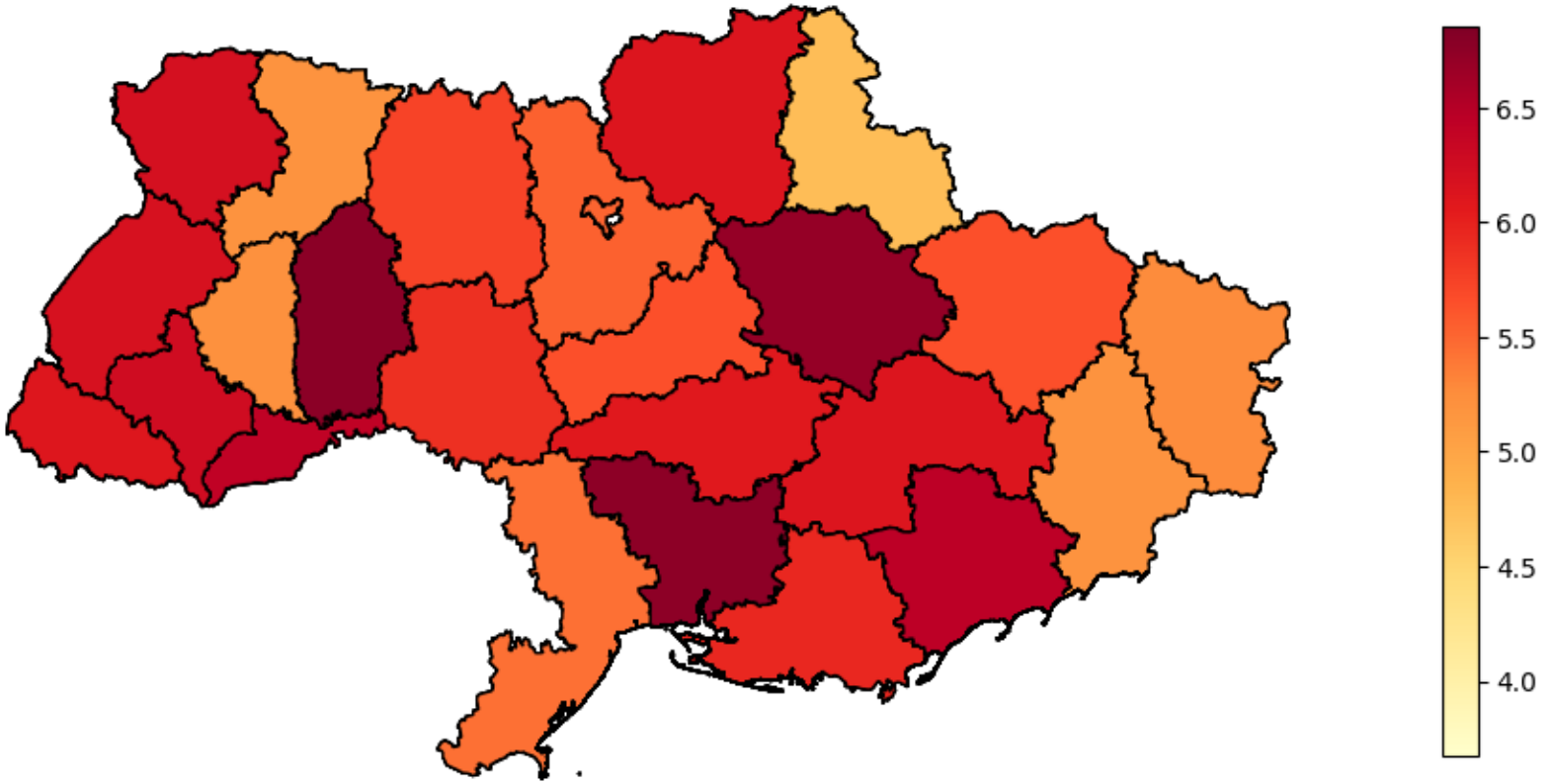

Important Question

- Which years most closely reflect the true underlying local exogenous productivity?
  - → 2002-2008 or 2020-2021?

Identification I

- Wages are determined as:

$$w_i = \alpha A_i^{\frac{1}{\alpha}} \left(\frac{1-\alpha}{r} \right)^{\frac{1-\alpha}{\alpha}}$$

- Hence the productivity levels are identified as follows:

$$A_i = \left[\frac{w_i}{\alpha} \left(\frac{r}{1-\alpha} \right)^{\frac{1-\alpha}{\alpha}} \right]^{\alpha}$$

- Productivity levels A_i are identified by wages w_i

- Are wages truly determined only by productivity, or do other factors play a role?
  - → Human capital? Sectoral heterogeneity? Market power/concentration at the expense of wages?

Identification II

- Productivity has three components:
  - Exogenous productivity $\bar{A}_i$
  - Producer related infrastructure I_i^p
  - Population in region i N_i

$$A_i = \bar{A}_i N_i^{\lambda} I_i^p$$

- Because infrastructure is unobserved in the data, the paper cannot separately identify exogenous productivity from infrastructure:

$$\bar{A}_i I_i^p = \frac{A_i}{N_i^{\lambda}}$$

- More clarity would be helpful: The division of the estimated joint value between exogenous productivity and infrastructure is critical for policy.

Final Comments

- Productivity estimates are central.
  - → Moving to micro data would greatly improve local-level inference while reducing dependence on model structure/assumptions.

- I care about $\dot{A}$, but the dynamics are missing. Could we introduce an idea-production function, similar to the infrastructure-production function?

- **Incumbent capture** would show up in the calibration as lower observed productivity

- In the current model, this is absorbed into the exogenous productivity component.

- 97% has up to 50 workers in the construction sector.
  - → What about market concentration at the top?

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Thank You.