Discussion of "Occupational Choice, Human Capital, and Financing Constraints" by Rui Castro and Pavel Sevcik

Diego Restuccia
University of Toronto

CMSG Toronto – Nov 2013

Introduction

- Large differences in per capita income mostly explained by TFP differences
- What explains TFP differences across countries?

- Old debate about role of factor accumulation and TFP
- More recent approach of factor accumulation as an amplification channel of TFP differences (human capital in particular)
- Back to Prescott: Needed a theory of TFP differences

- One perspective is that the (mis)allocation of factors across heterogenous productive units may be important in explaining measured TFP differences across countries

In Castro-Sevcik

- This paper joins these two broad literatures – misallocation and human capital – to explain development
- This perspective is much more interesting than it may at first appear:

  Policy/friction $\Rightarrow$ misallocation (given a distribution of micro prod.) $\Rightarrow$ measured TFP

  TFP $\Rightarrow$ human capital $\Rightarrow$ per-capita income

- In this paper: distortions lead to differences in the distribution of micro productivities because of human capital investment

General Comments

1. Why Financial Frictions?

   - The paper focuses on financial frictions in a complicated environment
   - None of the links emphasized depend on a particular policy/friction creating misallocation
   - A simpler framework can provide more transparency of the discipline in the different channels:
     - human capital elasticity
     - response in occupational choice
     - effect on distribution of micro productivity
   - Perhaps good reasons for focusing on financial frictions (better direct measurement of the induced distortion) and connecting constraints for firms and human capital investment but needs to be spelled out more

General Comments

2. What determines the size distribution of establishments?

   - At the establishment level, worker's human capital are perfect substitutes
   - So an entrepreneur is indifferent between a worker with h units of human capital and two workers with $1/2h$ units of human capital
   - Related to Roys and Seshadri (2013) on the organization of production

General Comments

3. How to discipline the role of human capital investment on micro productivities?

   - So far a numerical analysis
   - Related issues faced in the human capital literature (e.g. Manuelli-Seshadri or Erosa et al.)
   - Perhaps cross section or time series for the US on schooling and entrepreneurs productivity can be use to pin down the relevant elasticity

To Conclude

- Main contribution of the paper can be articulated in a broader and simpler framework
- Simpler framework will allow for a more transparent discipline of the key elements of the quantitative analysis –elasticity of human capital, distribution of micro productivities, extent of misallocation, etc.
- If focus on financial frictions need more direct connection with the role of schooling on entrepreneurial skills
- Make as transparent as possible the discipline on the channels studied