Discussion: Intra and Inter-industry Misallocation and Comparative Advantage

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This paper

- This is a very interesting paper
  - What are the aggregate effects from reducing firm-level factor misallocation? Does international trade play any role?
- Uses data for Colombia to empirically show a relation between factor misallocation and revealed comparative advantage
  - Impressive Micro-data
- Presents a multiple-sector, multi-country GE quantitative model
  - Uses the model to show the aggregate effects from reducing distortions
  - Macro-analysis
- Shows that trade matters for the transmission of the effects
- I only have a couple of comments

Comment #1: Data

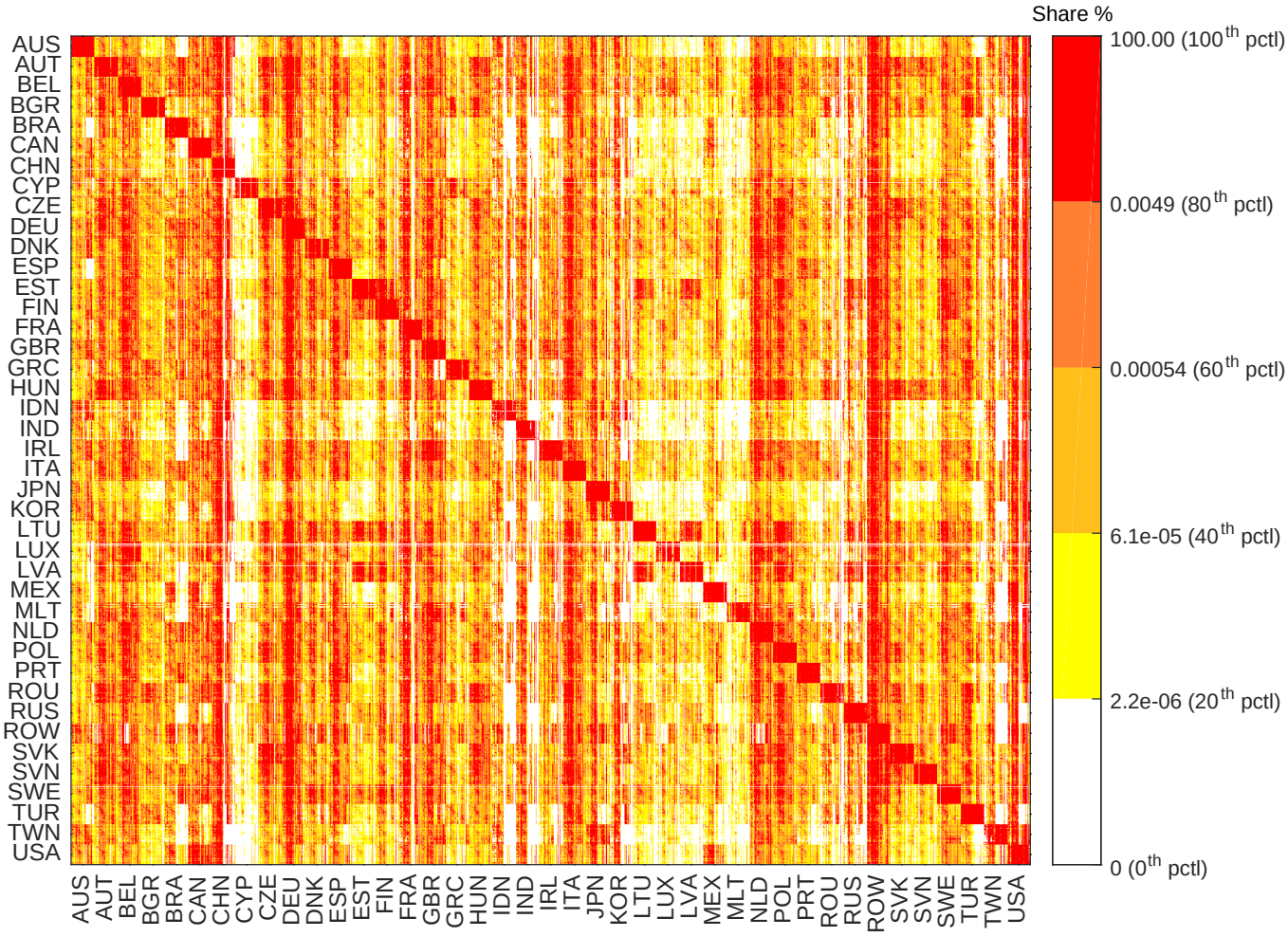
- Impressive micro-data
  - A unique feature of the data is that it has information on prices
  - Can construct plant-level deflators for firms' inputs and outputs
  - Can deal with output price and input price bias!
- However
  - The paper imposes constant technology across firms within a sector
  - Does not allow for input-output linkages
- As a result, only measures an "average" factor market distortion instead of a firm specific
  - But, you could use variation in expenditures and prices to measure factor market distortions at the firm level (see Morlacco, 2019)

Comment #2: Input market distortions

- How about input-market distortions?
  - *Internal distortions (A*ffect sectors within a country)
    - Example: any kind of policy that favors one sector over another, regulations, special consideration for credit, sector-specific taxes, and so on
  - *External distortions (*Affect sectors across countries*)*
    - Example: trade costs, border taxes, tariffs for imports or exports, or differences in contract enforcement
- Do input market distortions matter?

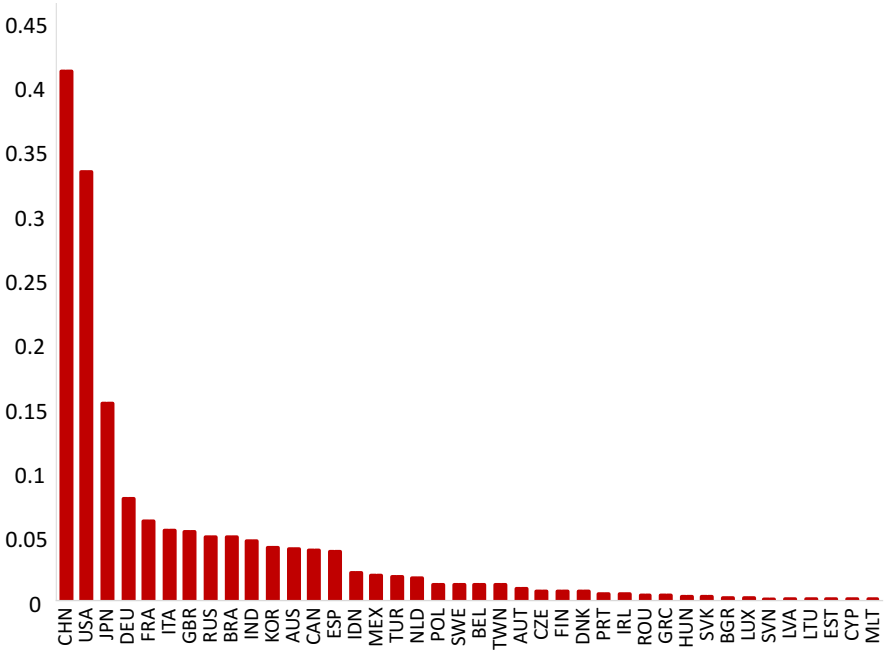
World Economy (CPT 2019)

Figure: Global expenditure shares across sectors and countries in 2011

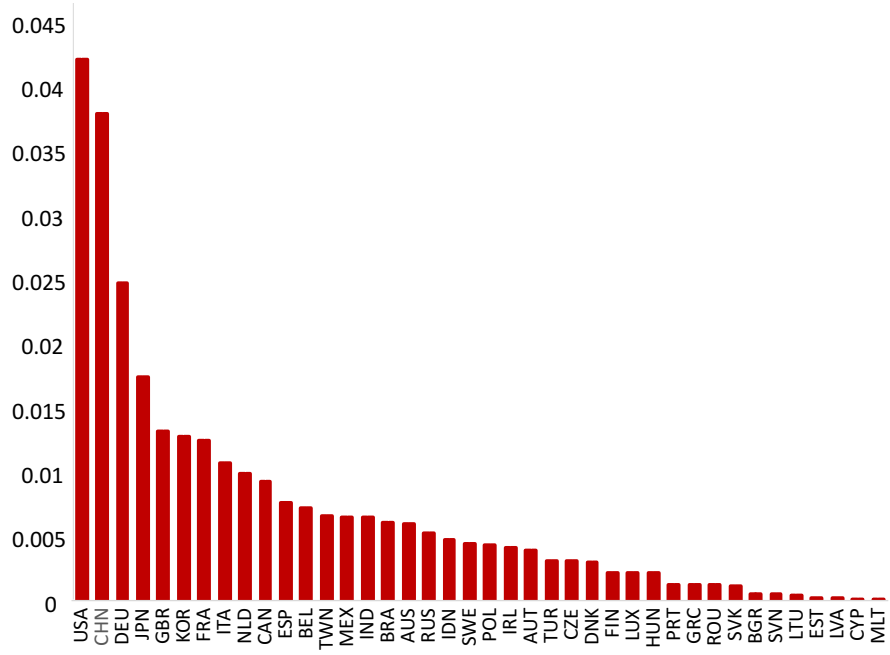


World's real GDP elasticity to internal vs. external

(CPT 2019)



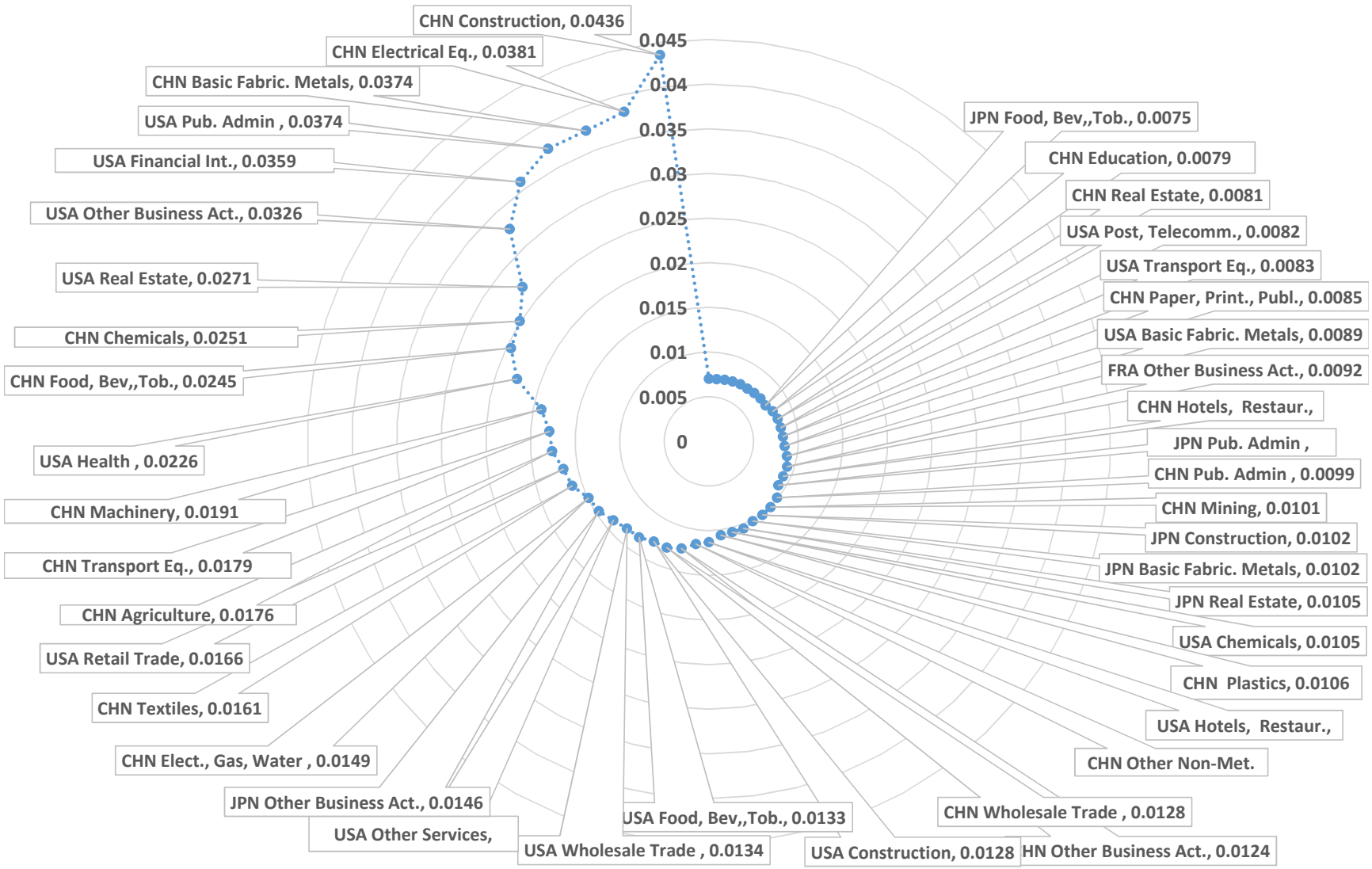
(a) Internal distortions



(b) External distortions

World's real GDP elasticity (CPT 2019)

Figure: Elasticity to changes in internal distortions (top 60 markets)



Comment #2: Input market distortions

- Do input market distortions matter?
  - In Colombia?

Comment #3: Measurement of wedges

- Undistorted economy (factor payments proportional to gross output)

$$w_{il} Z_{ils} = \alpha_{ls} R_{is}$$

- Distorted economy

$$w_{il} Z_{ils} = \left(\left(1 + \bar{\theta}_{ils} \right)^{-1} \left(1 - \frac{\rho}{\kappa} \right) + \frac{\rho}{\kappa} \right) \alpha_{ls} R_{is}$$

  - Note that if $\rho = \kappa$, we cannot identify wedges and they play no role
  - So, what are the values of ρ, κ?
    - Usually $\rho = (1.2, 1.5)$ and κ=(4,10)

- But what if ρ and κ vary across sectors?
  - Might attribute variation is wedges to variation in sectoral elasticities?

Final remarks on the paper

- This is a very nice paper!
- A comprehensive studies of the aggregate effects of factor market distortions
- Looking forward to learn more about the effects of removing other distortions in Colombia!