

# Discussion of SSZ

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# China since 1992

- High per-capita GDP growth (11% / year)
- Persistently high I/Y (30-40%)
- Persistently high return to capital (20%)
- Low return on intermediated savings (0%)
- Increasing inequality
- Accumulation of large positive NFAs
- Massive Reallocation of labor from SOEs to PDEs

Paper builds on last observation to construct simple, plausible, unified explanation for all the observations (plus others)

# Story in a nutshell

- Private entrepreneurs have high productivity but little access to intermediated saving: their growth constrained by their own saving (hence high return to capital)
- SOE inefficient but have access to intermediated saving (hence low return on deposits)
- Labor reallocation from SOEs to PDEs is gradual
- Gradually also more capital in PDEs, so return on capital does not fall
- Wage held down by SOE sector, entrepreneurial rents increase with scale of PDEs, growing inequality
- SOE sector generates excess savings, invested abroad, positive NFAs
- PDEs specialize in labor intensive technologies
- With gradual financial development, no decline in I/Y

# Comments

- Impossible to question that the mechanism is playing a role. Calibration suggests major role.
- Perhaps only slight quibble is very high exogenously calibrated rate of technical change (to match high growth rate): 3.8%
- If true suggests there is more going on than mechanism in story

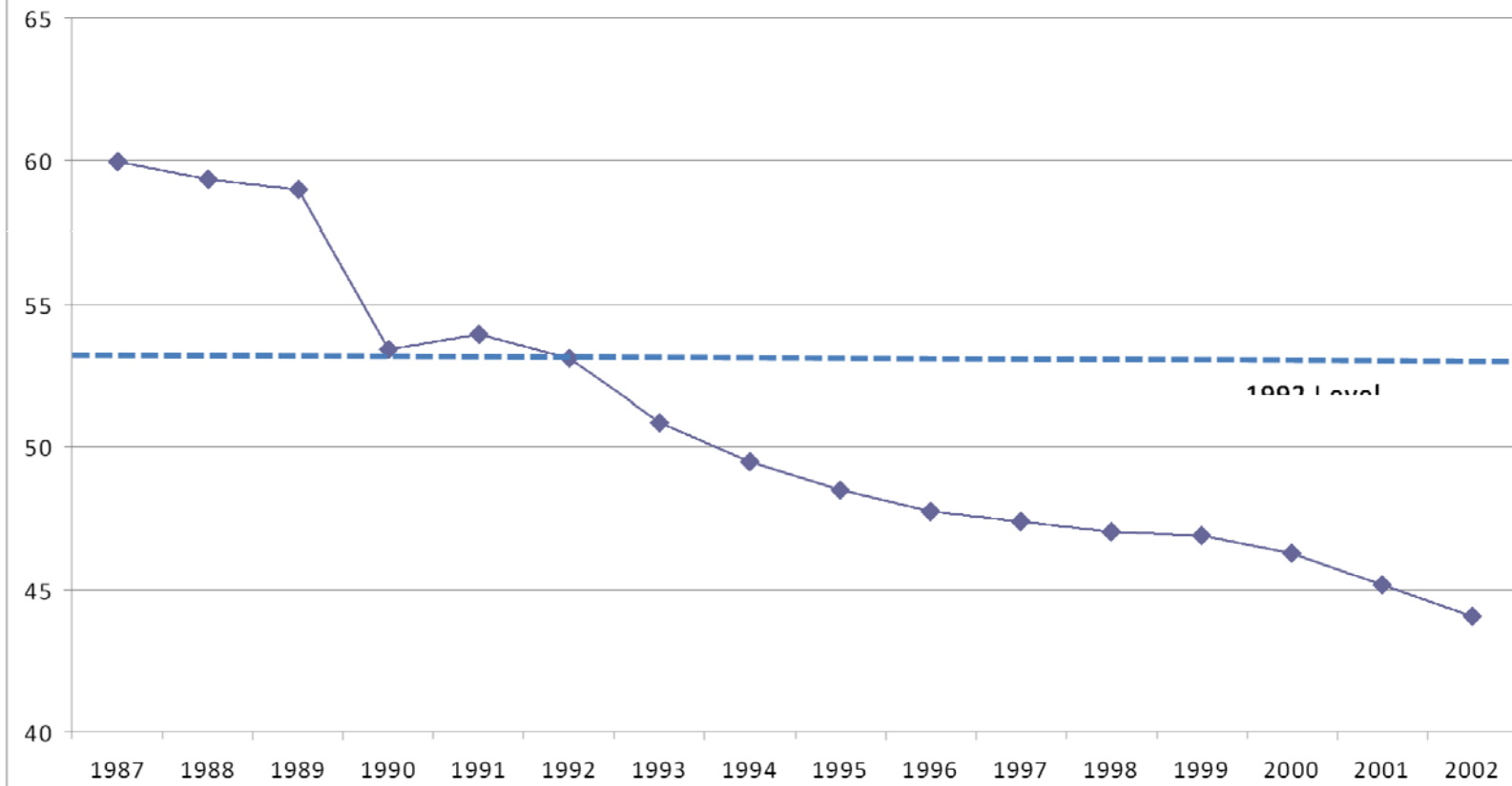
# Comments (cont.)

- Increase in Chinese saving *rate* perhaps the most puzzling fact about China (and source of NFA accumulation).
- Paper has a story for this, but what about ...
  - Habit formation
  - Precautionary saving
  - Increased returns to skill
  - **Government saving!**

# Comments (cont.)

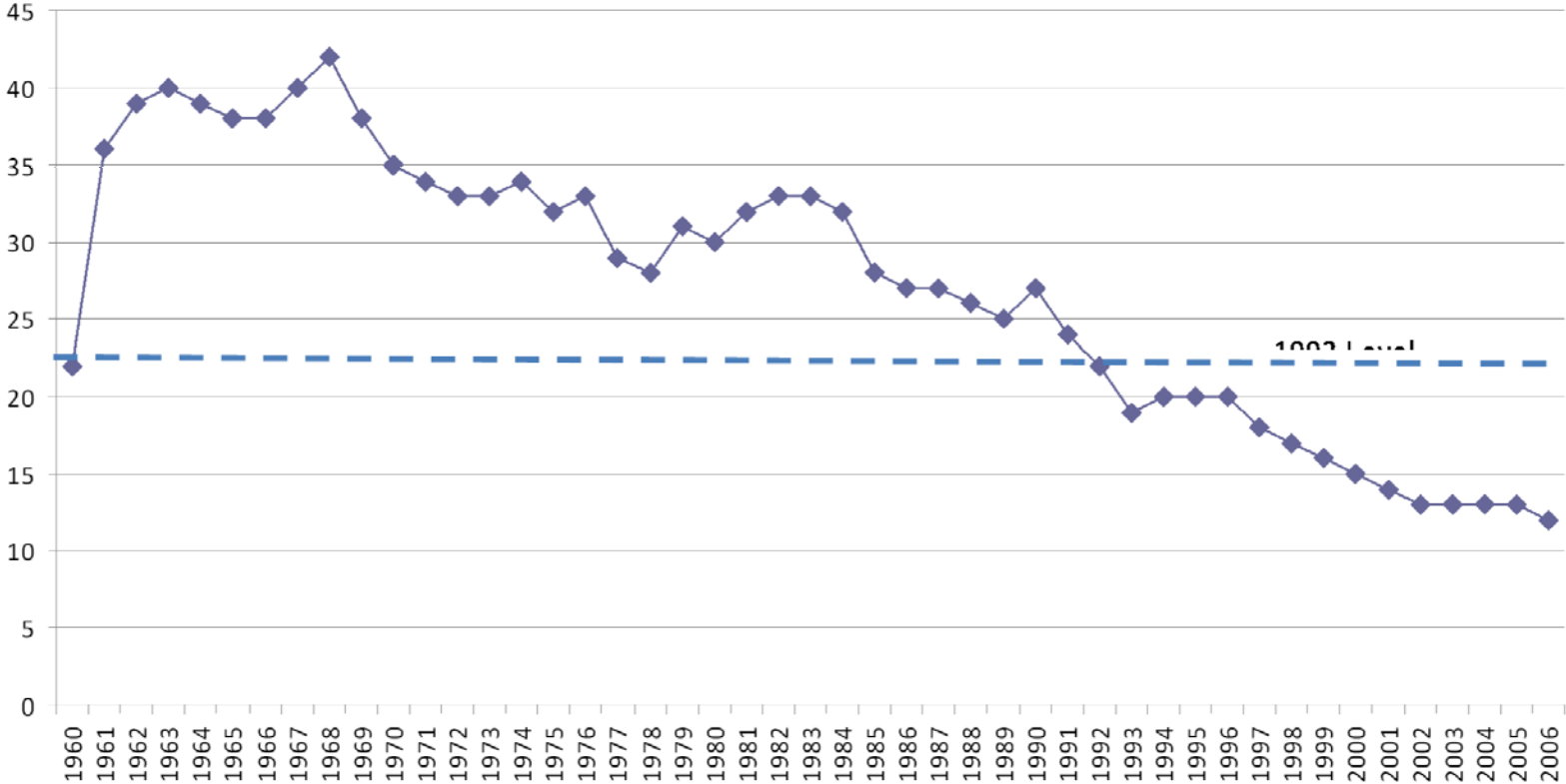
- Next paper should be on even bigger picture ...

## Share of Agriculture in Labour Force (%)

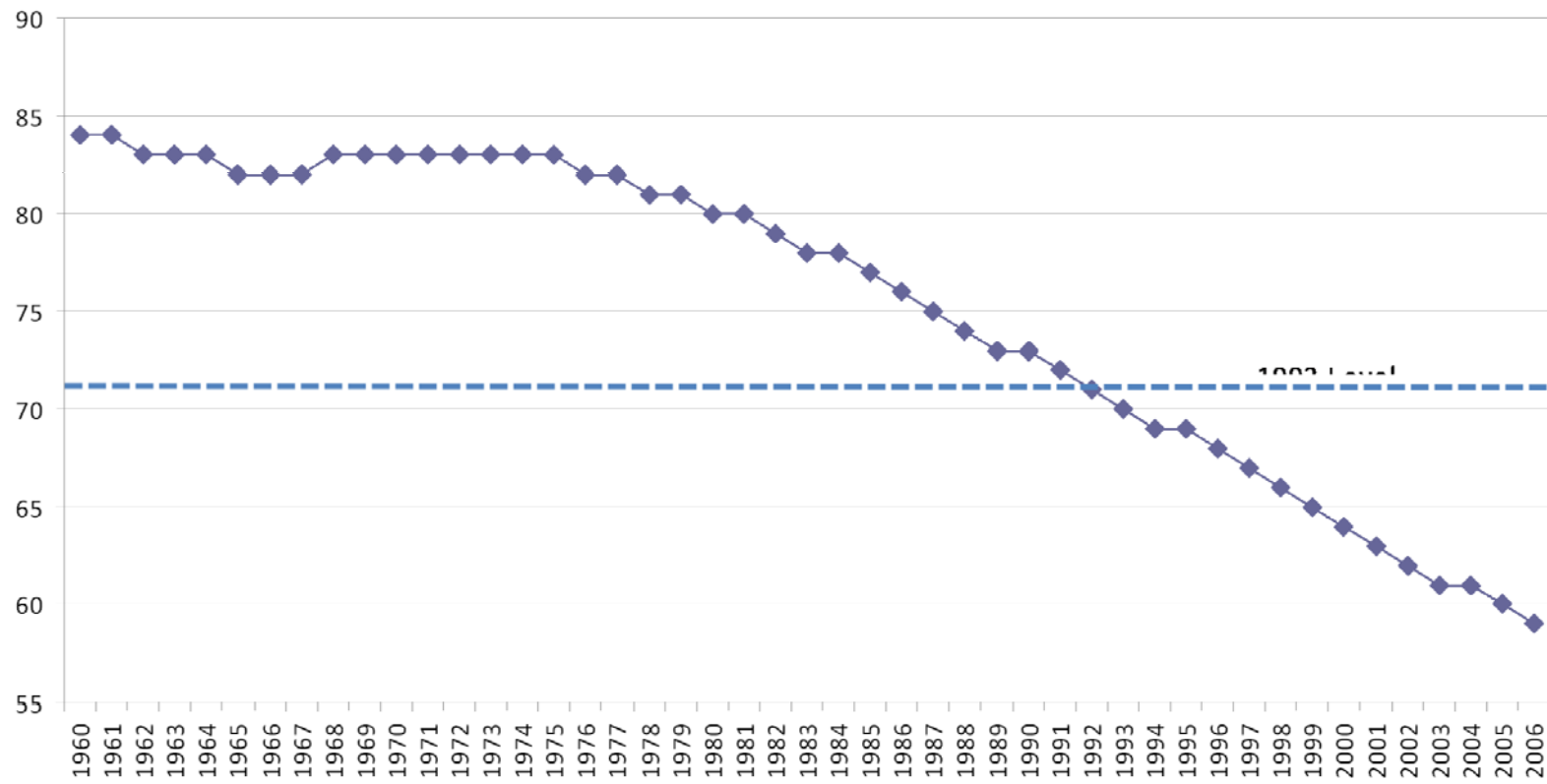




### Agriculture, Value Added (% of GDP)



## Share of Rural Population in Total Population (%)



# A complementary reallocation story

based on Caselli and Coleman (JPE 2001)

- Low-productivity Agriculture v. High-productivity nonagriculture
- Declining cost of rural-urban migration (fewer administrative restrictions, increased literacy,...)
- Labor supply to nonagriculture goes up, fast growth
- If nonag. capital intensive,  $I/Y$  and return to capital stay high
- Would be good to assess relative importance of two reallocation mechanisms

# I liked the paper a lot, but not this sentence

- <<Some commentators have tried to explain this puzzle [high growth with increase in NFA] by ... exchange rate manipulation. While it is difficult to falsify theories that depend on such *non-economic* mechanisms ...>>
- *Non-economic*: a mechanism that makes intuitive sense to a lot of sensible people, but since economists suck at modeling it we will call it “non-economic,” implying that anyone who brings it up as an alternative must be naïve, uninformed or, worse of all, a journalist or a politician.