# Discussion of

# "Economic Development and the Organization of Production"

# by Roys and Seshadri

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IMF - September 18th, 2014

# Introduction

- Very nice paper.

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- Studies the role of managers, human capital and the interaction between managers and workers in understanding productivity gaps across firms and across countries.
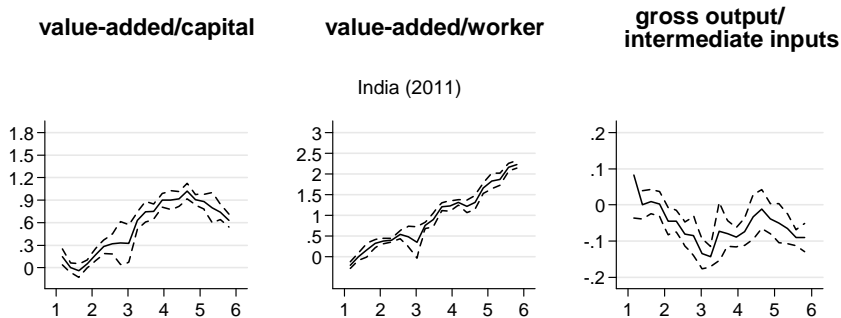
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    - Size-dependent policies?

# Credit Constraints?

## Figure 3: Average Product and Firm Size



**value-added/capital**    **value-added/worker**    **gross output/ intermediate inputs**
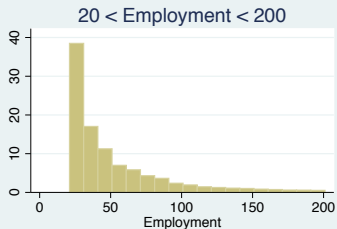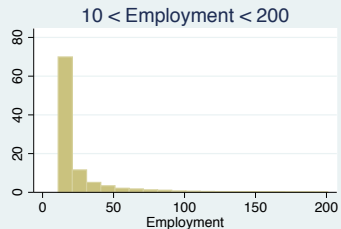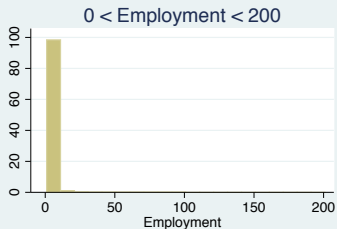
India (2011)

DATA SOURCE: HSIEH AND OLKEN (2014)

# Size-dependent Policies?

Various important labor regulations kick in after a size threshold of 100 employees in India.

# Size-dependent Policies?

# Management/Managers?

- Bloom et al has argued that
  - management practices
  - delegation
  - managers

  can be quite important in understanding the productivity differences across firms.

- Delegation through managers is key. Limits due to:
  - contractual environments
  - screening technologies
  - human capital

# This paper I

- Builds a new model of production.
- production requires a manager (I will come back to this later)
- Manager with time $n_m$ supervises workers
- pays $c$ units of communication cost
- hires $l_s$ workers
- a worker brings $n_w$ problems (only the unsolved part $1 - G(h_w)$)

# This paper II

- hence

$$n_m = c(1 - G(h_w))n_w l_s$$

- which implies

$$l_s = \frac{n_m}{c(1-G(h_w))n_w}$$

- and output is

$$y = \frac{G(h_m)n_m}{c(1-G(h_w))}$$

- Key element of the model: assortative matching.

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**Definition.** *Manager* is a person responsible for controlling or administering all or part of a company or similar organization.

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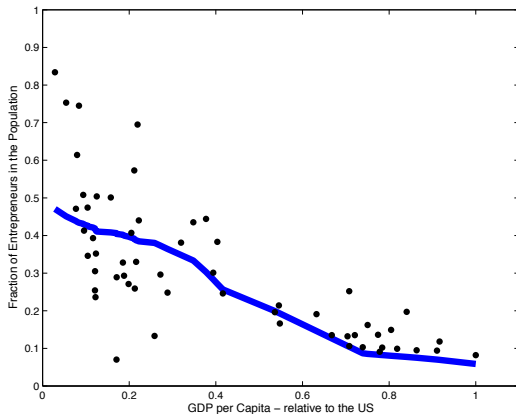
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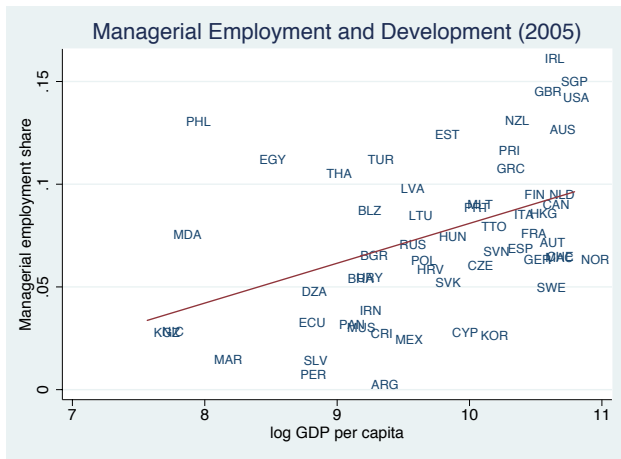who is an entrepeneur? How do we measure them in the data?



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# Entrepreneurship vs Development (data)



DATA SOURCE: ROYS AND SESHADRI (2014)

# Entrepreneurship vs Development (data)



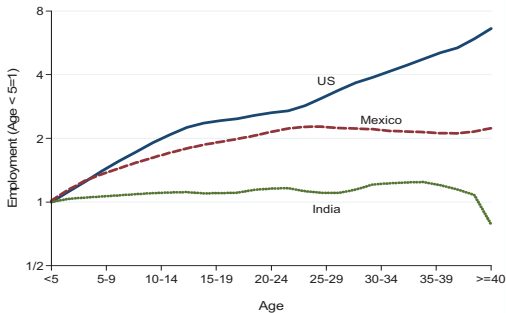Data source: ILO Data

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- What is the microevidence on assortative matching?

What determines firm's life-cycle in this model?

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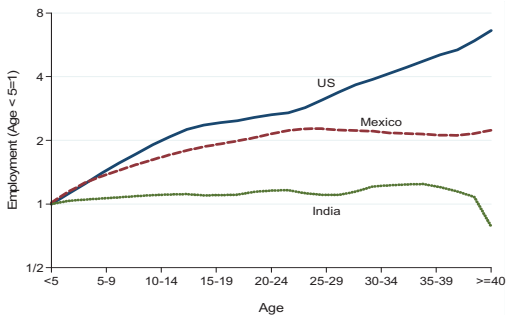What determines firm's life-cycle in this model?



Figure 1: Plant Employment by Age in the Cross-Section

Sources: 1994-1995 ASI-NSS (India), 2003 Economic Census (Mexico), and 2002 Manufacturing Census (U.S.).

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Do we observe increasing years of shooling within the firm over time?

- Identification?

- Indirect inference?

# Conclusion

- Nice paper!

- Useful in understanding the role of human capital of workers and entrepreneurs/managers for production and observed productivity dispersions !