Discussion:

A Theory of Falling Growth and Rising Rents

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50 Years Research and Policy

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Sam Kortum
Yale University
Puzzle

- Productivity growth ↓
  - after a decade of rapid TFP growth 15 years ago

- Firm concentration ↑

- Labor share ↓
  - but not within individual firms
  - firms with low labor share got bigger
Story

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  - Create intangible nonrival originals
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  - Resulting in a lower labor share
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Productivity jumps up but eventually innovation rate is lower
Quality Ladders (and Minnesota)
Model

- Labor share of a high-type firm
  \[ s_H = S^* \frac{1}{\gamma} - (1 - S^*) \frac{1}{\Delta \gamma} \]

- Profit flow
  \[ \pi_H(n) = n \left(1 - s_H\right) - \frac{\psi_0}{2} n^2 \]

- Bellman equation
  \[ \nu_H(n) = \max_{n'} \left\{ \pi_H(n) - (n' - n(1 - z^*))\psi_c + \beta \nu_H(n') \right\} \]

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Steady State and Transition

\[ n_L \]
\[ 1/J_L \]

\[ 1/J_H \]
\[ n_H \]
Steady State and Transition

\[ n_L \]

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\[ n_H \]
Steady State and Transition

\[
\begin{align*}
1/J_L &> 1/J_H \\
n_L &< n_H \\
n_L^* &< n_H^*
\end{align*}
\]
Growth

- From $n_H^*$ and hence the high-type labor share $s_H$

$$z^* = \frac{1 - s_H - \psi_0 n_H^*}{\psi_c} + \frac{\beta - 1}{\beta}$$

- Aggregate growth:

$$g = z^* \ln \lambda$$

- Ambiguous, but they find it falls in as $n_H^*$ rises

- Much left to be done to clarify this result and others,
  - working out corner solutions and parameter restrictions
Agenda

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  • … to tell a “quantitative story” of the new economy
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  - links to firm-level data
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‣ Tor Jakob Klette would have been pleased