

Discussion:

A Theory of Falling Growth and Rising Rents

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50 Years Research and Policy

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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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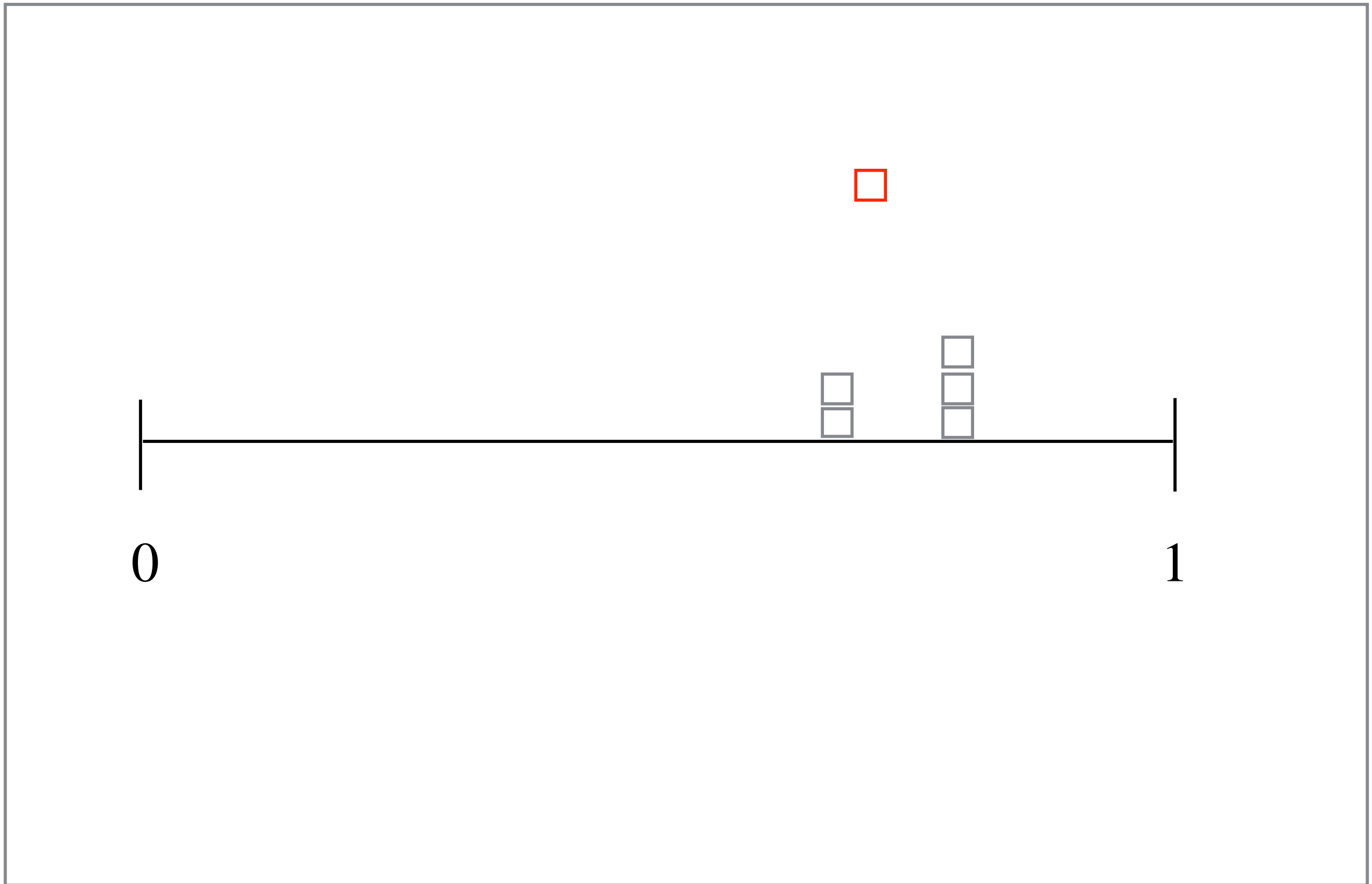
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- High-type firms gained more, hence expanded
- Productivity jumps up but eventually innovation rate is lower

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

$$\pi_H(n) = n (1 - s_H) - \frac{\psi_0}{2} n^2$$

- Bellman equation

$$v_H(n) = \max_{n'} \left\{ \pi_H(n) - (n' - n(1 - z^*))\psi_c + \beta v_H(n') \right\}$$

- Share of high-type competitors:

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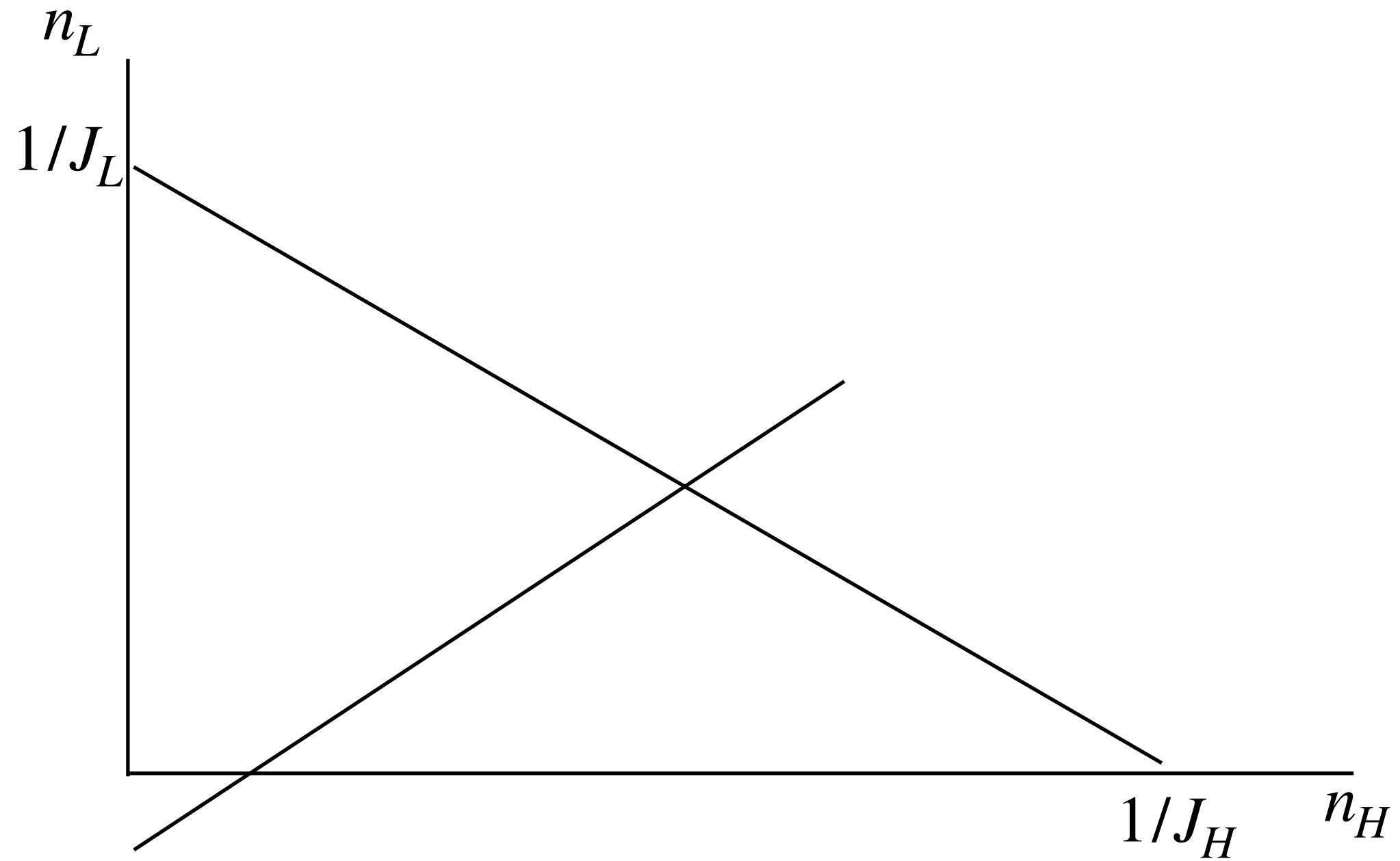
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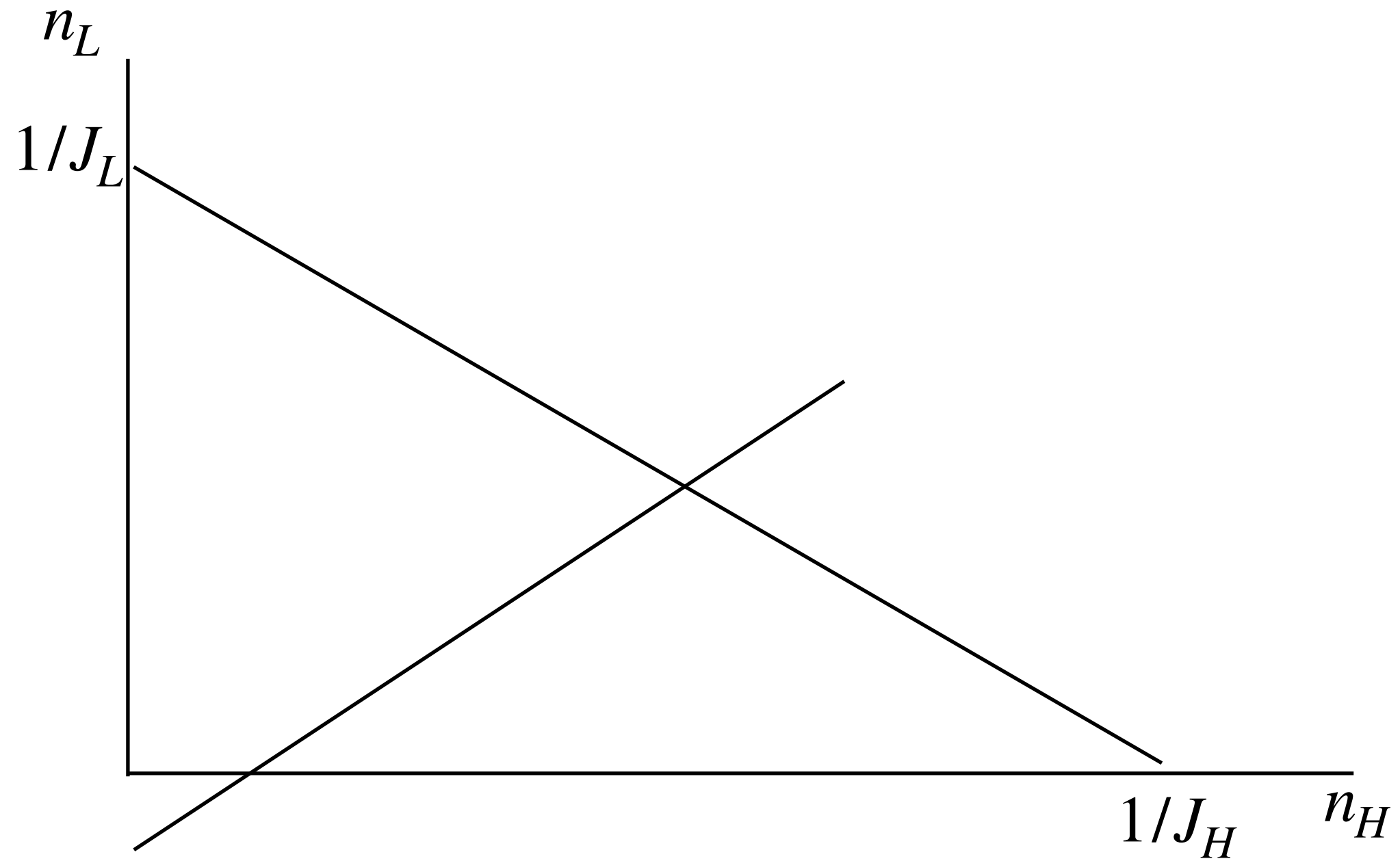
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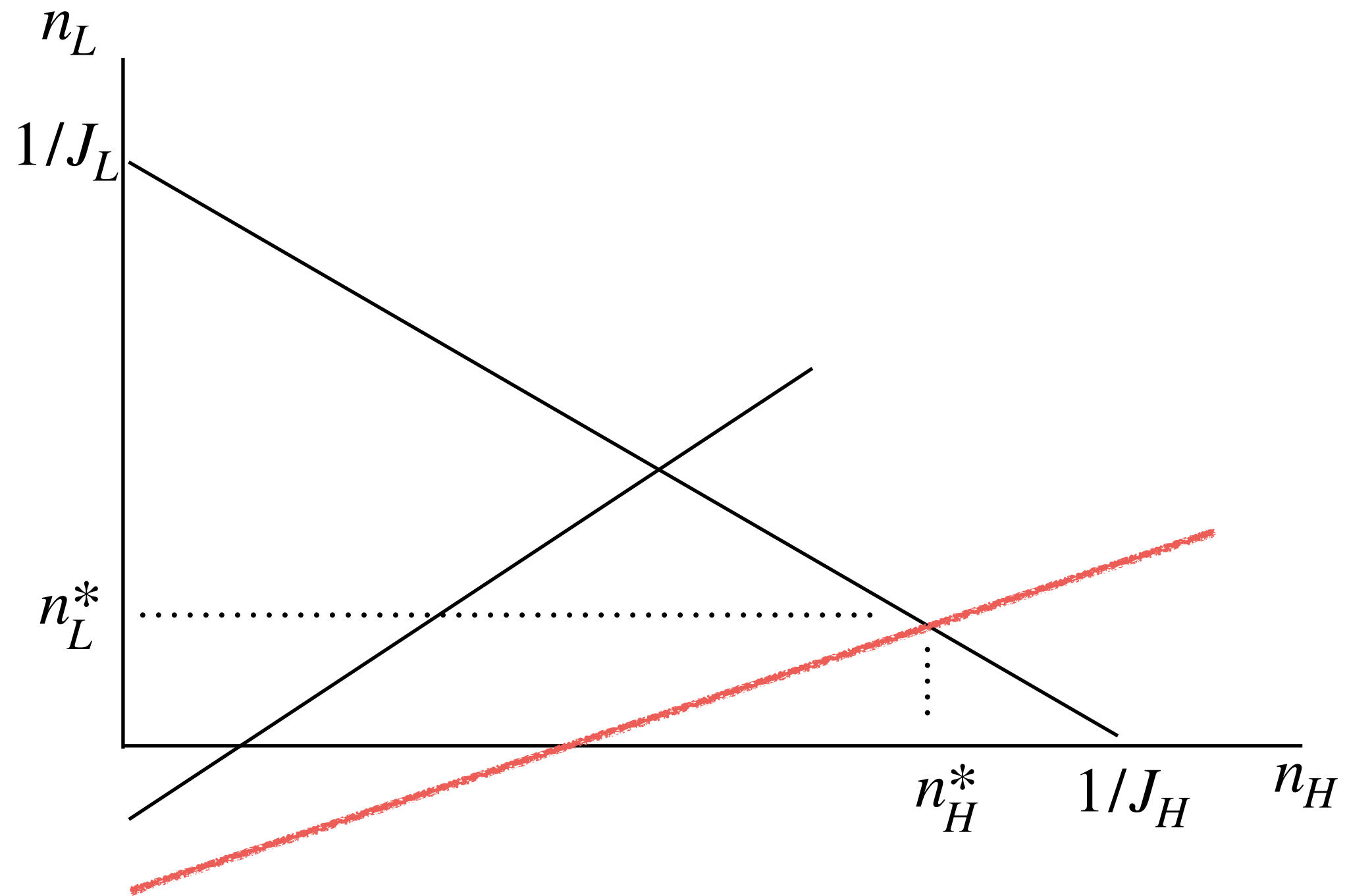
Steady State and Transition



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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

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- Tor Jakob Klette would have been pleased