

The Reallocation Myth

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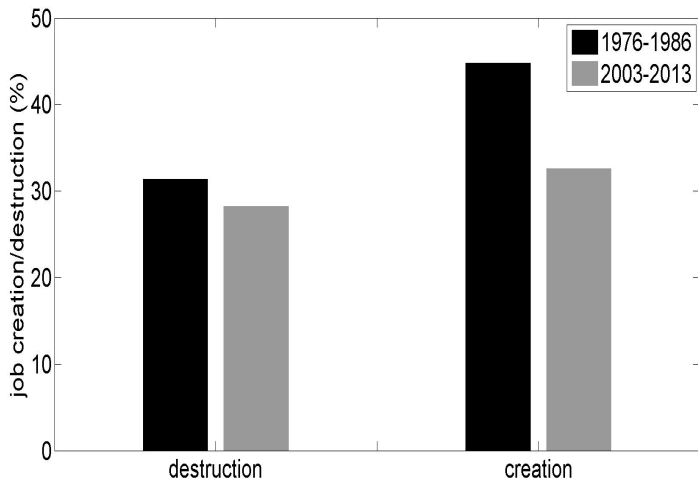
2017 Federal Reserve Bank of Kansas City Symposium on

Fostering a Dynamic Global Economy

Growth via Creative Destruction

- Mini-mills vs. Integrated steel mills
- Wal-Mart vs. Mom & Pop stores
- Apple/Samsung vs. Blackberry/Nokia
- Amazon vs. independent bookstores / Borders
- Netflix vs. Blockbuster
- Uber vs. Taxis
- Google vs. Newspapers

Job Creation and Destruction Rates



Source: Garcia-Macia, Hsieh and Klenow (2016)

$$\Delta \ln A_t = \sum_{i=1}^M \tilde{l}_{it} \Delta \ln A_{i,t}$$

$$\Delta \ln A_t = \underbrace{\text{Creative Destruction}}_{\text{Entrants + Incumbents}} + \underbrace{\text{Own Innovation}}_{\text{Incumbents}}$$

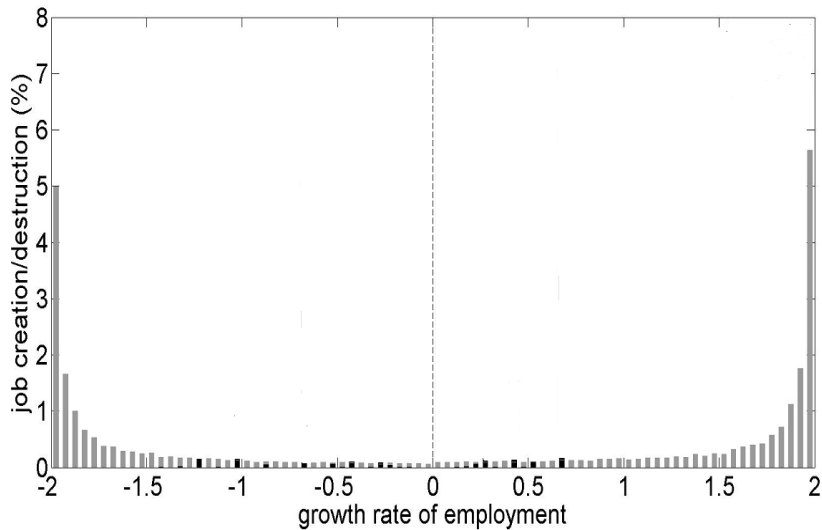
Myth: *Creative Destruction is the dominant source of growth*

Effect of Innovation on Reallocation in a Toy Economy

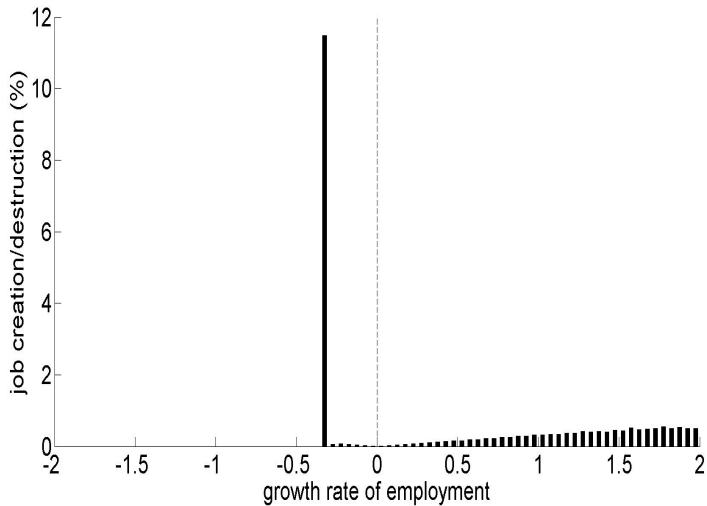
Δ Employment Share

	Entrant	Incumbent 1	Incumbent 2
Creative Destruction by Incumbent 1	-	+26%	-26%
Creative Destruction by Entrant	+28%	-2%	-26%
Own Innovation by Incumbent 2	-	-2%	+2%

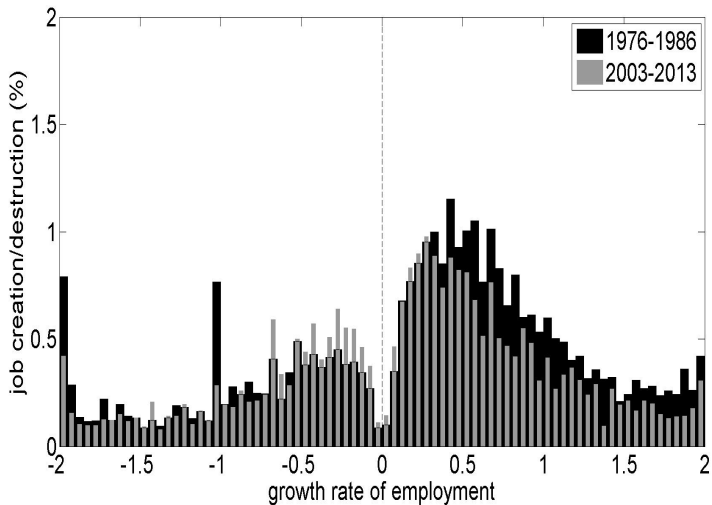
If only Creative Destruction



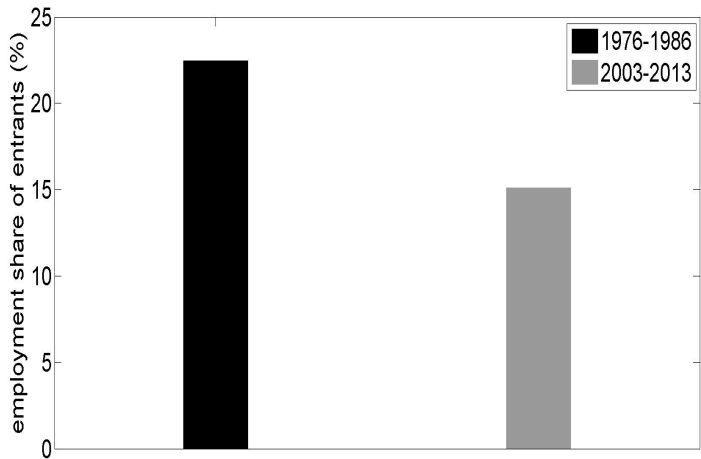
If only Own Innovation



Empirical Employment Growth



Empirical Entrant Share



Estimated Contributions, 2003–2013

Incumbents by Job Growth Rate

	Entrants	> 20%	0% to 20%	< 0%
% of Job Creation	50.3%	13.2%	36.5%	–
% of Aggregate Growth	13.3%	4.3%	64.6%	17.8%

Share of Growth due to Creative Destruction

Creative Destruction by

	Entrants	Incumbents
1976–1986	19.1%	8.2%
2003–2013	12.5%	6.4%

≈ 10 basis points of the 177 basis point decline in U.S. growth from 1995–2004 to 2005–2016 came *directly* from ↓ Creative Destruction