Why Has the Trend Rate of Growth Declined?

Discussion of

Slowing Business Dynamism and Productivity Growth in the United States

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Key Message

- Increase in firm concentration and monopoly power 1980-2020.
- Reduction in business entry, innovation, dynamism

→ Trend growth declined
What is driving it?

• Decline in knowledge diffusion

What is a decline in knowledge diffusion?

• Reduction in the ability of competitor to catch up to market leader ($\delta$)

  $\rightarrow$ Increases concentration and markups

  $\rightarrow$ Reduction in experimentation by leader and entry of newcomers
Evidence

1. Concentration of patents at top 1% firms
   More patents ↔ More litigation ↔ Higher markups

2. Decline in the share of patents issued by new entrants.

3. Increase in duration of patents and self-citation

4. Number of inventors in new firms declining → Moving to “mature firms” where their productivity declines.
Rise of Market Power in the US

Rise in Market Power (markups) consistent with large complementary literature in industrial organization, macroeconomics, etc.

Coupled with reduction in interest rate, can rationalize evolution of a number of macro variables that otherwise could seem puzzling, e.g. Eggertsson, Robbins and Wold (2018).

• Key to rationalize why investment has not increased despite interest rates at historical low.

• Key to understand why wealth-to-output increased with investment-to-output falling.

---> Increase in Economic Rents
Shifts the question back by one

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to

Why has the transmission of knowledge slowed?

Paper: Reduction in antitrust?

Problem: Markups follow a U shape bottoming out in 1980

Demographics: Unifying explanation?
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Mechanism

• Demand effect?
  Older people less willing/able to adapt new products → Lower incentive for innovation.

• Supply effect?
  • Does workers age composition have effect on business dynamism?
Conclusion

• Increasing evidence of higher concentration and falling dynamism in US industries
• While good for stock market this may be reduce growth and innovation
• What is the source?
  • Declining antitrust?
  • Demographics?