Good rents versus bad rents: R&D misallocation and growth

by Aghion, Bergeaud, Boppart, Klenow, and Li

Discussion by Nicolas Crouzet

Kellogg

Overview

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Recent trends profit shares, markups, concentration point to rising rents

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- welfare implications?

Rents and innovative investment

[Crouzet and Eberly, 2018]

	Dependent variable : markup (log)			
	Consumer	Manufacturing	High-tech	Healthcare
Compustat intangible share s_t (OLS)	-0.132^{***}	0.044^{*}	0.452^{***}	0.709^{***}
	(-6.32)	(1.62)	(5.90)	(6.01)
Compustat intangible share s_t (IV)	-0.157^{***}	0.879^{***}	0.498^{***}	1.424^{***}
	(-8.75)	(2.98)	(2.81)	(18.17)
First-stage F-stat	802.12	10.47	89.31	617.89
Observations	56	504	168	112
Industry f.e.	Yes	Yes	Yes	Yes

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high incremental product quality firms have too low a market share

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high incremental product quality firms have too low a market share Decentralized: 73% vs. Planner: 100%

high process efficiency firms have too high a market share Decentralized: 36% vs. Planner: 13%

Roadmap

1. Facts
2. Theory

1. Facts

Summary

$$TFPR_{j,t} = \frac{VA_{j,t}}{K_{j,t}^{\alpha} L_{j,t}^{1-\alpha}}$$

$$P_{j,t} = \text{weighted average product price} \qquad [\approx \text{Product quality}]$$

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$$A_{j,t} = A_j$$

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Firm size increases with both product quality and process efficiency

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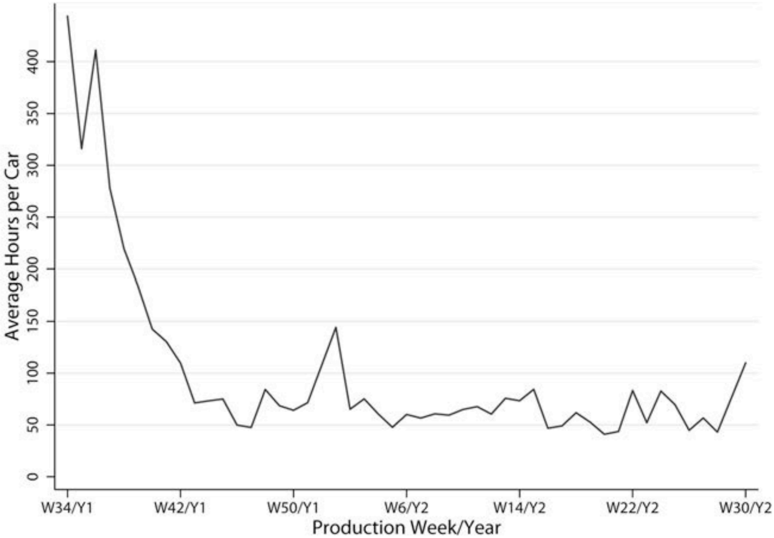
Firms make investments in process efficiency

[Levitt, List, Syverson, 2013]



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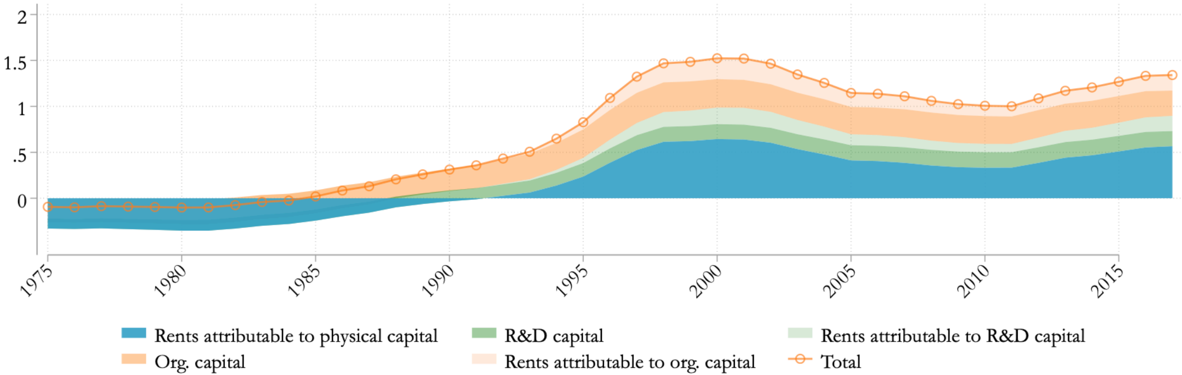
These investments contribute to firm value

[Crouzet, Eberly, 2023]



$$\text{Vertical axis} = \frac{\text{Enterprise value of public, non-financial US firms}}{\text{PPE replacement cost}} - 1$$

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Suggestion: Does the paper need to take the stance that empirically, growth in $A = 0$?

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maybe: existing evidence that TFPQ does not contribute substantially to aggregate growth?

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Welfare implications when model matches $0 > \zeta_{P,A} > -1$?

2. Theory

Key equations

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$$C_0 \propto \overbrace{\left(1 - \frac{1}{J}\sum_k \frac{S_k^2}{\phi_k}\right)}^{(1)} \times \underbrace{\left(a_L \left(\frac{a_H}{a_L}\right)^{S_1+S_2}\right)}_{(2)} \times \overbrace{\mathcal{M}}^{(3)}$$

(1) = Overhead costs

(2) = Process efficiency

(3) = Markup dispersion

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Suggestions:

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To deal with static misallocation separately, other policy tools than R&D subsidies?

A different view of good and bad rents

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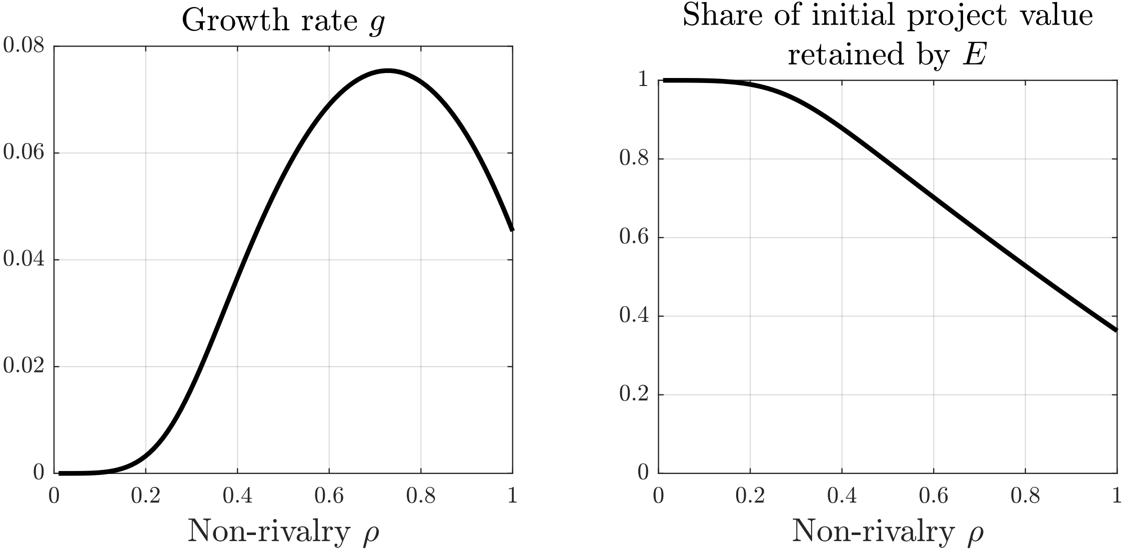
Equilibrium growth

[Crouzet, Eberly, Eisfeldt, Papanikolaou, 2023]



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