A Theory of Falling Growth and Rising Rents

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Abstract

Growth has fallen in the U.S., while firm concentration and profits have risen. Labor's share has fallen, mostly due to rising market share of low labor share firms. We propose a theory for these trends in which the driving force is falling firm-level costs of spanning multiple markets, perhaps due to ICT advances. The most efficient firms spread into new markets in response, generating a temporary burst of growth but also erecting barriers to future innovation if their efficiency is difficult for other firms to imitate. Despite rising rents, even the efficient firms do less innovation in the long run as they are more likely to face stiff competition if they enter markets against each other.

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