The Past and Future of Economic Growth: A Semi-Endogenous Perspective

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March 2023
Outline: The Past and Future of Economic Growth

• A simple semi-endogenous growth model

• Historical growth accounting

• Why future growth could slowdown

• Why future growth might not slow and could speed up
A Simple Model of Semi-Endogenous Growth
U.S. GDP per Person

PER CAPITA GDP (RATIO SCALE, 2022 DOLLARS)

YEAR

2.0% per year
The “Infinite Usability” of Ideas (Paul Romer, 1990)

- **Objects**: Almost everything in the world
  - Examples: iPhones, airplane seats, and surgeons
  - **Rival**: If I’m using it, you cannot at the same time
  - The fundamental scarcity at the heart of most economics

- **Ideas**: They are different — nonrival = infinitely useable
  - Can be used by any number of people simultaneously
  - Examples: calculus, HTML, chemical formula of new drug
The Essence of Romer’s Insight

• **Question:** In generalizing from the neoclassical model to incorporate ideas (A), why do we write the PF as

\[ Y = AK^\alpha L^{1-\alpha} \]  

instead of

\[ Y = A^\alpha K^\beta L^{1-\alpha-\beta} \]

• Does A go inside the CRS or outside?
  - The “default” (*) is sometimes used, e.g. 1960s
  - 1980s: Griliches et al. put knowledge capital inside CRS
The Nonrivalry of Ideas ⇒ Increasing Returns

- Familiar notation, but now let $A_t$ denote the “stock of knowledge” or ideas:

$$Y_t = F(K_t, L_t, A_t) = A_t K_t^\alpha L_t^{1-\alpha}$$

- Constant returns to scale in $K$ and $L$ holding knowledge fixed. Why?

$$F(\lambda K, \lambda L, A) = \lambda \times F(K, L, A)$$

- But therefore increasing returns in $K$, $L$, and $A$ together!

$$F(\lambda K, \lambda L, \lambda A) > F(\lambda K, \lambda L, A)$$

- Replication argument + Nonrivalry ⇒ CRS to objects
- Therefore there must be IRS to objects and ideas
A Simple Model

Final good

\[ Y_t = A_t^\sigma L_{yt} \]

Ideas

\[ \dot{A}_t = R_t A_t^\phi \quad \Rightarrow \quad \frac{\dot{A}_t}{A_t} = R_t A_t^{-\beta} \]

Resource constraint

\[ R_t + L_{yt} = L_t = L_0 e^{nt} \]

Allocation

\[ R_t = \bar{s} L_t, \quad 0 < \bar{s} < 1 \]

\( \phi \) captures knowledge spillovers.

\[ \beta \equiv 1 - \phi > 0 \]
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**A Simple Model**

**Final good**

\[ Y_t = A_t^\sigma L y_t \]

\[ y_t \equiv \frac{Y_t}{L_t} = A_t^\sigma (1 - \bar{s}) \]

**Ideas**

\[ \dot{A}_t = R_t A_t^\phi \quad \Rightarrow \quad \frac{\dot{A}_t}{A_t} = R_t A_t^{-\beta} \]

On BGP, \( \dot{A}/A = \text{Constant} \Rightarrow \)

\[ A_t^* = \text{Constant} \cdot R_t^{\frac{1}{\beta}} \]

**Resource constraint**

\[ R_t + L y_t = L_t = L_0 e^{nt} \]

**Allocation**

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On BGP, \( \dot{A}/A = \text{Constant} \quad \Rightarrow \quad A_t^* = \text{Constant} \cdot R_t^{\frac{1}{\beta}} \]

Combine these two equations...
Steady State of the Simple Model

• Level of income on the BGP (where $\gamma \equiv \frac{\sigma}{\beta}$)

$$y_t^* = \text{Constant} \cdot R_t^\gamma$$

⇒ BGP growth rate:

$$g_y = \frac{\sigma n}{\beta} = \gamma n$$

Long-Run Growth = Degree of IRS, $\gamma \equiv \frac{\sigma}{\beta} \times$ Rate at which scale grows
What’s the difference between these two equations?

Romer

\[ y_t = A_t^\sigma \]

Solow

\[ y_t = k_t^\alpha \]

Hint: It’s not the exponent: \( \sigma = \alpha = 1/3 \) is possible
What’s the difference between these two equations?

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\( A_t \) is an aggregate, while \( k_t \) is per capita

But easy to make aggregates grow: population growth!
Or put in words...

- **Objects**: Add 1 computer ⇒ make 1 worker more productive; for a million workers, need 1 million computers
  
  Output per worker ∼ # of computers per worker

- **Ideas**: Add 1 new idea ⇒ make unlimited # more productive or better off.
  
  – E.g. cure for lung cancer, drought-resistant seeds, spreadsheet

  Income per person ∼ the aggregate stock of knowledge, not on the number of ideas per person.

  *But it is easy to make aggregates grow: population growth!*

  *IRS ⇒ bigger is better.*
Where does growth ultimately come from?

More people ⇒ more ideas ⇒ higher income / person

That’s IRS associated with the nonrivalry of ideas
Evidence for Semi-Endogenous Growth (Bloom et al 2020)

• Document a new stylized fact:

Exponential growth is getting harder to achieve.

\[
\text{Economic growth} = \text{Research productivity} \times \text{Number of researchers}
\]
e.g. 2% or 5% \(\downarrow\) (falling) \(\uparrow\) (rising)

• Consistent with the SEG model:

\[
\frac{\dot{A}_t}{A_t} = R_t A_t^{-\beta}
\]

\(\beta > 0 \Rightarrow \text{ideas are getting harder to find}\)
Evidence: Aggregate U.S. Economy

U.S. TFP Growth (left scale)

Effective number of researchers (right scale)

Bloom, Jones, Van Reenen, and Webb (2020)
The Steady Exponential Growth of Moore’s Law

curve shows transistor count doubling every two years
Evidence: Moore’s Law

Bloom, Jones, Van Reenen, and Webb (2020)
Summary of Evidence

- Moore’s Law
  - 18x harder today to generate the doubling of chip density
  - Have to double research input every decade!

- Qualitatively similar findings in rest of the economy
  - Agricultural innovation (yield per acre of corn and soybeans)
  - Medical innovations (new drugs or mortality from cancer/heart disease)
  - Publicly-traded firms
  - Aggregate economy

New ideas are getting harder to find!
Breakthrough Patents from Kelly, Papanikolaou, Seru, Taddy (2021)

Long and variable lags!?
Literature Review

- Early Semi-Endogenous Growth Models

- Broader Literature: Models with IRS are SEG models!
  - Sectoral heterogeneity: Ngai-Samaniego ('11), Bloom etc ('20), Sampson ('20)
  - Technology diffusion: Klenow-Rodriguez (2005), Buera-Oberfield (2020)
  - Economic geography: Redding-RossiHansberg (2017)
Historical Growth Accounting

In LR, all growth from population growth. But historically...?
Extended Model

- Include physical capital $K$, human capital per person $h$, and misallocation $M$

$$Y_t = K_t^\alpha (Z_t h_t L_t Y_t)^{1-\alpha}$$

$$Z_t \equiv A_t M_t$$

$$A_t^* = R_t^\gamma = (s_t L_t)^\gamma$$

- Write in terms of output per person and rearrange:

$$y_t = \left( \frac{K_t}{Y_t} \right)^{\frac{\alpha}{1-\alpha}} A_t M_t h_t \ell_t (1 - s_t)$$

- In LR, all growth from population growth. But historically...?
Growth Accounting Equations

\[
\frac{d \log y_t}{1 - \alpha} = \alpha \frac{d \log K_t}{Y_t} + \frac{d \log h_t}{1 - \alpha} + \frac{d \log \ell_t}{1 - \alpha} + \frac{d \log (1 - s_t)}{1 - \alpha} + d \log M_t + d \log A_t
\]

GDP per person - Capital-Output ratio - Educational att. - Emp-Pop ratio - Goods intensity - TFP growth

where

\[
\text{TFP growth} \equiv d \log M_t + d \log A_t = d \log M_t + \gamma d \log s_t + \gamma d \log L_t
\]

Misallocation - Ideas - Misallocation - Research intensity - LF growth

All terms are zero in the long run, other than \( \gamma n \). Assume \( \gamma = 1/3 \)
Historical Growth Accounting in the U.S., 1950s to Today

Components of 2% Growth in GDP per Person

- Human capital per person: 0.5pp
- Employment-Pop Ratio: 0.2pp
- TFP: 1.3pp
- K/Y: 0pp
Historical Growth Accounting in the U.S., 1950s to Today

Components of 2% Growth in GDP per Person

- Human capital per person: 0.5pp
- Employment-Pop Ratio: 0.2pp
- K/Y: 0pp
- TFP: 1.3pp

Components of 1.3% TFP Growth

- Research intensity: 0.7pp
- Population growth: 0.3pp
- Misallocation: 0.3pp
Summary of Growth Accounting

- Even in a semi-endogenous growth framework where all LR growth is $\gamma n$,
  - Other factors explain more than 80% of historical growth

- Transitory factors have been very important, but all must end:
  - rising educational attainment
  - rising LF participation
  - declining misallocation
  - increasing research intensity

- Implication: Unless something changes, growth must slow down!
  - The long-run growth rate is $\approx 0.3\%$, not 2%
Why Future Growth might be Slower
Why Future Growth might be Slower

- Growth accounting exercise just presented: $\gamma_n \approx 0.3\%$
- Slowdown in the growth rate of research
- Slowing population growth
Research Employment in the U.S., OECD, and World

**World**
- 1991-2003: 3.2%
- 2003-2018: 3.0%

**OECD**
- 1981-2003: 4.1%
- 2003-2018: 2.8%

**United States**
- 1981-2003: 3.4%
- 2003-2018: 2.1%
The Total Fertility Rate (Live Births per Woman)

- U.S. = 1.8
- H.I.C. = 1.7
- China = 1.7
- Germany = 1.6
- Japan = 1.4
- Italy = 1.3
- Spain = 1.3
What happens if future population growth is negative?

- Suppose population declines exponentially at rate $\eta$: $R_t = R_0 e^{-\eta t}$

- Production of ideas

$$\frac{\dot{A}_t}{A_t} = R_tA_t^{-\beta} = R_0A_t^{-\beta} e^{-\eta t}$$

- Integrating reveals that $A_t$ asymptotes to a constant!

$$A^* = \begin{cases} A_0 \left(1 + \frac{\beta gA_0}{\eta}\right)^{1/\beta} & \text{if } \beta > 0 \\ A_0 \exp\left(\frac{gA_0}{\eta}\right) & \text{if } \beta = 0 \end{cases}$$

Source: Jones (2022) “The End of Economic Growth...”
The Empty Planet Result

• Fertility has trended down: 5, 4, 3, 2, and less in rich countries
  ○ For a family, nothing special about “above 2” vs “below 2”
  ○ But macroeconomics makes this distinction critical!

• Standard result shown earlier: $n > 0 \Rightarrow \text{Expanding Cosmos}$
  ○ Exponential growth in income and population

• Negative population growth $\Rightarrow$ much more pessimistic Empty Planet
  ○ Stagnating living standards for a population that vanishes
  ○ Could this be our future?
Why Future Growth might be Faster?

(Or at least not as slow as the preceding section implies!)

1. Finding Lost Einsteins
2. Automation and artificial intelligence
Finding Lost Einsteins

• How many Edisons and Doudnas have we missed out on historically?
  ▪ The rise of China, India, and other emerging countries
    – China and India each have as many people as U.S.+Europe+Japan
  ▪ Brouillette (2022): Only 3% of inventors were women in 1976; only 12% in 2016
  ▪ Bell et al (2019): Poor people missing opportunities

• Increase global research by a factor of 3 or 7?
  ▪ For $\gamma = 1/3$: Increase incomes by $3^{1/3} - 1 = 40\%$ and $7^{1/3} - 1 = 90\%$
  ▪ Could easily raise growth by 0.2pp to 0.4pp for a century
Automation and A.I.

- Suppose research involves many tasks $X_i$ that can be done by people or by machines

$$\dot{A}_t = A_t^{1-\beta} X_1^{\alpha_1} X_2^{\alpha_2} \cdots X_n^{\alpha_n}, \quad \sum \alpha_i = 1$$

$$= A_t^{1-\beta} K_t^\alpha R_t^{1-\alpha}$$

$\alpha$ is the fraction of research tasks that have been automated

- Long-run growth rate:

$$g_A = \frac{n}{\beta - \alpha}$$

- Rising automation could raise economic growth
  - Singularity if $\alpha = \beta$ (or at least all possible ideas get discovered quickly)
  - Labs, computers, WWW: recent automation has not offset slowing growth
Conclusion: Key Outstanding Questions
Important Questions for Future Research

• How large is the degree of IRS associated with ideas, $\gamma$?

• What is the social rate of return to research?
  ○ Are we underinvesting in basic research?

• Better growth accounting: contributions from DARPA, NIH, migration of European scientists during WWII, migration more generally

• Automation ongoing for 150 years, but growth slowing not rising: why?