

# Ownership Structure and Economic Growth

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# Ownership Structure $\implies$ Economic Growth?

- Ownership structure is concentrated
  - BlackRock, Vanguard, State Street, and Fidelity control 30% of votes of S&P 500 firms
  - Top 4 chaebols account for 70% of stock market capitalization in Korea

Share

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- Firms maximize shareholder values  $\implies$   
Partially internalize externalities for commonly owned firm
- Ownership structure (common ownership, cross ownership, M&A, FDI, ...)  $\implies$   
Economic growth?
  - Business stealing effect
  - Technology spillover effect

# Quantitative Schumpeterian Growth Model with Ownership Structure

- Existing Schumpeterian growth models:
  - Monopolistic competition (no strategic interaction)
  - Very few firms in Markov perfect equilibrium
- This paper: Many oligopolists + Ownership structure

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  - Ownership structure
  - Product market rivalry
  - Technology spillover

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- This paper: Many oligopolists + Ownership structure
- Quantify three inter-firm networks for publicly listed patenting firms in the US ( $\simeq 1000$  firms)
  - Ownership structure
  - Product market rivalry
  - Technology spillover
- Common ownership in the US:
  - Internalization of business stealing  $\implies g \downarrow \downarrow$
  - Internalization of technology spillover  $\implies g \uparrow$

# Literature

- Competition & Innovation:

d'Aspremont and Jacquemin (1988); Kamien et al. (1992); Aghion et al. (2001, 2005); Acemoglu and Akcigit (2012); Aghion et al. (2013); Bloom et al. (2013); Lopez and Vives (2019); Peters (2020); Akcigit and Ates (2021, 2023); Liu et al. (2022); Cavenaile et al. (2023); Anton et al. (2023, 2024); Kini et al. (2024); Hopenhayn and Okumura (2024)

[Quantitative Schumpeterian growth model with ownership structure](#)

- Hedonic Demand / Empirical IO:

Lancaster (1966); Rosen (1974); Berry et al. (1995); Nevo (2001); Pellegrino (2024); Ederer and Pellegrino (2024)

[Dynamic general equilibrium / R&D](#)

- Oligopoly / Common Ownership / Market Power:

Rubinstein and Yaari (1983); Rotemberg (1984); Neary (2003); Atkeson and Burstein (2008); Gutierrez and Philippon (2017); He and Huang (2017); Azar et al. (2018, 2022); Autor et al. (2020); Baqaee and Farhi (2020); De Loecker et al. (2020); Azar and Vives (2021); Edmond et al. (2023)



# Simple Model

- Static partial equilibrium model of oligopolistic competition in production and R&D
  - d'Aspremont and Jacquemin (1988); Kamien et al. (1992); Leahy and Neary (1997); Lopez and Vives (2019); Anton et al. (2024)
- Firm  $i \in \{1, \dots, n\}$  chooses quantity  $q_i$  and R&D effort  $x_i$
- Linear inverse demand:  $p(q) = b - \Sigma q$  ( $\sigma_{ii} = 1$ )
- CRS production technology with marginal cost:  $m(x) = \bar{m} - \Omega x$
- Quadratic cost of R&D:  $c(x_i) = \frac{1}{2}x_i^2$

# Common Ownership Weights

- $K = [\kappa_{ij}]$ : common ownership weights that firm  $i$  places on the value of firm  $j$  ( $\kappa_{ii} = 1$ )
- More overlapping ownership b/w firm  $i$  and  $j \implies$  Higher  $\kappa_{ij}$
- $K = I$ : dispersed ownership (each firm maximizes its own value)
- $K = \mathbf{1}_{n \times n}$ : monopoly (maximizes total producer surplus)

Proportional Influence

# Cournot & R&D Game

- Firm  $i$ 's profit:

$$\begin{aligned}\pi_i(\mathbf{q}, \mathbf{x}) &= [p_i(\mathbf{q}) - m_i(\mathbf{x})]q_i - c(x_i) \\ &= \left[ b_i - \sum_{j=1}^n \sigma_{ij}q_j - \bar{m}_i + \sum_{j=1}^n \omega_{ij}x_j \right] q_i - \frac{1}{2}x_i^2\end{aligned}$$

- Given  $\{q_j, x_j\}_{j \neq i}$ , firm  $i$  chooses  $q_i$  and  $x_i$  to maximize  $\sum_j \kappa_{ij} \pi_j(\mathbf{q}, \mathbf{x})$

# Impact of Common Ownership on R&D

- Comparative statics where  $\{q_k, x_k\}_{k \neq i}$  are held constant:

$$\frac{\partial x_i}{\partial \kappa_{ij}} = \frac{q_j}{2 - \omega_{ii}^2} (2\omega_{ij} - \omega_{ii}\sigma_{ij}) \quad \forall j \neq i$$

- SOC:  $2 > \omega_{ii}^2$
- Internalize business stealing effect:  $\partial^2 x_i / \partial \kappa_{ij} \partial \sigma_{ij} < 0$
- Internalize technology spillover effect:  $\partial^2 x_i / \partial \kappa_{ij} \partial \omega_{ij} > 0$

# Preview of Identification Strategy

Networks	Measurement
Common ownership $K$	Institutional investor holdings (Backus et al., 2021)
Product market rivalry $\Sigma$	Product proximity (Hoberg and Phillips, 2016): Text analysis of business description
Technology spillover $\Omega$	Technology proximity (Jaffe, 1986; Bloom et al., 2013): Patent classification

# Schumpeterian Growth Model

- Linear quadratic aggregator (final good):

$$Y_t = \mathbf{q}_t^T \mathbf{b}_t - \frac{1}{2} \mathbf{q}_t^T \mathbf{\Sigma} \mathbf{q}_t$$

- Linear inverse demand:

$$\mathbf{p}_t = \mathbf{b}_t - \mathbf{\Sigma} \mathbf{q}_t$$

- CRS production technology (intermediate good):

$$q_{i,t} = a_{i,t} l_{i,t}$$

- Each firm has knowledge capital (state variable):  $z_{i,t}$
- Each firm allocates knowledge capital to improve labor productivity and product quality:

$$\zeta a_{i,t} + b_{i,t} = z_{i,t}$$

# Law of Motion of Knowledge Capital

$$dz_t = \left( \underbrace{\Omega z_t}_{\text{tech spillover}} + \underbrace{\mu x_t}_{\text{R\&D}} \right) dt + \underbrace{\gamma z_t \circ dW_t}_{\text{shocks}}$$

- $\Omega = [\omega_{ij}]$ : technology spillover matrix
- $x_{i,t} = \sqrt{d_{i,t}}$ 
  - $d_{i,t}$ : R&D input in terms of final good
  - Innovation elasticity is 0.5
- $\mu, \gamma$ : positive scalars

# Market Clearing and Preference

- Inelastic labor supply:

$$L = \sum_i l_{i,t}$$

- Final good market clearing:

$$C_t + \underbrace{\sum_i d_{i,t}}_{\text{R\&D input}} = Y_t$$

- Risk neutral representative household:

$$\max E_t \left[ \int_t^{\infty} \exp(-\rho s) C_s ds \right]$$



# Cournot-Nash Equilibrium

- Firm  $i$ 's gross profit before subtracting dynamic R&D cost: [Diagram](#)

$$\pi_{i,t} = p_{i,t}q_{i,t} - w_t l_{i,t} = \left( b_{i,t} - \sum_j \sigma_{ij} q_{j,t} - \frac{w_t}{a_{i,t}} \right) q_{i,t} \quad \text{where} \quad \zeta a_{i,t} + b_{i,t} = z_{i,t}$$

- Given  $w_t$ ,  $z_{i,t}$ , and  $\{q_{j,t}\}_{j \neq i}$ , firm  $i$  chooses  $a_{i,t}$ ,  $b_{i,t}$ , and  $q_{i,t}$  to maximize  $\sum_j \kappa_{ij} \pi_{j,t}$

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- Given  $w_t$ ,  $z_{i,t}$ , and  $\{q_{j,t}\}_{j \neq i}$ , firm  $i$  chooses  $a_{i,t}$ ,  $b_{i,t}$ , and  $q_{i,t}$  to maximize  $\sum_j \kappa_{ij} \pi_{j,t}$
- Quantity is a linear function of knowledge capital:

$$q(z_t) = \left\{ \underbrace{2 \frac{\zeta}{L} \mathbf{1}_{n \times n}}_{\text{labor cost}} + \underbrace{\Sigma}_{\text{substitutability}} + \underbrace{K \circ \Sigma}_{\text{ownership} \times \text{substitutability}} \right\}^{-1} z_t$$

- Ownership-weighted gross profits are expressed in quadratic form:  $\sum_j \kappa_{ij} \pi_{j,t} = z_t^T Q^i z_t$  [Q](#)

# Linear-Quadratic Differential Game

- Given other firms' R&D  $\{x_{j,t}\}_{j \neq i, t \geq 0}$ , firm  $i$  chooses R&D  $\{x_{i,t}\}_{t \geq 0}$  to maximize

$$\max_{\{x_{i,t}\}_{t \geq 0}} V^i(z_0) \equiv E_0 \left[ \int_0^\infty \exp(-\rho t) \left\{ \sum_j \kappa_{ij} (\pi_{j,t} - x_{j,t}^2) \right\} dt \right]$$

subject to  $dz_t = (\Omega z_t + \mu x_t) dt + \gamma z_t \circ dW_t$

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subject to  $dz_t = (\mathbf{\Omega}z_t + \mu x_t) dt + \gamma z_t \circ dW_t$

- Firm  $i$ 's HJB equation:

$$\rho V^i(z) = \max_{x_i} \left\{ z^T Q^i z - \sum_j \kappa_{ij} x_j^2 + V_z^i(z) [\mathbf{\Omega}z + \mu x] + \frac{\gamma^2}{2} z^T V_{zz}^i(z) z \right\}$$

# HJB Equations $\implies$ Riccati Equations

- Guess and verify  $V^i(z) = z^T X^i z$  (for any  $z$ )
- $X^i$  is the solution of stacked algebraic Riccati equations Riccati
- All public patenting firms in the US in our dataset  $\approx 1000$  firms  $\implies$   
 $1000^3 = 1$  billion undetermined coefficients (20 seconds on my laptop)

Oligopolistic Schumpeterian	Computation time	# of firms	Productivity space
Cavenaile et al. (2023)	$O(2^n)$	4	6 grid
Our model	$O(n^4)$	$\approx 1000$	Continuous

## Balance Growth Path

- R&D strategy:  $x_{i,t} = (\mu X_i^i)^T z_t$  where  $X_i^i$  is the  $i$  th column of  $X^i$
- The law of motion is rewritten as  $dz_t = \Phi z_t dt + \gamma z_t \circ dW_t$  where

$$\Phi \equiv \underbrace{\Omega}_{\text{Tech Spillover}} + \underbrace{\mu^2 [X_1^1 \cdots X_n^n]^T}_{\text{R\&D}}$$

## Theorem

Consider the deterministic economy ( $\gamma = 0$ ). If  $\Phi$  is irreducible, then:

- (i) There exists largest positive eigenvalue of  $\Phi$ ,  $g$ , and associated positive eigenvector,  $z^*$ .
- (ii) There exists a globally stable BGP such that the knowledge capital growth rate of all firms is  $g$ , and the knowledge capital distribution is a scalar multiple of  $z^*$ .

- Proof: Perron–Frobenius Theorem
- “ $\Phi$  is irreducible”  $\iff$  “All firms are directly or indirectly connected technologically”

# Intuition of Why the Model Has the BGP

- On the BGP,  $a_t$ ,  $b_t$ ,  $z_t$ , and  $q_t$  grow at the same rate

Technological Choice:  $\zeta a_{i,t} + b_{i,t} = z_{i,t}$

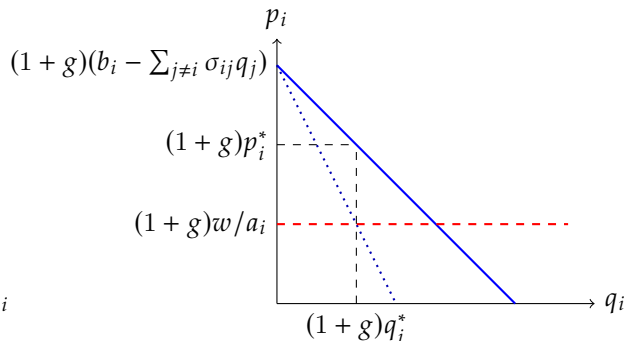
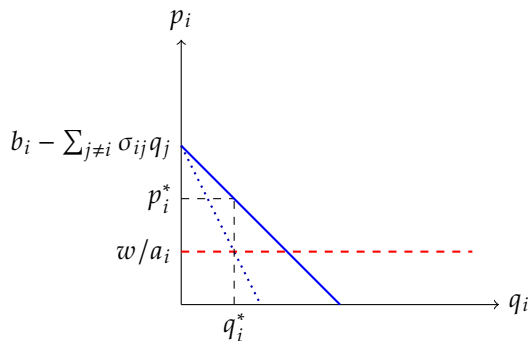
Linear Production Technology:  $q_{i,t} = a_{i,t} l_{i,t}$

Inelastic Labor Supply:  $L = \sum_i l_{i,t}$

- Linear and quadratic term in  $q_t$  of output grow at the same rate: [Equilibrium Summary](#)

$$Y_t = q_t^T b_t - \frac{1}{2} q_t^T \Sigma q_t$$

# Partial Equilibrium Diagram and BGP



- $a_i$ ,  $b_i$ ,  $q_i$ ,  $p_i$ , and  $w/a_i$  grow at the same rate of  $g$
- (i) (consumer surplus / producer surplus) and (ii) (cost / revenue) stay the same



# Expected Growth Rate and Utility

- Apply Ito's lemma:

$$\begin{aligned} \log Y_t &= \log (z_t^T Q z_t) \\ dz_t &= \Phi z_t dt + \gamma z_t \circ dW_t \end{aligned} \implies E_t [g_t | z_t]$$

- Expected utility is expressed in quadratic form:

$$E_t \left[ \int_t^\infty \exp(-\rho s) C_s ds \middle| z_t \right] = z_t^T X z_t$$

- Solve the equilibrium once  $\implies$  Can compute expected growth and utility for any  $z_t$

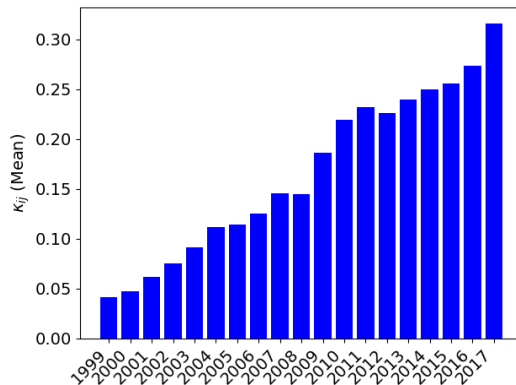
Decomposition

x

# Common Ownership $K$

- Backus et al. (2021) construct a dataset on investors' holdings based on Form 13F
- Baseline: Rotemberg (1984) proportional influence

Proportional Influence



# Product Market Rivalry $\Sigma$

- Hoberg and Phillips (2016) estimates product proximity using business descriptions in 10-K
- Pellegrino (2024) estimates  $\alpha$  to align with the cross-price elasticity of demand micro estimates

$$\underbrace{\sigma_{ij}}_{\text{substitutability}} = \alpha \times \text{product proximity b/w } i \text{ and } j \quad (i \neq j)$$

# Technological Proximity $\tilde{\Omega}$

- Technological profile of firm  $i$ 
  - The vector of the share of patents held by firm  $i$  in each technology class
  - Baseline: group-level patent classifications ( $\approx 4000$ )
- Jaffe (1986) technological proximity measure  $\tilde{\omega}_{ij}$ :
  - Cosine similarity of the technological profiles b/w firm  $i$  and  $j$

# Distribution of Knowledge Capital $z_t$

Variables	Identification
$\pi_{i,t}$	Gross profit (before R&D cost) = Revenue – Cost of goods sold
$\boldsymbol{q}_t$	$\pi_{i,t} = \sum_j \kappa_{ij} \sigma_{ij} q_{i,t} q_{j,t}$
$\zeta/L$	Matches sample firms' cost share (average markup)
$\boldsymbol{z}_t$	$\boldsymbol{z}_t = \left\{ 2 \frac{\zeta}{L} \boldsymbol{J} + \boldsymbol{\Sigma} + \boldsymbol{K} \circ \boldsymbol{\Sigma} \right\} \boldsymbol{q}_t$

# Technology Spillover $\Omega = \beta \times \text{Technological Proximity } \tilde{\Omega}$ First Stage

$$z_{i,t+1} - z_{i,t} = \beta \sum_{j \neq i} \tilde{\omega}_{ij,t} z_{j,t} + \text{Year FE}_t + \epsilon_{i,t}$$

	(1)	(2)	(3)
	$z_{i,t+1} - z_{i,t}$	$z_{i,t+1} - z_{i,t}$	$z_{i,t+1} - z_{i,t}$
$\sum_{j \neq i} \tilde{\omega}_{ij,t} z_{j,t}$	0.000191** (0.000035)	0.000152*** (0.000035)	0.000140*** (0.000039)
$\sqrt{\text{R\&D Expenditure}}$		0.037** (0.021)	
Year Fixed Effects	✓	✓	✓
IV			✓
IV 1st Stage F-statistics			4176
No. observations	16,324	15,173	14,181

SEs clustered by years and 4-digit naics industries are reported in parentheses. \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

- IV: Firm-specific tax price of R&D from federal and state-specific rules (Bloom et al., 2013)

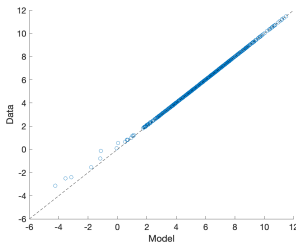
## Identification: Summary

- Publicly available data + Compustat

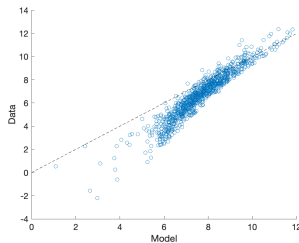
Notation	Description	Value	Source
$\Sigma$	Product proximity		Form 10-K, Hoberg and Phillips (2016)
$\tilde{\Omega}$	Technological proximity		USPTO, Patent classification
$K$	Common ownership weights		Form 13-F, Backus et al. (2021)
$\alpha$	Product proximity $\rightarrow$ Substitutability	0.12	Pellegrino (2024)
$\beta$	Technological proximity $\rightarrow$ Spillover	0.00014	Estimate the law of motion
$\gamma$	St.d. of idiosyncratic shocks	0.027	Estimate the law of motion
$\zeta/L$	Labor augmentation efficiency	0.0063	Compustat, Cost of goods sold
$\rho$	Discount rate	0.10	$>$ risk free rates, $<$ private R&D returns
$\mu$	R&D efficiency	0.05	1.7% economic growth rate

# Fit b/w Model and Data

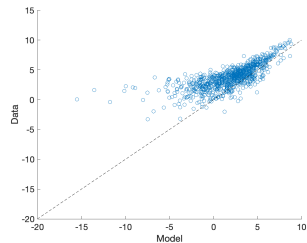
- Comparison of firm-level model-generated values ( $x$ -axis) with observed data ( $y$ -axis)



(a) Log of Profit (Targeted)



(b) Log of Sales



(c) Log of R&D Expenditure



# Counterfactual Ownership Structures

Ownership Structure	Description
Baseline	Observed ownership structure in 2017
Dispersed	$K^D = I$
Mean=1999	$\kappa_{ij,2017}^{M1999} = \text{const} \times \kappa_{ij,2017}$ and $E \left[ \kappa_{ij,2017}^{M1999} \right] = E \left[ \kappa_{ij,1999} \right]$ for $j \neq i$
Uniform	$\kappa_{ij,2017}^U = E \left[ \kappa_{ij,2017} \right]$ for $j \neq i$
Monopoly	$K^M = 1$

# Total Output

Total Output in 2017 (Social Optimum: 100)	Ownership (Baseline: 2017)				
	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	91.30	91.02	90.78	89.08	89.17
Only Business Steal $\Omega = [0]$					
Only Tech Spill $\Sigma = I, \zeta/L = 0$					

- Inelastic labor supply  $\implies$  Changes arise from product misallocation
- Common ownership exacerbates product misallocation

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Only Business Steal $\Omega = [0]$	91.30	91.02	90.78	89.08	89.17
Only Tech Spill $\Sigma = I, \zeta/L = 0$	75.00	75.00	75.00	75.00	75.00

- Inelastic labor supply  $\implies$  Changes arise from product misallocation
- Common ownership exacerbates product misallocation

## Total R&D Expenditure

Total R&D in 2017 (Social Optimum: 100)	Ownership (Baseline: 2017)				
	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	26.16	25.90	25.56	22.36	19.36
Only Business Steal $\Omega = [0]$					
Only Tech Spill $\Sigma = I, \zeta/L = 0$					

- Internalization of business stealing > Internalization of technology spillover
- Network heterogeneity is important

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	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	26.16	25.90	25.56	22.36	19.36
Only Business Steal $\Omega = [0]$	28.15	27.79	27.07	23.42	19.80
Only Tech Spill $\Sigma = I, \zeta/L = 0$					

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	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	26.16	25.90	25.56	22.36	19.36
Only Business Steal					
$\Omega = [0]$	28.15	27.79	27.07	23.42	19.80
Only Tech Spill					
$\Sigma = I, \zeta/L = 0$	18.27	18.34	18.75	18.86	19.84

- Internalization of business stealing > Internalization of technology spillover
- Network heterogeneity is important

## Expected Growth Rate

Expected Economic Growth Rate in 2017 (%)	Ownership (Baseline: 2017)				
	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	1.796	1.793	1.791	1.753	1.713
Only Business Steal $\Omega = [0]$					
Only Tech Spill $\Sigma = I, \zeta/L = 0$					

- In baseline, the expected growth rate is
  - 0.043 pp (2.4%) lower compared to dispersed ownership, and
  - 0.040 pp (2.2%) lower compared to common ownership level in 1999.



## Expected Growth Rate

Expected Economic Growth Rate in 2017 (%)	Ownership (Baseline: 2017)				
	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	1.796	1.793	1.791	1.753	1.713
Only Business Steal $\Omega = [0]$	1.097	1.094	1.093	1.062	1.020
Only Tech Spill $\Sigma = I, \zeta/L = 0$					

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## Expected Growth Rate

Expected Economic Growth Rate in 2017 (%)	Ownership (Baseline: 2017)				
	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	1.796	1.793	1.791	1.753	1.713
Only Business Steal $\Omega = [0]$	1.097	1.094	1.093	1.062	1.020
Only Tech Spill $\Sigma = I, \zeta/L = 0$	2.051	2.054	2.068	2.072	2.107

- In baseline, the expected growth rate is
  - 0.043 pp (2.4%) lower compared to dispersed ownership, and
  - 0.040 pp (2.2%) lower compared to common ownership level in 1999.

## Expected Social Welfare

Expected Social Welfare (Social Optimum: 100)	Ownership (Baseline: 2017)				
	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	87.72	87.42	87.16	85.25	85.18
Only Business Steal $\Omega = [0]$					
Only Tech Spill $\Sigma = I, \zeta/L = 0$					

- In the baseline, the consumption-equivalent welfare loss is
  - 2.8% compared to dispersed ownership, and
  - 2.5% compared to the common ownership level in 1999.

## Expected Social Welfare

Expected Social Welfare (Social Optimum: 100)	Ownership (Baseline: 2017)				
	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	87.72	87.42	87.16	85.25	85.18
Only Business Steal $\Omega = [0]$	88.83	88.53	88.30	86.44	86.41
Only Tech Spill $\Sigma = I, \zeta/L = 0$					

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  - 2.5% compared to the common ownership level in 1999.

## Expected Social Welfare

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	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	87.72	87.42	87.16	85.25	85.18
Only Business Steal $\Omega = [0]$	88.83	88.53	88.30	86.44	86.41
Only Tech Spill $\Sigma = I, \zeta/L = 0$	68.81	68.82	68.88	68.89	69.02

- In the baseline, the consumption-equivalent welfare loss is
  - 2.8% compared to dispersed ownership, and
  - 2.5% compared to the common ownership level in 1999.

## Firm Value Share

Firm Value Share in 2017 (%)	Ownership (Baseline: 2017)				
	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	28.74	29.63	33.43	33.34	40.92
Only Business Steal $\Omega = [0]$					
Only Tech Spill $\Sigma = I, \zeta/L = 0$					

- In baseline, firm value share is
  - 5.6% lower compared to dispersed ownership, and
  - 4.7% lower compared to common ownership level in 1999.

## Firm Value Share

Firm Value Share in 2017 (%)	Ownership (Baseline: 2017)				
	Dispersed	Mean=1999	Uniform	Baseline	Monopoly
Baseline	28.74	29.63	33.43	33.34	40.92
Only Business Steal					
$\Omega = [0]$	27.91	28.80	32.60	33.51	40.14
Only Tech Spill					
$\Sigma = I, \zeta/L = 0$					

- In baseline, firm value share is
  - 5.6% lower compared to dispersed ownership, and
  - 4.7% lower compared to common ownership level in 1999.

## Firm Value Share

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$\Omega = [0]$	27.91	28.80	32.60	33.51	40.14
Only Tech Spill					
$\Sigma = I, \zeta/L = 0$	64.82	64.81	64.76	64.74	64.63

- In baseline, firm value share is
  - 5.6% lower compared to dispersed ownership, and
  - 4.7% lower compared to common ownership level in 1999.



## When Common Ownership Affects only R&D Decisions

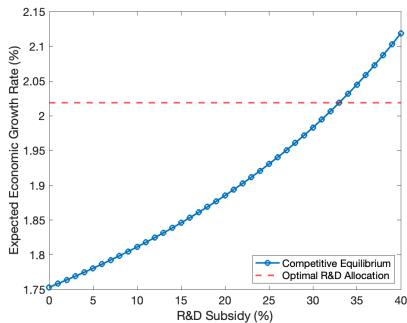
- Common ownership only influences R&D decisions (cf. d'Aspremont and Jacquemin (1988))

	Ownership Structure		
	Dispersed	Common R&D	Baseline
Output (Social Optimum: 100)	91.30	91.30	89.08
R&D Expenditure (Social Optimum: 100)	26.17	19.76	22.36
Expected Growth Rate (%)	1.796	1.726	1.753
Expected Social Welfare (Social Optimum: 100)	87.72	87.49	85.25
Firm Value Share (%)	28.74	29.04	34.34

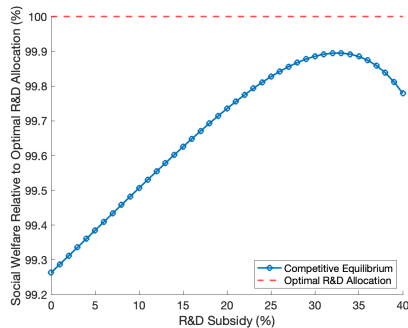
- Lowest R&D expenditure and expected growth rate
- Intermediate social welfare and firm value share

# Optimal Uniform R&D Subsidy

Social Optimum



(a) Expected Growth



(b) Expected Social Welfare

- Optimal rate is  $s = 33\%$ , which increases  $g$  by 0.25 pp (14%)

# Conclusion

- Quantitative Schumpeterian growth model with ownership structure
  - Utilize micro data and computational capability
- Common ownership in the US:
  1. Internalization of business stealing effect  $\Rightarrow g \downarrow \downarrow$
  2. Internalization of technology spillover effect  $\Rightarrow g \uparrow$
- Potential applications:
  - Chaebols in Korea
  - Zaibatsu (pre-WWII) and cross-shareholding (late 20th century) in Japan
  - FDI / multinational companies and international technology diffusion

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Meta	
Vanguard	7.55%
Blackrock	6.50%
Fidelity	5.38%
Accel IX LP	3.88%
State Street	3.40%

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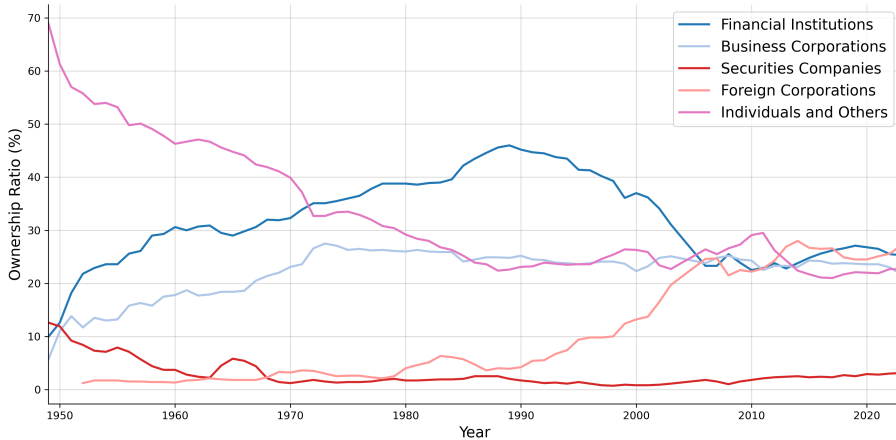
Shareholding percentage	Microsoft	Google	Amazon
OpenAI (ChatGPT)	49%	—	—
Anthropic (Claude)	—	14%	23%

## Technology & Product Proximity: Example

Tesla vs. Ford	
Technology Proximity	0.11
Product Proximity	0.15

Apple vs. Intel	
Technology Proximity	0.57
Product Proximity	0.00

## Ownership Ratio by Holder Types in Japan



# Rotemberg (1984) Proportional Influence

- $o \in \{1, 2, \dots, n_o\}$ : owners
- $s_{io}$ : the proportion of shares in firm  $i$  owned by owner  $o$  where  $\sum_o s_{io} = 1$
- $\widehat{V}_i$ : value of firm  $i$
- $\widetilde{V}_o \equiv \sum_i s_{io} \widehat{V}_i$ : value of owner  $o$
- Firms' objective:

$$\sum_o s_{io} \widetilde{V}_o \propto \sum_j \kappa_{ij} \widehat{V}_j$$

where

$$\kappa_{ij} \equiv \frac{\mathbf{s}_i^T \mathbf{s}_j}{\mathbf{s}_i^T \mathbf{s}_i} = \cos(\mathbf{s}_i, \mathbf{s}_j) \sqrt{\frac{IHHI_j}{IHHI_i}} \quad \text{where} \quad \mathbf{s}_i \equiv [s_{i1}, \dots, s_{io}, \dots, s_{in_o}]^T$$



# Total Surplus

- Total surplus for product  $i$ :

$$ts_i(\mathbf{q}, \mathbf{x}) = \pi_i(\mathbf{q}, \mathbf{x}) + cs_i(\mathbf{q}) = q_i \left[ b_i - \frac{1}{2} \sum_{j=1}^n \sigma_{ij} q_j - \bar{m}_i + \sum_{j=1}^n \omega_{ij} x_j \right] - \frac{1}{2} x_i^2$$

# R&D Externalities

1. Business stealing effect
  - Innovators steal the business (profits) of other firms
2. Technology spillover effect
  - Innovation improves the productivity of other firms
3. Appropriability effect (market power)
  - Innovators cannot appropriate the entire consumer surplus

# R&D Allocation and Externalities

- Firms maximize common owner weighted profits:

$$x^* = (K \circ \Omega)[\Sigma + K \circ \Sigma - \Omega(K \circ \Omega)]^{-1}(b - \bar{m})$$

- Firms maximize common owner weighted total surplus (★):

$$x_{TS}^* = (K \circ \Omega) \left[ \frac{1}{2}(\Sigma + K \circ \Sigma) - \Omega(K \circ \Omega) \right]^{-1} (b - \bar{m})$$

- $K = [1]$  in (★)  $\implies$  Social Optimum
- Externalities: (i) Appropriability, (ii) Business stealing, (iii) Technology spillover

# Generalized Hedonic-Linear Demand (Pellegrino, 2024)

- $i \in \{1, 2, \dots, n\}$ : firms / products
- 1 unit of product  $i$  provides
  - 1 unit of idiosyncratic characteristic  $k \in \{1, 2, \dots, n\}$
  - $\psi_{k,i}$  unit of shared characteristic  $k \in \{n+1, n+2, \dots, n+n_k\}$  where  $\sum_k \psi_{k,i}^2 = 1$
- Aggregate each characteristic:

$$y_{k,t} = \begin{cases} q_{k,t} & k = 1, 2, \dots, n \\ \sum_i \psi_{k,i} q_{i,t} & k = n+1, n+2, \dots, n+n_k \end{cases}$$

- Linear quadratic aggregator over characteristics:

$$Y_t = (1 - \alpha) \sum_{k=1}^n \left( \underbrace{\hat{b}_{k,t} y_{k,t} - \frac{1}{2} y_{k,t}^2}_{\text{idiosyncratic characteristic}} \right) + \alpha \sum_{k=n+1}^{n+n_k} \left( \underbrace{\hat{b}_{k,t} y_{k,t} - \frac{1}{2} y_{k,t}^2}_{\text{shared characteristic}} \right)$$

# Generalized Hedonic-Linear Demand (Pellegrino, 2024)

- Quality:

$$b_i = (1 - \alpha) \hat{b}_i + \alpha \sum_{k=n+1}^{n+n_k} \psi_k \hat{b}_k$$

- Inverse demand:

$$\frac{\mathbf{p}}{P} = \mathbf{b} - \mathbf{\Sigma} \mathbf{q}$$

- Inverse cross price elasticity of demand:

$$\frac{\partial \log p_i}{\partial \log q_j} = -\frac{q_j}{p_i} \cdot \sigma_{ij}$$

- Cross price elasticity of demand:

$$\frac{\partial \log q_i}{\partial \log p_j} = -\frac{p_j}{q_i} (\mathbf{\Sigma}^{-1})_{ij}$$

# Static Profits

- Gross profit:  $\pi_{i,t} = \sum_j \kappa_{ij} \sigma_{ij} q_{i,t} q_{j,t}$
- Firms choose labor productivity and product quality:  $\zeta a_{i,t} = \sqrt{\zeta w_t}$ ,  $b_{i,t} = z_{i,t} - \sqrt{\zeta w_t}$
- Labor market clearing:  $L = \sum_i \frac{q_{i,t}}{a_{i,t}} \implies \sqrt{\zeta w_t} = \frac{\zeta}{L} \sum_i q_{i,t}$
- $q_t = N z_t$  where  $N \equiv \left\{ 2 \frac{\zeta}{L} J + \Sigma + K \circ \Sigma \right\}^{-1}$
- $N_i$ : the  $i$  th row of  $N$
- Ownership weighted profit:

$$\sum_j \kappa_{ij} \frac{\pi_{j,t}}{P_t} = \sum_j \kappa_{ij} \sum_h \kappa_{jh} \sigma_{jh} q_{j,t} q_{h,t} = z_t^T Q^i z_t$$

where

$$Q^i = \frac{1}{2} \sum_j \kappa_{ij} \sum_h \kappa_{jh} \sigma_{jh} \left( N_j^T N_h + N_h^T N_j \right)$$

# Riccati Equations

- $V^i(z) = z^T X^i z$  where  $X^i$  is the solution of the stacked Riccati equation

$$0 = Q^i - \mu^2 \sum_j \kappa_{ij} X_j^j (X_j^j)^T + \left( \Phi - \frac{1}{2} (\rho - \gamma^2) I \right)^T X^i + X^i \left( \Phi - \frac{1}{2} (\rho - \gamma^2) I \right)$$

- $X_i^i \equiv$  the  $i$  th column of  $X^i$
- $\Phi \equiv \Omega + \mu^2 \begin{bmatrix} X_1^1 & \cdots & X_n^n \end{bmatrix}^T$
- Algorithm: Given  $\begin{bmatrix} X_\tau^1 & \cdots & X_\tau^n \end{bmatrix}$ , update  $\begin{bmatrix} X_{\tau-\Delta}^1 & \cdots & X_{\tau-\Delta}^n \end{bmatrix}$  by

$$-\frac{X_\tau^i - X_{\tau-\Delta}^i}{\Delta} = Q^i - \mu^2 \sum_j \kappa_{ij} X_{j,\tau}^j (X_{j,\tau}^j)^T + \left( \Phi_\tau - \frac{1}{2} (\rho - \gamma^2) I \right)^T X_\tau^i + X_\tau^i \left( \Phi_\tau - \frac{1}{2} (\rho - \gamma^2) I \right)$$

# Summary of Equilibrium

Description	Expression
Production strategy	$\mathbf{q}_t = N \mathbf{z}_t$
R&D strategy	$\mathbf{x}_t = \mu \tilde{X} \mathbf{z}_t$
Law of motion	$d\mathbf{z}_t = (\Omega \mathbf{z}_t + \mu \mathbf{x}_t) dt + \gamma \mathbf{z}_t dW_t$
Profit of final producers	$\Pi_t^F / P_t = \mathbf{q}_t^T \left( \frac{1}{2} \Sigma \right) \mathbf{q}_t$
Total operating profit of firms	$\Pi_t / P_t = \mathbf{q}_t^T \left( \frac{1}{2} \Sigma \circ (K + K^T) \right) \mathbf{q}_t$
Labor income	$w_t L / P_t = \mathbf{q}_t^T \left( \frac{\zeta}{L} J \right) \mathbf{q}_t$
Output	$Y_t = \mathbf{q}_t^T \left( \frac{\zeta}{L} J + \frac{1}{2} \Sigma + \frac{1}{2} \Sigma \circ (K + K^T) \right) \mathbf{q}_t$
Consumption	$C_t = Y_t - \mathbf{x}_t^T \mathbf{x}_t$



## Output and Expected Utility

- Output:  $Y_t = q_t^T Q q_t$  where

$$Q = \frac{\zeta}{L} J + \frac{1}{2} \Sigma + \frac{1}{2} \Sigma \circ (K + K^T)$$

- Expected utility:

$$V(z_t) \equiv E_t \left[ \int_t^\infty \exp(-\rho s) C_s ds \middle| z_t \right] = z_t^T X z_t$$

where  $X$  is the solution of the Lyapunov equation (obtained from households' HJB equation):

$$0 = Q - \mu^2 \tilde{X}^T \tilde{X} + X \left( \Phi - \frac{1}{2} (\rho - \gamma^2) I \right) + \left( \Phi - \frac{1}{2} (\rho - \gamma^2) I \right)^T X$$

## Social Optimum

- Static optimal allocation:  $q_t^* = N^* z_t$  where  $N^* \equiv \left\{ 2 \frac{\zeta}{L} J + \Sigma \right\}^{-1}$
- Optimal output:  $Y_t^* = z_t^T Q^* z_t$  where  $Q^* = \frac{1}{2} N^*$
- Optimal expected utility:

$$V^*(z_t) \equiv E_t \left[ \int_t^\infty \exp(-\rho s) C_s ds \middle| z_t \right] = z_t^T X^* z_t,$$

where  $X^*$  is the solution of the Riccati equation (obtained from planner's HJB equation):

$$0 = Q^* - \mu^2 (X^*)^2 + X^* \left( \Phi^* - \frac{1}{2} (\rho - \gamma^2) I \right) + \left( \Phi^* - \frac{1}{2} (\rho - \gamma^2) I \right) X^*$$

- Optimal R&D:  $x_t^* = \mu X^* z_t$
- Optimal technology transition matrix:  $\Phi^* = \Omega + \mu^2 X^*$

# Stochastic Process of Output

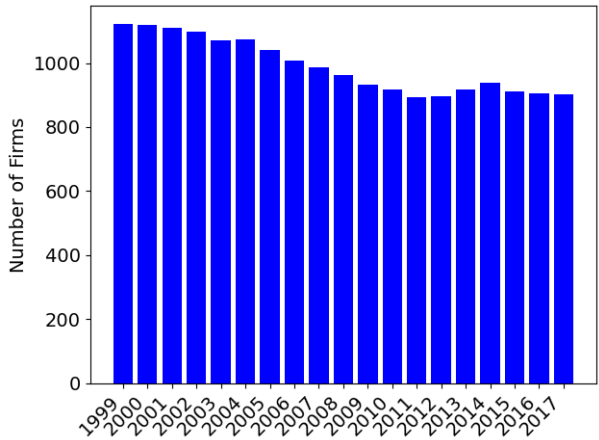
- Applying Itô's lemma,

$$d \log Y_t = \left[ \frac{\mathbf{z}_t^T (Q\Phi + \Phi^T Q) \mathbf{z}_t}{Y_t} + \gamma^2 \left\{ \frac{\sum_i z_{i,t}^2 Q_{ii}}{Y_t} - \frac{2\mathbf{z}_t^T Q \text{diag}(\mathbf{z}_t^2) Q \mathbf{z}_t}{Y_t^2} \right\} \right] dt + \frac{2\gamma \mathbf{z}_t^T Q \text{diag}(\mathbf{z}_t)}{Y_t} dW_t$$

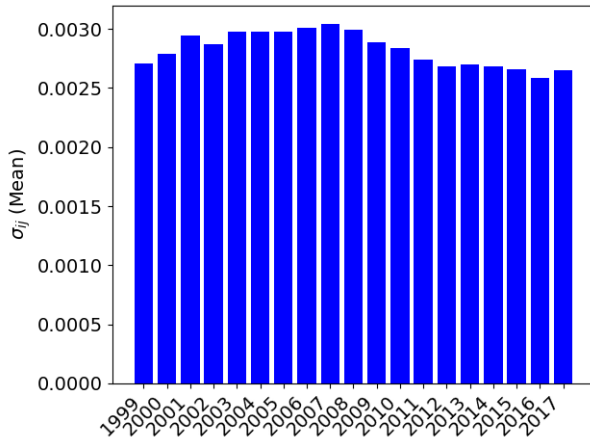
where  $Y_t = \mathbf{z}_t^T Q \mathbf{z}_t$  and  $\Phi = \Omega + \mu^2 \tilde{X}$

Tech Spillover	$\frac{\mathbf{z}_t^T (Q\Omega + \Omega Q) \mathbf{z}_t}{Y_t}$
R&D Contribution	$\frac{\mu^2 \mathbf{z}_t^T (Q\tilde{X} + \tilde{X}^T Q) \mathbf{z}_t}{Y_t}$
Itô Correction	$\gamma^2 \left\{ \frac{\sum_i z_{i,t}^2 Q_{ii}}{Y_t} - \frac{2\mathbf{z}_t^T Q \text{diag}(\mathbf{z}_t^2) Q \mathbf{z}_t}{Y_t^2} \right\}$
Total	$E[d \log Y_t]$

# Number of Sample Firms

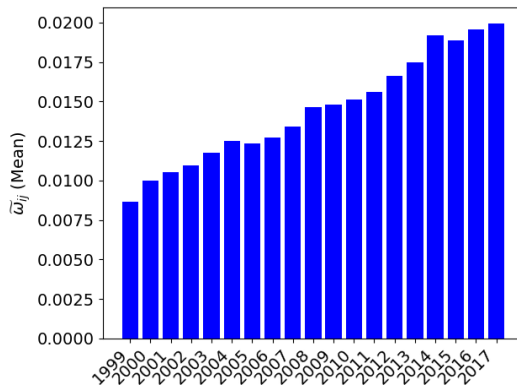


# Trend of Product Substitutability



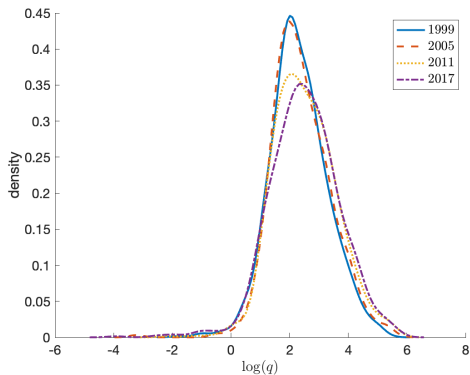
## Technological Proximity

- Merge USPTO data with Compustat firms using DISCERN 2 dataset (Arora et al., 2024)
- Jaffe measure, Group-level patent classification, Stack for 5 years

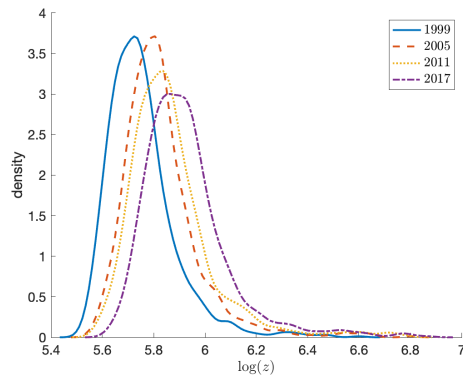


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# Distributions of Estimated Knowledge Capital and Quantity



(a) Log of Quantity



(b) Log of Knowledge Capital

## Microeconomic Estimates vs. GHL (Pellegrino, 2024) (1/2)

Market	Firm $i$	Firm $j$	Micro Estimate	GHL
Auto	Ford	Ford	-4.320	-5.197
Auto	Ford	General Motors	0.034	0.056
Auto	Ford	Toyota	0.007	0.017
Auto	General Motors	Ford	0.065	0.052
Auto	General Motors	General Motors	-6.433	-4.685
Auto	General Motors	Toyota	0.008	0.005
Auto	Toyota	Ford	0.018	0.025
Auto	Toyota	General Motors	0.008	0.008
Auto	Toyota	Toyota	-3.085	-4.851



## Microeconomic Estimates vs. GHL (Pellegrino, 2024) (2/2)

Market	Firm $i$	Firm $j$	Micro Estimate	GHL
Cereals	Kellogg's	Kellogg's	-3.231	-1.770
Cereals	Kellogg's	Quaker Oats	0.033	0.023
Cereals	Quaker Oats	Kellogg's	0.046	0.031
Cereals	Quaker Oats	Quaker Oats	-3.031	-1.941
Computers	Apple	Apple	-11.979	-8.945
Computers	Apple	Dell	0.018	0.025
Computers	Dell	Apple	0.027	0.047
Computers	Dell	Dell	-5.570	-5.110

## First Stage

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	(1)
Dependent Variable:	$z_{i,t}$
User cost of R&D	-39.495*** (4.7044)
Year Fixed Effects	✓
No. observations	12,947

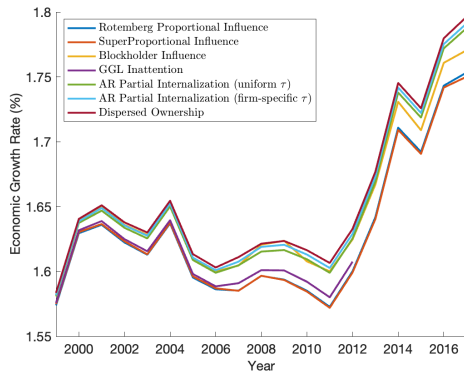
SEs clustered by years and 4-digit naics industries are reported in parentheses.

- IV: User cost of R&D, driven by state-level tax variations (Wilson, 2009; Bloom et al., 2013)

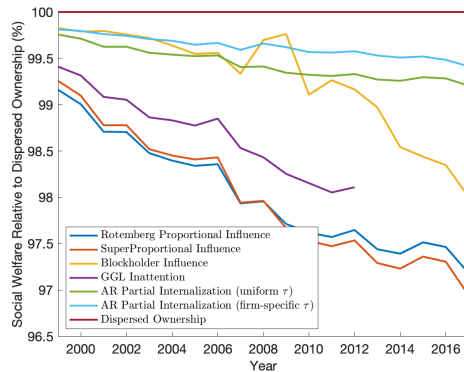
# Alternative Corporate Governance Models: Ederer and Pellegrino (2024)

1. Super-proportional influence:  $\tilde{\kappa}_{ij} = \frac{\sum_{z=1}^Z s_{iz} \gamma_{iz} s_{jz}}{\sum_{z=1}^Z s_{iz} \gamma_{iz} s_{iz}}$  where  $\gamma_{iz} = \sqrt{s_{iz}}$
2. Blockholder influence:  $\tilde{\kappa}_{ij} = \frac{\sum_{z=1}^Z s_{iz} b_{iz} s_{jz}}{\sum_{z=1}^Z s_{iz} s_{jz}} \quad (i \neq j)$ , where  $b_{iz} = 1$  if  $s_{iz} > 5\%$
3. Rational investor inattention
  - Gilje et al. (2020) (GGL) estimate the probability that an investor votes against Institutional Shareholders Service recommendations
  - Utilize the estimate to capture the investor's level of attention
4. Governance frictions and entrenchment
  - Azar and Ribeiro (2021) (AR) estimate an objective function where the manager of firm  $i$  discounts other firms' profit by  $\tau_i$

# Alternative Corporate Governance Models



(a) Expected Growth



(b) Expected Social Welfare



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