

# Competing for Inventors: Market Concentration and the Misallocation of Innovative Talent

Andrea Manera (MIT)<sup>1</sup>

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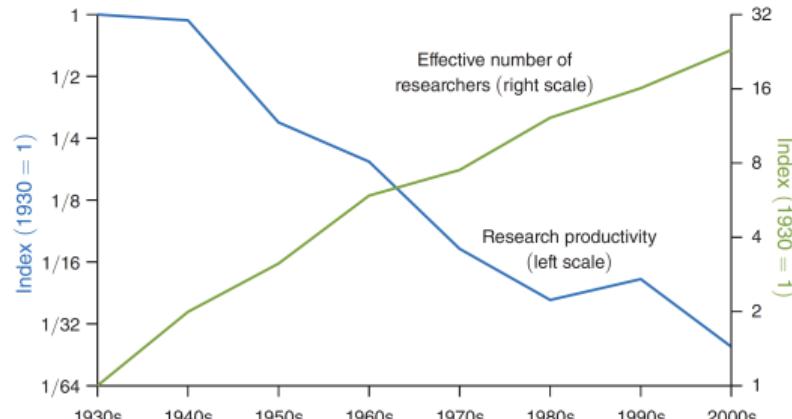
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Source: Bloom et al. (2020)

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- ▶ R&D productivity and growth have fallen  
Bloom et al. (2020), Fernald et al. (2014), Gordon (2016)
- ▶ Concerns over R&D allocation  
Acemoglu et al. (2018, 2021), Arora et al. (2020)

Tech Giants Are  
Paying Huge Salaries  
for Scarce A.I. Talent

Source: The New York Times (2017)

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**Are inventors misallocated?**

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## 3. Schumpeterian model with *defensive innovation*:

- ◊ Explain mechanism
- ◊ Discuss policy

# Related Literature

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- ▶ *Models of Schumpeterian and Defensive innovation*

Aghion and Howitt (1992), Acemoglu and Akcigit (2012), Abrams et al. (2018), Jo (2019)

# Data Construction

# Empirical Analysis Objectives

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- ▶ *Within knowledge markets:*
  - ◊ Analyze how concentration and product markets’ share of inventors are related
  - ◊ Evaluate effects of increased concentration on R&D productivity

# Data Sources

- ▶ USPTO (patent-year) and Goldschlag et al. (2016):
  - ◊ patent citation and disambiguated inventor id's, 1975-present;
  - ◊ Cooperative Patent Classification (CPC)
  - ◊ patent classification by NAICS of application (1978-2016)

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- ▶ Economic Census and Keil (2017) (5-year-NAICS)
  - ◊ NAICS 4-digit concentration measure: HHI and HHI lower bound
  - ◊ 157 NAICS 4-digit sectors out of 304 business sectors
  - ◊ Most of manufacturing, retail, warehousing, telecommunications, publishing
  - ◊ Output per worker growth

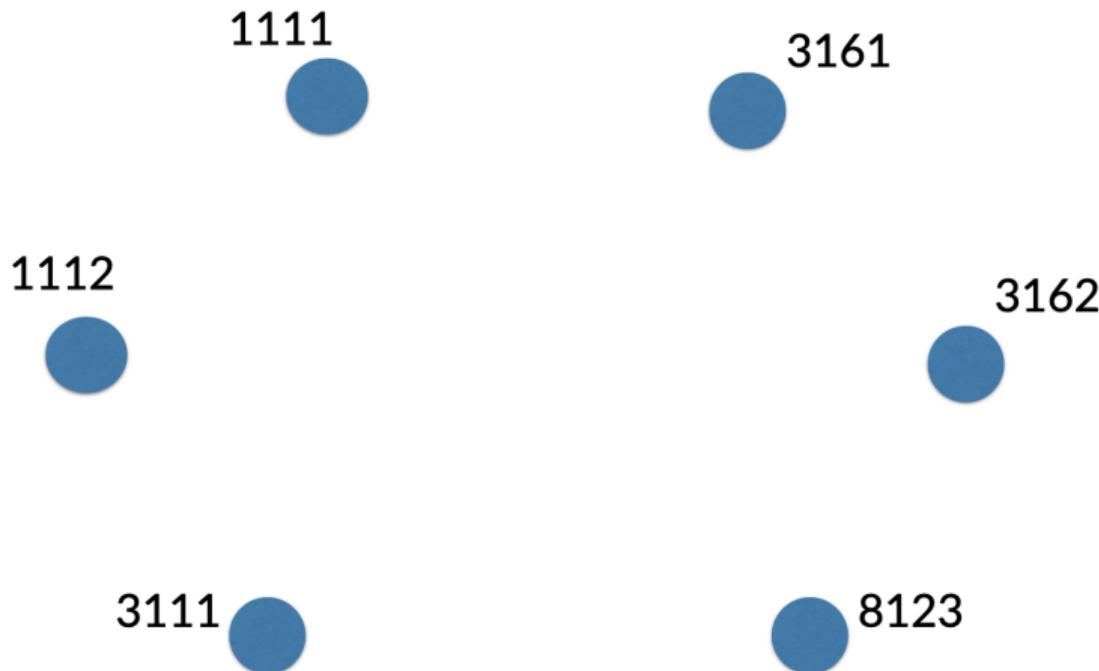
# “Knowledge Markets”

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  - ◊ set of product markets with same *required knowledge* to innovate

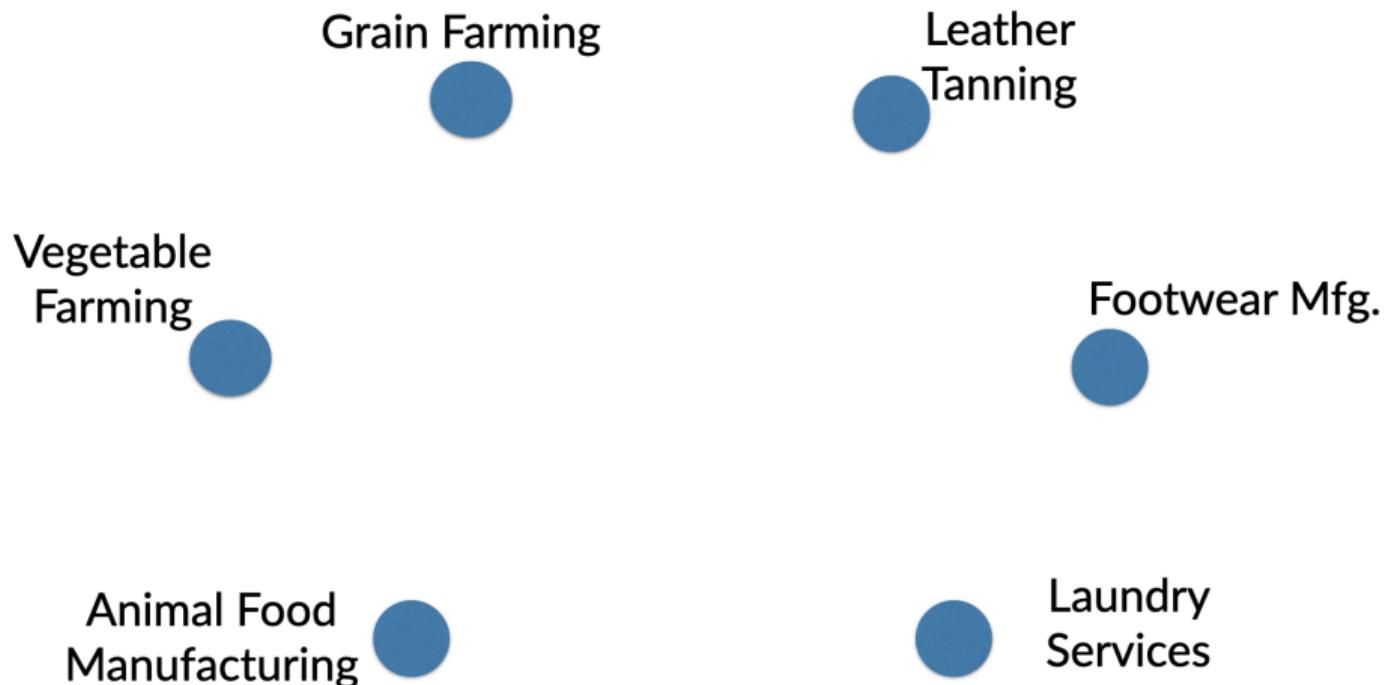
# “Knowledge Markets”

- ▶ *Ideally:*
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- ▶ *In practice:*
  - ◊ NAICS 4-digit sectors connected by flows of inventors
  - ◊ Identify flows from patents with disambiguated inventors
  - ◊ Group NAICS that have strongest connections

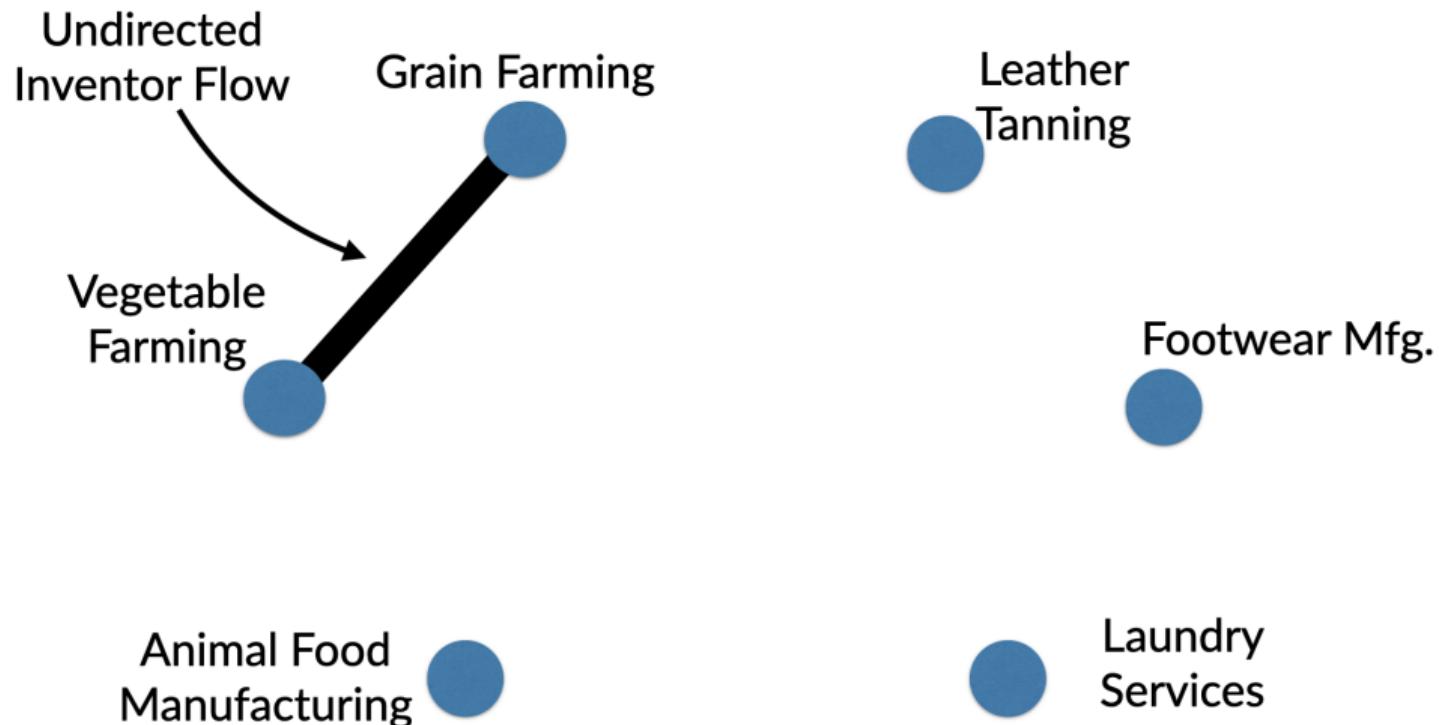
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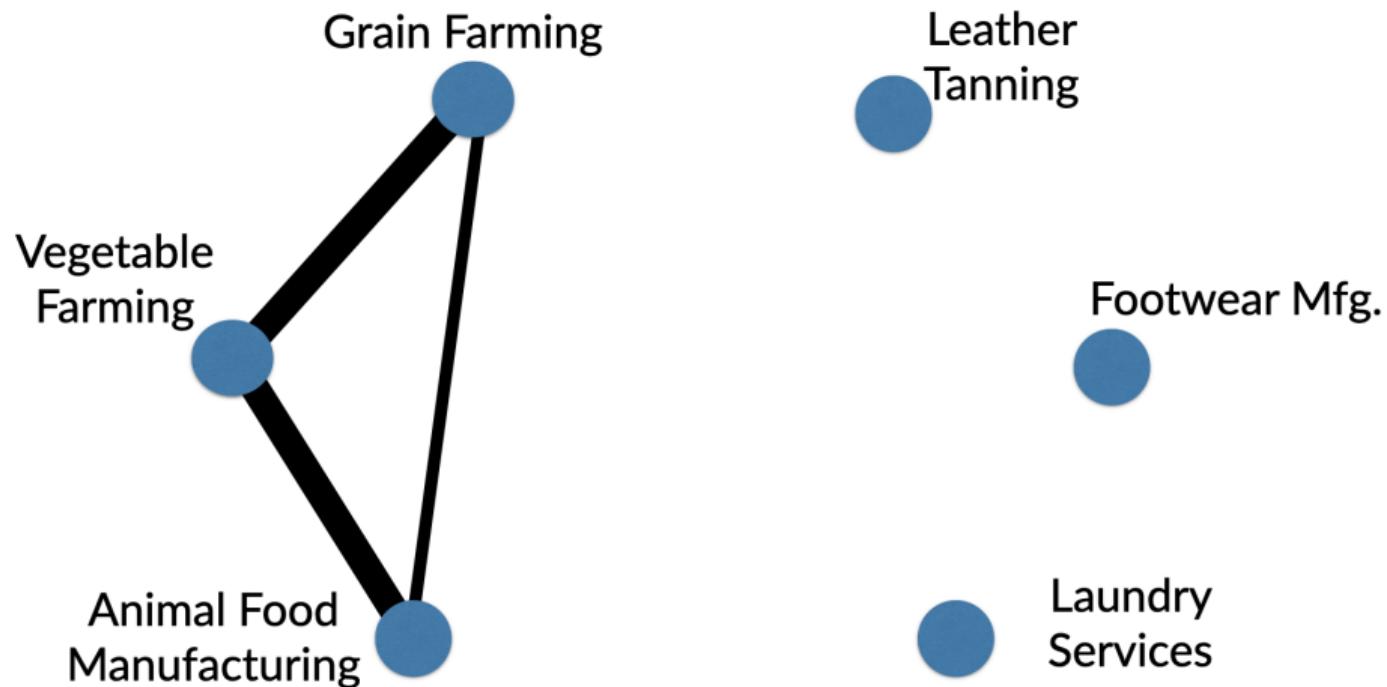
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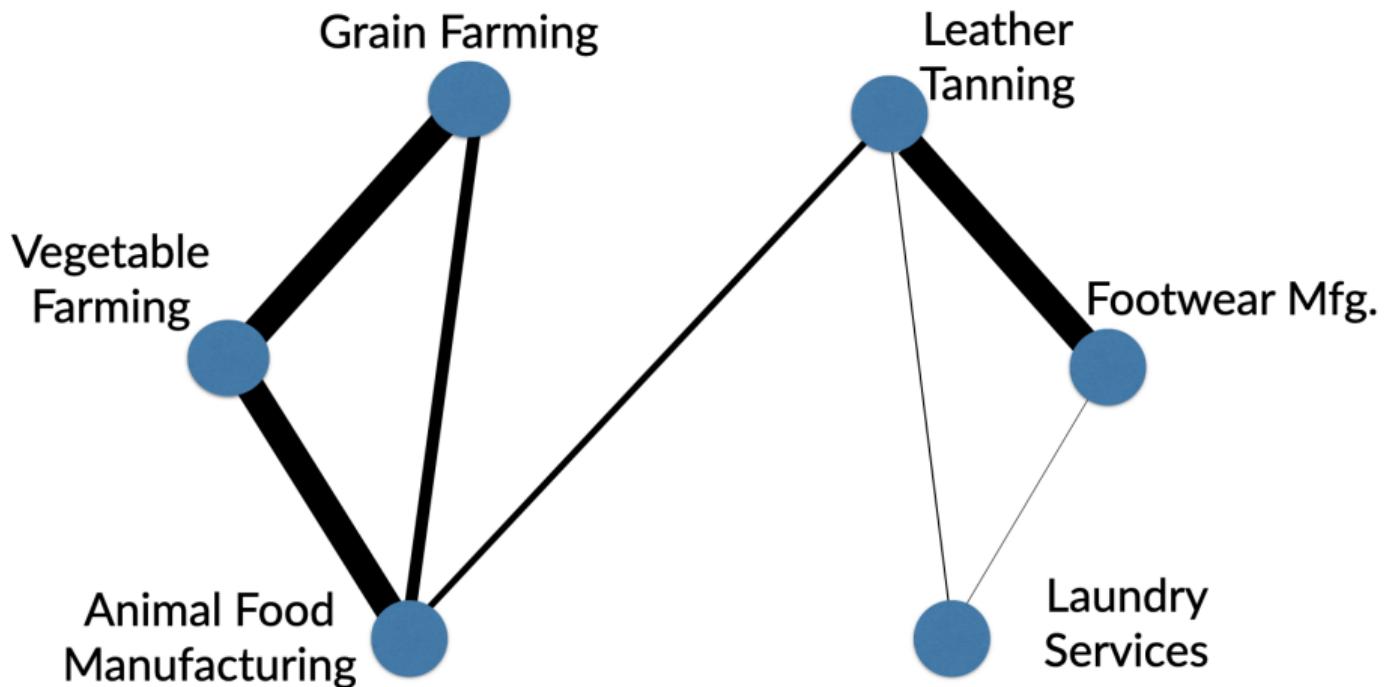
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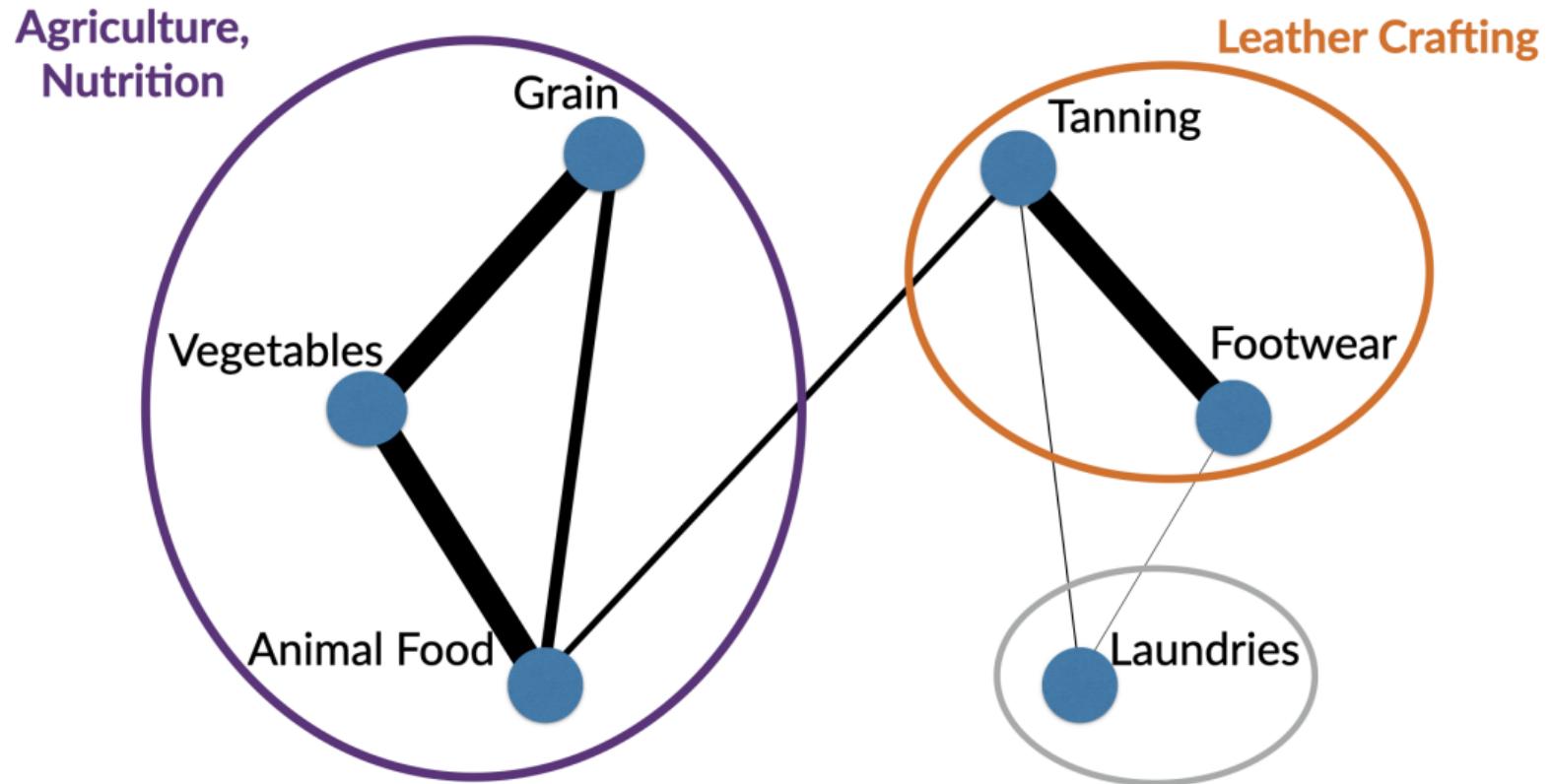
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Patent ID	Inventor ID	Goldschlag et al. (2016) NAICS	Year
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## Weighting Flows: “Effective Inventors”

- ▶ Flows shall adjust for productivity of inventors who move

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- ▶ *Effective inventor flow from sector 1 to 2:*

$$\text{flow}_{1 \rightarrow 2,t} = \sum_i \# \{ i's \text{ transitions } 1 \rightarrow 2 \text{ in } t \} \cdot \alpha_i$$

# Detecting Knowledge Markets: Network Weights

- ▶ Total undirected flows:

$$\text{flow}_{12} = \sum_t (\text{flow}_{1 \rightarrow 2,t} + \text{flow}_{2 \rightarrow 1,t})$$

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- ▶ Modularity: density of links *within* communities versus *between*

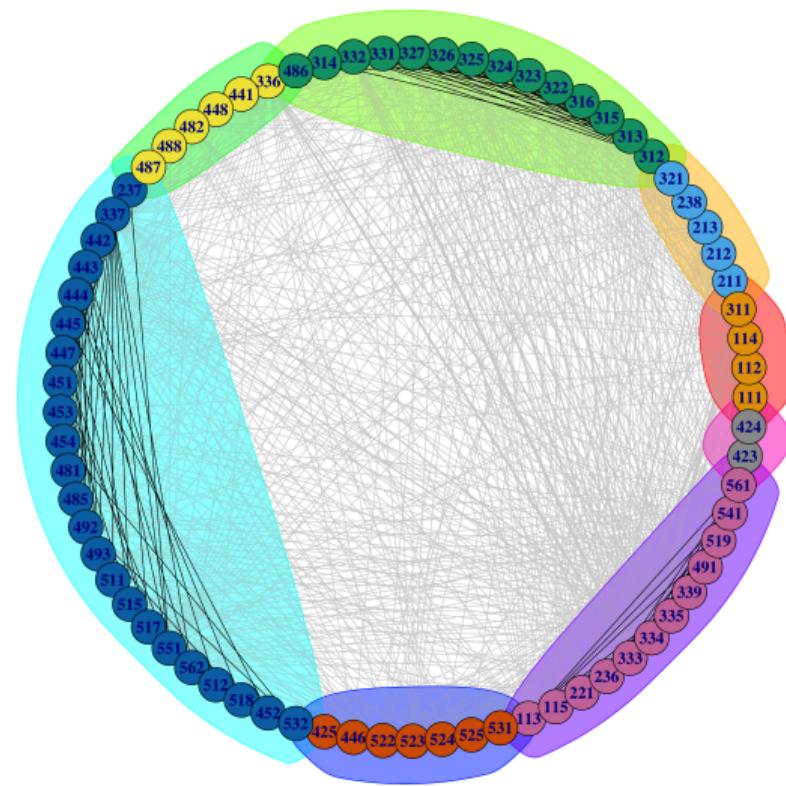
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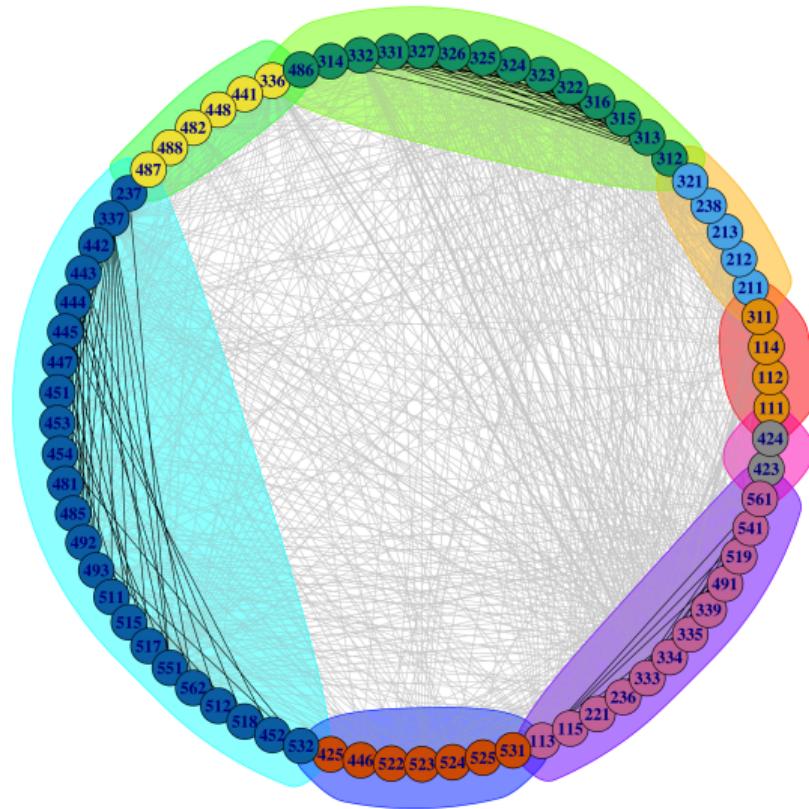
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- ▶ Result: 10 non-singleton sets of NAICS 4-digit that share inventors with non-missing HHI

## Visualization at 3-digit NAICS



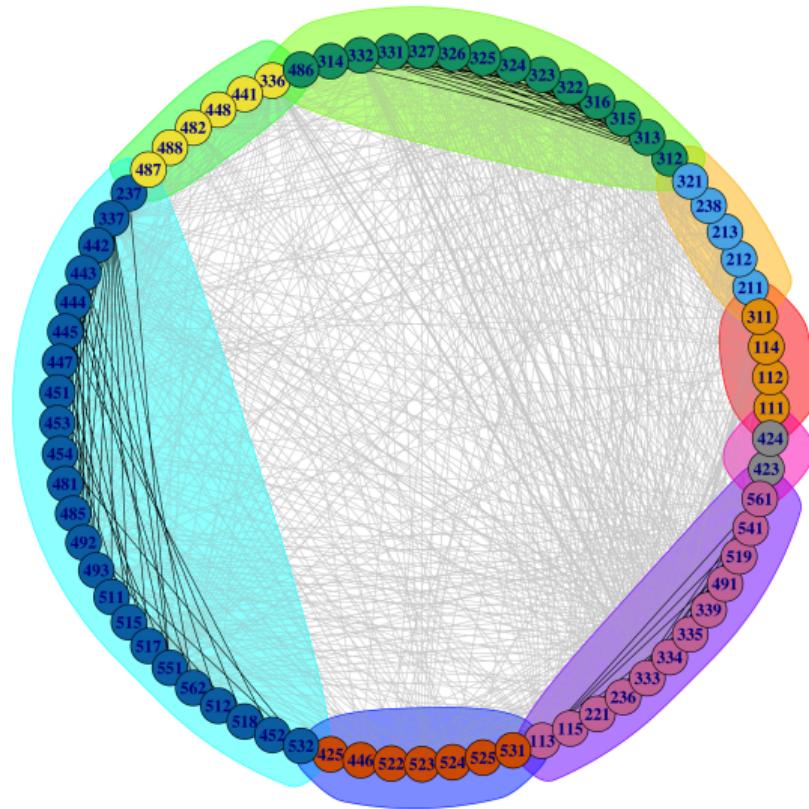
# Features of Flows and Knowledge Markets

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Crop Production, Food Manufacturing, Beverage and Tobacco



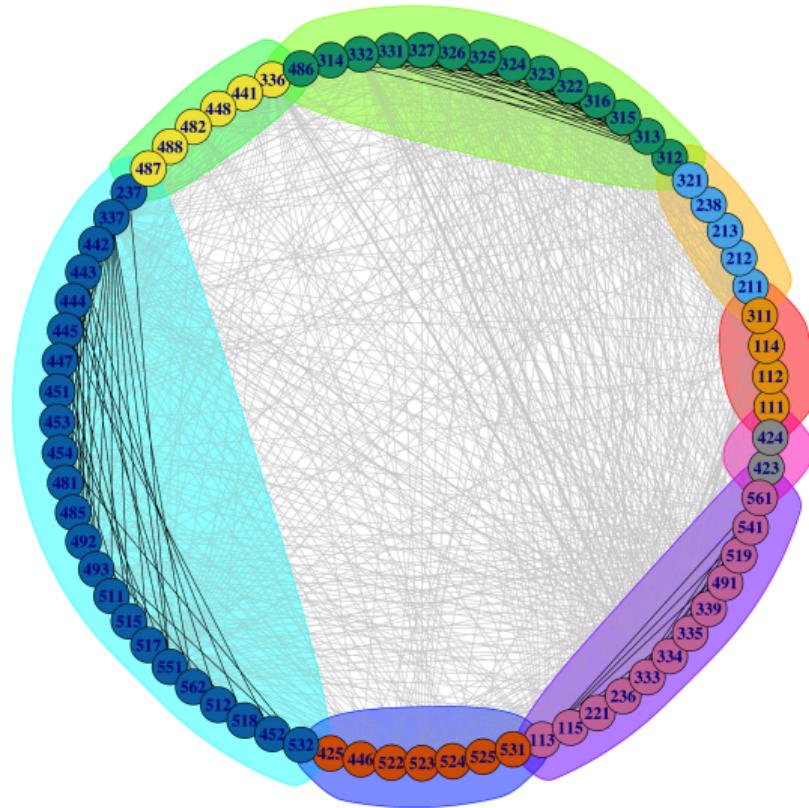
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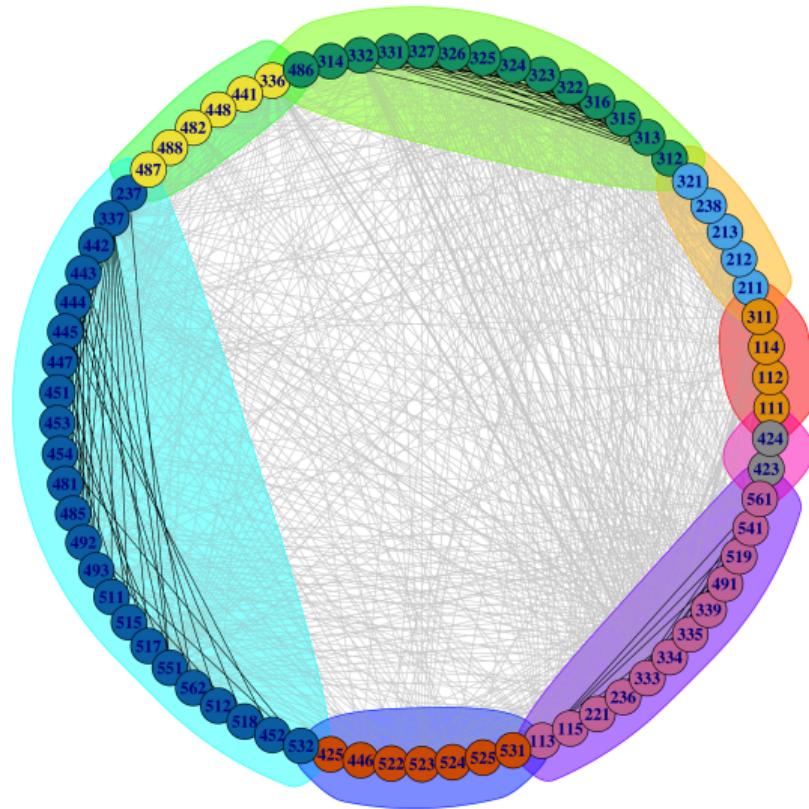
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  - ▶ Blue: "Retail, Data Processing"
  - ▶ Violet: "Electronics, Machinery"



# Empirical Analysis

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- ▶ Look within *knowledge* markets, across products:
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- ▶ Look within *product* markets:
  - ◊ Effect of increased concentration on inventors' productivity
  - ◊ Correlation between patent metrics and changes in inventors' share

# Variable Definition

- Sector p's share of effective inventors in knowledge market, k:

$$\text{Inventor Share}_{p,t} \equiv \frac{\sum_{p(i,t)=p} \alpha_i}{\sum_{k(i,t)=k} \alpha_i},$$

- ◊  $\alpha_i$  are “effective inventors”, or raw number of inventors
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- ▶ Size of sectors or firms: real sales, real sales per company (Economic Census)

# Specification

- ▶ Long-difference 2012-1997 at NAICS 4-digit sector, p:

$$\Delta \text{Share}_{p, 2012-1997} = f_k \mathbf{1}\{p \in k\} + \beta \Delta \text{HHI}_{p, 2012-1997} + \gamma \Delta \text{Size}_{p, 2012-1997} + \varepsilon_p,$$

- ▶  $f_k \mathbf{1}\{p \in k\}$ : sector p belongs to knowledge market k
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- ▶ Weighted by sales, robust standard errors

# Main Specification Results

► No Controls ► Census HHI ► Trim Outliers ► Raw Inventors

	$\Delta$ Inventor Share (pp)	
	(1)	(2)
$\Delta$ <u>HHI</u>	26.093*	22.509*
	(10.696)	(10.848)
$\Delta$ log Sales	0.914**	0.548*
	(0.278)	(0.243)
Knowledge Market FE		✓
Sample	Full Sample	Full Sample
Weight	Sales	Sales
Observations	157	153

Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

- $\Rightarrow$  1 s.d. increase in HHI: .033  $\Rightarrow \uparrow .858$  pp inventor share (.55 s.d.)
- Compares to average inventors' share of 1.16pp, median .37pp

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  - ◊ IV analysis using Mercatus regulation data ▶ Details

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  - ◊ Inventors' productivity (next slide)

# Fall in Inventors' Productivity

► Robustness to Outliers

$\Delta$ Growth/Inventor (pp)		
	(1)	(2)
$\Delta$ HHI	-0.332** (0.113)	-0.292* (0.123)
$\Delta$ log Sales		-0.052* (0.021)
Knowledge Market FE	✓	✓
Sample	Full Sample	Full Sample
Weight	Sales	Sales
Observations	101	101

Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

## Back-of-the-envelope Loss from Misallocation

- ▶ Median change in annual output per worker growth in sample :  $-2.73\text{pp}$
- ▶ Implied loss from misallocation for the median sector with  $\Delta$  Inventor Share  $> 0$ :

$$\Delta g = \frac{\Delta \left( \frac{g}{\text{Inventor}} \right)}{\Delta \underline{\text{HHI}}} \times \Delta \underline{\text{HHI}} \times \text{Inventors}$$

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- ▶ Within product markets, increasing concentration:
  - ◊ Lowers inventors' productivity (growth per inventor)
  - ◊ Increases share of inventors at top firms
  - ◊ Lowers forward citations

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  - ◊ Optimal to subsidize entrants' R&D in concentrated sectors
  - ◊ Cost-neutral policy gives up to .50pp higher annual growth (+17%)

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▶ Concentration v. Markup

Consumption good is C-D of intermediates:

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Bertrand competition, incumbent sets  $p_t(i) = c_t(i)$ , realizes monopoly profits:

$$\Pi_t = \left( \frac{\phi - 1}{\phi} \right) c_t(i) y_t(i) = \left( \frac{\phi - 1}{\phi} \right) Y_t.$$

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- ▶  $\alpha_I \frac{x_I^\gamma}{\gamma}$  total incumbents' inventors
- ▶ Isoelastic R&D labor supply

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$$\rho v(1) = \max_{x_I} \left( \frac{\phi - 1}{\phi} \right) - \alpha_I \frac{x_I^\gamma}{\gamma} + x_I (v(\omega) - v(1)) - x_{e,1} (v(1))$$

$$\rho v(\omega) = \left( \frac{\phi - 1}{\phi} \right) + \delta (v(1) - v(\omega)) - x_{e,\omega} (v(\omega))$$

- ▶  $x_{e,1}, x_{e,\omega}$ : total research intensity of entrants
- ▶  $\delta$ : depreciation of patent wall (patent protection)
- ▶ Gain from innovation depends on the difference between  $x_{e,\omega}$  and  $x_{e,1}$

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- ▶ Finite demand IFF:

$$x_{e,\Omega} = \frac{v(1)}{\zeta \Omega}$$

# Growth and Inventors' Productivity

▶ Equilibrium Definition

Stationary distribution with constant growth: [▶ Derivation](#)

$$\boldsymbol{\mu} = \begin{bmatrix} \mu_1 & \mu_\omega & \mu_{e,1} & \mu_{e,\omega} \end{bmatrix}$$

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Inventors' productivity (growth per inventor):

$$\frac{g}{L^{RD}} = \eta \frac{x_{e,\omega} \mu_{e,\omega} + x_{e,1} \mu_{e,1} + \lambda x_I \mu_1}{\zeta (\omega x_{e,\omega} \mu_{e,\omega} + x_{e,1} \mu_{e,1}) + \alpha_I \frac{x_I^\gamma}{\gamma} \mu_1}.$$

# Constant-Growth Equilibrium Proposition

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*Around and equilibrium with constant growth, an increase in the markup  $\phi$  raises incumbents' and entrants' research efforts, and the share of R&D labor employed by incumbents.*

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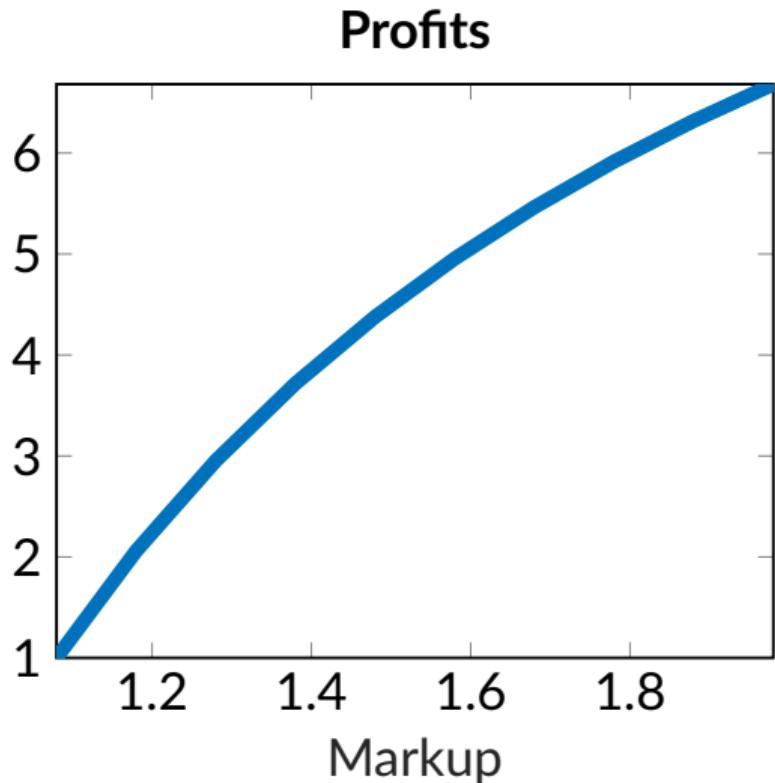
*Around and equilibrium with constant growth, an increase in the markup  $\phi$  raises incumbents' and entrants' research efforts, and the share of R&D labor employed by incumbents.*

*If (i) inventor supply to the sector is elastic; (ii)  $\lambda = 0$ ; and (iii) the model parameters are such that equilibrium incumbents' research effort is more elastic than entrants'*

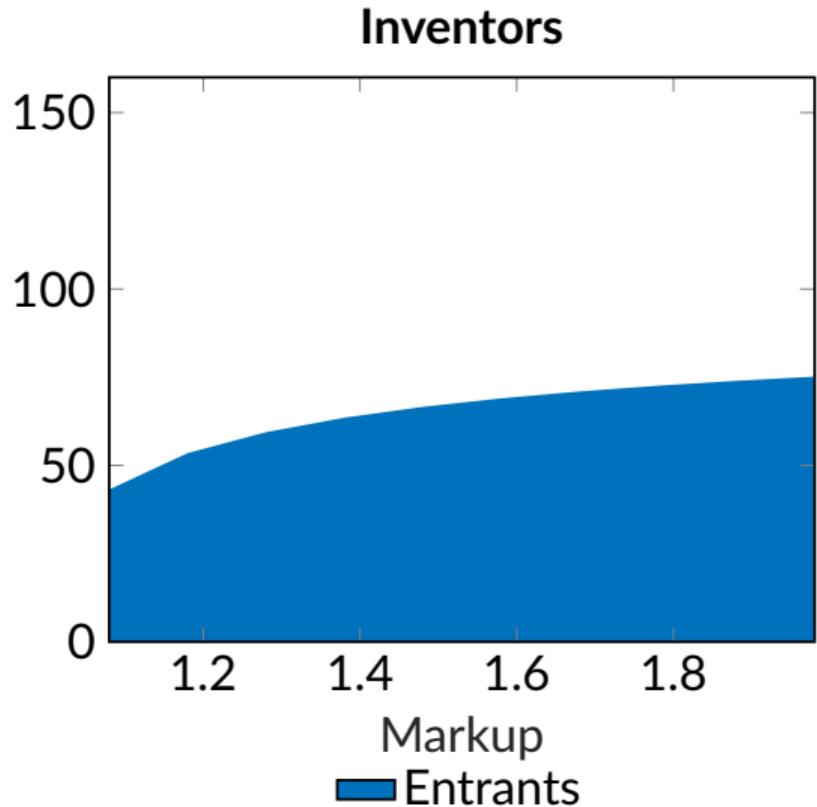
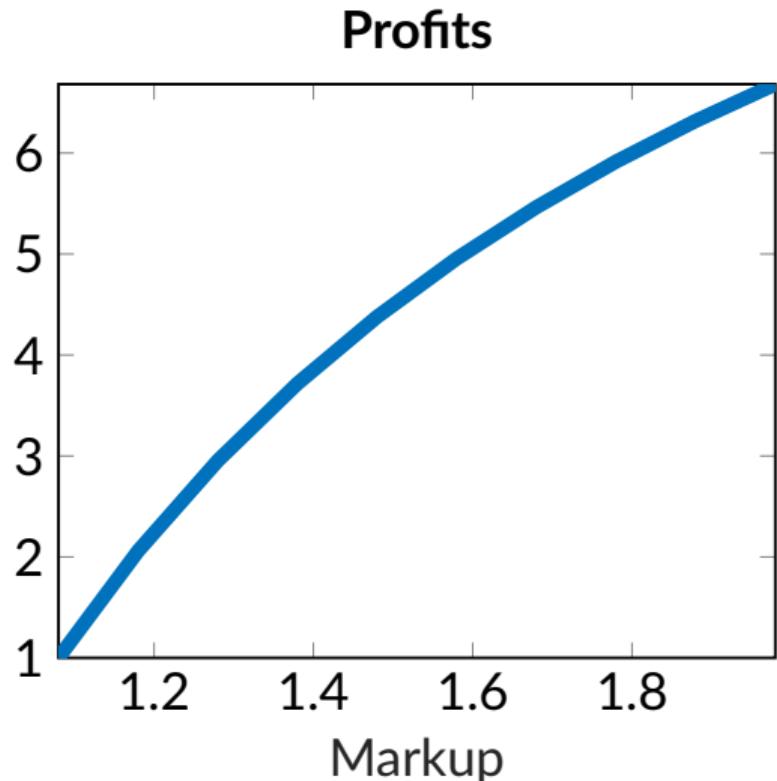
$$\frac{\partial x_I^*}{\partial \phi} \frac{\phi}{x_I^*} > \frac{\partial x_{e,\omega}^*}{\partial \phi} \frac{\phi}{x_{e,\omega}^*},$$

*an increase in the markup,  $\phi$ , lowers equilibrium inventors' productivity.*

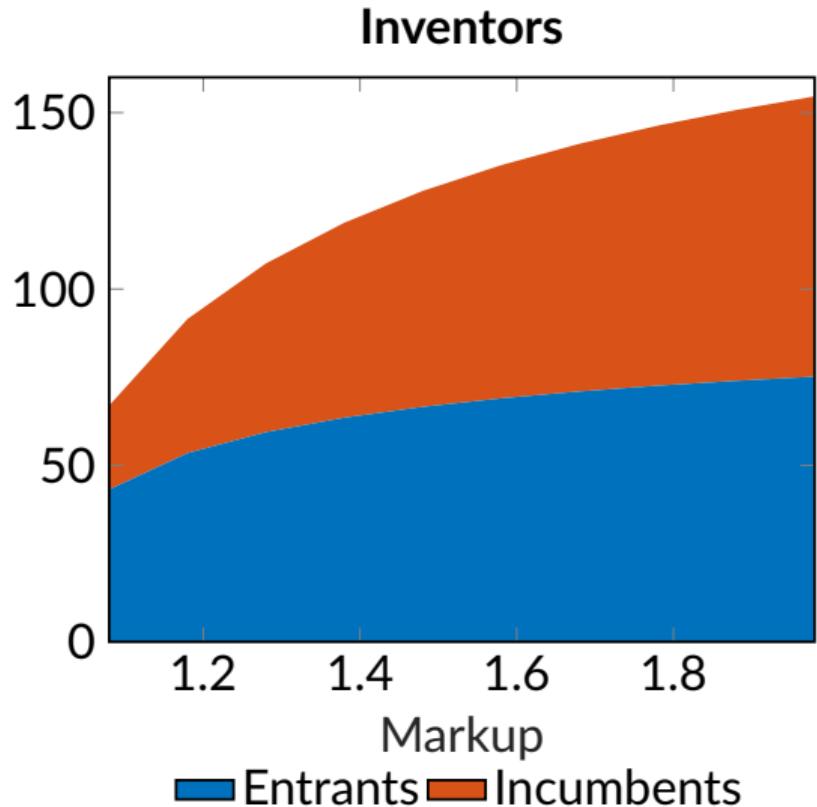
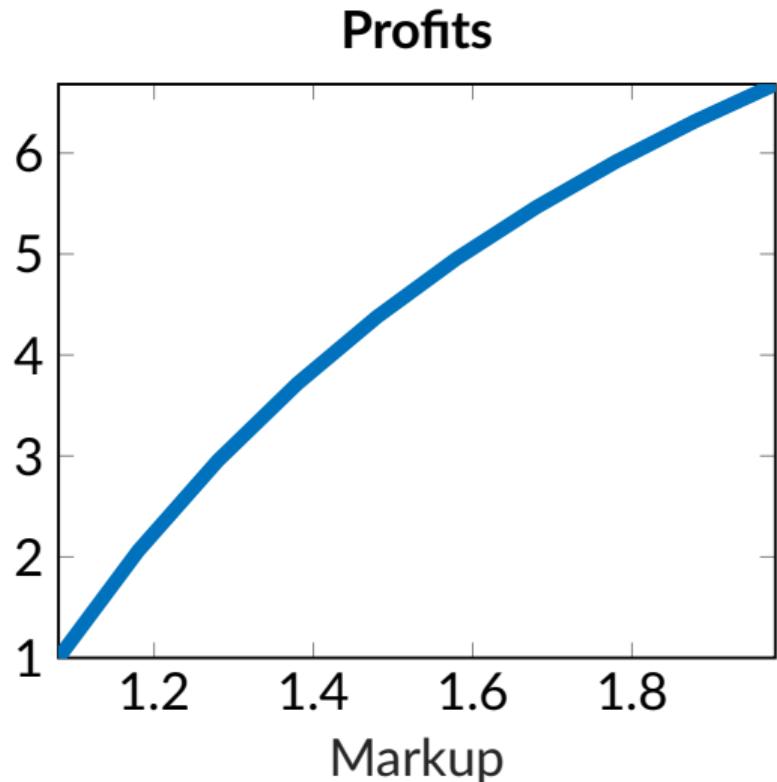
# Single Sector Comparative Statics: Markup Increase



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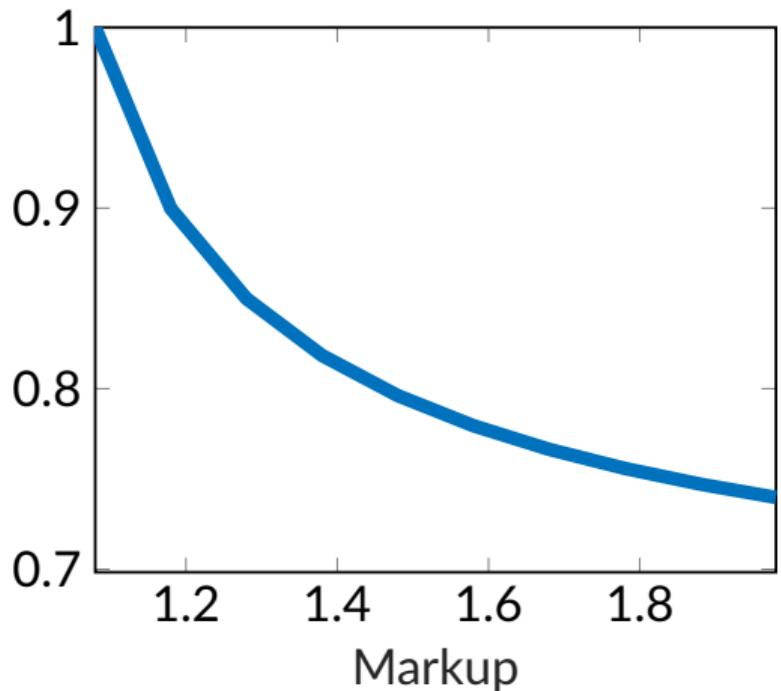


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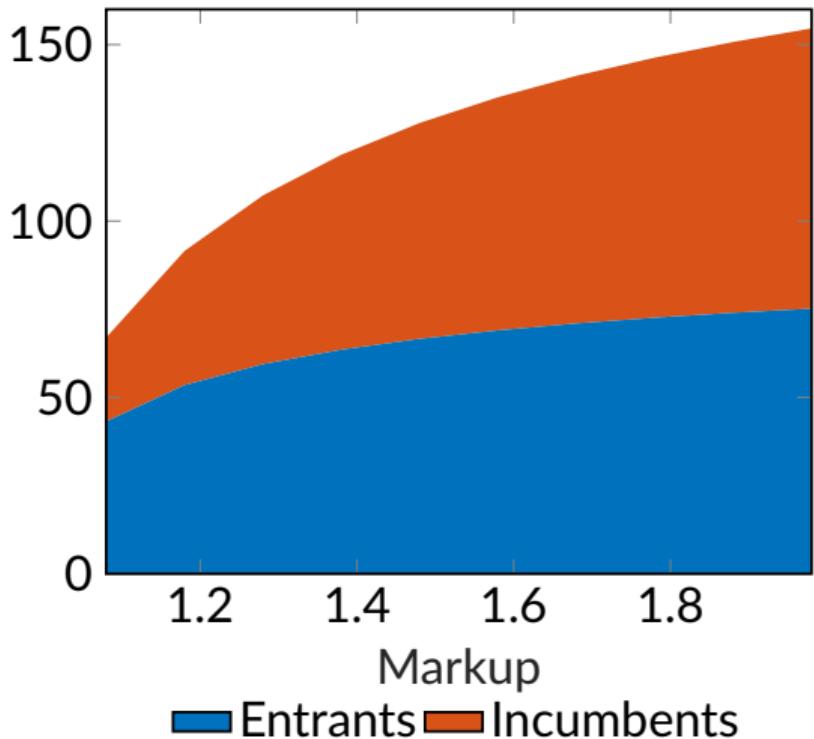


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Inventor Productivity



Inventors



# Calibration and Policy

## Two-Sectors, Inventor Market Equilibrium

- ▶ Two Cobb-Douglas sectors as above:

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- ▶ Normalize  $L^{RD,s} = 100$ .
- ▶ ⇒ Misallocation only from flows across sectors.

# External Calibration

Parameter Name	Symbol	Value	Source/Target
Discount rate	$\rho$	.04	$r \approx 7\% \text{ pre-1997}, g = 3\%$
Value Added Share	$\beta$	.5	Share of sectors with $\uparrow \text{HHI}$
Average Sectors' Markup	$\phi$	1.08	De Loecker et al., 2020; Eggertsson et al., 2018

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- ▶  $\tau, s$ : corp. tax 23% and R&D subsidy 19% (Akcigit et al., 2019)

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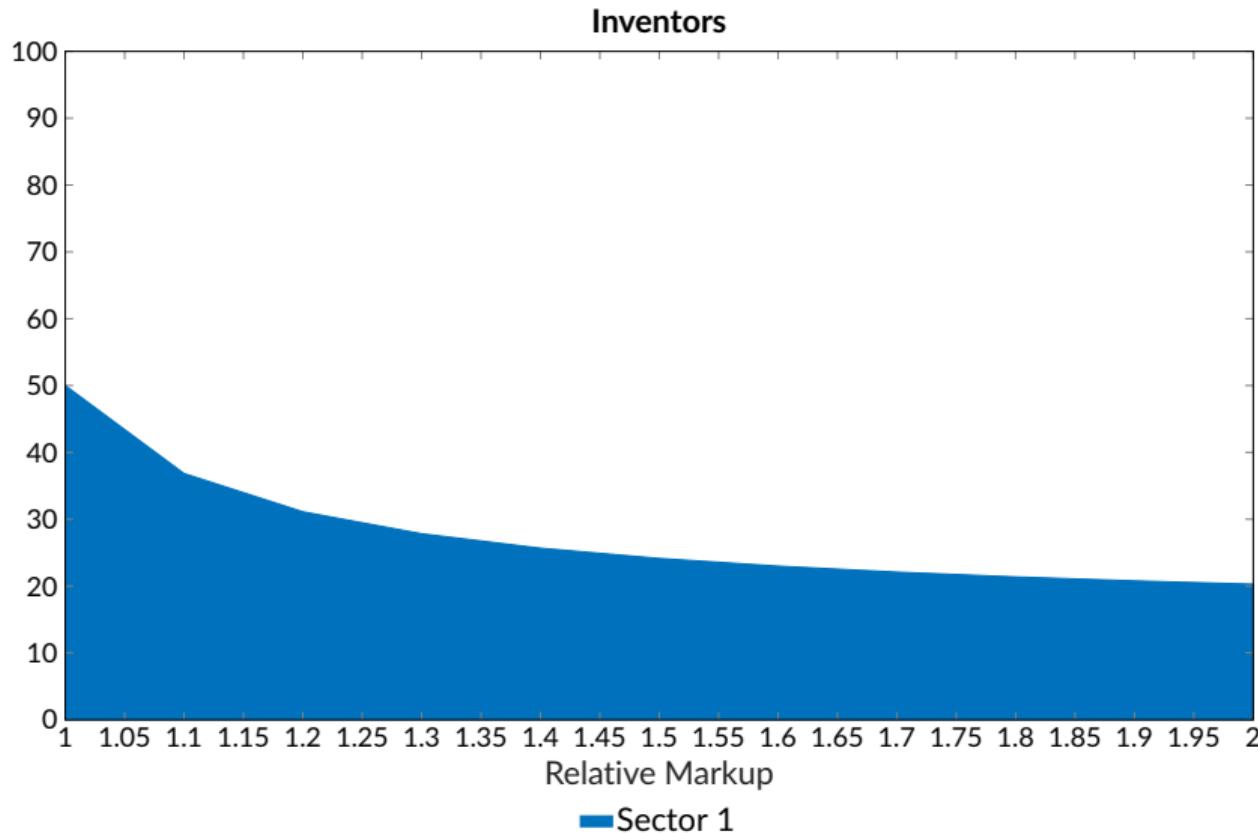
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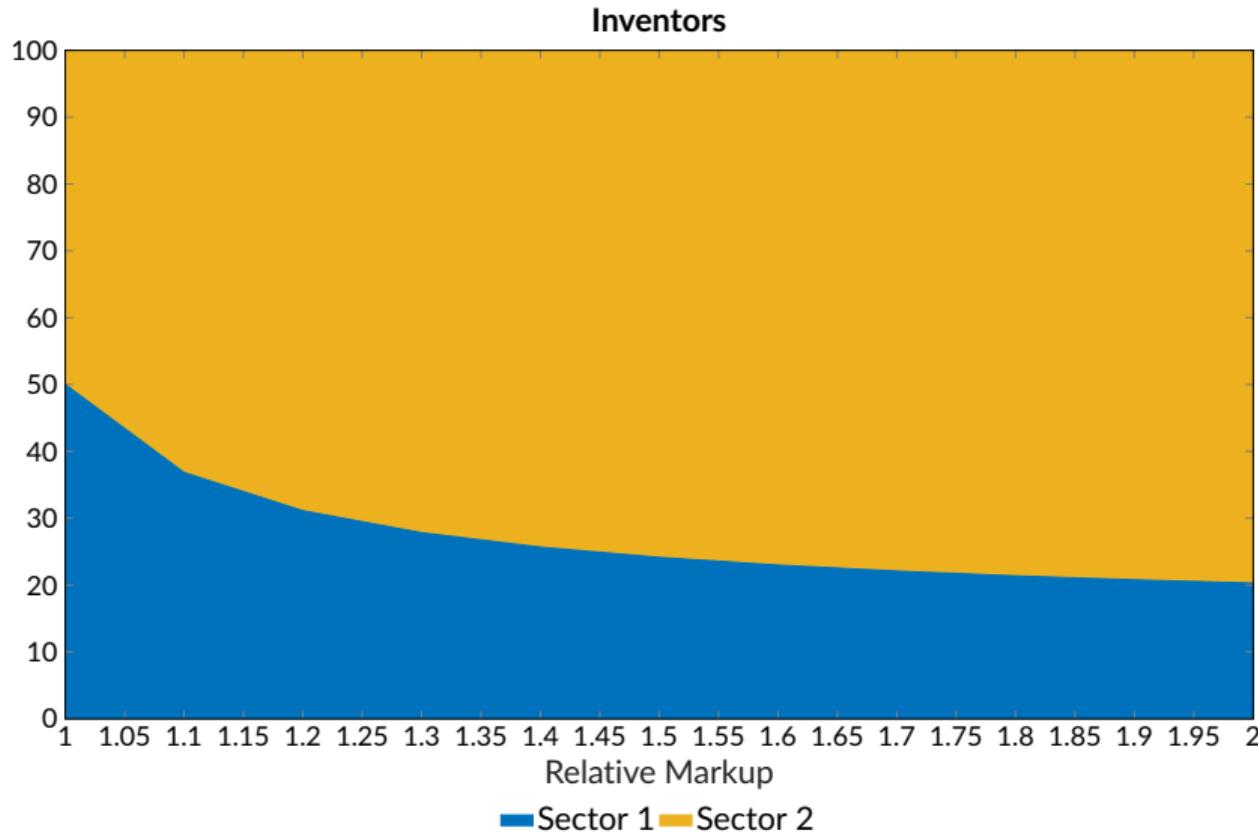
Parameter Name	Symbol	Value	Target
Incumbent Costs	$\alpha_I$	21.97	Top 10% Firms' Inventor Share, 1997: 30.3%
Entrants' Costs	$\zeta$	4.75	Business R&D Share over GDP, 1997: 1.81%
Innovation Step	$\eta$	0.0047	Average Output per Worker Growth, 1997: 3.03%

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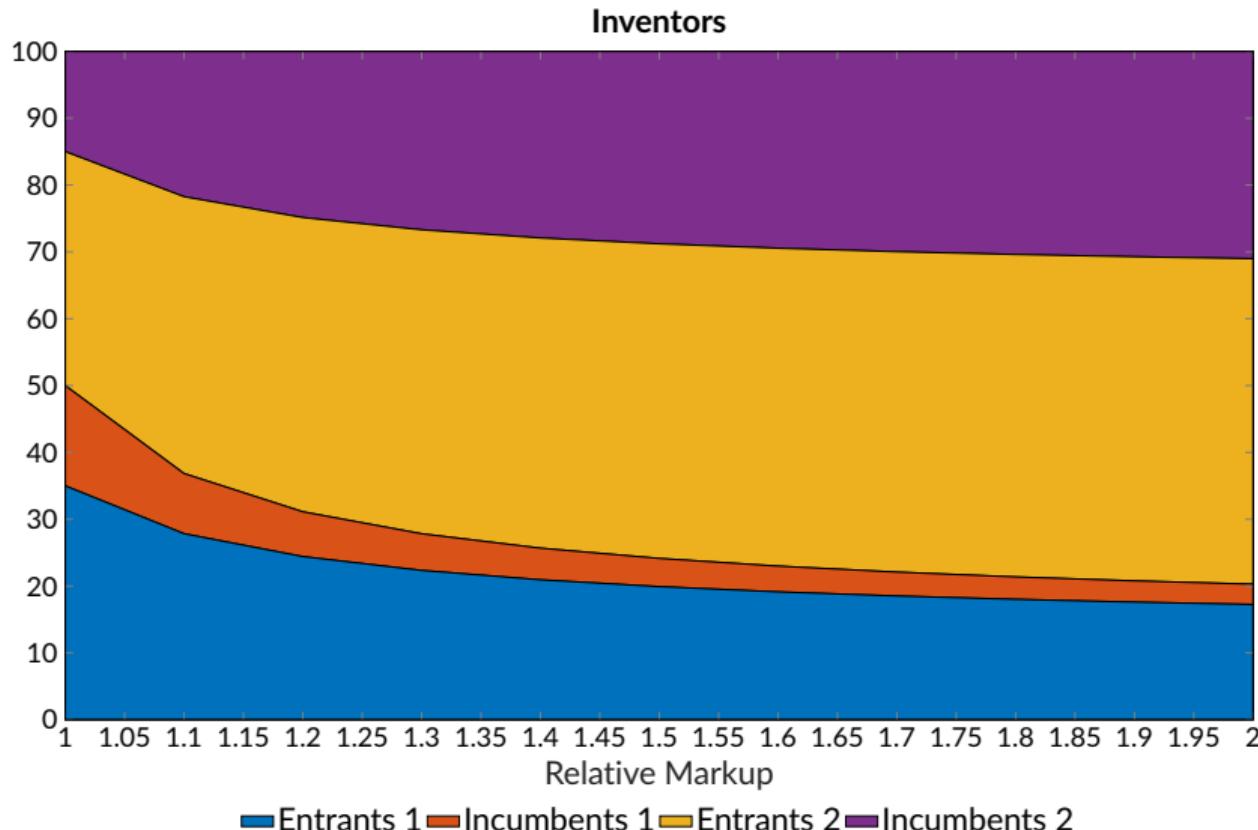
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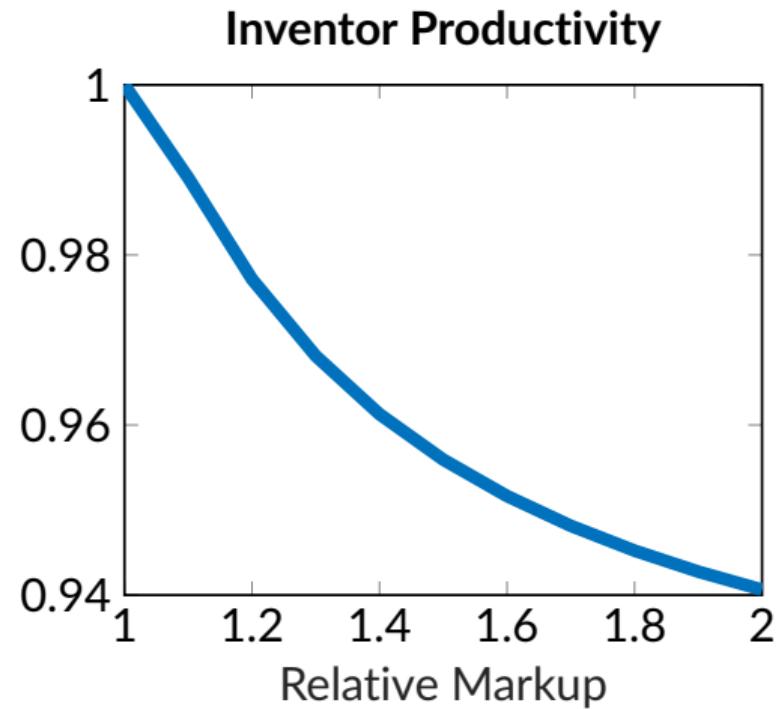
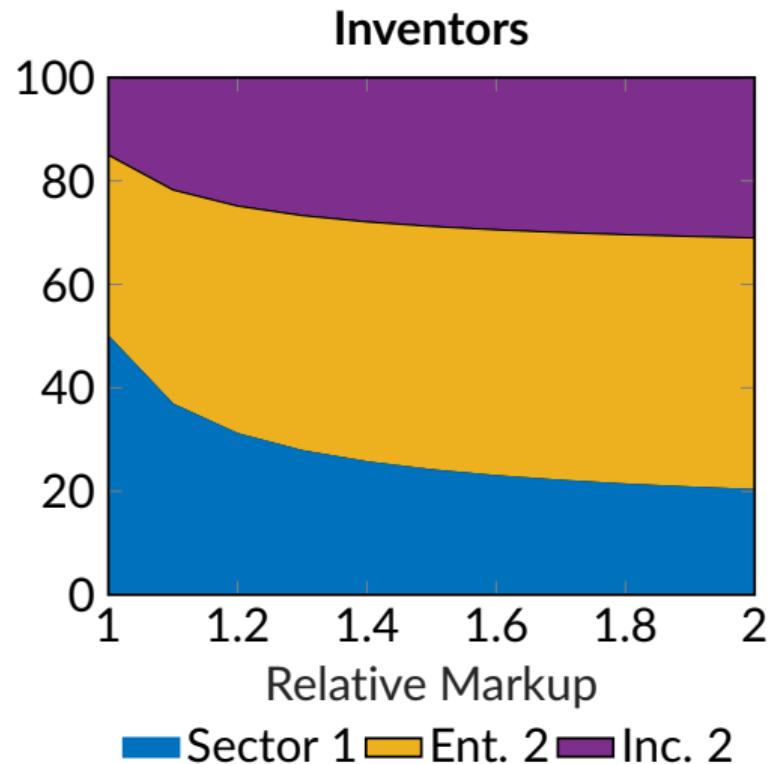
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# Policy Results

	Baseline	Optimal Cost-Neutral	Cost-Neutral Sector	Cost-Neutral Entry
	Sector 1 (1)	Sector 2 (2)		
<i>R&amp;D Subsidies:</i>				
$s_I$	19%	19%		
$s_e$	19%	19%		
<i>Aggregates:</i>				
$L_I^{RD}$	6.70	24.87		
$L_e^{RD}$	24.41	44.02		
$L_{TOT}^{RD}$	31.11	68.89		
Sector Growth	2.12%	3.74%		
GDP Growth	2.93%			

# Policy Results

	Baseline		Optimal Cost-Neutral		Cost-Neutral Sector	Cost-Neutral Entry
	Sector 1	Sector 2	Sector 1	Sector 2		
	(1)	(2)	(3)	(4)		
<i>R&amp;D Subsidies:</i>						
$s_I$	19%	19%	0%	0%		
$s_e$	19%	19%	0%	41.78%		
<i>Aggregates:</i>						
$L_I^{RD}$	6.70	24.87	6.37	15.95		
$L_e^{RD}$	24.41	44.02	23.87	53.81		
$L_{TOT}^{RD}$	31.11	68.89	30.25	69.75		
Sector Growth	2.12%	3.74%	2.08%	4.78%		
GDP Growth	2.93%		3.43%			

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	Baseline		Optimal Cost-Neutral		Cost-Neutral Sector		Cost-Neutral Entry
	Sector 1	Sector 2	Sector 1	Sector 2	Sector 1	Sector 2	
	(1)	(2)	(3)	(4)	(5)	(6)	
<i>R&amp;D Subsidies:</i>							
$s_I$	19%	19%	0%	0%	46.17%	0%	
$s_e$	19%	19%	0%	41.78%	46.17%	0%	
<i>Aggregates:</i>							
$L_I^{RD}$	6.70	24.87	6.37	15.95	10.83	19.51	
$L_e^{RD}$	24.41	44.02	23.87	53.81	30.24	39.42	
$L_{TOT}^{RD}$	31.11	68.89	30.25	69.75	41.07	58.93	
Sector Growth	2.12%	3.74%	2.08%	4.78%	2.61%	3.36%	
GDP Growth	2.93%		3.43%		2.99%		

# Policy Results

	Baseline		Optimal Cost-Neutral		Cost-Neutral Sector		Cost-Neutral Entry	
	Sector 1 (1)	Sector 2 (2)	Sector 1 (3)	Sector 2 (4)	Sector 1 (5)	Sector 2 (6)	Sector 1 (7)	Sector 2 (8)
<b>R&amp;D Subsidies:</b>								
$s_I$	19%	19%	0%	0%	46.17%	0%	0%	0%
$s_e$	19%	19%	0%	41.78%	46.17%	0%	29%	29%
<b>Aggregates:</b>								
$L_I^{RD}$	6.70	24.87	6.37	15.95	10.83	19.51	4.83	18.45
$L_e^{RD}$	24.41	44.02	23.87	53.81	30.24	39.42	27.41	49.30
$L_{TOT}^{RD}$	31.11	68.89	30.25	69.75	41.07	58.93	32.25	67.75
Sector Growth	2.12%	3.74%	2.08%	4.78%	2.61%	3.36%	2.45%	4.31%
GDP Growth	2.93%		3.43%		2.99%		3.38%	

# Policy Results

	Baseline		Optimal Cost-Neutral		Cost-Neutral Sector		Cost-Neutral Entry	
	Sector 1 (1)	Sector 2 (2)	Sector 1 (3)	Sector 2 (4)	Sector 1 (5)	Sector 2 (6)	Sector 1 (7)	Sector 2 (8)
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<b>Aggregates:</b>								
$L_I^{RD}$	6.70	24.87	6.37	15.95	10.83	19.51	4.83	18.45
$L_e^{RD}$	24.41	44.02	23.87	53.81	30.24	39.42	27.41	49.30
$L_{TOT}^{RD}$	31.11	68.89	30.25	69.75	41.07	58.93	32.25	67.75
Sector Growth	2.12%	3.74%	2.08%	4.78%	2.61%	3.36%	2.45%	4.31%
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⇒ Subsidizing entrants' R&D is most effective: .45-.50pp higher growth

# Conclusion

- ▶ Concentrating sectors attracted inventors away from competitive
- ▶ Incumbents increasingly deployed inventors to defensive projects
- ▶ Misallocation can explain 28% of 1997-2012 fall in annual output/worker growth
- ▶ Key model mechanism: *defensive innovation*
- ▶ Policy: entrant subsidies in *less competitive sectors*
- ▶ Cost-neutral entry subsidies give .50pp higher annual growth

# Headlines

Back

Q Search

Bloomberg

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Deals

## Big Tech Swallows Most of the Hot AI Startups

An acquisition spree by Apple, Amazon, Facebook, Google and Microsoft eliminated potential rivals and concentrated brain power in this critical field.

The New York Times

<https://www.nytimes.com/2017/10/22/technology/artificial-intelligence-experts-salaries.html>

Tech Giants Are Paying Huge Salaries for Scarce A.I. Talent

# Total Inventor Flows

▶ Back

- ▶ Strength of connection between two sectors
- ▶ Build directed flows for each inventor  $i$  (avoid double counting):

$$\text{flow}_{1 \rightarrow 2, i, t} \equiv \frac{\sum \mathbf{1}\{i \text{ moves } 1 \rightarrow 2 \text{ in } t\}}{\sum_{j,k} \mathbf{1}\{i \text{ moves } j \rightarrow k \text{ in } t\}} \times \alpha_i$$

- ▶ Compute total outflows and inflows for each NAICS 4-digit sector:

$$\text{inflow}_{\text{NAICS}} = \sum_n \sum_t \sum_i \text{flow}_{n \rightarrow \text{NAICS}, i, t},$$

# Network Weights

▶ Back

- ▶ Compute share of inflows and outflows, e.g.:

$$\text{share}_{1 \leftarrow 2} = \frac{\sum_t \sum_i \text{flow}_{2 \rightarrow 1,i,t}}{\text{inflow}_1}$$

- ▶ Define weight:

$$W_{12} = W_{21} = \min \left\{ \frac{\text{share}_{1 \leftarrow 2} + \text{share}_{1 \rightarrow 2}}{2}, \frac{\text{share}_{2 \leftarrow 1} + \text{share}_{2 \rightarrow 1}}{2} \right\}$$

- ▶ Average tends to overstate flows from small sectors to large

# Problem: Maximize Modularity

Back

- ▶ Assigns sectors  $i$  to  $N$  non-overlapping communities  $c_i$  to maximize modularity

$$\max_N \max_{(c_1, \dots, c_N)} Q \equiv \frac{1}{2W} \sum_{ij} \left[ W_{ij} - \frac{W_i W_j}{2W} \right] \mathbf{1}\{c_i = c_j\},$$

- ◊  $W_{ij}$ , weight of edge connecting node  $i$  to  $j$
- ◊  $W_i = \sum_i W_{ik}$ , sum of weights for edges with one end in node  $i$ ,  $W$  sum of all weights in the graph
- ◊  $\frac{W_i W_j}{2W}$  is the expected number of weighted edges between nodes  $i$  and  $j$

# Louvain Algorithm

▶ Back

- ▶ Louvain method (Blondel et al., 2008). Assign each node to its own community.  
Then, repeat iteratively:
  1. Compute local deviations in modularity from reassigning the node to neighboring communities
  2. Move node in highest modularity direction
  3. Redefine a network with new communities as nodes

# HHI Lower Bound

▶ Back

- ▶ Keil, 2017:

$$\begin{aligned} \underline{\text{HHI}}_{p,t} = & 4 \left[ \frac{\text{Top-4 Share}_{p,t}}{4} \right]^2 + 4 \left[ \frac{\text{Top-8 Share}_{p,t} - \text{Top-4 Share}_{p,t}}{4} \right]^2 \\ & + 12 \left[ \frac{\text{Top-20 Share}_{p,t} - \text{Top-8 Share}_{p,t}}{12} \right]^2 \\ & + 30 \left[ \frac{\text{Top-50 Share}_{p,t} - \text{Top-20 Share}_{p,t}}{30} \right]^2 \end{aligned}$$

- ▶ Coincides with actual if:
  - ◊ Sector has 50 or less firms
  - ◊ Shares are distributed equally between firms in brackets 0-4, 5-8, 9-20, 21-50
- ▶ Correlation with actual HHI is .93

## IV Analysis: Regulation measure

▶ Back

- ▶ Regulation measure from Mercatus RegData 4.0
- ▶ Counts of regulation affecting NAICS 4d using text analysis
- ▶ Extended to all sectors with HHI using cosine-similarity between sector descriptions
- ▶ For all pairs NAICS 4-d sectors:
  - ◊ Build cosine similarity between descriptions
- ▶ For each NAICS 4-d without missing data:
  - ◊ Rank 5 most similar sectors with regulation data
  - ◊ Attribute regulations of top 5 most similar sectors, weighted by cos. similarity
  - ◊ If highest cos-similarity is smaller than .2, use only most similar sector.

## IV Regression: Reduced Form and First Stage

	$\Delta$ Inventor Share (pp)	$\Delta$ HHI
	(1)	(2)
$\Delta$ log Restrictions	0.478*	0.016*
	(0.220)	(0.007)
$\Delta$ log Sales	0.539+	-0.000
	(0.274)	(0.005)
Knowledge Market FE	✓	✓
Sample	Full Sample	Full Sample
Weight	Sales	Sales
Observations	153	153

Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

# IV Regression: 2SLS Results

	Ch. 4d K.M. Eff. Inv. Share (%)	
	(1)	(2)
Ch. HHI lower bound	30.560+ (15.904)	30.096+ (15.819)
Ch. Log Real Sales	0.544* (0.244)	0.525* (0.247)
4D Knowledge Market FE	✓	✓
Sample	Full Sample	Mahalanobis 5%
Weight	Sales	Sales
Observations	157	150
First-Stage F	4.587229	4.753009
Anderson-Rubin p-value	.0281448	.0321185

Robust standard errors in parentheses, +  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

# No Controls

▶ Back

$\Delta$ Inventor Share (pp)	
	(1) (2)
$\Delta$ HHI	27.293*
	(11.569)
$\Delta$ HHI	22.399***
	(6.345)
Knowledge Market FE	
Sample	Full Sample Full Sample
Weight	Sales Sales
Observations	157 80

Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

# Main Specification: Actual HHI

Back

$\Delta$ Inventor Share (pp)						
	(1)	(2)	(3)	(4)	(5)	(6)
$\Delta$ HHI	27.293*		27.183*		27.326*	
	(11.569)		(11.941)		(11.620)	
$\Delta$ HHI		22.399***		22.399***		22.350***
		(6.345)		(6.345)		(6.343)
Knowledge Market						
Sample	Full Sample	Full Sample	Trim Outliers	Trim Outliers	Mahalanobis 5%	Mahalanobis 5%
Weight	Sales	Sales	Sales	Sales	Sales	Sales
Observations	157	80	155	80	150	71

Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

# Main Specification: Robustness to Outliers

▶ Back

$\Delta$ Inventor Share (pp)						
	(1)	(2)	(3)	(4)	(5)	(6)
$\Delta$ HHI	26.093*	22.509*	25.904*	22.716*	26.111*	22.554*
	(10.696)	(10.848)	(11.124)	(10.948)	(10.725)	(11.019)
$\Delta$ log Sales	0.914**	0.548*	0.881**	0.539*	0.918**	0.562*
	(0.278)	(0.243)	(0.275)	(0.242)	(0.283)	(0.261)
Knowledge Market FE		✓		✓		✓
Sample	Full Sample	Full Sample	Trim Outliers	Trim Outliers	Mahalanobis 5%	Mahalanobis 5%
Weight	Sales	Sales	Sales	Sales	Sales	Sales
Observations	157	153	155	152	150	139

Robust standard errors in parentheses, + p < 0.1,\* p < 0.05,\*\* p < .01,\*\*\* p < .001

# Robustness to Individual Firm Size

[Back](#)

$\Delta$ Inventor Share (pp)						
	(1)	(2)	(3)	(4)	(5)	(6)
$\Delta$ HHI	35.230** (12.759)	20.783+ (10.615)	35.230** (12.759)	20.783+ (10.615)	35.154** (12.647)	22.854* (11.197)
$\Delta$ log Size	0.175 (0.382)	-0.040 (0.253)	0.175 (0.382)	-0.040 (0.253)	0.300 (0.460)	-0.055 (0.346)
Knowledge Market FE		✓		✓		✓
Sample	Full Sample	Full Sample	Trim Outliers	Trim Outliers	Mahalanobis 5%	Mahalanobis 5%
Weight	Sales	Sales	Sales	Sales	Sales	Sales
Observations	81	79	81	79	75	67

Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

# Robustness to Raw Inventors

▶ Back

$\Delta$ Inventor Share (pp)						
	(1)	(2)	(3)	(4)	(5)	(6)
$\Delta$ HHI	71.724+ (39.265)	67.160+ (37.176)	72.123+ (39.530)	67.736+ (37.504)	71.772+ (39.316)	68.398+ (37.717)
$\Delta$ log Sales	1.864* (0.766)	1.422* (0.717)	1.852* (0.764)	1.402+ (0.712)	1.878* (0.774)	1.443+ (0.745)
Knowledge Market FE		✓		✓		✓
Sample	Full Sample	Full Sample	Trim Outliers	Trim Outliers	Mahalanobis 5%	Mahalanobis 5%
Weight	Sales	Sales	Sales	Sales	Sales	Sales
Observations	157	156	156	155	150	142

Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

# Within-Sector Distribution

▶ Back

	Δ Top 10%/Bottom 50%	Δ Top 10%	Δ Bottom 50%
	(2)	(4)	(5)
ΔHHI	0.243*	0.018**	-0.008*
	(0.097)	(0.006)	(0.004)
Δ log Sales	0.328	0.026	0.005
	(0.294)	(0.020)	(0.007)
Knowledge Market FE	✓	✓	✓
Sample	Full Sample	Full Sample	Full Sample
Weight	Sales	Sales	Sales
Observations	118	118	118

Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

# Forward Citations

▶ Back

	$\Delta \log \text{citations/patent}$	$\Delta \text{patent generality}$
	(1)	(2)
$\Delta \text{Inventor Share (pp)}$	-0.545*** (0.113)	-0.025* (0.012)
$\Delta \log \text{Sales}$	-0.232* (0.109)	0.008 (0.012)
4D Knowledge Market FE	✓	✓
Sample	Full Sample	Full Sample
Weight		
Observations	144	144

Results for  $\Delta \text{Share}_P \in [-2, 2]$ . Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

# Robustness for Inventor Productivity

▶ Back

$\Delta$ Growth/Inventor (pp)				
	(1)	(2)	(3)	(4)
$\Delta$ HHI	-0.332** (0.113)	-0.292* (0.123)	-0.332** (0.114)	-0.290* (0.126)
$\Delta$ log Sales		-0.052* (0.021)		-0.053* (0.022)
Knowledge Market FE	✓	✓	✓	✓
Sample	Full Sample	Full Sample	Mahalanobis 5%	Mahalanobis 5%
Weight	Sales	Sales	Sales	Sales
Observations	101	101	98	94

Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

# Lerner Index v. Concentration in Sample

Back

$\Delta$ Lerner Index	
	(2)
$\Delta \underline{\text{HHI}}$	1.652***
	(0.257)
Observations	258
R-squared	.14

Robust standard errors in parentheses, + p < 0.1, \* p < 0.05, \*\* p < .01, \*\*\* p < .001

# Constant-Growth Equilibrium

▶ Back

## Definition

A constant-growth equilibrium is a set of prices  $p(i)$ , investment intensities  $x_I, x_{e,\omega}, x_{e,1}$ , and normalized values  $v(\omega), v(1)$ , such that, given a wage for production and R&D workers, incumbent and entrants optimally choose research intensities, the stationary distribution satisfies:

$$0 = -(x_I + x_{e,1}) \mu_1 + \delta \mu_\omega + x_{e,\omega} \mu_{e,\omega} + x_{e,1} \mu_{e,1},$$

$$0 = -(x_{e,\omega} + \delta) \mu_\omega + x_I \mu_1,$$

$$0 = -(x_{e,1} + x_I) \mu_{e,1} + x_{e,1} \mu_1 + \delta \mu_{e,\omega},$$

$$0 = -(x_{e,\omega} + \delta) \mu_{e,\omega} + x_{e,\omega} \mu_\omega + x_I \mu_{e,1}.$$

and output grows at a constant rate,  $g$ .

# Stationary Distribution

Back

LOM:

$$\dot{\mu}_1 = -(x_I + x_{e,1}) \mu_1 + \delta \mu_\omega + x_{e,\omega} \mu_{e,\omega} + x_{e,1} \mu_{e,1},$$

$$\dot{\mu}_\omega = -(x_{e,\omega} + \delta) \mu_\omega + x_I \mu_1,$$

$$\dot{\mu}_{e,1} = -(x_{e,1} + x_I) \mu_{e,1} + x_{e,1} \mu_1 + \delta \mu_{e,\omega},$$

$$\dot{\mu}_{e,\omega} = -(x_{e,\omega} + \delta) \mu_{e,\omega} + x_{e,\omega} \mu_\omega + x_I \mu_{e,1}.$$

$$\mu_\omega = \frac{x_I}{x_I + x_{e,\omega} + \delta},$$

$$\mu_{e,\omega} = \frac{\omega x_I \mu_1 + (\omega x_{e,\omega} + x_I) \mu_\omega}{\omega (x_{e,\omega} + \delta) + x_I},$$

$$\mu_1 = \frac{x_{e,\omega} + \delta}{x_I + x_{e,\omega} + \delta},$$

$$\mu_{e,1} = \frac{\omega (x_{e,\omega} + \delta) \mu_1 + \delta \mu_\omega}{\omega (x_{e,\omega} + \delta) + x_I}.$$