

ECONOMIC GROWTH THROUGH DIVERSITY IN BELIEFS

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SFS Cavalcade North America 2024

May 20, 2024

Summary

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- Analyze the impact on growth and wealth/consumption inequality
- Policy implications for taxation and venture capital investment

MAIN FINDINGS

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- 1 **Belief diversity** enhances the likelihood of entrepreneurship (innovation) & economic growth
- 2 Reduces market failure and suboptimal allocations
- 3 But, increases wealth and consumption inequality
- 4 Tax schemes and venture capital funds can improve risk sharing among entrepreneurs & growth
 - Taxes “within” cohorts: a hump-shaped impact on entrepreneurship and growth
 - Taxes “across” cohorts: mitigates inequality and affects interest rates

Comments

OVERVIEW

This paper nicely:

- Links heterogeneous beliefs, innovation/growth, and inequality → Novel angle!
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Some comments:

- 1 Revisiting the Underlying Assumptions
- 2 Learning and Dynamic Effects
- 3 Quantification of the channel
- 4 Welfare and externality analysis

REVISITING THE UNDERLYING ASSUMPTIONS

- The uniform distribution of $\Delta_h \sim [1, \bar{\Delta}]$
 - A fixed set and symmetry of innovation ideas H
 - No learning and beliefs formed only prior to entry
- Main assumptions related to the result: $\frac{\partial \alpha}{\partial \mathcal{D}}, \frac{\partial \mu_Y}{\partial \mathcal{D}} > 0$

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 - What does $\bar{\Delta}$ capture in the real world?

LEARNING AND DYNAMIC EFFECTS

- The current model **lacks learning and post-entry dynamics**
 - Only entrants contribute to innovation (by entering entrepreneurship)
 - Beliefs are formed “only before” realizing anything
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- These assumptions sound less realistic and may give an upper bound of the results
- as **i) entry is the only way to innovate + ii) no uncertainty/noise**

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$$q_{s,t} = q_s + \varepsilon_{s,t} \rightarrow Y_{s,t} = q_{s,t} Y_s \text{ (realized quality)}$$

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- Higher noise can increase the variance of beliefs but slow down learning/growth (Kim 2023)

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- So far, the model is only evaluated qualitatively
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 - Parameters determine the cost cutoff $\delta^{**} = A^{-\frac{1}{H}}$ at which welfare implications vary
- Any suggestive guidance on estimating $\bar{\Delta}$?
 - How should we map it into data?
 - From a diverse set of people or noise or something else?
 - Bayesian or Kalman filter estimations

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 - What would be the optimal policy in each case?
- How should we think about the trade-off between economic growth and inequality?
 - Egalitarian vs Utilitarian
 - How could welfare implications differ?

Conclusion

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This paper:

- Answers how important diversified beliefs are for entrepreneurship and growth
- Builds a model linking beliefs + OLG + growth + inequality
- Analyze the impacts on economic growth and inequality
- Derive important tax policy and VC funds implications

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Review:

- Great paper: important question, tractable modeling, insightful results and implications
- Some modeling choices might make it capture an upper bound
- Quantification and welfare analysis can be improved
- Further discussions on direct evidence or connectedness to the real economy might help