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Older and Slower: The Startup Deficit's Lasting Effects on Aggregate Productivity Growth[☆]

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Abstract

Declining firm entry and the aging incumbent firms have meaningful implications for sluggish U.S. aggregate productivity growth. We provide a framework to characterize the contributions to industry productivity growth across the firm age distribution then apply it to firm-level census data. Several findings emerge: the relationship between firm age and productivity growth is downward sloping and convex; the magnitudes are substantial but fade quickly; selection and reallocation predominantly drive higher productivity growth of young firms. Our results suggest a cumulative drag on aggregate productivity of 3.1% since 1980 and are expanded upon with an IV strategy and standard model of firm dynamics.

Keywords: entry rate, firm age, productivity growth, business dynamism

JEL: D22, D24, E23, J11, L1, O4

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