

DISTANCE TO FRONTIER, SELECTION, AND ECONOMIC GROWTH

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Abstract

We analyze an economy where firms undertake both innovation and adoption of technologies from the world technology frontier. The selection of high-skill managers and firms is more important for innovation than for adoption. As the economy approaches the frontier, selection becomes more important. Countries at early stages of development pursue an investment-based strategy, which relies on existing firms and managers to maximize investment but sacrifices selection. Closer to the world technology frontier, economies switch to an innovation-based strategy with short-term relationships, younger firms, less investment, and better selection of firms and managers. We show that relatively backward economies may switch out of the investment-based strategy too soon, so certain policies such as limits on product market competition or investment subsidies, that encourage the investment-based strategy, may be beneficial. However, these policies may have significant long-run costs because they make it more likely that a society will be trapped in the investment-based strategy and fail to converge to the world technology frontier. (JEL: O31, O33, O38, O40, L16)

In a number of important historical instances industrialization processes, when launched at length in a backward country, showed considerable differences with more advanced countries, not only with regard to the speed of development (the rate of industrial growth) but also with regards to the productive and organizational structures of industry... These differences in the speed and character of industrial development were to a considerable extent the result of application

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