

Big Push in Distorted Economies

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Abstract

Why don't poor countries adopt more productive technologies? Is there a role for policies that coordinate technology adoption? To answer these questions, we develop a model of entry and technology adoption by ex-ante heterogeneous firms, which are connected through input-output linkages and may face idiosyncratic distortions. We first theoretically analyze the conditions that generate multiple equilibria. We then use aggregate and micro-level data from the US and India for quantitative analysis. We find that the US economy is in a unique equilibrium but that the larger adoption costs and distortions in India cause multiplicity. The Indian economy is found to be in the good equilibrium, and hence it is distortions and adoption costs, not coordination failures, that explain the observed income gap between the two countries. However, equilibrium multiplicity makes the effect of idiosyncratic distortions on output and productivity extremely non-linear. For a heavily distorted economy in a unique bad equilibrium, a reform that reduces the distortions just enough to place it in the multiplicity region gives it a chance to coordinate and jump to the good equilibrium: A big push in distorted economies.