

Title: Technology Adoption, Innovation, and Inequality in a Global World

Abstract

Economic Growth since the mid 1990s is characterized by i) declining cross-country inequality, ii) rising within-country inequality, and iii) overall weak growth in advanced economies. I provide a unifying explanation for these facts by developing a theory of long-run growth that focuses on the interaction of innovation and technology adoption in a globalized world. I model both activities as skill-intensive, and study how goods market integration with emerging markets shapes the returns to innovation vis-a-vis technology adoption. While the development of frontier technology in advanced economies is boosted by globalization, increasing innovation comes at the cost of rising inequality and reduced domestic technology adoption. When ideas are getting harder to find, the growth drag from reduced adoption dominates positive innovation effects, which explains slow TFP growth and stagnant wages for non-college workers in advanced economies. The mechanism is corroborated by cross-sectional evidence from German micro data, which leverages regional specialization in innovation vs. production together with the fall of the Iron Curtain.