

Does Product Market Competition Promote Economic Growth? –Two Bargaining Systems and Creative Destruction–*†

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Abstract

Is more intense product market competition good or bad for economic growth? This paper constructs an endogenous growth model with bargaining, and derives an inversed-U-shaped relationship between competition and growth. We compare two bargaining systems of efficient bargaining (EB) and right-to-manage (RTM) in the model of creative destruction. An increase in the bargaining power of labor which decreases the number of researchers always decays growth. If the unemployment rate is high, or if the degree of competition is low, policies for promoting competition are good for growth. Greater competition reduces monopoly rents that induce firms to innovate while it decreases the natural rate of unemployment and increases total employment. Since the degree of competition for maximizing the rate of economic growth in the RTM is larger than in the EB, the optimal competitive strategy for growth depends on which of bargaining systems an economy adopts. When unemployment benefits are low, the positive effect of competition on growth emerges easily because Okun's law works effectively. We propose strategies for growth.

Keywords: product market competition; strategy for growth; Okun's law; efficient bargaining (EB); right-to-manage (RTM); employment-creating effect; incentive effect; unemployment benefit

JEL classifications: O31, E24, L16,

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