Coordination and Spillovers

by

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ABSTRACT

In a model with positive productive spillovers I estimate the production losses caused by the agents' inability to match perfectly with one another. When there are positive spillovers to physical or human capital, when agents differ in their endowments of such capital, and when trading coordination is imperfect, the market sector will tend to be larger than optimal, and market participation should be taxed. Surprisingly, a perfectly coordinated economy in which agents' locations reflect the nature of the spillovers can yield a level of GNP up to nine times as large as an economy in which agents locate at random. The estimates are rough, but the bottom line is clear: Coordination makes a big difference to per capita GNP, and cross-country differences in how well activities are coordinated could perhaps explain a large portion of cross-country inequality. Similarly, secular changes in organization might explain a large portion of the change in the Solow residual in one country over time.

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