CREATIVE DESTRUCTION AND UNCERTAINTY

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Abstract
Uncertainty rises in recessions. But does uncertainty cause downturns or vice versa? This paper argues that counter-cyclical uncertainty fluctuations are a by-product of technology growth. In a firm dynamics model with endogenous technology adoption, faster technology growth widens the dispersion of firm-level productivity shocks, a benchmark uncertainty measure. Moreover, faster technology growth spurs a creative destruction process, generates a temporary downturn and renders uncertainty counter-cyclical. Estimates from structural VARs on U.S. data confirm the model's predictions. On average, 1/4 of the cyclical variation in uncertainty is driven by technology shocks. This fraction rises to 2/3 around the "dot-com" bubble. (JEL: D22, E32, D80)

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