

# Large Firms and Long-Run Growth

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## Abstract

Market share of large firms (MSOLF) in the U.S. has been on the rise for the past three decades. This paper quantifies the long-run effect of this change of market structure on labor-productivity growth. I develop an endogenous growth model and show that as a large firm's market share grows, its return on research and development (R&D) first increases and then falls. Using a panel of U.S. industries, I show that R&D-intensity has an inverted-U relation with the MSOLF. Calibration of my model to aggregate moments of the U.S. data shows that since 1985, U.S. economy has moved further away from the point of the maximum return on innovation, which has weakened growth. This is due to the increase in the MSOLF, and its negative effect on large firms' incentive of business-stealing from small-firms. Moreover, in industries with higher MSOLF, an exogenous transitory income shock generates a deeper recession and a slower recovery in the number of large and small firms.

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