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Does the selection process of firms favour economic efficiency growth?

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Abstract

The paper examines the impact of firms exit on the long-term efficiency growth. It is argued that, contrary to the generally established effect in the literature of industrial organisation, the natural selection process hinders economic efficiency growth. Indeed exit of firms causes losses of knowledge and therefore have a negative effect on efficiency. Furthermore, if one takes account of technological spillovers, the exit of firms reduces efficiency by limiting the number of active firms and, thus, the aggregate stock of knowledge. Our model also shows that individual efforts of R&D allow increasing the levels of firms' efficiency. Such efficiency gains are in addition amplified by the technological spillovers.

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