# Scope vs Scale: The Dynamics of Misallocation

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**Abstract**

Between 1980 and 2010, relative to the average firm, the top firms in the United States decreased their scope, the number of products per firm, but increased their scale, the productivity per product line. We attribute these secular patterns to changes in static misallocation. Static wedges to labor and capital shift dynamic incentives to innovate, redirecting innovation from creating new products to improving existing ones, thus lowering the amount of creative destruction. We extend to model to consider differences in firm quality and size between the United States, Korea, and Mexico, and show that a large percent of the differences can be explained via static wedges.

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