

Industrial Development

Firm Size Distribution

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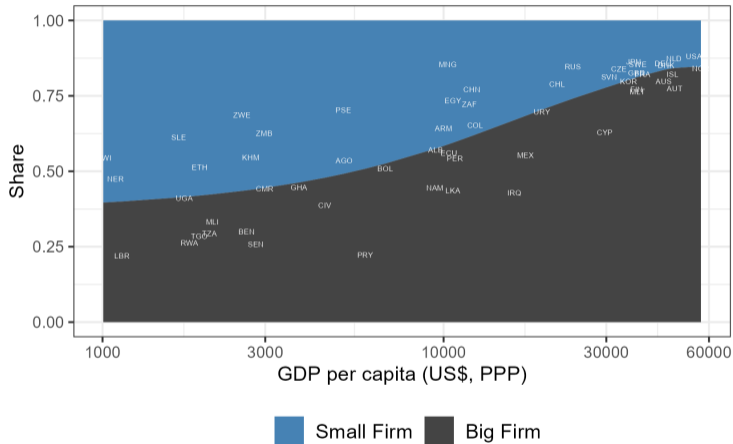
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VoxDevLit Launch Event

Mar 10, 2026

Firms are smaller in poor countries

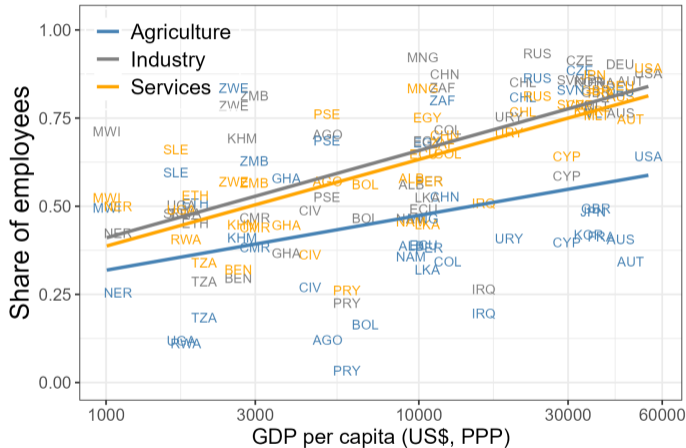
Share of wage employment in large and small firms across countries



Source: Gottlieb, Poschke and Tueting (2025)

Firms are smaller in poor countries, in all sectors

Share of wage employment in large and small firms across countries, by sector



Source: Gottlieb, Poschke and Tuetting (2025)

The challenge

- Data:** Share of employment in large firms
- High-income countries: more than 80%
 - Low-income countries: less than 25%

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Often lower pay in small firms and self-employment.

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Policy: Challenge for Sustainable Development Goal 8: inclusive and sustainable economic growth, employment and decent work for all.

Why less employment in small firms?

1. Frictions:

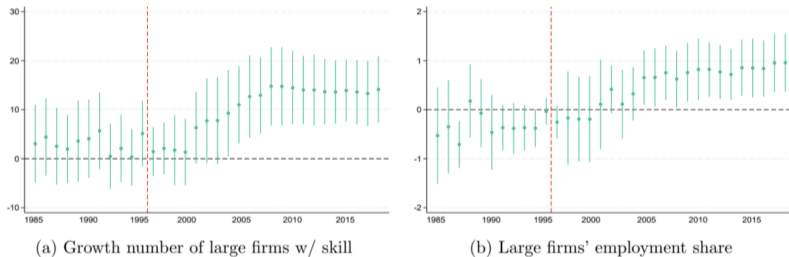
- Labor market regulations encourage informality and limit firm size. (Ulyssea 2010)
- Limited access to finance limits growth opportunities.
(Buera et al. 2011, Midrigan and Xu 2014)
- Institutional and legal setting limits firm growth.
(Akcigit et al. 2021, Grobovšek 2020, Guner et al. 2018)
- Generally greater “distortions” limiting size of high-productivity firms.
(Hsieh and Klenow 2009, Restuccia and Rogerson 2008)

2. Endowments and the environment:

- Fewer **skilled** workers affect occupational composition and make it harder for firms to grow. (Engbom et al. 2025, Gottlieb et al. 2025)
- More modern **technology** sustains larger firms. (Gollin 2008, Poschke 2018)
- Labor market power / **monopsony** reduces size of large firms. (Amodio et al. 2025)

College expansion in Brazil and large firm employment

Figure 5: Results on Firms Over Time



Source: Cox (2025)

Employer market power can reduce firm size and wages...

... and thus encourage self-employment.

VOL. 115 NO. 9 AMODIO ET AL.: LABOR MARKET POWER, SELF-EMPLOYMENT, DEVELOPMENT 3023

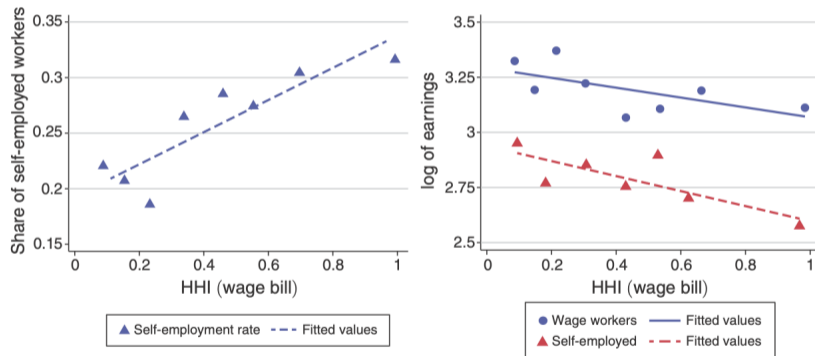


FIGURE 2. CONCENTRATION, SELF-EMPLOYMENT RATE, AND EARNINGS

Policy takeaways

- **Frictions** matter for firm growth, but so do endowments: **skills** and **technology**.
 - **Self-employment** is an important outside option. Suppressing it can have undesired consequences.
 - In an open economy, growth of large firms can also promote opportunities for small firms through **value chains**.
- ⇒ Aim to create conditions that support activities of all types of firms.