

[Defensive Hiring and Creative Destruction](#)

CFM-DP2025-08

Jesús Fernández-Villaverde³, Yang Yu¹ and Francesco Zanetti²

¹Shanghai Jiao Tong University, ²University of Oxford, ³University of Pennsylvania

Defensive hiring of researchers by incumbent firms with monopsony power reduces creative destruction. This mechanism helps explain the simultaneous rise in R&D spending and decline in TFP growth in the US economy over recent decades. We develop a simple model highlighting the critical role of the inelastic supply of research labor in enabling this effect. Empirical evidence confirms that the research labor supply in the US is indeed inelastic and supports other model predictions: incumbent R&D spending is negatively correlated with creative destruction and sectoral TFP growth while extending incumbents' lifespan. All these effects are amplified when ideas are harder to find. An extended version of the model quantifies these mechanisms' implications for productivity, innovation, and policy.