Why small isn't always beautiful: labor regulations and firm growth

What are the costs and benefits of regulation? Most countries treat smaller firms more generously when it comes to business regulation, exempting them from some of the burdens on larger firms. This research uses this institutional feature to show how the overall costs of regulation can be calculated from observing companies' response to this "tax on firm size". This research uses data from France where a large number of labor market regulations bind when a firm has 50 or more employees. These regulations are intended to help workers, but they also discourage firms near the 50 employee threshold from growing larger and producing more output. They also increase the cost burden on firms who choose to remain large. We calculate the regulations depress overall economic output by over 3%. Thus, the costs are relatively high. We also find that workers do not place much value on the extra regulations imposed on bigger firms.

All over the world, economic growth has been disappointing in the last decade. There are many reasons for the growth slowdown, for example falling productivity and lower population growth. But many people argue that "red tape" – especially labor regulations that discourage firms from growing and reduce productivity – are an important contributing factor. Others dispute this, arguing that the regulatory costs are small relative to the benefits to workers from labor market regulation…

Continua a leggere su microeconomicinsights.org