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Non-Technical Summary for the

***Entry and Labor Reforms: Do Firms of Different Size React Differently?* project**

Suppose an identical regulatory reform is adopted simultaneously across a number of countries. Will the reformers be affected identically? This paper argues they will not, and looks for the reasons behind an eventual outcome divergence. The explanation offered here is that regulatory reforms -- i.e., the state's withdrawal from its legal powers to direct pricing, entry and exit on a given market -- affects firms of different size differently. Then, if two countries go through identical reforms but their firm size distributions are different, the two economies will react differently to the reform. Naturally, the argument extends to more than two economies and to more than one regulatory reform. It also produces a variety of reform outcomes across countries and possibly over time. Thus, studying the reform outcomes across firms of different size has important policy implications which is the main reason we look at the reform effects from this angle.

Our approach is to set up a theoretical model and study how output of firms of different size grows after entry and labor reforms. The theoretical results suggest that larger firms would grow faster than smaller firms after a regulatory reform. This turns into the main hypothesis of this paper. We take it to the largest global publicly available firm-level data set to test it, and broadly confirm its validity.

The data conforms well with the model predictions when it comes to the impact of some entry and labor reforms. Specifically, both sales and labor productivity of larger firms grow faster than those of smaller firms after reducing the time and the number of procedures to set up a firm and the minimum capital requirements. However, the model predictions are at odds with the data when the reform is thought as reducing the cost to start up an enterprise. Specifically, smaller firms grow faster than larger firms when the costs to start a firm are reduced. In addition, labor reforms seem irrelevant for the performance differences across firms of different sizes which is an unexpected result, given the model predictions.

The paper extends the recent literature in several ways. First, the tractable micro-founded GE model seems necessary to produce a set of testable predictions. Most of the recent papers rely on previous empirical evidence to seek new evidence. Second, the majority of the literature misses the importance of looking at the divergent effects of reforms across firms of different size. Those differences in the reform outcomes may also produce a variety of reform outcomes across countries, and this avenue for research has been largely underestimated so far. The diverging growth and labor productivity outcomes stem from the notable differences in the size distribution of firms across countries. The latter holds rich policy implications for size-contingent regulatory reforms of entry and, potentially, labor in the developing and emerging economies, especially if more conclusive evidence is found on the variety of labor reform outcomes across firms of different size.

On behalf of the Prosper Bulgaria team,

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