

FIRM CHARACTERISTICS, BRIBES, AND THE BURDEN OF REGULATION IN DEVELOPING COUNTRIES.

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ABSTRACT

This study looks at how regulation affects different firms, using a large cross-country database of formal firms in developing countries. We find regulation affects different firms to different degrees. First, despite assertions that regulation is more burdensome for small firms, the opposite seems to be true; managers of large and established firms complain more about regulation than managers of small and young firms do. Second, most types of regulation appear to affect exporters more than non-exporters. This suggests that bureaucrats might target successful firms able to enter export markets for greater scrutiny. Finally, we do not find any evidence that firms can easily avoid the burden of regulation by paying bribes. This remains true even after we control for the possibility of reverse causation. One possible explanation for this might be that corrupt bureaucrat target firms known to pay bribes.

Keywords: *Corruption; Regulation; Investment Climate; Bribes.*