

# **Service deregulation, competition and the performance of French and Italian firms**

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## **ABSTRACT**

By contrasting the experience of two regulation-riddled countries such as France and Italy, we aim to provide empirical evidence on whether reform in the service industries – the least exposed to globalization winds - has affected firm performance, and notably total factor productivity. In the second half of the 1990s through the early 2000s both France and Italy have been swept by a wave of product market reform measures. Yet aggregate data indicate that this wide-ranging set of reforms has not been paralleled by faster growth and not even by positive productivity developments in either country.

We first investigate whether changes in regulation - in most cases deregulation - has changed the mark-up of firms in the industry where reform took place and in the expected direction (deregulation bringing about less rent). In the second stage, we analyse whether the originating changes in mark-ups have translated into TFP change. We use firm-level data over 1998-2007.

We find that barriers to entry are associated to higher mark-ups, and in turn higher mark-ups are statistically related to total factor productivity. Whether the relation between rents and productivity is a negative relation or an inverted-U has been debated. In line with some previous studies, we estimate at best that the relationship between entry barriers and productivity is negative.