



## Department of Economics Spring Seminar Series



### Uneven Obstacles for the Mid-Size Firms and the Missing Middles in the Developing Countries: Can Corruption and Tax Regulation explain it?

*Presented by*

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**Abstract:** What factors drive the missing middle phenomenon (over-representation of small and large size firms over middle size firms) in developing countries is an unsettled question. Though several studies claim the existence of missing middle, no empirical effort is made to estimate it. Using the data from the World Bank Enterprise Survey of more than 100 countries, the current study estimates the missing middle by comparing the firm size distribution of developed countries with that of developing countries. The study finds limited evidence of bunching at Value Added Tax threshold suggesting that tax policy is not driving that missing middle. The uneven obstacles faced by the mid-size firms, especially in countries with poor institutions (more corrupt government officials), is found to be a significant predictor of the missing middle. The findings suggest that corruption impedes firms' growth.