



UNIVERSITÀ
DEGLI STUDI
DI PADOVA

DIPARTIMENTO DI SCIENZE
ECONOMICHE E AZIENDALI
"MARCO FANNO"

via del Santo 33
I – 35123 Padova, Italy
CF 80006480281
P. IVA 00742430283

Fabio Pieri (University of Valencia, Spain)
"Product market regulation and innovation efficiency"

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Abstract

We study the role of upstream product market regulation (PMR) in innovation efficiency. By estimating a knowledge production function on OECD industries through a stochastic frontier analysis, we find that service regulation reduces R&D efficiency in the manufacturing sector. These results are robust to controlling for the institutional setting of the technology, the labour and the financial market, and to various forms of heterogeneity. The marginal impact of PMR is higher in less regulated economies indicating that large improvements in R&D efficiency cannot be obtained at the earlier stages of deregulation. Potential efficiency gains for late reformers are however sizeable.