Non-competes and the Distribution of Firm Size*

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Abstract

We isolate the impact of non-compete enforcement on the distribution of firm size and growth by focusing on Florida’s 1996 legislative change that eased restrictions on the enforcement of non-competes. We first establish the contrast between legal regimes and that wage trends did not change before and after the passage of the legislation. Difference-in-differences models show that following the change, establishments of large firms were more likely to enter Florida; they also created a greater proportion of jobs and increased their share of employment in the state. Entrepreneurs or establishments of small firms, in contrast, were less likely to enter Florida following the law change; they also created a smaller proportion of new jobs and decreased their share of employment. Consistent with these location and job creation dynamics, a variety of market concentration measures increased significantly following the law change in Florida. Nationwide cross-sections demonstrate consistent correlations between non-compete enforcement and the employment, size, and concentration dynamics illustrated in Florida.

Keywords: Entrepreneurship; Firm Sorting; Job Creation; Market Concentration; Employee Mobility; Non-compete agreement

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