Competition Politics: Interest Groups, Democracy, and Antitrust Reform in Developing Countries*

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Abstract

This article examines the political origins of antitrust enforcement in developing countries. I consider how the organization and political influence of business affects governments' commitments to competition policy institutions. The analysis predicts cross-class coalitions with contending regulatory preferences. An alliance of incumbent producers and affiliated labor groups ("insiders") opposes competition policies that threaten its existing rents. A pro-competition coalition of consumers, unorganized workers, and small businesses ("outsider") favors the price and employment effects of effective antitrust enforcement. I argue that governments' commitments to competition policy reflect the congruence of interests among economic insiders and the strength of democratic institutions. I examine the argument using a new dataset measuring the timing of competition policy reforms, as well as governments' commitments to the effectiveness of the competition policy authority. The empirical analysis indicates that democracies are more likely to pursue competition policy reforms. I also find that organized insiders are associated with a slower reform process, and with less effective competition agencies.

Keywords: competition policy, democracy, economic development, inequality, interest groups, regulation, rent-seeking

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This article examines how the organization and political influence of business affects variation in competition policy institutions in the developing world. The topic is motivated in part by research arguing that industrial organization and patterns of corporate ownership affect productivity, innovation, and, ultimately, economic growth.[1] Moreover, it appears that one of the enduring lessons of the global financial crisis is that regulatory laxity poses huge systemic risks, but that entrenched interests will fight hard to maintain the status quo.[2] Focusing on the domestic politics of competition policy reform, I propose that powerful actors seek to impede the development of competition policy institutions that diminish their rents. Democratic political institutions help determine the influence of competing interests groups over the timing and efficacy of competition policy reforms.[3]

Recent interest in competition policy in the developing world is driven in part by the failure of the Washington Consensus to produce more equitable economic development.[4] Any argument linking traditional liberalizations of trade and foreign investment to economic growth relies on the assumption that domestic markets are competitive. In reality, anticompetitive practices by incumbent firms persist in open economies—and the welfare losses due to the exercise of

[1] PETER A. HALL AND DAVID SOSKICE, VARIETIES OF CAPITALISM: THE INSTITUTIONAL FOUNDATIONS OF COMPARATIVE ADVANTAGE (2001); Randall Morck, Daniel Wolfenzon, and Bernard Yeung, *Corporate Governance, Economic Entrenchment, and Growth*, 43 JOURNAL OF ECONOMIC LITERATURE 655-720 (2005); Tarun Khanna, and Yishay Yafeh, 45 *Business Groups in Emerging Markets: Paragons or Parasites?*, JOURNAL OF ECONOMIC LITERATURE 331-372 (2007).
[2] DAVID A. MOSS AND JOHN A. CISTERNINO, *NEW PERSPECTIVES ON REGULATION*, The Tobin Project (2009); Simon Johnson, *The Quiet Coup,* THE ATLANTIC, 2009.
[3] For related arguments, see RAGHURAM G. RAJAN, AND LUIGI ZINGALES, SAVING CAPITALISM FROM THE CAPITALISTS (2003), Efraim Benmelech, and Tobias J. Moskowitz, *The Political Economy of Financial Regulation: Evidence from US State Usury Laws in the 19th century,* 3 THE JOURNAL OF FINANCE 1029–1073 (2010)
[4] JOSEPH E. STIGLITZ, GLOBALIZATION AND ITS DISCONTENTS (W. W. Norton & 2003)

monopoly power have been shown to disproportionately accrue to the poor.[5] Thus, competition policy may be an important complement to trade and investment liberalization.[6] Given the potential impact of competition enforcement for economic growth and poverty alleviation in developing countries, it is important to understand the political conditions that may impede or promote the establishment of effective competition policy agencies.[7] This paper seeks to explain the political economy determinants of competition policy reform in the developing world.

Antitrust, or competition policy, institutions are responsible for monitoring and sanctioning anticompetitive behavior by incumbent businesses. While not new to developed countries, these institutions are currently the subject of vigorous debate in developing countries. I explain variation in competition policy reforms as the consequence of a political struggle between contending social coalitions. In contrast with a large and important literature on the political economy of external openness,[8] my model predicts cross-class alliances with contending preferences regarding internal competition policies. Evidence from cross-national estimates of the determinants of antitrust reform strongly supports my coalitional argument.

[5] Carlos M. Urzúa, *Distributive and Regional Effects of Monopoly Power* 2013. 22 ECONOMÍA MEXICANA NUEVA ÉPOCA 279-295 (2013).
[6] Tim Büthe, "The Politics of Market Competition: Trade and Antitrust in a Global Economy." In *THE POLITICAL ECONOMY OF INTERNATIONAL TRADE* (2015). Lisa L. Martin, Editor. Cambridge University Press.
[7] For related research, see Franz Kronthaler & Johannes Stephan, *Factors Accounting for the Enactment of a Competition Law—An Empirical Analysis,* 52 ANTITRUST BULL. 137 (2007), Mark R. A. Palim, *The Worldwide Growth of Competition Laws: An Empirical Analysis*, 43 ANTITRUST BULL. 105 (1998), and Raju Parakkal (2011) *Political Characteristics and Competition Law Enactment: A Cross-Country Empirical Analysis.* 56 ANTITRUST BULL. 609-629 (2011).
[8] PETER GOUREVITCH, *POLITICS IN HARD TIMES: COMPARATIVE RESPONSES TO INTERNATIONAL ECONOMIC CRISES* (1986); Ronald Rogowski, *Political Cleavages and Changing Exposure to Trade*, 81 AMERICAN POLITICAL SCIENCE REVIEW 1121–1137 (1987); Jeffry A. Frieden, *Invested Interests: The Politics of National Economic Policies in a World of Global Capital,* 45 INTERNATIONAL ORGANIZATION 425–451 (1991); Michael J. Hiscox, *Inter-Industry Factor Mobility and the Politics of Trade,* 55 INTERNATIONAL ORGANIZATION 1–46 (2001)

Increasing economic competition from a non-competitive status quo implies a redistribution of wealth from organized incumbent oligopolists ("producers") to diffuse consumers.[9] Effective competition policy enforcement weakens the ability of incumbent producers to capture and maintain rents, benefiting consumers through favorable price effects. The redistribution of rents implies political conflict: incumbent interests will lobby to maintain and expand their rents, while consumers will support greater competition policy enforcement. My analysis looks beyond industry concentration in product markets to examine how labor market considerations shape workers' regulatory preferences. Building on the assumption that workers prefer lower unemployment and higher salaries, I argue that the effects of competition policies on employment and wages help explain workers' attitudes toward antitrust reform.

The introduction of labor market incentives sheds new light on the politics of competition regulation and explains the formation of cross-class alliances with contending preferences. A pro-competition coalition consists of consumers, unorganized workers, and small (often informal) business owners who all favor the effects of competition on lower prices, greater product choice, and lower unemployment. The competing group is a rent-preserving alliance anchored in the interests of concentrated incumbent producers and allied labor, which seeks to maintain anticompetitive rents by opposing competition policy reform. The political cleavage pits outsiders, who favor competition policy reform, against insiders, who oppose it. This divide is distinct from most production-based approaches in the political economy literature, in which social and political divisions are drawn along class (factors of production) or industry lines.

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[9] George J. Stigler, *The Theory of Economic Regulation*, 2 THE BELL JOURNAL OF ECONOMICS AND MANAGEMENT SCIENCE 3–21 (1971); Sam Peltzman, *Toward a More General Theory of Regulation*, 19 JOURNAL OF LAW AND ECONOMICS 211–240 (1976); Ronald Rogowski, and Mark Andreas Kayser, *Majoritarian Electoral Systems and Consumer Power: Price-Level Evidence from the OECD Countries*, 43 AMERICAN JOURNAL OF POLITICAL SCIENCE 526–539 (2002).

Variation in competition policy reflects the interests of the winner of this political conflict between outsiders and insiders. When the pro-competition coalition prevails, my analysis predicts that governments commit to effective antitrust oversight by establishing competition policy institutions. When the rent-preserving alliance wins out, no such regulatory institutions emerge. Competition policy reflects the political weight of the organized interest group (the rent-preserving alliance) relative to the unorganized set of pro-competition forces. I explain that the political power of insiders increases when workers share in the anticompetitive rents. I argue that rigidities in labor markets enable workers to extract a portion of these rents, thus strengthening labor's alliance with concentrated incumbent capital in opposition to regulatory policies that promote entry and competition.

Furthermore, I show that domestic political institutions affect competition policy by allocating political power across the contending coalitions. Specifically, I argue that democratization—characterized by an expansion of the franchise and the introduction of electoral competition—leads to policies favored by outsiders. As a result, democracy increases the likelihood of effective competition policy reform.[10]

The empirical portion of the paper examines the political correlates of competition policy using cross-national data.[11] I conduct two independent tests of the theory using an original dataset on competition policy institutions that records reforms in nearly every developing country from 1975 to 2007. First, examine the determinants of antitrust policy adoption around the world, I endogenize

[10] *See* Parakkal, *supra* note 7.

[11] The analysis of the determinants of policy contrasts with related research, which generally employs economic outcomes as the dependent variable. The important contribution by Rogowski and Kayser, *supra* note 9, for instance, makes inferences about the effect of institutions on the relative strength of producers by measuring the correlation between electoral institutions and prices. But prices are far down the causal chain: the effect of politics on prices presumably operates through a regulatory policy channel.

the date of reform using hazard models. The estimates measure how interest groups and democracy affect the speed with which countries pass competition policy reforms. Second, I create an original index that gauges governments' commitments to the effectiveness of their competition agencies at the end of the study period. The index captures the *de jure* independence of the antitrust agency, as well as the *de facto* enforcement of competition policy. This second set of models estimates the relationship between my political explanatory variables and governments' commitments to the effectiveness of antitrust institutions.

The main results are as follows. Consistent with the theory, anticompetitive interest groups slow the reform process and weaken commitment to a robust regulatory regime. I also find evidence that political institutions mediate the strength of the contending groups. As predicted, democracy speeds regulatory reform and strengthens commitment to antitrust effectiveness. However, democracy opens the door to competition among the contending groups, and I find that the marginal influence of insiders on competition policy is strongest in more democratic settings. The results demonstrate that powerful incumbent interests and domestic political institutions shape the emergence and effectiveness of competition policy reforms.

The Politics of Competition Policy Reform

Under a neoclassical framework, economic competition—characterized by the entry of new firms into product markets—is welfare enhancing since it eliminates producer rents, leading to lower prices and lower unemployment. I define domestic competition policy as the set of laws and institutions that affects market contestability, or the ability of new firms to enter the market.

An encompassing view of competition policy includes at least three sets of institutions. First, competition policy includes the regulations that raise the costs of entering the market. For instance, there is substantial variation in the regulatory requirements for starting a business around the world.[12] For example, as of 2002 in Mozambique there were 19 procedural requirements taking 149 days to complete, whereas an entrepreneur from Canada can complete the requirements in just 2 days. A second set of institutions relevant to market contestability are the laws governing financial markets. The development of a financial system affects market contestability to the extent that capital is required for startup. Thus, the associated competition regulations are those that contribute to financial development, including investor and creditor protections.[13] A political economy strand in the literature recognizes that these corporate governance and banking regulations are the result of political bargains made in the context of heterogeneous political institutions.[14]

This paper highlights the third (and perhaps most direct) form of competition policy: domestic antitrust. Antitrust policy regulates and sanctions anticompetitive behavior by incumbent firms. Though the authority of competition agencies varies substantially across countries, their objectives generally include one or more of the following: banning the abuse of dominance, prohibiting anticompetitive agreements between incumbent businesses (e.g., cartels), and ensuring that mergers do not threaten competition. Given the relatively small market size of most developing countries, competition agencies are not generally concerned with market concentration per se.

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[12] HERNANDO DE SOTO, *THE OTHER PATH* (1989); Rafael La Porta Simeon, Florencio Lopez-de Silanes, and Andrei Shleifer, *The Regulation of Entry*, 117 QUARTERLY JOURNAL OF ECONOMICS 1-37 (2002)

[13] Rafael La Porta, Florencio Lopez-de Salines, Andrei Shleifer, and Robert W. Vishny, *Trust in Large Organizations*, AMERICAN ECONOMIC REVIEW PAPERS AND PROCEEDINGS (1997); Thorston Beck, and Asli Demirguc-Kunt, *Law and Firms' Access to Finance,* 7 AMERICAN LAW AND ECONOMICS REVIEW 211–252 (2005); Simeon Djankov, Caralee McLiesh, and Andrei Shleifer, *Private Credit in 129 countries*, 84 JOURNAL OF FINANCIAL ECONOMICS 299–329 (2007)

[14] MARK ROE, *POLITICAL DETERMINANTS OF CORPORATE GOVERNANCE: POLITICAL CONTEXT, CORPORATE IMPACT* (2003); PETER A. GOUREVITCH, AND JAMES SHINN, *POLITICAL POWER AND CORPORATE CONTROL* (2005); Marco Pagano, and Paolo F. Volpin, *The Political Economy of Corporate Governance*, 95 AMERICAN ECONOMIC REVIEW 1005–1030 (2005)

Recent research points to the potential benefits of competition agencies for developing countries, including improved total factor productivity,[15] and increases in entry rates of new firms into the market. Furthermore, advocates of antitrust policy argue that enforcement improves social welfare, reduces poverty, and promotes economic development.[16] If competition policy is welfare enhancing, the lack of antitrust institutions in close to half of all developing countries represents an important puzzle.

To help explain variation in competition policy institutions in developing countries, I first note that the absence of competition policy enforcement has distinct distributional implications, since anticompetitive behavior by incumbent firms transfers wealth from consumers to producers.[17] Firms that are able to charge a price that exceeds marginal cost (a monopoly price) without inducing new firms to enter the market have what is known as *market power*. Market power exists when barriers to potential competitors enable incumbent firms to restrict output; it implies a transfer of wealth from consumers to producers in the form of a monopoly rent.[18] The distributional implications of market power help inform producers' interests regarding competition policy reform. Specifically, incumbent producers with market power will likely oppose competition policies that threaten their existing rents.

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[15] Stefan Voigt, *The Effects of Competition Policy on Development: Cross-Country Evidence Using Four New Indicators*, 45 JOURNAL OF DEVELOPMENT STUDIES 1225–1248 (2009); Hiau Looi Kee, and Bernard Hoekman, *Imports, entry and competition law as market discipline,* 51 EUROPEAN ECONOMIC REVIEW 831–858 (2007)

[16] Jonathan B. Baker, *The Case for Antitrust Enforcement*, 17 THE JOURNAL OF ECONOMIC PERSPECTIVES 27–50 (2003b); Eleanor M. Fox, *Economic Development, Poverty and Antitrust: The Other Path,* SOUTHWESTERN JOURNAL OF LAW AND TRADE IN AMERICAS 211 (2007)

[17] This assumption follows from a standard neoclassical framework. As previously noted, alternative approaches do not necessarily view economic competition as consumer welfare enhancing.

[18] An important point of emphasis is that producers need not be monopolists in the strict sense in order to have market power: barriers to competition may bestow market power on more than one firm, enabling each to set prices above marginal cost.

A common approach in the literature suggests that consumers represent a monolithic counterweight to incumbent producers. According to this approach, a reduction of market power—greater product market competition—uniformly favors consumers by lowering prices. Compared to a status quo in which producers can engage in anticompetitive practices without consequences, much of the extant literature implies that all consumers should support greater competition policy enforcement.

My extension looks beyond product markets to consider consumers' alternative role as workers within labor markets. Building on the assumption that workers prefer lower unemployment and higher salaries, I argue that the effects of competition policies on employment and wages help determine workers' attitudes toward competition policy reform. Specifically, the labor market implications of antitrust enforcement divide workers into two groups with contending preferences over reform.

Labor insiders, or the subset of workers that shares in anticompetitive rents, align with incumbent capital in opposition to competition policy reform. The formation of a rent-preserving alliance between labor and capital requires that labor extract a portion of incumbent firms' anticompetitive rents. That is, where workers share in the spoils of market power, their interests will coincide with those of incumbent producers in opposition to competition policy that promotes new firm entry and economic competition. I argue below that workers' ability to extract rents is determined in part by rigidities in labor markets that increase the costs of firing workers.

Labor outsiders, on the other hand, are the much larger subset of labor that includes unemployed, non-union, or informal sector workers.[19] Employment and wage considerations cause

[19] Note that unionized workers under more flexible labor market institutions may also belong to the group of outsiders.

labor outsiders to favor competition policy that promotes new firm entry and erodes market power. The principle reason that labor outsiders favor a robust competition policy is that product market competition increases employment growth.[20] The intuition is that firms with market power restrict output in order to increase price, resulting in their monopoly rents. The reduction in output lowers the demand for labor, which reduces employment. Empirical research confirms that increased product market competition can reduce unemployment,[21] informing the argument that labor outsiders anchor a pro-competition coalition in favor of competition policy enforcement.

The argument proceeds by first examining the factors that contribute to the political weight of the anticompetitive interest group. I then analyze how democracy gives voice to a more diffuse group of actors, including labor outsiders, that benefits from competition policy reforms.

I argue that the political power of the rent-preserving alliance depends on two main structural features of the economy: market structure and labor market institutions. I assume that market structure, or the degree of concentration, is exogenous, as it is largely explained by domestic market size and economic development.[22] Beyond the obvious advantage of increasing theoretical tractability, there are other reasons to assume the exogeneity of market concentration. Most importantly, modern competition policy focuses on ensuring the contestability of markets, rather

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[20] Olivier Blanchard, and Francesco Giavazzi, *Macroeconomic Effects Of Regulation And Deregulation In Goods And Labor Markets*, 118 THE QUARTERLY JOURNAL OF ECONOMICS 879–907 (2003); Hans Gersbach, *Promoting Product Market Competition to Reduce Unemployment in Europe: An Alternative Approach?*, 53 KYKLOS 117–33 (2000); Rachel Griffith, Rupert Harrison, and Gareth Macartney, *Product Market Reforms, Labour Market Institutions and Unemployment*, 117 ECONOMIC JOURNAL C142–C166 (2007); Pasquale Commendatore, and Ingrid Kubin, *Dynamic effects of regulation and deregulation in goods and labour markets*, OXFORD ECONOMIC PAPERS (2008)

[21] Marianne Bertrand, and Francis Kramarz, *Does Entry Regulation Hinder Job Creation? Evidence From The French Retail Industry*, 117 THE QUARTERLY JOURNAL OF ECONomics 1369–1413 (2002)

[22] Todd Mitton, *Institutions and Concentration*, 86 JOURNAL OF DEVELOPMENT ECONOMICS 367–394 (2008)

than reducing market concentration. Indeed, experts argue against the use of Herfindahl indexes and other concentration measures as triggers of regulatory action, especially in developing countries, where markets are often too small to support many firms.[23] Rather, modern competition policy focuses on preventing anticompetitive behavior, such as the abuse of dominance, which reduces aggregate welfare. It is also the case that because competition law in developing countries is a recent phenomenon, it would be unlikely to significantly impact market structure in the short run.[24]

The probability of antitrust reform decreases with economic concentration, because concentrated business represents a powerful lobby against reforms designed to increase competition. The argument follows from the strong theoretical and empirical result that firms in concentrated markets will have distinct lobbying advantages compared to diffuse pro-competition interests.[25] Concentrated markets are by definition populated by a small number of firms, implying that the per-firm payoff of maintaining status quo rents is relatively high. As a result, firms in concentrated markets will oppose regulatory reforms that threaten to increase market competition.

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[23] MICHAEL S. GAL, COMPETITION POLICY FOR SMALL MARKET ECONOMIES (2003).

[24] To address concerns about the potential endogeneity of economic concentration in the empirical portion of the paper, all of my models capture the economies of scale determinants of concentration, which Mitton shows alone explain half of the variation in concentration across countries. I also control for the degree to which external competition through trade openness may erode concentration, as well as other economic and institutional factors. *See* Mitton, *supra* note 22.

[25] Kevin B. Grier, Michael C. Munger, and Brian E. Roberts, *The Determinants of Industry Political Activity, 1978-1986*, 88 THE AMERICAN POLITICAL SCIENCE REVIEW 911–926 (1994); Randall S. Kroszner, and Philip E. Strahan, *What Drives Deregulation? Economics and Politics of the Relaxation of Bank Branching Restrictions*, 114 THE QUARTERLY JOURNAL OF ECONOMICS 1437–1467 (1999); Mancur Olson, *The Logic of Collective Action* (1965); Stephen Weymouth, *Firm Lobbying and Influence in Developing Countries: A Multilevel Approach*, 14 BUSINESS AND POLITICS (2012).

The second factor that contributes to the political strength of the rent-preserving alliance is labor market institutions.[26] I argue that labor institutions that make worker dismissal particularly costly help shape workers' attitudes toward competition policy because these rigidities give workers greater bargaining power within the firm. In particular, I contend that labor's opposition to reform strengthens with the costs of firing workers: where firing costs are high, workers can credibly threaten firm owners; and a credible threat of noncompliance enables workers to extract a portion of the anticompetitive rents in the form of higher salaries. Consistent with this view, empirical research finds a positive correlation between the market share of a firm and the wages that it pays its employees in countries with relatively inflexible labor market institutions.[27]

In sum, when workers share anticompetitive rents, these labor insiders align with capital owners in powerful opposition to institutional reforms designed to increase market competition. A testable empirical implication of the argument follows.

Hypothesis 1. All else equal, governments' commitments to effective competition policy reform are weaker in countries with concentrated markets and rigid labor market institutions.

The analysis proceeds to examine how domestic political institutions influence the relative political weight of the contending coalitions, contributing to variation in competition policy. In

[26] To gain theoretical tractability, I assume the exogeneity of labor market institutions, which tend to be very sticky over time. Empirical research suggests that these institutions can be explained by their exogenous "legal origin," or the set of legal traditions carried over from colonization. See Juan C. Botero, Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, *The Regulation of Labor*, 119 QUARTERLY JOURNAL OF ECONOMICS 1339–1382 (2004).

[27] A. Jorge Padilla, Samuel Bentolila, and Juan J. Dolado, *Wage Bargaining in Industries with Market Power*, 5 JOURNAL OF ECONOMICS & MANAGEMENT STRATEGY 535–564 (1996); S. Nickell, J. Vainiomaki, and S. Wadhwani, *Wages and Product Market Power*, 61 ECONOMICA 457–473 (1994).

particular, I argue that the pro-competition coalition gains political strength through democratization, increasing the likelihood of competition policy reform.[28] Consider the process of democratization as an expansion of the selectorate (the portion of the population that participates in choosing the political leadership).[29] Following Bruce Bueno de Mesquita, Alastair Smith, Randolph M. Siverson, and James D. Morrow, I define the winning coalition as the subset of the selectorate whose support is required for the leadership to maintain political power. I argue that democracy contributes to competition policy reform by expanding the franchise and increasing electoral competition.

First, an expansion of the franchise should favor outsiders by increasing their share of the winning coalition. A large literature distinguishes between the makeup of winning coalitions across political regimes and informs the argument that outsiders' share of the winning coalition increases as a country moves from autocracy to democracy. In autocracies, leaders maintain power through the support of a coalition that could include any number of groups, but by definition, the minimum winning coalition does not include a majority of citizens. Rather, the minimum winning coalition in autocracies often includes economic elites or "the major producers/investors in the economy".[30]

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[28] The argument draws upon research arguing that democracy increases the likelihood of trade liberalization in developing countries. *See* Helen V. Milner, and Keiko Kubota, *Why the Move to Free Trade? Democracy and Trade Policy in the Developing Countries*, 59 INTERNATIONAL ORGANIZATION 157–193 (2005); Pushan Dutt, and Devashish Mitra, *Endogenous trade policy through majority voting: an empirical investigation*, 58 JOURNAL OF INTERNATIONAL ECONOMICS 107–133 (2002). Other related work argues that democracy contributes to economic reform by increasing the political weight of the electorate and reducing the clout of special interests. SEE SUSAN STOKES, MANDATES AND DEMOCRACY: NEOLIBERALISM BY SURPRISE IN LATIN AMERICA (2001); MARK A. SMITH, AMERICAN BUSINESS AND POLITICAL POWER: PUBLIC OPINION, ELECTIONS, AND DEMOCRACY (2000). For a review of the literature linking democracy to economic liberalization see Helen V. Milner, and Bumba Mukherjee, *Democratization and Economic Globalization*, 12 ANNUAL REVIEW OF POLITICAL SCIENCE 163–181 (2009)

[29] BRUCE BUENO DE MESQUITA, ALASTAIR SMITH, RANDOLPH M. SIVERSON, AND JAMES D. MORROW, THE LOGIC OF POLITICAL SURVIVAL (2003)

[30] Daron Acemoglu, *Oligarchic Versus Democratic Societies*, 6 JOURNAL OF THE EUROPEAN ECONOMIC ASSOCIATION 1–44 (2008).

Indeed, in many developing countries, the autocratic coalition consists of industrialists and their labor allies who gained economic power through various development strategies that shielded them from domestic, or more commonly in the Latin American case, external competitors. An expansion of the franchise reduces the proportion of the winning coalition represented by these groups of insiders; by extension, democratization increases the proportion of the minimum winning coalition represented by outsiders. Thus, to the extent that policy reflects the preferences of the winning coalition, democratization should contribute to the development of competition policy institutions.

A second mechanism through which democracy contributes to competition policy reform is electoral competition. The logic emerges from a simple median voter framework, which suggests that the platforms of the two candidates in a competitive election will converge on the preferences of the median voter,[31] or those of the dominant majority.[32] Following the assumption that the pro-competition coalition is larger than the rent-preserving alliance, an expansion of the franchise to some approximation of universal suffrage ensures that the median voter is an outsider. Thus, to the extent that democratization increases political competition, it will lead to policies that reflect the preferences of the pro-competition coalition, including competition policy reform and its enforcement.

Hypothesis 2. All else equal, governments' commitments to effective competition policy reform increase with democracy.

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[31] Anthony Downs, *An Economic Theory of Democracy* (1957); Gene Grossman, and Elhanan Helpman, *Protection for Sale*, 84 AMERICAN ECONOMIC REVIEW 833–850 (1994)

[32] Martin C. McGuire and Mancur Olson, *The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force,* 32 JOURNAL OF ECONOMIC LITERATURE 72–96 (1996); Alberto Alesina, and Dani Rodrik, *Distributive Politics and Economic Growth*, 109 THE QUARTERLY JOURNAL OF ECONOMICS 465–90 (1994). The deadweight loss from uncompetitive markets accrues to outsiders, who constitute the dominant majority in a democracy.

In sum, I have argued that competition policies reflect the relative political strength of two contending coalitions. Countries will be slower to adopt competition policy reforms where an alliance of concentrated producers and workers shares anticompetitive rents. That is, countries with concentrated markets and rigid labor market institutions will be reluctant to reform, since reform may erode the rents of a large and powerful group of economic insiders. I also expect that governments' commitments to the design and enforcement of competition policy will be weaker where the rent-preserving alliance is strong. Democracy, by contrast, will favor the pro-competition coalition by generating incentives for elected policymakers to pursue policies favored by outsiders. Democracies will likely reform faster and create more effective regulatory institutions. Using an original dataset of competition policy reform in developing countries, I devote the remainder of the paper to examining these claims.

Empirical Analysis

To test the theory, I construct a new dataset on competition agency reform and enforcement in nearly every developing country.[33] Of the 155 countries in my sample, 75 passed laws establishing a competition agency prior to 2007.[34] The primary sources used to construct the dataset include: the 2003-2009 issues of the Global Competition Review's annual *Handbook of Competition*

[33] I defined the set of developing countries broadly to include all non-OECD countries as of December 1, 2000, plus the emerging market countries South Korea, Poland, and Mexico. I chose to focus on non-OECD countries since nearly all OECD countries had developed competition policy institutions by 1975. By contrast, competition agencies were almost non-existent in non-OECD countries prior to 1975, making this sample an ideal natural laboratory in which to explore the effects of interest groups and democracy on regulatory reform.
[34] The following countries passed laws establishing competition agencies prior to the study period, 1975-2007: Brazil (1962), India (1969), Pakistan (1970), and Chile (1973). The remaining 151 countries in the sample did so during the study period.

Enforcement Agencies, the Consumer Unity and Trust Society report on competition regimes around the world,[35] and Stefan Voigt's study of the effects of competition agencies on productivity.[36] Supplementary sources include individual countries' competition agency websites.

The unique dataset allows me to conduct two independent tests of the hypotheses. First, to examine the political factors affecting the pace of the reform process, I endogenize the year of reform and model its determinants using hazard models. The purpose of these models is to assess the relative importance of interest groups and democracy in speeding up or slowing down competition policy reform.

Second, to probe the influence of interest groups and democracy on the application of competition policy, I create an original index measuring governments' commitments to competition agency effectiveness at the end of the period, which I model as a function of my political variables. In these models, the dependent variable *Agency Commitment* measures features of the competition policy statute, as well as how the law is actually applied, both as of 2008.[37] Table 1 outlines the construction of the *Agency Commitment* index. The online appendix[38] provides further details on each component of the index. Here, I briefly describe the two sub-indexes used to create the dependent variable *Agency Commitment*.

[35] PRADEEP MEHTA, COMPETITION REGIMES IN THE WORLD: A CIVIL SOCIETY REPORT (2006).
[36] I thank Stefan Voigt for sharing his data with me.
[37] My index of competition policy differs from Voigt's in several important ways. Voigt develops four indicators of competition policy to test its effect on total factor productivity. A strength of his measures is that they incorporate extensive details on the content of the law, the extent to which the law relies on economic reasoning, and the independence of the competition authority. The indicators are based on questionnaires completed by competition authorities and cover 92 countries. My index, while capturing less detail on the economic content and institutional features of the law, provides an easily replicable measure of governments' commitments to competition policy in over 150 developing countries. Another strength of my index is that it incorporates variables measuring governments' commitments to the de facto enforcement of competition policy, including novel data on agency staffing and budgets.
[38] The online appendix is available on the author's website http://faculty.msb.edu/sw439/.

The sub-index *De Jure Commitment* captures institutional features related to the legal independence of the competition agency based on the law. Values of *De Jure Commitment* are higher: if the agency head's term is fixed, the longer the term of the agency head, the older the law establishing the agency, if the independence of the agency is explicit in the law, and if the executive cannot override the decisions of the agency.

The sub-index *De Facto Commitment* measures the government's application of the competition law. The indicator *De Facto Commitment* is larger: the greater the budget of the agency, the greater the number of employees of the agency,[39] the higher the expert opinions of the effectiveness of the agency, and if the agency has ever intervened in a proposed merger.

My competition policy index, *Agency Commitment*, is the average value of *De Jure Commitment* and *De Facto Commitment*.

Table 1 here.

To examine the influence of the insider interest group on competition policy institutions, I create the variable *Rent-Preserving Alliance* to capture variation in the political weight of economic insiders across a large sample of countries. It represents the sum of the standardized values of two independent, theoretically motivated components.[40] The first is an objective index measuring the degree to which labor market rigidities facilitate labor's ability to extract a portion of incumbent firms' rents. The data are are from the World Bank's Doing Business Project, which used to measure the flexibility of labor market institutions around the world. In particular, I use the 2004

[39] Agency budget and staff are adjusted by GDP per capita and population, respectively. For further details, see Table 1 and the description of the index in the online appendix.
[40] The values are standardized to a mean of zero and a standard deviation of one.

measure of firing costs, an objective indicator of the "notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary." [41]

The second component of *Rent-Preserving Alliance* is a unique country-level measure of economic concentration. In particular, I use a Herfindahl index of employment concentration. The Herfindahl data come from Mitton[42] who calculated the index using firm-level data from the Dun and Bradstreet Worldbase dataset, which contains employment data from over one million public and private firms in 2002. To my knowledge, these are the only data on market structure covering a large sample of developing countries. I expect the index *Rent-Preserving Alliance* to be associated with slower competition policy reforms and weaker commitments to competition agencies.

To examine the hypothesis that democracy improves commitments to competition policy, I include the combined Freedom House–Polity index.[43] I expect that the adoption of competition agencies will speed up with democracy, and that democracy will be associated with stronger commitments to the agency.

I control for variables related to the strength of the interest group as well as the country's size and overall regulatory quality.[44] The variable *GDP per capita* captures economic development, *Population* measures the size of the domestic market.[45] I note that including GDP per capita and *Population* helps assuage concerns about the endogeneity of market concentration by capturing the

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[41] http://www.doingbusiness.org/.
[42] *See* Mitton, *supra* note 22
[43] AXEL HADENIUS AND JAN TEORELL. ASSESSING ALTERNATIVE INDICES OF DEMOCRACY (2005); Peter A. Hall & David Soskic, *supra* note 1. The index represents the average of Freedom House and Polity; missing Polity values are imputed by regressing Polity on the average Freedom House measure. The results are robust to alternative democracy indicators.
[44] Economic controls come from the World Development Indicators. All political and regulatory variables are from the Quality of Governance dataset.
[45] GDP per capita and population are logged.

economic determinants of concentration. Indeed, Mitton[46] shows that these two variables alone explain half of the variation in concentration across countries. All models also include proxies for external influence and openness: *Aid per capita*[47] and *Trade*.[48]

Robustness tests include additional control variables in order to address some endogeneity concerns and to test the model against alternative political explanations. Since competition policy may be part of a larger program of governance reform that could also affect the influence of economic insiders, I include measures of overall *Governance Quality* and *Regulatory Quality*, taken from the Governance Matters dataset.[49] I also include indicators of political partisanship, since it is possible that antitrust reform is driven by consumer- or worker-friendly coalitions of the political left.[50] Finally, Rogowski and Kayser show that majoritarian electoral systems favor consumers, and that proportional representation strengthens producers. To test this hypothesis against my interest group explanation, I introduce the variable *Plurality*, coded 1 if the majority of legislators in the lower house is elected using a winner-take-all rule.[51] Table 2 reports overall summary statistics, and correlation coefficients appear in Table 3.

Table 2 here.

Table 3 here.

[46] *See* Mitton, *supra* note 22

[47] *Aid per capita* is the log of net official development assistance and aid.

[48] Trade is the sum of imports and exports as a share of GDP.

[49] See Daniel Kaufmann, Aart Kraay, and Pablo Zoido, *Governance Matters III: Governance Indicators for 1996-2002* (2003).

[50] The variables Partisanship–Center and Partisanship–Left are dummy variables indicating the partisan orientation of the executive. Data are from the Database of Political Institutions (DPI). Thorsten Beck, George Clarke, Alberto Groff, Philip Keefer, and Patrick Walsh, *New Tools in Comparative Political Economy: The Database of Political Institutions World Bank Economic,* 15 WORLD BANK ECONOMIC REVIEW 165–176 (2001).

[51] The variable is Housesys, from the DPI. This variable is coded as follows: 1 if the majority of seats is elected using plurality rule; 0.5 if half plurality and half proportional representation; 0 if the majority of seats is elected by proportional representation.

Hazard Models of Competition Policy Reform

This section reports the results of hazard models measuring the impact of interest groups and democracy on the pace of competition policy reforms during the period 1975-2007. The analysis includes up to 135 countries, of which 63 passed competition laws during the period.[52]

Hazard models are used to estimate the hazard rate $h_0(t)$, or the probability that a government in a particular country will pass legislation establishing a competition agency in year t, given that it has not done so in the previous year. A nice feature of hazard models is that they do not exclude countries that do not pass competition legislation by the end of the period. Countries are observed from the beginning of the sample period (1975) through the year they pass legislation, or to the end of the study period (2007)—whichever comes first. Since Kaplan-Meier nonparametric estimates (not reported) indicate that the hazard rate is increasing over time, I chose a parameterization of $h_0(t)$ that allows it to grow. My preferred specification is the Weibull model, which parameterizes $h_0(t)$ as:

$$h_0(t)=\alpha t^{\alpha-1}\exp(\beta_0). \tag{2}$$

This implies that the proportional hazard model is specified as:

$$h_j(t|X_j)=\alpha t^{\alpha-1}\exp(\beta_0+X_j'\delta). \tag{3}$$

[52] Data limitations on the market concentration variable restrict the sample size.

The model produces estimates of δ, which have a standard interpretation: $\exp(\delta_i)$ is the hazard ratio for the *i*th coefficient, or the proportional increase in the hazard rate corresponding to a one-unit increase in the explanatory variable x_i.[53]

The model allows for monotonic changes in the underlying hazard over time, determined by the evolutionary parameter α. For example, when $\alpha=1$, the hazard is constant; for values of $\alpha>1$, the hazard is increasing; for $\alpha<1$, the hazard is decreasing. The Weibull specification produces an estimate of the evolutionary parameter α, which provides useful information about the effects of diffusion on a country's propensity to reform the competition regime. Positive and significant values of α can be interpreted as evidence of external influence or policy diffusion.

Table 4 reports the estimated coefficients from the hazard models of competition policy reform. In Column 1, I introduce the variable *Rent-Preserving Alliance*. The negative coefficient corresponding to this variable is statistically significant, and its magnitude is quite large. The estimated coefficient can be interpreted as follows: a one-standard-deviation (1.3) increase in *Rent-Preserving Alliance* lowers the hazard rate for competition policy reform $exp(-0.46\times1.3) = 0.55$ points (around 45%). These results are consistent with the proposition that competition policy reform is delayed in countries where insiders are strong.

I test the relationship between democracy and the timing of competition policy reform and report the results in Column 2 of Table 4. Consistent with Hypothesis 2, the estimated coefficient indicates that democracy speeds up competition policy reforms. In particular, a one-standard-deviation increase in democracy increases the hazard rate by 46%; the coefficient is significant at

[53] I also probe the robustness of the results to a Cox proportional hazards model. All of the main results are robust to this alternative specification.

the 99% level of confidence. This result implies that democracy increases the probability of early competition policy reform.

I test Hypotheses 1 and 2 simultaneously in Column 3. The variables *Rent-Preserving Alliance* and *Democracy* retain strong statistical significance. The results also suggest that larger countries reform faster, and that trade openness is weakly associated with earlier reform.

The models reported in Columns 4-8 of Table 4 probe the robustness of the findings. Since competition policy reform and the strength of interest groups may be endogenous to the overall quality of the institutional and regulatory environment, I include variables measuring governance (Column 4) and regulatory quality (Column 5). In both cases, *Rent-Preserving Alliance* and *Democracy* retain statistical significance.

I attempt to account for alternative political explanations in Columns 6 and 7. Column 6 investigates the hypothesis that partisanship influences reform by introducing dummy indicators recording the partisan orientation of the executive.[54] Column 7 includes an indicator of plurality electoral systems, which enters negative and weakly significant. I note that the sample size is sharply reduced in both cases, and so the results should be interpreted with caution. However, in each case, the estimates are consistent with my interest group hypothesis. I note that democracy loses statistical significance, likely due to the fact that the reduced sub-sample largely excludes non-democracies.

Finally, Column 8 probes the robustness of Hypothesis 1 using an alternative proxy for the rent-preserving alliance. While it is permissible to include time-invariant covariates in the hazard model, I wanted to test the robustness of the results to a proxy for interest groups that varies on a yearly basis. The model approximates the probability of the passage of competition reform,

[54] *Partisanship–Right* is the omitted partisanship category.

conditional on not passing reform in the previous year. Specifically, a time-varying proxy addresses concerns that the timing of reform affects the strength of the interest group, rather than the other way around.[55] Unfortunately, there is no reliable yearly data on market concentration or labor regulations for a large sample of developing countries during the study period, and so I introduce a time-varying economic outcome variable as a substitute for (the absence of) strong anticompetitive interest groups. In particular, value added in manufacturing[56] as a percent of GDP is strongly negatively associated with *Rent-Preserving Alliance*.[57] I include this variable in Model 8, and the results are consistent with prior estimates based on the time-invariant interest group variable.

Table 4 here.

Political Correlates of Competition Policy Commitment

This section reports the results of models estimating the political determinants of governments' commitments to the effectiveness of competition policy reforms. I estimate variations of the following model:

$$Y_i = \alpha + X_i'\beta + \gamma RPA_i + \delta D_i + \varepsilon_i, \qquad (4)$$

[55] With a time variant interest group variable, endogeneity (or simultaneity) bias occurs if the strength of the interest group in year *n* is affected by the lack of law in year *n* (but not in previous years), and so on for each year. That is, the effects of the passage of a competition law on interest group strength would need to be almost immediate (within the current year), which is perhaps unlikely.
[56] Value added is defined as the net output of a sector after adding up all outputs and subtracting intermediate inputs. Data from the World Development Indicators.
[57] The correlation coefficient is -0.37, significant at the 1% level. The p-value of the estimated coefficient of Manufacturing Value Added (averaged over the period 1975-2007) regressed on Rent-Preserving Alliance is -4.6; the R^2 is 0.27.

where Y_i represents the index *Agency Commitment* in country *i* in 2008, X_i is a vector of economic controls, RPA_i is the interest group variable *Rent-Preserving Alliance*, and D_i is *Democracy*. The time-variant independent variables are averaged over the period 1975-2007. The parameters of interest are γ and δ. My main estimates rely on a one-boundary Tobit model due to the censoring at the minimum value of the dependent variable (i.e., countries without competition agencies). The analysis includes up to 141 developing countries.

The results reported in Table 5 support Hypotheses 1 and 2. Column 1 introduces *Rent-Preserving Alliance*, which enters negative and significant at the 95% level of confidence. The results are consistent when I substitute the (negative) proxy for insiders, *Manufacturing Value Added*, in Column 2. While the estimates are correlational and should not be interpreted as causal, the findings are consistent with the theoretical proposition that organized business and affiliated labor help explain variation in governments' commitments to competition policy. Furthermore, the results reported in Column 3 support the hypothesis that democracy favors the policy interests of outsiders. Consistent with the theory, democracy is strongly positively associated with commitments to competition policy in developing countries. In Column 4, both of the main independent variables retain statistical significance.

Several of the control variables are consistently associated with *Agency Commitment*. I find that regulatory commitments are stronger in richer, more populous countries. I also find evidence that foreign aid is associated with stronger competition policy. Trade openness, however, is not robustly correlated with *Agency Commitment*, a result which suggests that there is no clear relationship between external and internal competition policies.

I am interested in whether the impact of insiders depends in part on the level of democracy. Thus, I estimate the marginal effect of *Rent-Preserving Alliance* at different levels of democracy.

Column 5 introduces the interaction term *Rent-Preserving Alliance x Democracy* into the model. The estimated parameter is positive but not significant in the Tobit model. I examine whether the marginal effect of insiders on competition policy is statistically significant for empirically meaningful values of democracy by examining the marginal effect of *Rent-Preserving Alliance* across the full range of *Democracy* in Figure 1. The figure suggests that the negative influence of Insiders on competition policy strengthens with democracy, becoming statistically significant near the midpoint.[58] This result is consistent with the view that democracy may facilitate the "capture" of regulatory institutions by powerful interest groups. With data on governments' resource commitments to competition agencies over an extended period of time, future research could more systematically examine the mechanisms through which insiders may weaken regulatory commitments in democracies.

Finally, I model the sub-indexes *De Jure Commitment* and *De Facto Commitment* and report the results in Columns 6 and 7, respectively. The estimates indicate that the insider interest group influences both the *de facto* design and *de jure* enforcement of competition policy, although the magnitude and statistical significance of *Rent-Preserving Alliance* is stronger with respect to the *De Facto Commitment* sub-index. I also find that democracy is positively associated with competition agency independence (*De Jure Commitment*) and with greater commitment to policy enforcement (*De Facto Commitment*).

Table 5 here.

I examine the robustness of the findings to alternative explanations and report the results in Table 6. Column 1 includes measures of political partisanship; Column 2 accounts for the hypothesis that majoritarian electoral systems contribute to improved competition policy

[58] Approximately 48% of the sample has democracy scores greater than the midpoint.

outcomes. Neither of these variables is robustly correlated with commitments to competition policy. I find that democracy loses statistical significance in the reduced sample in Column 1, but both of the main hypotheses find support in Column 2.

Table 6 here.

Columns 3-6 of Table 6 further attempt to address the potential endogeneity of insiders and democracy by controlling for two measures of institutional heterogeneity: *Governance Quality* and *Regulatory Quality*. Absent a plausible instrumental variable to capture exogenous sources of interest group variation, these variables help to alleviate concerns that the political determinants of competition policy may be associated with fundamental institutional reforms of governance and regulation. Specifically, these institutional variables capture additional sources of interest group heterogeneity that may be correlated with the propensity to implement effective competition policy. The main results are robust to these controls. In Columns 3 and 4, I find that *Rent-Preserving Alliance* and *Democracy* retain strong statistical significance; in Columns 5 and 6, I note that the estimated coefficient corresponding to the interaction term *Rent-Preserving Alliance x Democracy* is virtually unchanged.[59]

Table 7 here.

Finally, I estimate the models of *Agency Commitment* using OLS and report the results in Table 7. The main findings are unchanged. To probe the potential impact of outliers, Figure 2 displays a partial regression plot of the relationship between *Agency Commitment* and *Rent-Preserving Alliance* based on Model 4 of Table 7. The figure demonstrates the strong negative relationship between insiders and competition policy, controlling for the economic variables and *Democracy*.

[59] The negative influence of insiders on competition policy increases with democracy, and becomes statistically significant near the midpoint.

The slope of the linear fit is identical to the estimated coefficient corresponding to *Rent-Preserving Alliance* in Model 4. The partial regression plot in Figure 3 demonstrates the strong positive relationship between democracy and competition policy, accounting for the same set of control variables and for *Rent-Preserving Alliance*. These figures indicate that outliers do not drive the strong relationship between competition policy and the main political correlates.

Figure 2 here.

Figure 3 here.

Conclusion

The recent emergence of competition policy institutions in developing countries provides a unique opportunity to explore the political origins of business regulation across a large sample of countries. I developed an interest group explanation of competition policy design and enforcement that accounts for intra-class political cleavages over antitrust enforcement. I argued that the policy influence of incumbent producers depends crucially on their organizational capacity and the incorporation of workers into their "rent-preserving" alliance.

Evidence from a new dataset of competition policy reforms covering nearly every developing country during the period 1975-2007 supports the argument that insiders resist reforms that threaten their existing rents. Consistent with my theory, I find that anticompetitive interest groups slow the reform process and are associated with weaker commitments to a robust regulatory regime. By contrast, democratization in the developing world appears to have favored consumers by creating incentives for policymakers to reform competition policy institutions. However, the results suggest that democracy is not a panacea, and capture of regulatory institutions by powerful insiders may still occur.

The results shed new light on the politics of regulation by uncovering the domestic political correlates of competition policy. I have extended consumer-based theories by showing that labor market institutions help determine cross-class coalitions with contending interests over competition policy reform.

The analysis informs broader debates in the political economy of economic development. In particular, the findings may be useful in interpreting discussions on economic policy and regulation following the breakdown of the Washington consensus over its failure to produce more equitable development. As Stiglitz [p. 231] notes, "the notion that free trade and investment promotes growth relies on the assumption that private markets are competitive and well functioning."[60] This paper suggests an explanation for some of the disappointing results: the standard recipe of economic liberalization does not necessarily weaken the ability of interest groups to shape regulation in their favor.

Future research might examine the relationship between domestic and international competition policies. Rodrik argues "now that the formal restrictions on trade and investment have mostly disappeared, regulatory and jurisdictional discontinuities created by heterogeneous national institutions constitute the most important barriers to international commerce."[61] Indeed, in recognition of the linkages between globalization and competition policy, the World Trade Organization named competition policy an important "new issue" in 1997 and set up a working group to explore its relationship to international trade and investment. Perhaps unsurprising, given the findings reported here, the working group was dismantled in 2004 after it was unable to reach

[60] Stiglitz, Joseph, "The Overselling of Globalization." In *GLOBALIZATION: WHAT'S NEW* (2005). Michael M. Weinstein, Editor. Columbia University Press.
[61] Dani Rodrik, *Feasible Globalizations,*3 NBER WORKING PAPER 9129, National Bureau of Economic Research, Inc. (2002).

an agreement on a multilateral framework for competition policy. While this paper has been devoted to better understanding the domestic political sources of regulatory "discontinuities," their implications for international economic relations merit further investigation.

Table 1: Competition Policy Index

De Jure Commitment			
Component	Definition	Coding	Value
Fixed Term	Is the term of the competition agency head fixed?	yes	1
		no	0
Term Length	How long is the term of the competition agency head?	term ≥ 8 years	1
		6 years ≤ term < 8 years	0.75
		4 years ≤ term < 6 years	0.50
		term < 4 years	0.25
		No fixed term	0
Age of Agency	How long has the law establishing a competition agency been in place?	law ≥ 30 years	1
		20 years ≤ law < 30 years	0.75
		10 years ≤ law < 20 years	0.50
		law < 10 years	0.25
Formal Independence	Is independence of the competition agency explicitly stated in the law?	yes	1
		no	0
Executive Override	Can the executive override the decisions of the competition agency?	no	1
		yes	0
De Facto Commitment			
Component	Definition	Coding	Value
Agency Budget	Residual of log of average budget (2002-2008) regressed on log of average GDP/capita (2002-2008)	top quartile	1
		third quartile	0.75
		second quartile	0.50
		bottom quartile	0.25
Agency Staff	Residual of log of average staff (2002-2008) regressed on log of average population (2002-2008)	top quartile	1
		third quartile	0.75
		second quartile	0.50
		bottom quartile	0.25
Expert Assessment	The variable is the average country response to the following question from the World Economic Forum's Global Competitiveness Report (2008): ``To what extend does anti-monopoly policy promote competition in your country? (1 = does not promote competition to 7 = effectively).	top quartile	1
		third quartile	0.75
		second quartile	0.50
		bottom quartile	0.25
Antitrust Activity	Has the agency ever intervened over a proposed merger, regardless of the outcome of the legal action?	yes	1
		no	0

Table 2: Summary Statistics

variable	N	mean	sd	min	max
Democracy	4451	4.830	3.230	0	10
GDP per capita	4172	7.097	1.322	4.131	10.749
Population	5002	15.360	1.934	10.133	20.999
Aid per capita	4335	3.587	1.543	-5.409	7.521
Trade	4085	0.796	0.434	0.003	4.566
Partisanship - Center	2297	0.549	0.498	0	1
Partisanship - Left	2297	0.107	0.309	0	1
Plurality	2910	0.638	0.477	0	1
Manufacturing Value Added	3659	14.251	8.077	0	45.972
Agency Commitment	151	0.252	0.293	0	0.875
De Jure Commitment	151	0.229	0.287	0	0.900
De Facto Commitment	151	0.276	0.335	0	1
Rent-Preserving Alliance Index	107	0.025	1.321	-3.412	2.827
Governance Quality	151	-0.292	0.741	-2.050	2.264
Regulatory Quality	149	-0.260	0.814	-2.471	1.847

Table 3: Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Agency Commitment	1												
(2) Rent-Preserving Alliance Index	-0.403 *	1											
(3) Governance Quality	0.347 *	-0.455 *	1										
(4) Regulatory Quality	0.382 *	-0.473 *	0.929 *	1									
(5) Manufacturing Value Added	0.486 *	-0.377 *	0.392 *	0.391 *	1								
(6) Democracy	0.287 *	-0.064	0.559 *	0.593 *	0.265 *	1							
(7) GDP per capita	0.209	-0.416 *	0.724 *	0.689 *	0.242 *	0.407 *	1						
(8) Population	0.361 *	-0.096	-0.251 *	-0.236 *	0.332 *	-0.328 *	-0.371 *	1					
(9) Aid per capita	-0.216 *	0.197	-0.030	0.039	-0.279 *	0.205	-0.178	-0.628 *	1				
(10) Trade	-0.028	-0.232	0.476 *	0.411 *	0.124	0.157	0.420 *	-0.531 *	0.222 *	1			
(11) Partisanship - Center	-0.033	-0.018	-0.208	-0.258 *	-0.086	-0.325 *	-0.206	0.102	-0.040	0.013	1		
(12) Partisanship - Left	-0.074	-0.096	-0.027	-0.015	-0.014	0.110	-0.002	-0.082	0.057	-0.023	-0.448 *	1	
(13) Plurality	-0.206	0.177	-0.123	-0.182	-0.259 *	-0.354 *	-0.221	-0.019	0.005	0.059	-0.021	0.006	1

Note: * indicates significance at the 1% level.

Table 4: Hazard Models of Competition Policy Reform, 1975-2007 (Weibull)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
GDP per capita	0.202	0.501***	0.194	0.213	0.167	0.085	0.343*	0.446***
	(0.188)	(0.128)	(0.183)	(0.235)	(0.240)	(0.304)	(0.201)	(0.160)
Population	0.325**	0.526***	0.425***	0.430***	0.421***	0.300*	0.576***	0.304**
	(0.134)	(0.097)	(0.117)	(0.124)	(0.121)	(0.165)	(0.125)	(0.128)
Aid per capita	0.125	0.251**	0.171	0.171	0.169	0.261	0.403***	0.346**
	(0.132)	(0.113)	(0.128)	(0.128)	(0.129)	(0.192)	(0.116)	(0.135)
Trade	0.262	0.461	0.395*	0.421	0.367	0.817	0.562**	0.041
	(0.225)	(0.297)	(0.220)	(0.326)	(0.280)	(0.615)	(0.240)	(0.414)
Rent-Preserving Alliance Index	-0.466***		-0.505***	-0.509***	-0.494***	-0.866***	-0.467***	
	(0.153)		(0.149)	(0.155)	(0.168)	(0.316)	(0.157)	
Democracy		0.119***	0.149***	0.151***	0.144**	0.060	0.010	
		(0.045)	(0.051)	(0.058)	(0.060)	(0.085)	(0.066)	
Governance Quality				-0.057				
				(0.473)				
Regulatory Quality					0.093			
					(0.540)			
Partisanship - Center						0.179		
						(0.484)		
Partisanship - Left						0.113		
						(0.587)		
Plurality							-0.656*	
							(0.369)	
Manufacturing Value Added								0.075***
								(0.020)
Observations	2066	2714	1993	1993	1993	976	1326	2458
Total countries	102	135	100	100	100	68	84	126
Reforming countries	53	63	51	51	51	27	39	56
Chi-squared	38.635	41.678	57.355	57.759	58.377	20.394	60.930	38.888
Evolutionary parameter α	2.351	2.166	2.254	2.245	2.267	2.649	2.574	2.492

Note: The table presents the results of hazard models that seek to explain the hazard rate of passing a law that establishes a competition agency during the period 1975-2007. The assumed distribution of the hazard function is Weibull. The reported coefficients are logarithms of the relative-hazard coefficients. A constant is estimated but not reported. Robust standard errors, adjusted for country-level clustering, are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

Table 5: Determinants of Competition Policy Commitment (One-Boundary Tobit)

	(1)	(2)	(3)	(4)	(5)	(6) de jure	(7) de facto
GDP per capita	0.153***	0.189***	0.143***	0.094*	0.101**	0.055	0.137**
	(0.049)	(0.046)	(0.043)	(0.050)	(0.051)	(0.054)	(0.055)
Population	0.203***	0.186***	0.231***	0.189***	0.189***	0.170***	0.225***
	(0.042)	(0.040)	(0.033)	(0.040)	(0.040)	(0.044)	(0.043)
Aid per capita	0.120**	0.146***	0.110**	0.088*	0.090*	0.077	0.107*
	(0.051)	(0.052)	(0.045)	(0.049)	(0.050)	(0.054)	(0.055)
Trade	0.061	0.010	0.164**	0.083	0.089	0.088	0.088
	(0.093)	(0.078)	(0.079)	(0.087)	(0.085)	(0.085)	(0.099)
Rent-Preserving Alliance Index	-0.081**			-0.087**	-0.018	-0.070*	-0.109***
	(0.039)			(0.037)	(0.080)	(0.039)	(0.040)
Manufacturing Value Added		0.020***					
		(0.007)					
Democracy			0.061***	0.051***	0.047***	0.062***	0.045**
			(0.016)	(0.017)	(0.018)	(0.016)	(0.021)
Rent-Preserving Alliance * Democracy					-0.012		
					(0.011)		
Countries	106	138	141	106	106	106	106
Pseudo r-squared	0.247	0.296	0.314	0.297	0.302	0.253	0.291

Note: The table presents the results of Tobit models. The dependent variable in Columns 1-5 is *Agency Commitment*. The dependent variables in Columns 6 and 7 are the sub-indexes *De Jure Commitment* and *De Facto Commitment*, respectively. A constant is estimated but not reported. Variable sources and definitions are provided in the text. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

Table 6: Determinants of Competition Policy Commitment: Robustness (One-Boundary Tobit)

	(1)	(2)	(3)	(4)	(5)	(6)
GDP per capita	0.148**	0.097*	0.094	0.077	0.099	0.083
	(0.062)	(0.051)	(0.063)	(0.057)	(0.063)	(0.057)
Population	0.163***	0.181***	0.190***	0.186***	0.189***	0.185***
	(0.055)	(0.044)	(0.041)	(0.039)	(0.041)	(0.039)
Aid per capita	0.059	0.081	0.088*	0.085*	0.090*	0.087*
	(0.066)	(0.053)	(0.050)	(0.049)	(0.050)	(0.049)
Trade	0.316*	0.075	0.084	0.062	0.086	0.066
	(0.185)	(0.095)	(0.108)	(0.095)	(0.107)	(0.093)
Rent-Preserving Alliance Index	-0.083**	-0.089**	-0.087**	-0.081**	-0.018	-0.008
	(0.041)	(0.036)	(0.036)	(0.039)	(0.080)	(0.080)
Democracy	0.013	0.042**	0.051**	0.045**	0.046**	0.040*
	(0.024)	(0.019)	(0.020)	(0.020)	(0.021)	(0.021)
Partisanship - Center	0.092					
	(0.139)					
Partisanship - Left	0.006					
	(0.174)					
Plurality		-0.006				
		(0.096)				
Governance Quality			-0.002		0.007	
			(0.122)		(0.122)	
Regulatory Quality				0.059		0.067
				(0.115)		(0.113)
Rent-Preserving Alliance * Democracy					-0.012	-0.013
					(0.011)	(0.011)
N	79	98	106	106	106	106
Pseudo r-squared	0.317	0.310	0.297	0.299	0.303	0.305

Note: The table presents the results of Tobit models. The dependent variable is *Agency Commitment*. A constant is estimated but not reported. Variable sources and definitions are provided in the text. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

Table 7: Determinants of Competition Policy Commitment (Replication of Table 5 using OLS)

	(1)	(2)	(3)	(4)	(5)	(6) de jure	(7) de facto
GDP per capita	0.093***	0.102***	0.083***	0.061**	0.066**	0.031	0.090***
	(0.027)	(0.022)	(0.019)	(0.027)	(0.027)	(0.030)	(0.032)
Population	0.111***	0.093***	0.118***	0.104***	0.103***	0.081***	0.126***
	(0.021)	(0.021)	(0.015)	(0.021)	(0.021)	(0.023)	(0.024)
Aid per capita	0.067**	0.070**	0.052**	0.047*	0.048*	0.033	0.060*
	(0.028)	(0.027)	(0.023)	(0.027)	(0.027)	(0.030)	(0.033)
Trade	0.023	-0.012	0.070	0.034	0.039	0.030	0.039
	(0.059)	(0.048)	(0.045)	(0.056)	(0.054)	(0.053)	(0.064)
Rent-Preserving Alliance Index	-0.052**			-0.057**	-0.003	-0.041*	-0.073***
	(0.023)			(0.022)	(0.042)	(0.023)	(0.024)
Manufacturing Value Added		0.010***					
		(0.004)					
Democracy			0.033***	0.032***	0.030***	0.037***	0.026**
			(0.008)	(0.009)	(0.009)	(0.008)	(0.012)
Rent-Preserving Alliance * Democracy					-0.010*		
					(0.006)		
Countries	106	138	141	106	106	106	106
R-squared	0.327	0.363	0.391	0.389	0.401	0.289	0.413

Note: The table presents the results of OLS estimates. The dependent variable in Columns 1-5 is *Agency Commitment*. The dependent variables in Columns 6 and 7 are the sub-indexes *De Jure Commitment* and *De Facto Commitment*, respectively. A constant is estimated but not reported. Variable sources and definitions are provided in the text. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

Figure 1: Effect of Insider Interest Group on Competition Policy Commitment as Democracy Changes (Based on Estimates from Model 5, Table 5)

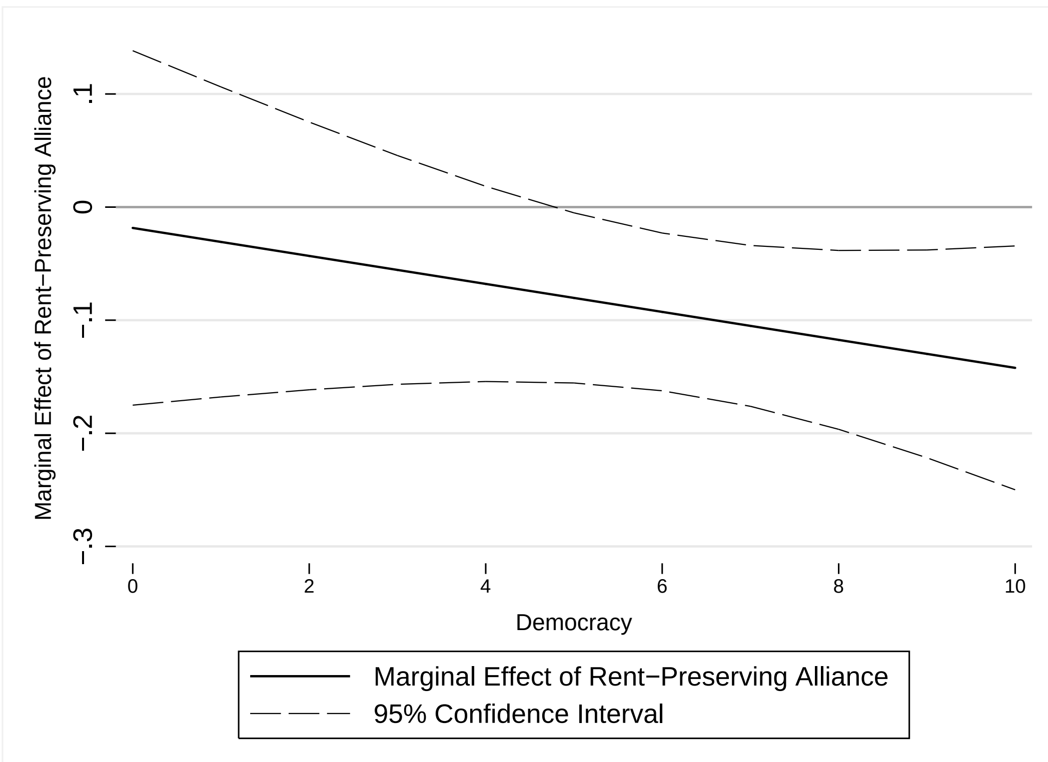

Figure 2: Insiders and Competition Policy Commitment (Partial Regression Plot Based on Model 4, Table 7)

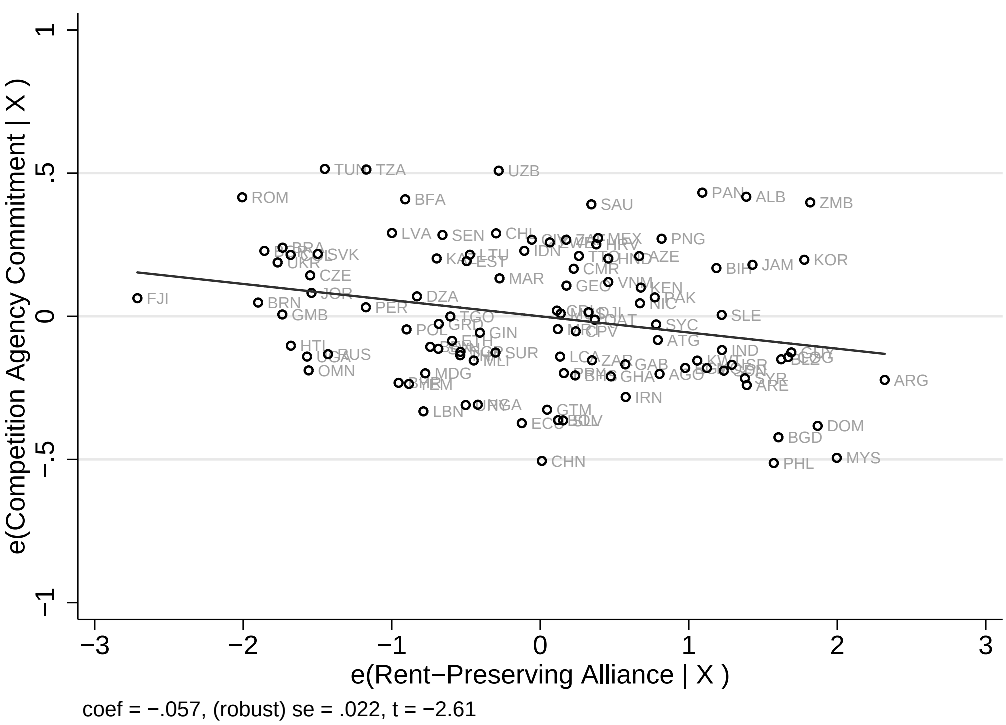

Figure 3: Democracy and Competition Policy Commitment (Partial Regression Plot Based on Model 4, Table 7)