



Do regulatory reforms matter?

Comment by Rita Ramalho


IFC

Dec 4th 2008




Commander and Tinn (2007)

- Studies whether DB can be used to explain countries' and firms' performance
- Uses cross-section data for 2006
- Checks for simple correlations with macro level outcomes
- Checks for simple correlations with firms' perceptions of business environment




Eifert (2008)

- Studies the impact of regulatory reform on investment and growth
- Uses panel data 2003-07
- Looks at the characteristics of reformers
- Goes beyond correlations – controls for different variables and does panel estimation



Why does one paper have results while the other does not?

- Levels vs. changes
- Conditional effects – Eifert finds results conditional on governance and conditional on income.
- Mis-measurement of outcomes in poor countries

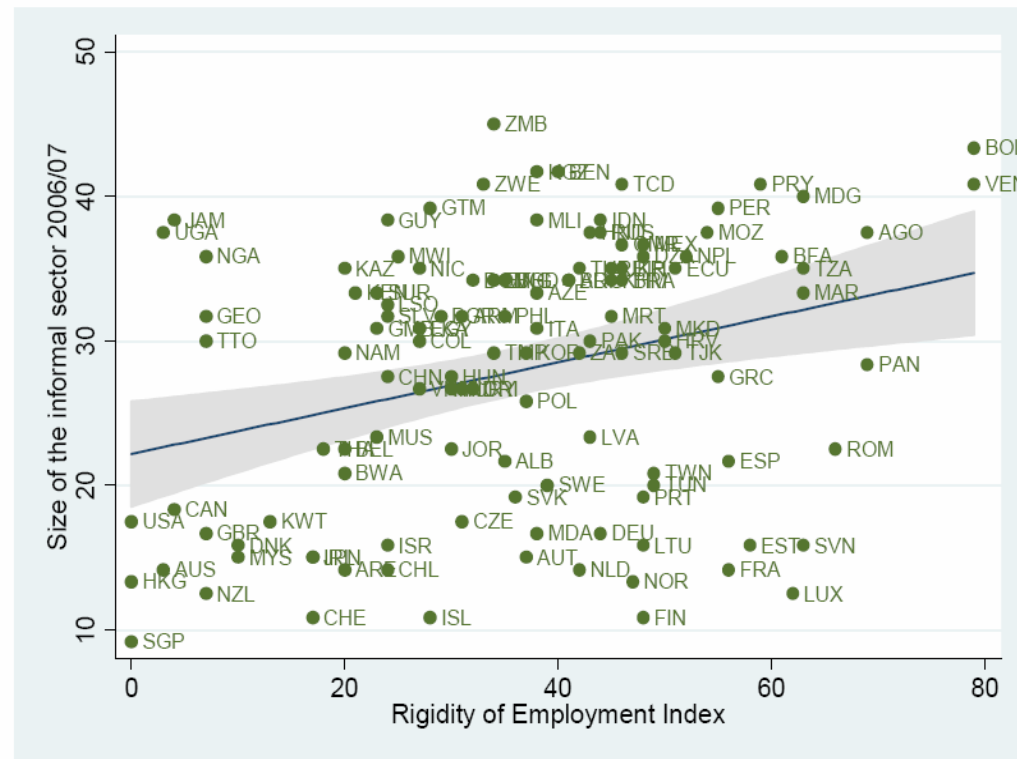


A more detailed look at Commander and Tinn's analysis – macro level results

- Selection criteria for correlation size -Why 0.4 and not just significant?
- Why use just cross-sectional data?
- When is simple too simple?
 - What's the model behind the hypothesis?
- Some hypothesized correlations may not be the relevant ones (for instance protecting investors and R&D per capita)
- Robustness checks using different controls should be done (in particular in the growth regression)

Results from other papers that look at levels of regulation

Figure 1 Employment Laws and informality



Source: Djankov and Ramalho(2008)

Results from other papers that look at levels of regulation

Figure 2 Employment laws and female unemployment

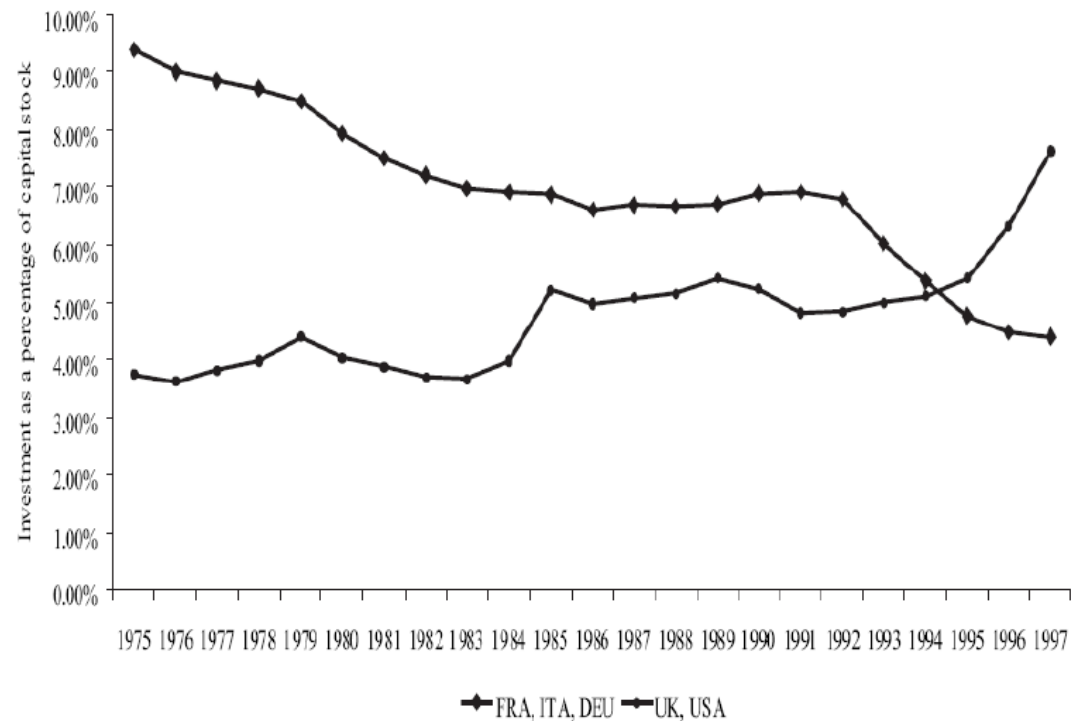


Source: Djankov and Ramalho(2008)

Results from other papers that look at levels of regulation

Figure 2: Investment in Capital Stock in G7 Countries

(Source: Alesina et al, 2005)



A more detailed look at Commander and Tinn's analysis – firm level results

	telecom	electricity	transport	land access	tax rates	tax administration
Lagged GDP growth	-0.003 [-0.21]	0.021* [1.86]	0.024*** [3.07]	0.016* [1.74]	0.069*** [5.81]	0.049*** [4.11]
Small	0.038** [2.16]	-0.013 [-0.59]	-0.068*** [-3.70]	0.054 [0.93]	-0.013 [-0.35]	-0.065** [-2.07]
New	0.018 [0.48]	-0.006 [-0.18]	0.049 [1.28]	0.112*** [2.98]	-0.009 [-0.19]	-0.005 [-0.082]
Observations	31711	36437	35982	35040	35535	35264
	customs & trade regulations	labor regulations	skills & education of workers	licensing & operating permits	access to finance	cost of finance
Lagged GDP growth	0.041*** [4.97]	0.033*** [3.15]	0.032*** [3.18]	0.042*** [5.12]	0.038*** [3.51]	0.022** [2.31]
Small	-0.282*** [-7.94]	-0.237*** [-7.86]	-0.208*** [-7.25]	-0.059* [-1.87]	0.118*** [3.52]	0.022 [0.71]
New	0.025 [0.62]	-0.065* [-1.81]	-0.004 [-0.11]	0.089* [1.87]	0.084* [1.75]	-0.007 [-0.17]
Observations	31844	34210	34260	35069	35334	28409
	economic & regulatory policy uncertainty	macroeconomic instability	corruption	crime, theft, disorder	anti-competitive practices	legal system & conflict resolution
Lagged GDP growth	0.007 [0.61]	0.026* [1.95]	0.040*** [3.40]	0.038*** [2.74]	0.022* [1.67]	0.031*** [2.68]
Small	-0.042** [-2.01]	-0.065** [-2.02]	-0.01 [-0.37]	0.05 [1.51]	0.009 [0.32]	-0.174*** [-5.97]
New	0.036 [1.06]	-0.002 [-0.068]	0.011 [0.24]	0.047 [1.16]	0.075* [1.93]	-0.001 [-0.023]
Observations	35757	29592	34739	35670	35705	28658

Source: Kaplan and Pathania (2008)