

Comments on Djankov, Glaeser, and Shleifer, “Who Reforms Regulation and How?”

LSE Conference on The Political Economy of Reform

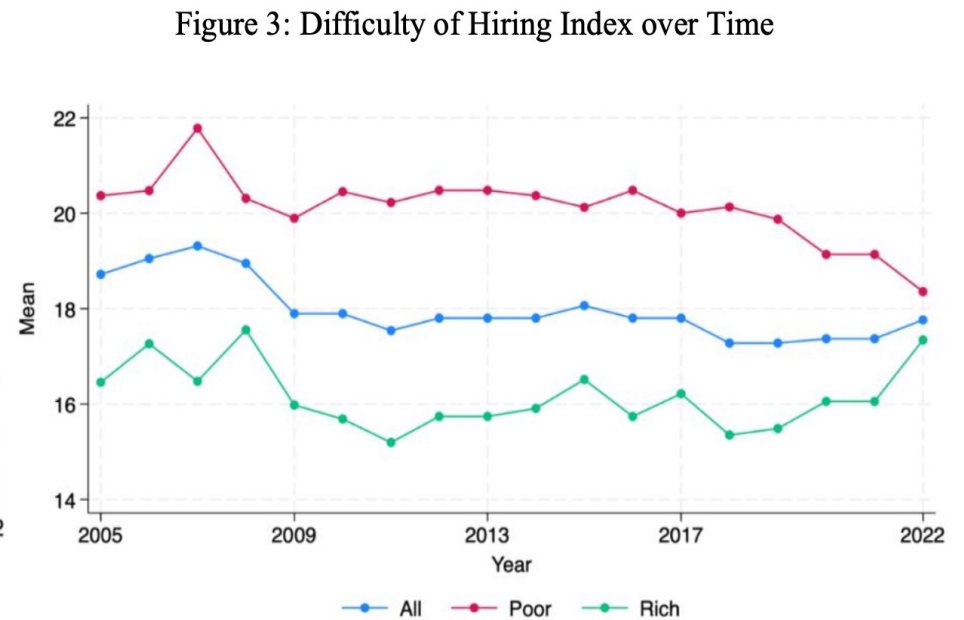
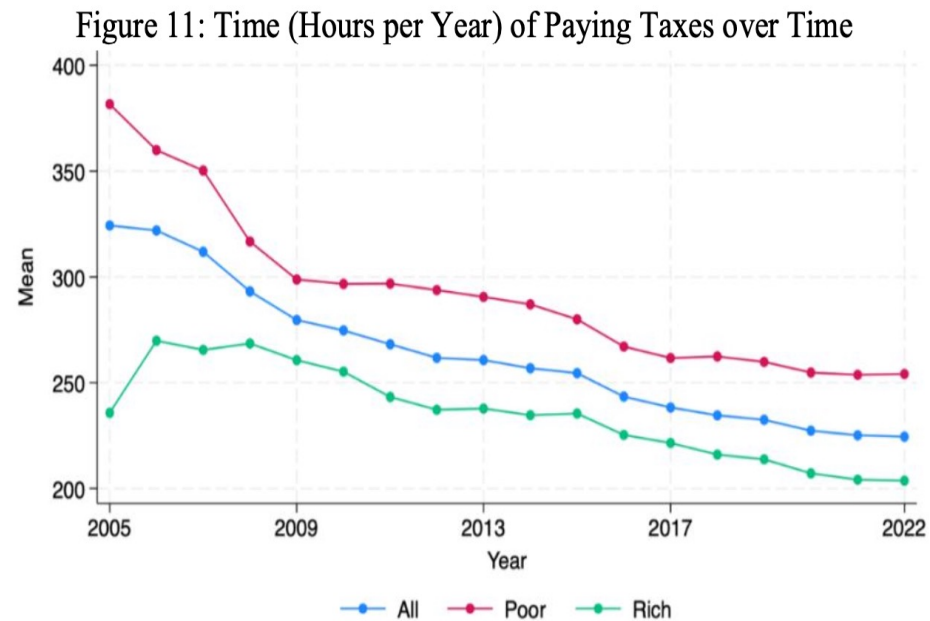
March 21, 2025

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(Oxford)

Overview: mixed patterns of regulatory reform

- Compare



What accounts for this heterogeneity? Is sclerosis inevitable in rich countries?

- Coase: costs (number of losers from reform and cost per loser) and benefits shape policy outcomes
 - One might add the efficiency of bargaining
- Institutional account: structure of government matters
 - How many veto points
 - Alignment within government between reformers and (a subset of) losers
- Rich countries have greater capacity to compensate, but also more veto players
 - Interest groups inside and outside of government

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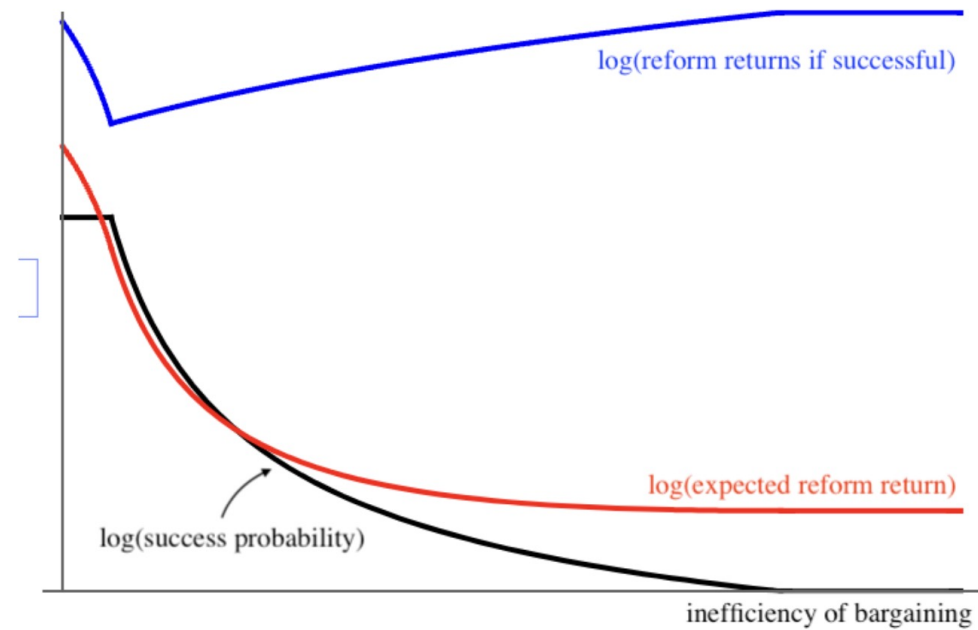
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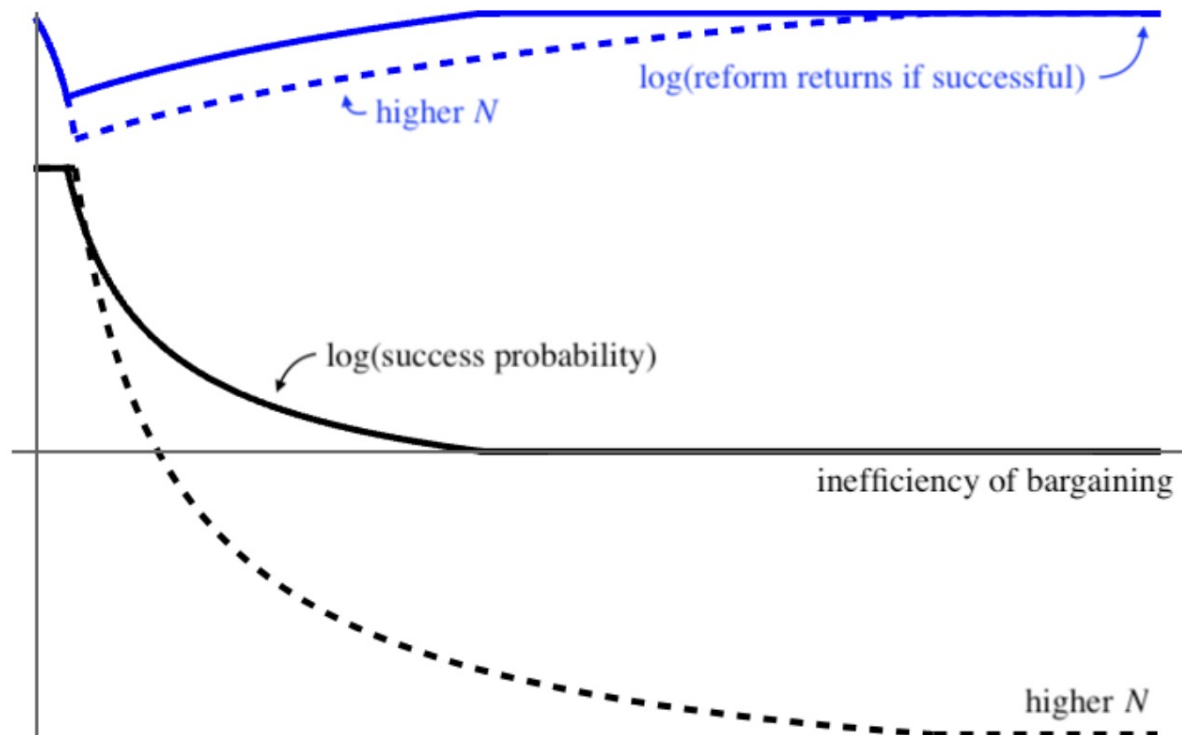
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Theory: Coase

Figure 19: Success Probability and Reform Returns



Theory: the role of institutions



Empirics: summary

1. Conditional on observing an attempted reform, *eventual* success is likely -- 80%
2. Executive branch plays a leading role
3. *Legislative* branch frequently blocks reform
 - Not the judicial branch or the “deep state”
4. Technological reforms least likely to be blocked, then administrative, finally legal
5. Rich countries initiate more reforms and are more likely to succeed in implementing them
6. Reforms generally associated with improved performance

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Political economy within the model

- Within-government tensions as well as between government and other stakeholders
- Veto points reflecting *both* losers within government and lobbying by interest groups
- State capacity captured by the efficiency of bargaining, but might also create internal opposition and veto points – a double-edged sword

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A contemporary application: the life cycle of user data protection regulation

- Digital marketing (e.g., on Google, Facebook, etc.) relies on extensive collection of user data
- Initially, very little regulation, but eventually regulation introduced (e.g., GDPR in the EU)
- Desire to support data-intensive innovation already leading to efforts to *roll back* GDPR
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Some suggestions

- Conceptually: provide more on the objective functions of the actors
 - Initiator – currently maximizing expected welfare
 - Internal opposition – what is their interest (preserving authority/budget?)
- Conceptually: where do veto points come from?
 - Structure/capacity of government (which might interact with internal opposition)
 - Politics (which might interact with non-government opposition)
- Empirically: go beyond the study of the final outcome – intermediate stages shed light on *resistance* to the reform, even if not successful
- Empirically: link to political and economic outcomes
 - Are reform initiators rewarded?
 - Are reforms followed by growth; increased revenues? Changed government bureaucracy?

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