



# The political economy of mobile telecommunications liberalization: Evidence from the OECD countries

Tomaso Duso<sup>a,\*</sup>, Jo Seldeslachts<sup>b</sup>

<sup>a</sup> Department of Economics, Humboldt University Berlin and Wissenschaftszentrum Berlin (WZB), Reichpietschufer 50, D-10785 Berlin, Germany

<sup>b</sup> University of Amsterdam, Roetersstraat 11, 1018 WB Amsterdam, The Netherlands

## ARTICLE INFO

### Article history:

Received 2 February 2007

Revised 2 September 2009

Available online 13 September 2009

### JEL classification:

C23

D72

D78

L51

L96

### Keywords:

Political economy

Entry liberalization

Mobile telecom

Institutions

Ideology

Private interests

OECD

## ABSTRACT

**Duso, Tomaso, and Seldeslachts, Jo**—The political economy of mobile telecommunications liberalization: Evidence from the OECD countries

The change from analogue to digital technologies in the mobile telecom industries at the beginning of the 1990s increased the economic rationale for rendering these markets more competitive. Yet, the speed of reforms have been remarkably different across countries. We empirically investigate this cross-sectional and temporal variation in entry liberalization of OECD countries during the 1990s. A unique data set obtained by merging different sources on political, government and regulatory institutions – as well as private interests and ideologies – allows us to explore in detail several dimensions of the political economy of liberalization. Our findings indicate majoritarian electoral systems as important drivers for change, while independent industry regulators slow down such reforms. Furthermore, powerful industry incumbents hold up the liberalization process and governing bodies that favor a small welfare state accelerate it. The focus on separate elements of countries' institutions aims to shed light on the underlying structure of decision-making processes, providing a base for more structural political economy studies on regulatory change. *Journal of Comparative Economics* 38 (2) (2010) 199–216. Department of Economics, Humboldt University Berlin and Wissenschaftszentrum Berlin (WZB), Reichpietschufer 50, D-10785 Berlin, Germany; University of Amsterdam, Roetersstraat 11, 1018 WB Amsterdam, The Netherlands.

© 2009 Association for Comparative Economic Studies Published by Elsevier Inc. All rights reserved.

## 1. Introduction

Since the 1980s, the majority of industrialized countries experienced an era of entry liberalization and deregulation. Many industries, which for decades were guided by the state's hand, have been opened up to competition. Especially in the so-called network industries – such as telecom, post, and electricity – governments have implemented more competitive market structures with the idea to stimulate economic growth.<sup>1</sup>

\* Corresponding author. Fax: +49 30 25491 444.

E-mail addresses: [duso@wzb.eu](mailto:duso@wzb.eu) (T. Duso), [J.W.Seldeslachts@uva.nl](mailto:J.W.Seldeslachts@uva.nl) (J. Seldeslachts).

<sup>1</sup> Alesina et al. (2005) find support for deregulation and privatization in OECD countries during the 1990s to increase firms' investments and therefore growth. Nicoletti and Scarpetta (2003) confirm that promotion of competition in OECD countries boosts productivity growth. Li and Xu (2004) evidence that privatization and competition in the fixed-line telecom sectors around the world contribute to growth by raising both factor inputs and total factor productivity.

The speed and extent of these reforms, however, have been remarkably heterogeneous. We explore these differences by investigating the liberalization patterns in mobile telecom industries of the OECD countries during the 1990s. Our study is based upon the underlying notion that, while political ideology (Olson, 1965; Romer and Rosenthal, 1987) and the relative power of interest groups (Stigler, 1971; Peltzman, 1976) shape the direction of economic policy, a country's institutional environment determines the ease of implementing the desired outcome (Lijphart, 1999; Henisz and Zelter, 2006). Hence, we argue that policies arise as a result of pressure by interest groups and politicians pursuing their private interests and ideologies, subject to institutional constraints that provide checks and balances to the introduction of new initiatives.

Accordingly, we construct a novel database by merging data on mobile telecom industries in OECD countries during the 1990s with several sources on political dimensions. We uncover a number of stylized facts. First, in accordance with private interest and partisan politics theories, while strong incumbents and pro-regulation governments slow down liberalization, governing bodies that favor a small welfare state speed up entry. Second, majoritarian systems are the most robust drivers for change, in line with these systems being more effective in altering the status quo, due to their higher concentration of power. Third, more independent industry regulators slow down liberalization, confirming agency theories of regulation. Our results broadly correspond with the idea that a higher division of power leads more often to policy gridlock in democratic countries (Becker, 1983; Cox and McCubbins, 1986).<sup>2</sup> Thus, although political stability and an avoidance of power abuse is in general desirable (Persson et al., 1997; Powell, 2000), more checks and balances slow down reforms.

The choice to focus on entry liberalization in the mobile telecom industries during the 1990s, is threefold. First, due to drastic technological change during that time period, mobile telecom experienced a fast and radical liberalization process.<sup>3</sup> Second, the policy outcome, i.e. the number of mobile services providers allowed to operate in a market, is a direct consequence of the decisions taken by political actors. This directly links the political process with the observed policy. And third, the telecom industries are an essential part of the infrastructure, since they offer substantial positive externalities to other industries by reducing transaction costs (Röller and Waverman, 2001). In sum, our approach offers a focused study on the political process of economic policy-making in an important and unusually dynamic industry.

Our paper follows the renewed interest on the economic effects of institutions (e.g. Besley and Case, 2003; Acemoglu and Robinson, 2008). More specifically on entry regulation, Djankov et al. (2002) explore the variation in 75 countries of the bureaucratic requirements to set up a new business. Their results show that regulation is pursued for the benefit of politicians and bureaucrats, in line with De Soto's, Shleifer and Vishny's 'grabbing hand' theories. Most similar to ours is the study by Li and Xu (2002), who investigate the political economy of privatization and competition in the fixed-line telecom sectors in 45 countries. They find that, while democratic countries with a strong presence of pro-reform interest groups are more prone to reform, less democratic countries are more likely to retain a higher level of state ownership.

We add to previous studies on entry regulation by including detailed indicators of regulatory institutions, which we find matter for liberalization. Further, while other works use institutional indices, our paper uncovers single institutional elements that influence the policy outcome. This focus on separate drivers is more befitting for shedding light on the underlying structure of the political decision-making process. Additionally, ours is the first study to focus on the liberalization of the mobile telecom industry, a particularly interesting sector, given that the increased competition there has had a major immediate impact on consumers (Gruber and Verboven, 2001b).

The paper proceeds as follows. Section 2 provides the building blocks of our analysis, based on a review of the literature. Section 3 deals with the description of our data. Section 4 presents our main model and discusses methodological issues. We provide the results and robustness checks in Sections 5 and 6 respectively. Section 7 concludes.

## 2. The various dimensions of policy reform

The traditional private interest view of regulation stresses the role of interest groups, which demand governmental intervention to redistribute in their favor the rents that are generated by market failures (Stigler, 1971; Peltzman, 1976).<sup>4</sup> Yet this theory is only partial in the sense that it does not model the supply side of policy. The policy-making bodies – politicians, governments and regulatory agencies – must be considered in a fully micro-founded theory of economic policy, since these actors create and shape the regulatory process. This extends the private interest view in three dimensions. First, politicians and legislators care about the policy outcome as well, as partisan politics theories say (Alesina and Rosenthal, 1995). Second, policy-makers are agents of their constituents. When information is imperfect, their private interests may matter. For example, regulators may collude with industry incumbents to capture part of the rents (Faure-Grimaud and Martimort, 2003). And third, the comparative politics approach highlights the role of institutions, where more institutional players induce less flexibility in formulating policy (Henisz and Witold, 2000).

This study brings together different data sets which enables us to take into account all of the above dimensions. In order to present the different approaches to policy-making in an orderly way, we make the distinction between interest groups

<sup>2</sup> A division of political power may also have positive effects on reforms, since this increases the credibility of the reform program for private investors (Levy and Spiller, 1996). But this effect is more important in developing and undemocratic countries (Henisz et al., 2005; Li and Xu, 2002).

<sup>3</sup> The early 1990s showed a trend towards more competitive markets with the switch from analogue to digital technology, because the induced large increase in spectrum capacity undermined the traditional arguments for government intervention and natural monopolies (Gruber and Verboven, 2001a).

<sup>4</sup> Stigler's (1971) and Peltzman's (1976) idea of regulation is broad, including all dimensions of government intervention. While keeping this terminology when referring to their theories, the rest of the paper refers to industry-level regulatory agencies when using the terms 'regulators' and 'regulation'.

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات