The effects of deregulation

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Outline

- Concept: (De) regulation
- Stylized facts: regulation and growth trends
- Theoretical mechanisms
- Deregulation effects
- Case study: Portuguese banking
- Evaluation
- References
Concept: (De) regulation

- Product market regulation – price control and entry barriers – barriers to entrepreneurship – affect market structure (defending national champions) and provisions that affect entry (administrative regulation).

- State control of firms (Privatization)
Stylized facts: regulation and growth trends

- Regulation measures. National vs Industry level. Overall trends of regulation
- Measure ranges from 0 to 6, with 6 meaning the most restrictive regulations. Measures to what extent competition is restricted (Giuseppe Nicoletti and Stefano Scarpetta, 2003) - show Figure 1, 2, 3 and 4.
- Overall growth vs Industry sectors - Table 1 and 2.
Theoretical mechanisms

- The role of ownership – privatization is expected to improve economic performance given:
  - Public firms do not maximize profits, maximize other function (employment, total welfare);
  - Public firms are subject to soft budgets, concepts of efficiency, cost reduction are not often present;
  - Changes in the behavior of stakeholders - affects objectives and incentives – the objectives of owners and managers and the incentives for the former to monitor the latter on the other;
  - Changes in agency relationships; aligns the objectives of the shareholders and managers;
  - Changes in the insulating the influence-seeking activities of organized pressure groups;

William Megginson and Jeffrey Netter (2001) survey the literature on the effects of privatisation on several outcomes.
Theoretical mechanisms (cont.)

- Competition and performance:
  - Competition creates greater opportunities for comparing performance, making it easier to owners (market) to monitor managers;
  - Competition raises the risk of losing market shares at any given level of managerial effort; managers may work harder to avoid this outcome;
  - Competition raises cost-reducing productivity.

Theoretical mechanisms (cont.)

- There is no general model for the effects of deregulation on labor market outcomes.

- Effects on labor market outcomes depend on:
  - How reforms change the bargaining power between unions and firms;
  - Size of rents during the regulation period
  - Number of firms that enter the market
  - Level of competition

Hendricks (1994) reviews the effects on several industries in the US.
Deregulation effects

- Overall economy (growth) economy wide +
  Nicoletti and Scarpetta (2003), Gerbach (2000)

- Productivity by economic sectors industry level +

- Labor markets:
  - Wages (+ -)
  - Wages of CEO (-)
  - Employment (+ -)
Case study: Portuguese banking

Effects on labour market: wage distribution


Effects of privatization on wage in Portuguese Banking:

"Using propensity matching estimators to examine the effect of privatization on wages", *Applied Economics*, forthcoming
Regulatory reform and labour earnings in Portuguese banking

Aims:

- Analyse the effects of the deregulatory reforms in the Portuguese banking labour market

- Examine how banking compensation evolved over the transition between regulated and unregulated periods and whether reforms affected certain kind of workers differently.
Regulatory reform and labour earnings in Portuguese banking (cont)

- Outline
  - Regulatory reforms and trade unions
  - Data and modelling
  - Empirical results
  - Conclusions
Regulatory reforms and trade unions
Data and modelling

- Quadros de Pessoal 1985-2000
- Regression analysis
  - Adjusted hourly wage index
  - Relative hourly wage (at the mean and quantile regression)
  - Difference-in-differences approach
Results
Conclusions

We find,

- A relative drop in the contracted wages (serving as a wage ‘floor’) but banking workers were able to enjoy an increasing wage premium.

- A notable exception are the workers from foreign firms who saw their above-average salaries declining during the period 1985–2000.

- Some specific groups benefited relatively more than others:
  - The least skilled and educated workforce, as well as male workers, gained more from the regulatory reforms. This finding contradicts the predictions from the standard discrimination theory of Becker (1957)

- The unequal sharing of the wage premium did not contribute to the rise in banking wage inequality. In particular, neither deregulation nor privatisation raised wage inequality across banking ownership groups.
Evaluation


References


