Independent agencies, political interference, and firm investment: evidence from the European Union

A discussion by

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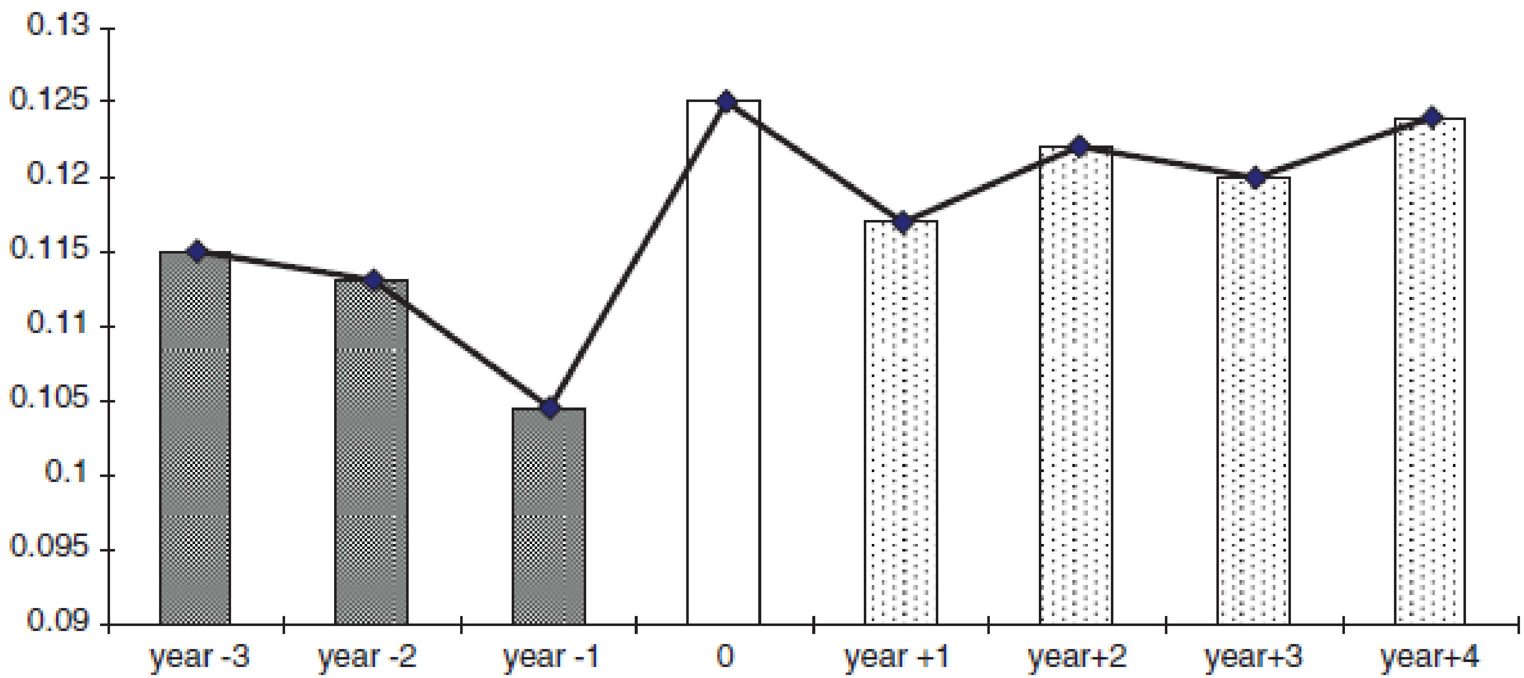
Summary of the paper

FIGURE 1
Investment Rate at the IRA Inception, Before the Event, and After the Event (Subsample of Firms Undergoing the Change in Regulatory Regime)



Comments

- Effect of institutions on investment highly relevant problem
- Analysis potentially suffers from endogeneity
- Decision whether or not to erect IRA is endogenous.
- Example in paper: governments signal commitment not to intervene by erecting IRA

Comments

- The paper claims '*To tackle this problem, we use instrumental variable methods that exploit the cross-country variation in the political and legal endowments that may ensure credibility to the regulatory institution* (…).'
- In practice, they
  – apply SYS-GMM, i.e., using first-differenced lagged variables as instruments
  – Use external instruments such as 'checks and balances and 'rule of law.
- I am no expert on GMM, but a bit like von Munchhausen
- Somewhat unconvincing that rule of law and check and balances do not directly influence level of investment

Comments

- Timing of IRA also endogenous
- Decision to instigate IRA may coincide with other events.
  - Opening up of national markets
  - Privatization
  - Buoyant stock markets
- If privatization drives effect, this may explain lower effect IRA under right-wing governments
- Include privatization dummies, GDP growth into regression?