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Istituto Bruno Leoni

idee per il libero mercato

BAPTISTS AND BOOTLEGGERS GO DIGITAL

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XII MISES SEMINAR

Outline

- Why do regulation exists?

- Economic theories of regulation

- Bootleggers and Baptists

- The digital economy

- B&B go digital

- Conclusion

ideas for the free market

Why do regulation exists?

- Potential factors triggering regulatory change:
    - Technological change
    - Demographic change
    - Significant changes in factor costs
    - New information

- Based on this, policy-makers introduce regulatory reforms that may have distributional and allocative effects;

- Some win, others lose, and social welfare may or may not be enhanced;

- What explains, and predicts, actual decisions?

Economic theories of regulation

- Public interest: policy-makers act in the society's best interest;

- Capture: given asymmetric information, policy-makers are captured by vested interests they need to rely upon (Stigler 1971);

- Special interest: pressure groups are more effective if their desired regulation results in concentrated benefits and diffused costs (Stigler 1971, Peltzman 1976);

- Money for nothing: policy-makers «auction off» regulatory proposals to benefit from lobbying behavior of the subjects (McChesney 1991);

- Bootleggers and Baptists: the stranger the bedfellows, the greater the lobbying power (Yandle 1983).

Bootleggers and Baptists

- Baptists call for Sunday closing laws that shut down bars and liquor stores on religious grounds;

- Bootleggers support the same laws to gain the market;

- Bootleggers & Baptists form a powerful coalition insofar as the former provide the concentrated benefit, the latter improve social acceptance of the diffused costs, by effectively lowering the cost of capture;

- Four possible modes of interaction: covert; noncooperative; cooperative; coordinated;

- B&B explains environmental regulation, foreign trade regulation, tobacco regulation, marijuana-related land use regulation, EU timber regulation…

The digital economy

- Digitalization promotes productivity by lowering the costs of factors, reducing transaction costs and enhancing competition;

- Online platforms provide multi-sided markets that disrupt traditional businesses by
  - Making less-costly alternatives available
  - Allowing different organizational choices

- Digital disruption raises defensive reactions from traditional businesses, that may be explained by B&B.

Case studies from within the Leviathan

Case	Mode of interaction	Bootleggers	Baptists
Anti-Flixbus amendment	Covert	Traditional bus operators	-
Sunday closing laws (online too!)	Non-cooperative	Smaller retailers	Italy's Episcopal Conference
Food delivery regulation	Cooperative	Trade unions	Riders associations
Airbnb-tax and Webtax	Coordinated	Offline businesses	Policy-makers for «fair» taxation

How it ended…

Case	Government opinion	Public opinion	Outcome
Anti-Flixbus amendment	Against	Against	(Almost) repealed (a committee was created to study the issue, political time bomb?)
Sunday closing laws (online too!)	Silently against (2014-2017) / Pro (2018)	Divided	Yet to be seen
Food delivery regulation	Pro (2018)	Mostly uninterested	No regulation, but started negotiations for a binding national contract
Airbnb-tax and Webtax	Silently against	Pro	Airbnb-tax operational since June 2017, webtax in theory operational by 2019

Conclusion

- Baptists and Bootleggers helps explaining why regulation is introduced by showing how «strange bedfellows» may reduce the cost of lobbying and enhancing social acceptance of welfare-decreasing regulations;

- In most cases in the Old Economy, Bootleggers were Big Business representatives;

- Digitalization disrupts many traditional businesses where smaller operators are driven out of the market (or required to change their business models to stand competition);

- Coalitions between Bootleggers and Baptists make regulatory efforts more likely to be endorsed by policy-makers and end successfully;

- B&B can still explain the regulatory setbacks in a different pattern.

Thank You for Your attention

Carlo Stagnaro
Director, Osservatory on the Digital Economy
Istituto Bruno Leoni
Twitter@CarloStagnaro