Proposed Online Appendix

Competition Policy Index

The competition policy index, *Agency Commitment*, measures the government’s commitment to the effectiveness of the competition agency. The variable *Agency Commitment* is the average value of two sub-indexes: *De Jure Commitment* and *De Facto Commitment*.

The sub-index *De Jure Commitment* has five components. The first component captures the relationship between the government and the head of the competition agency; specifically, I measure the rules governing the tenure of the agency head. Following the literature on central bank (Cukierman, Webb, and Neyapti 1992) and judicial (Feld and Voigt 2003) independence, I assume that a fixed term in which the agency head cannot be removed indicates greater political independence; I also assume that independence increases with the term of the agency head. I code a dummy variable equal to 1 if the term of the agency head is fixed.

Second, I code a quasi-continuous variable ranging between zero and one that increases with the term of the agency head. A third component is a quasi-continuous measure that increases with the age of the competition agency. The fourth component of *De Jure Commitment* captures the statutory independence of the agency: I generate a dummy variable equal to one if the law establishing the competition agency explicitly stipulates the agency's independence. The fifth component is coded equal to one if the executive branch cannot overturn the decisions of the competition agency (Voigt 2009).

The sub-index *De Jure Commitment*, which ranges between zero and one, is the average of the components for which data are available. Countries without competition agencies receive scores of zero.
The sub-index *De Facto Commitment* operationalizes the government's commitment to competition policy enforcement. The variable incorporates four components: budget commitments, staffing commitments, actual regulatory actions, and expert assessments. Each component is scaled to range from zero to one.

To capture the government's resource commitments to the competition agency, I compiled data on competition agency staffing and budgets over the period 2002-2008 for all countries covered in the Global Competition Review's annual handbooks of competition enforcement agencies (Global Competition Review, 2003-2009). I adjusted for population size by estimating an ordinary least squares regression of the average number of employees as a function of the average population, and recorded the residuals for each country. The motivation behind this approach is to capture the distinction between what a government actually allocates toward competition policy and the mean allocation based on the size of the country. To adjust for resource constraints, I ran a similar regression of the average agency budget as a function of GDP per capita and recorded the residuals. I scaled the residuals of these two models to create two quasi-continuous measures ranging from zero to one.

A third component of *De Facto Commitment* measures actual antitrust actions by the competition agency. I code a dummy variable equal to one if the agency has ever intervened over a proposed merger, regardless of the outcome of the legal action.

To capture subjective assessments of the effectiveness of competition policy, I use data from the World Economic Forum's Global Competitiveness Report (Schwab and Porter 2008), scaled to range from zero to one according to quartiles. The report provides the average response among practitioners, business persons, and academics to a variety of questions regarding the economic and institutional environment in 133 countries. I incorporate the country average for
the following question regarding the effectiveness of antitrust policy: "To what extent does anti-monopoly policy promote competition in your country? (1 = does not promote competition; 7 = effectively promotes competition)."

The variable *De Facto Commitment* is the average of the four component measures for which data are available. Countries without competition agencies receive scores of zero.
References


Global Competition Review. 2006. The Handbook of Competition Enforcement Agencies.

Global Competition Review. 2007. The Handbook of Competition Enforcement Agencies.

