



How to gain political support for reforms?

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How to address this question?

- **A priori:** many possible ways
- **Our goal:** provide hints to reformers
- **Our approach:**
 - Learn from past experience
 - Analyse successes and failures
 - Draw lessons for the future

Not a unique recipe

- **“How”** to reform depends on

- Type of reform
- Electoral system
- Nature of opposition

“Framework conditions”

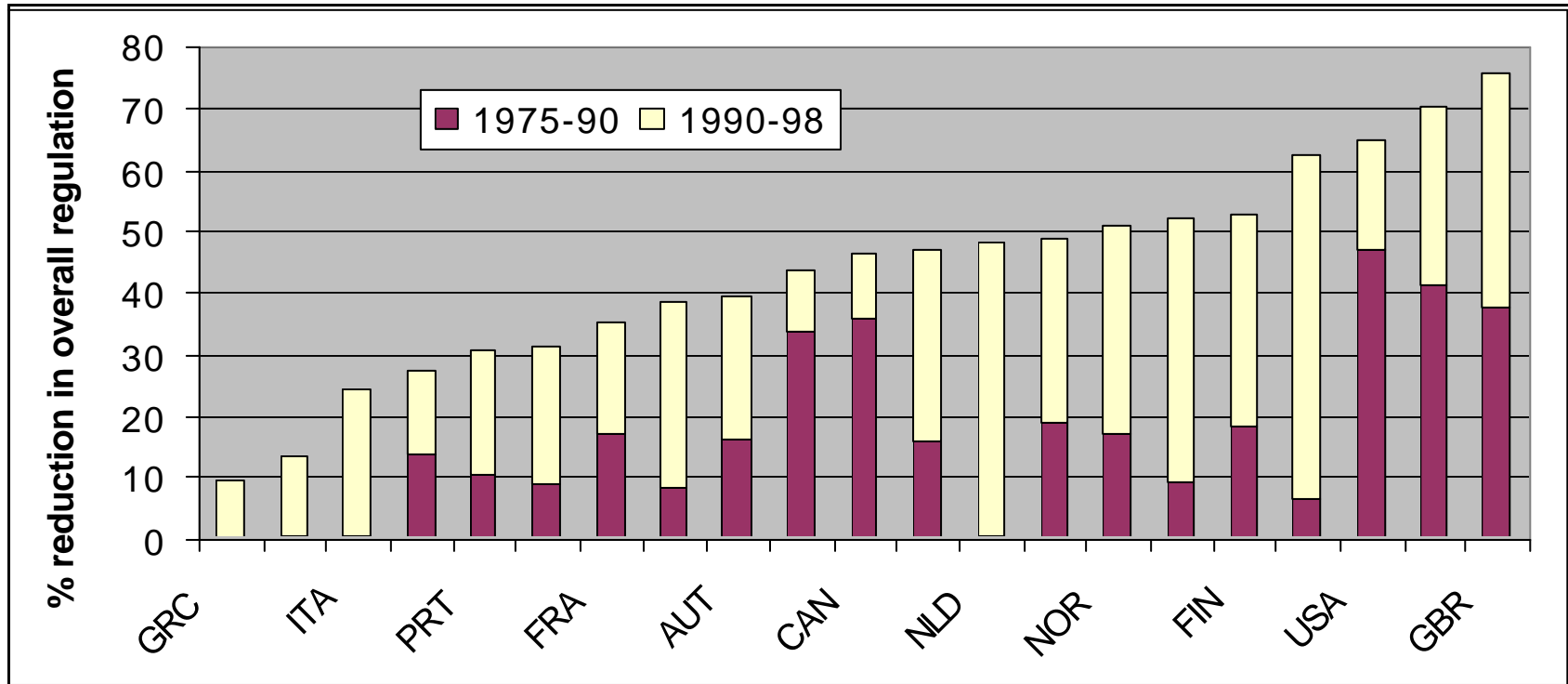
- **Yet:** many common lessons are learnt

What has been achieved?

- Many reforms have been implemented
- Variation across countries and over time

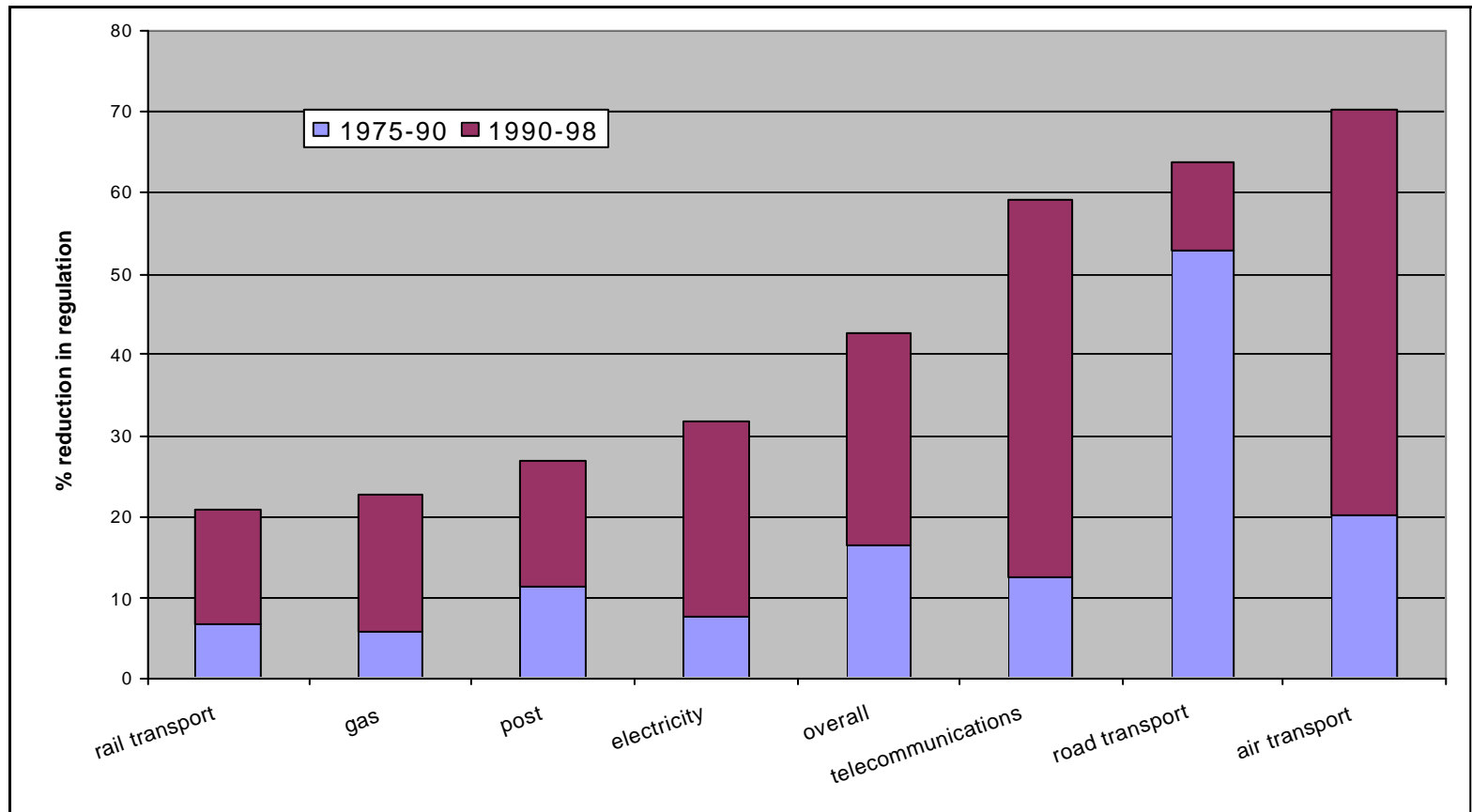
Past regulatory reforms

- Timing and scope varies across countries



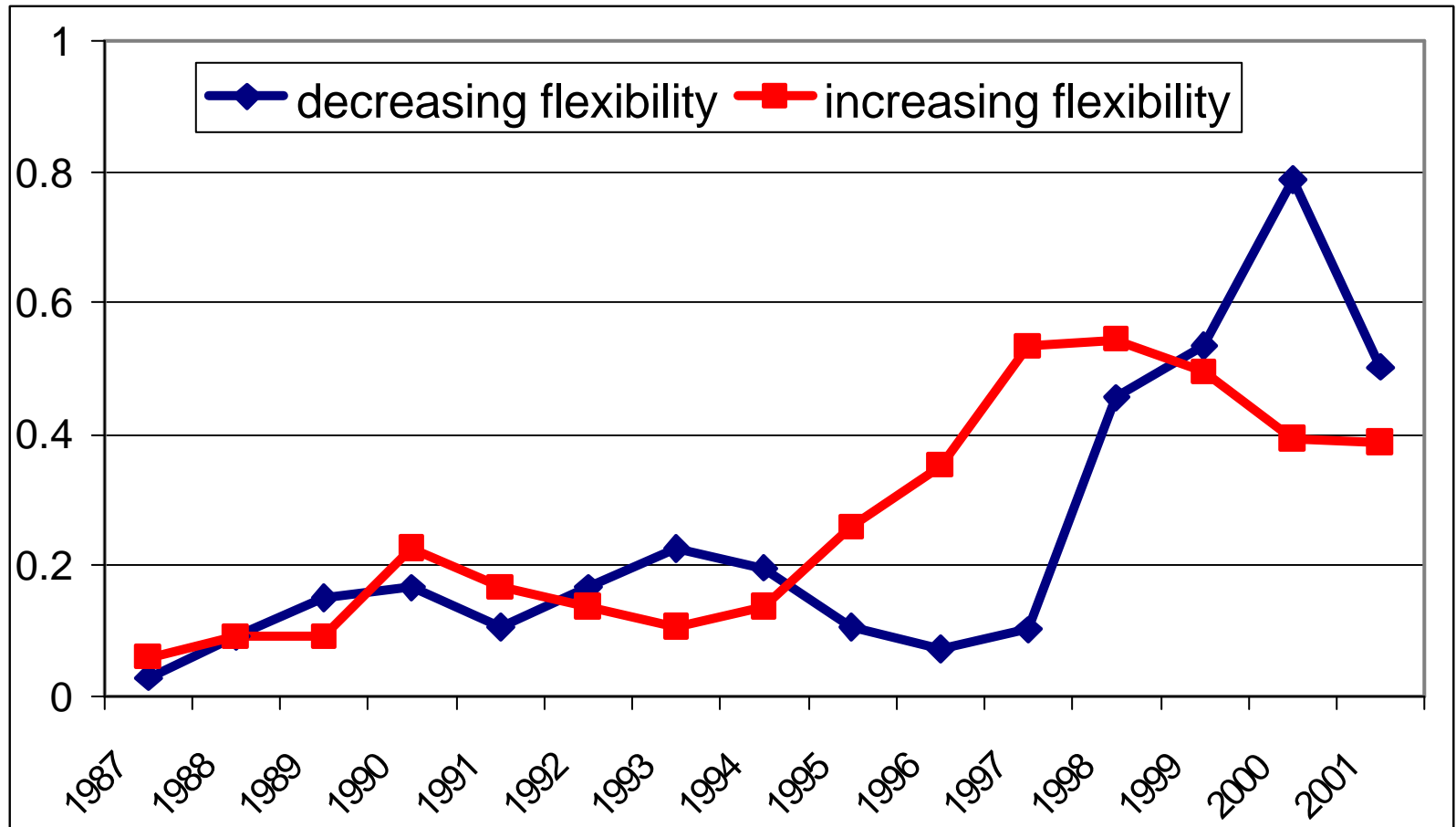
Past regulatory reforms

■ ... and across industries

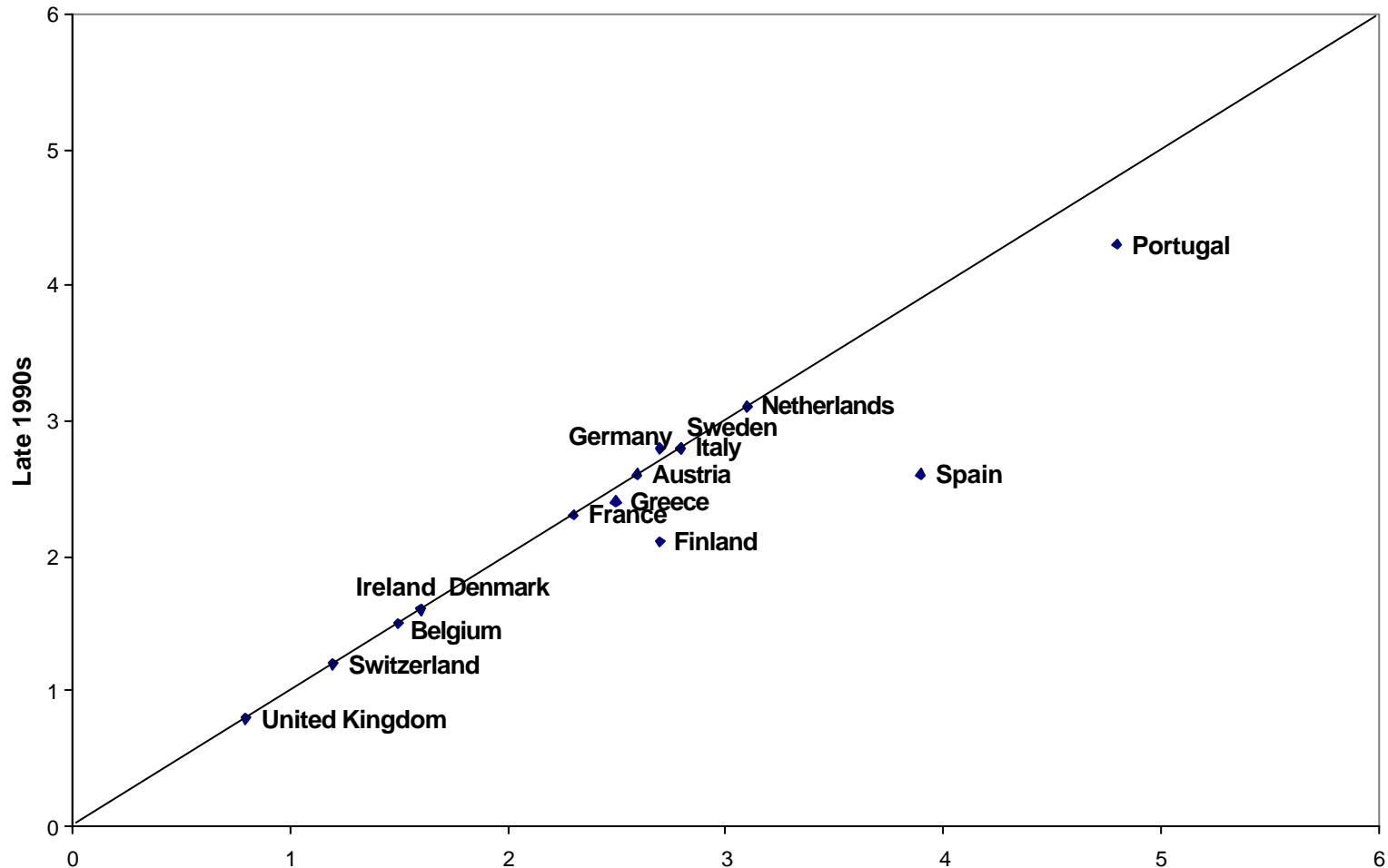


Labour market reforms

- Several reforms but *both ways*

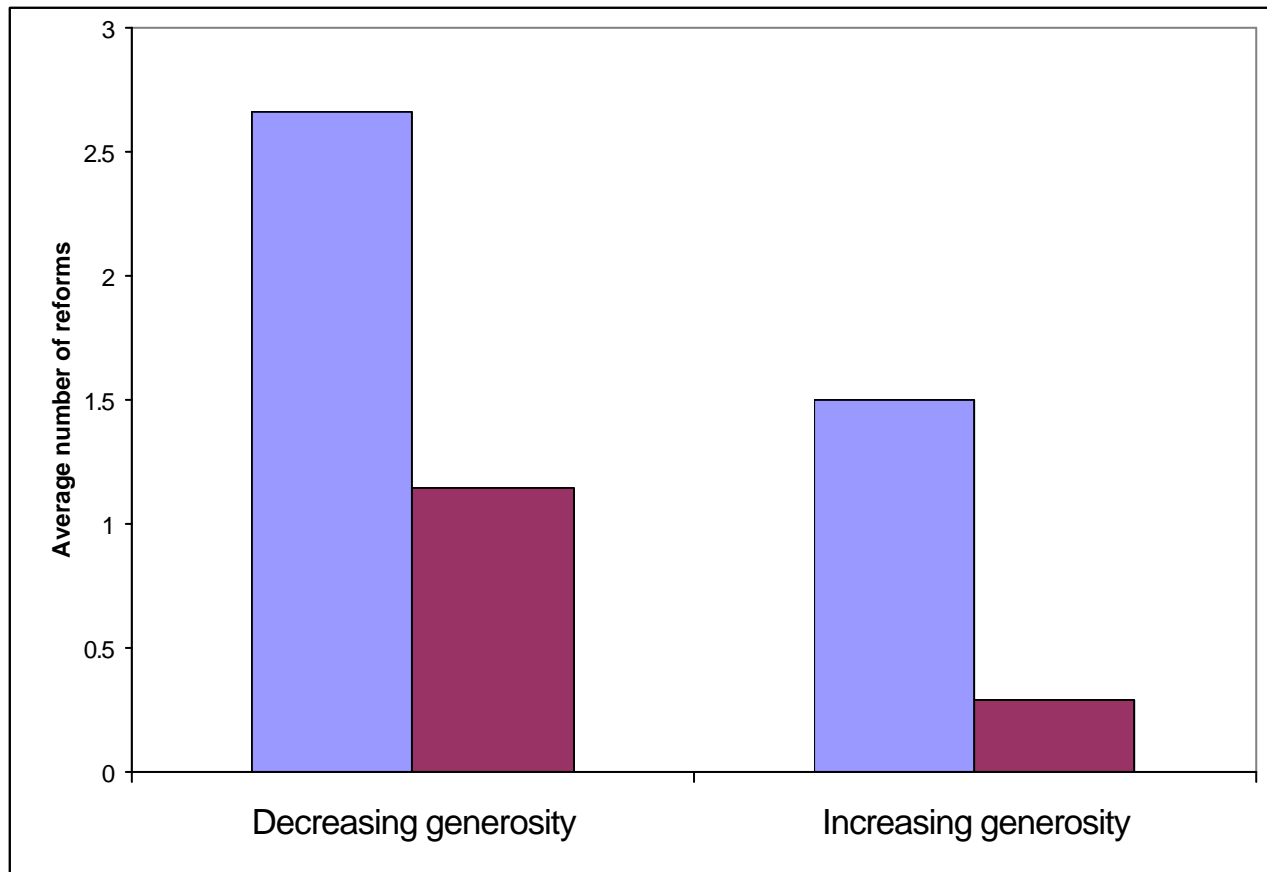


Result: change is only marginal



Widespread phenomenon

- Pension reforms display a similar pattern (Marginal reforms, 1985-1996)



Current debate

- Economists' "consensus":
Structural reforms are needed
- But:
 - few reforms actually implemented
 - those implemented are, at times, reversed
- Why do *and* undo structural reforms?
- Why such a slow progress?

Contents of the report

- Political economy aspects of reforms
- *Case study* approach
 - Pensions (Italy, UK)
 - Labour market (Denmark, Spain)
 - Product markets:
 - Regulatory reforms (Non manufacturing, OECD)
 - Privatisations (incl. transition countries)
 - Corporate governance (failures in Russia)

Three main issues

1. Why do politicians commit their “capital” to push forward a reform?
2. What stands on their way?
Where do oppositions come from?
3. Do oppositions matter?
Can they be circumvented?
⇒ **How to reform?**

1. Why do politicians commit their “capital” to push forward a reform?

- **Economic opportunities**

(progress, globalisation,...)

- **Cost of status quo**

(crises: unemployment, ageing,...)

- **External constraints**

(new institutions, changes abroad)

- **Ideology**

2. What stands on their way? Where do oppositions come from?

- **Electoral incentives: *losers***
(politicians want to ensure reelection)
- **Status quo bias**
(uncertainties: aversion to reforms)
- **Veto players**
(institutions create own constituency)

3. How to reform?

A few possible “recipes”

- Exploit parliamentary majority
- Tailor reform to widen political base
- Divide & conquer
 - Divide oppositions
 - Trickle down effects
- Exploit external constraints
- Inform voters (reduce uncertainty)

Exploit parliamentary majority

- Strong government may impose reform
 - Elected on a *pro-reform* platform
 - *Impose* reforms
- Constraints:
 - parliamentary majority = political support
(no veto player)
 - party must ensure reelection
(support along party lines)

Exploit parliamentary majority

- 1986: Thatcher pension reform
 - Retrenched public pension pillar (SERPS)
 - Introduced private pension funds
 - Accompanied by privatisations
- Target of the reform: Middle class

Exploit parliamentary majority

- Targeting the middle class

Retirees' Income by Income Group and Composition

| Source | Quintiles | | | | |
|-----------------------|-----------|-------|-------|-------|-------|
| | 1 | 2 | 3 | 4 | 5 |
| State Pension | 71.31 | 59.89 | 50.05 | 38.80 | 23.37 |
| Means-tested Benefits | 9.40 | 13.48 | 19.90 | 11.26 | 5.49 |
| Other Benefits | 6.44 | 8.27 | 8.94 | 12.30 | 9.56 |
| Private Pensions | 7.97 | 13.41 | 15.05 | 26.61 | 38.11 |
| Investment Earnings | 3.84 | 3.57 | 3.74 | 6.72 | 13.24 |

Exploit parliamentary majority

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- Effect: created constituency (reelection)

Exploit parliamentary majority

- Ensuring re-election

Vote shares and Parliament Seats in British Elections 1979-92

| Year | Conservative Party | | Labour Party | | Liberal Democrats | |
|------|--------------------|-------|--------------|-------|-------------------|-------|
| | Votes | Seats | Votes | Seats | Votes | Seats |
| 1979 | 43.3% | 339 | 36.9% | 268 | 13.8% | 11 |
| 1983 | 42.4% | 396 | | 209 | 25.4% | 23 |
| 1987 | 42.4% | 375 | | 229 | 12.8% | 17 |
| 1992 | 41.9% | 336 | 34.4% | 271 | 17.8% | 20 |
| 1997 | 31.5% | 165 | 44.4% | 418 | 17.6% | 46 |

Exploit parliamentary majority

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- Yet: partial reversal in 1999 (Blair)

“Pushing” reforms: momentum

■ Transition countries

- **Some countries:** fast reforms built support
- **But:** *too much* “big bang”
- **Also:** legislative reform ? implementation
(Russia)

■ Rationale: create “critical mass” effects

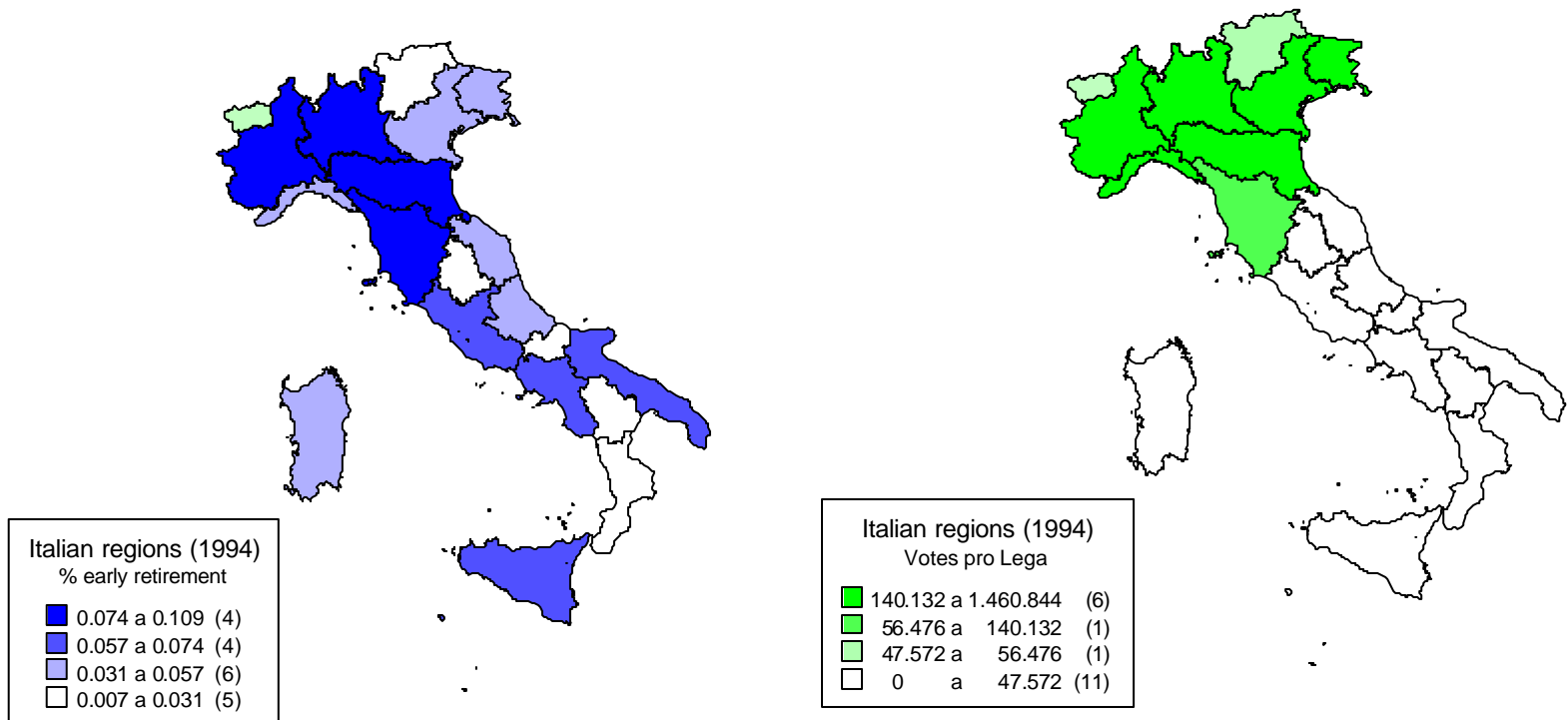
- Coordinate expectations towards reforms
- Shifts the debate & creates momentum

Other Cons:

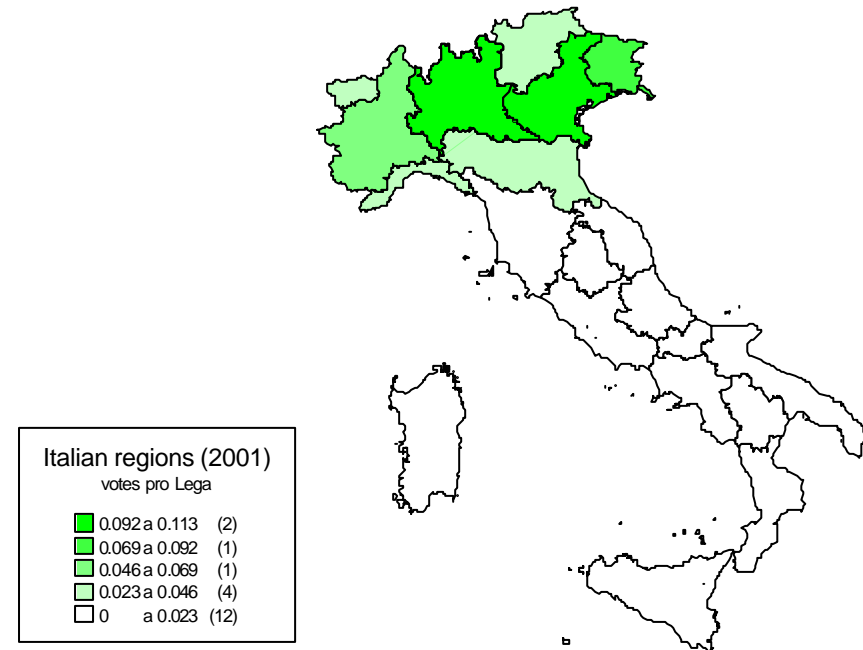
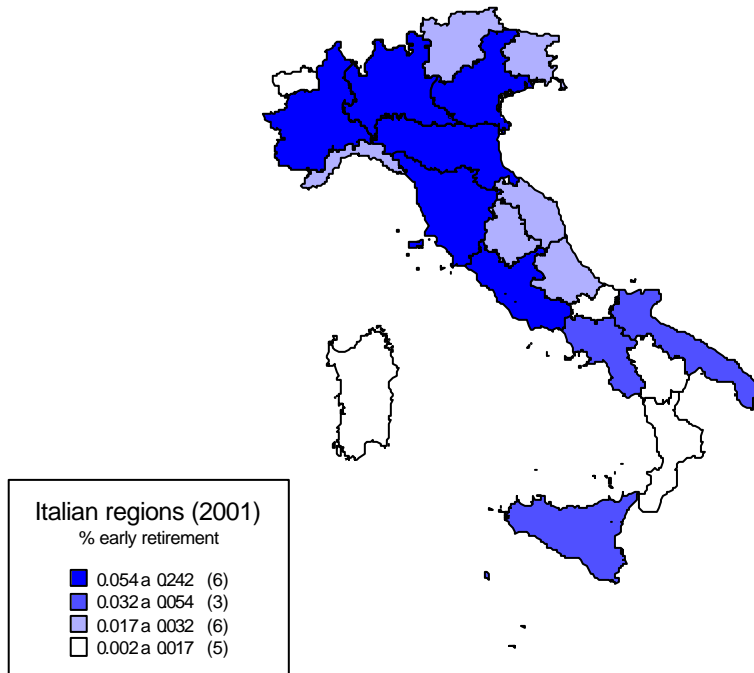
- **UK:** partial reversal in 1999 (Blair)
- Imposing radical reforms not always
feasible
- Often: *veto players* can block reforms
- Noteworthy failures:
 - **1994:** Berlusconi's pension reform
 - **1995:** Juppé's labour market reform
 - **2001:** Rasmussen's labour market reform

Failed Berlusconi reform

- Italy: Early retirees & Lega Nord support (1994)



2001



Next possible “recipe”

- Exploit parliamentary majority
- **Widen your political base**
- Divide & conquer
 - Divide oppositions
 - Trickle down effects
- Exploit external constraints
- Inform voters (reduce uncertainty)

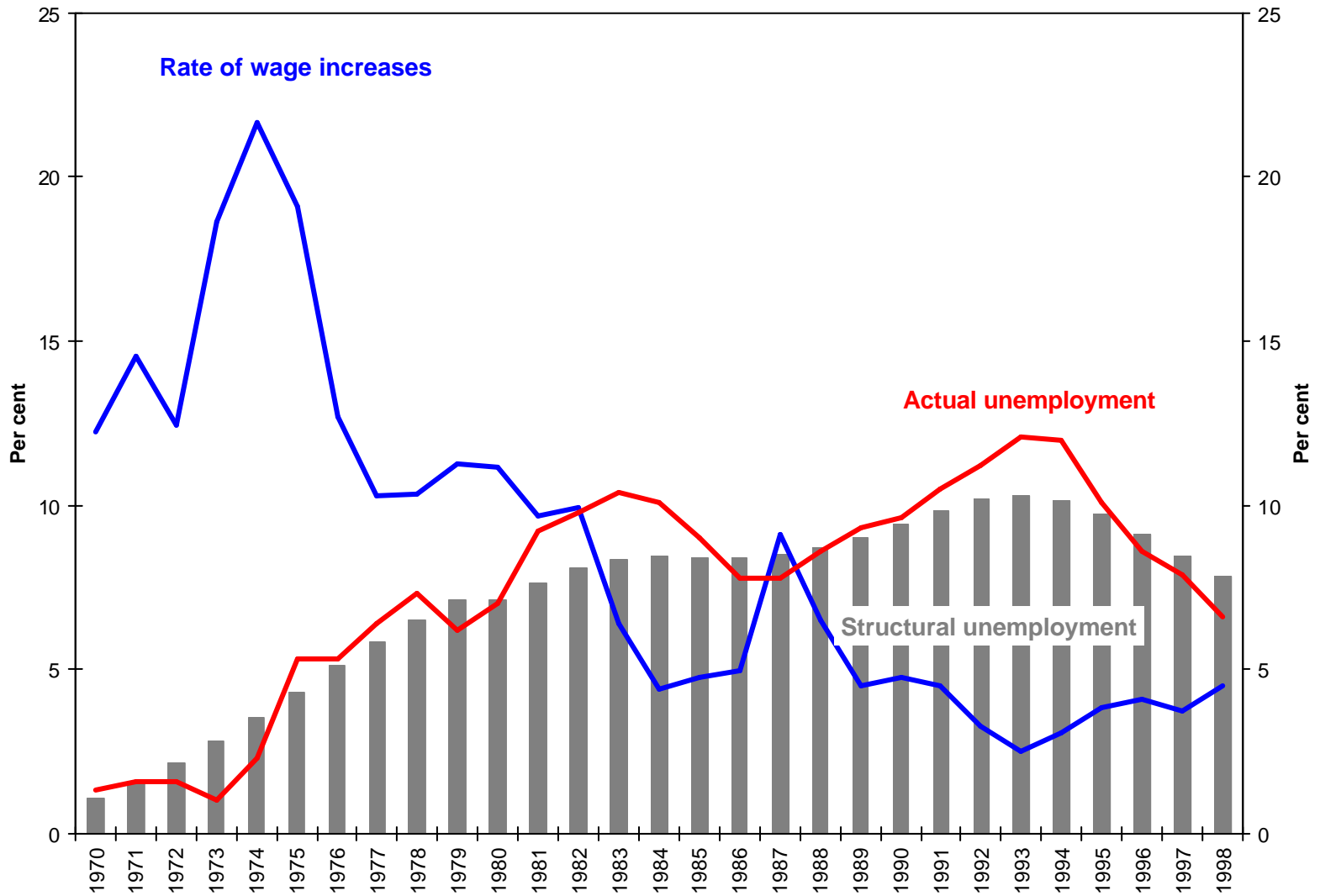
Widen your political base

- *Confrontation strategy:*
 - can create social tension
 - not feasible if veto players or if opposition crosses party lines
- **Alternative way: social dialogue**
 - spreading benefits over *wider base* buys out opposition
- **Easier:** when crisis occurs

Widen your political base

- *Flexicurity* in Denmark:
 - High flexibility on labour market
 - Generous unemployment benefits
 - Coalition government
- **1993**: unemployment peaks

Widen your political base



Widen your political base

- *Social dialogue:*
 - Successful 1994-1999 reform
- Need to “activate” job search
 - **Reform:** reduced generosity but rested on *compromise* (with unions)
 - **Target:** help least employable

Widen your political base

- Transition countries
 - Many reforms politically difficult
- Widen support:
 - **Mass privatisations** (Give-aways)
 - Economically costly,
politically valuable

Widen your political base

■ Pension reform made successful: **Italy**

| | Amato Reform | Berlusconi Proposal | Dini Reform |
|-----------------|---------------------|----------------------------|--------------------|
| 15-19 | - 59 | - 4 | - 8 |
| 20-24 | - 202 | - 15 | - 27 |
| 25-29 | - 319 | - 19 | - 33 |
| 30-34 | - 301 | - 36 | - 43 |
| 35-39 | - 217 | - 68 | - 40 |
| 40-44 | - 222 | - 53 | 0 |
| 45-49 | - 148 | - 55 | 0 |
| 50-54 | - 92 | - 64 | 0 |
| 55-59 | - 34 | - 101 | 0 |
| 60-64 | - 6 | - 8 | 0 |
| 65+ | - 3 | 0 | 0 |
| Workers | - 1.605 | - 378 | - 151 |
| Retirees | - 133 | 0 | 0 |

Next possible “recipe”

- Exploit parliamentary majority
- Tailor reform to widen political base
- **Divide & conquer**
 - **Divide oppositions**
 - **Trickle down effects**
- Exploit external constraints
- Inform voters (reduce uncertainty)

Divide and conquer strategies

- *Buying* opposition may be too costly
- *Divide* strong entrenched interests
 - Target particular sub-group
 - Not aimed at spreading benefits...
...but at concentrating costs
 - Reduce rents

Trickle down effects

- “Divide” assumes *gradualism*
 - Can have *chain reaction* effect *within* market (e.g. privatise to liberalise)...
 - ...or *across* markets (e.g. product to labour)
- Increases rewards of other reforms
 - Implement “easy” reforms first (reduced uncertainty, targeted groups)
 - Risk: waiting for crisis situations

Divide and conquer strategies

- Non manufacturing:
 - Web of common interests
 - Cross political division lines
 - Entrepreneurs / Workers
 - Firms / Regulators
- Status quo creates constituency
 - Lack of international competition
 - Uncertain outcome if liberalisation

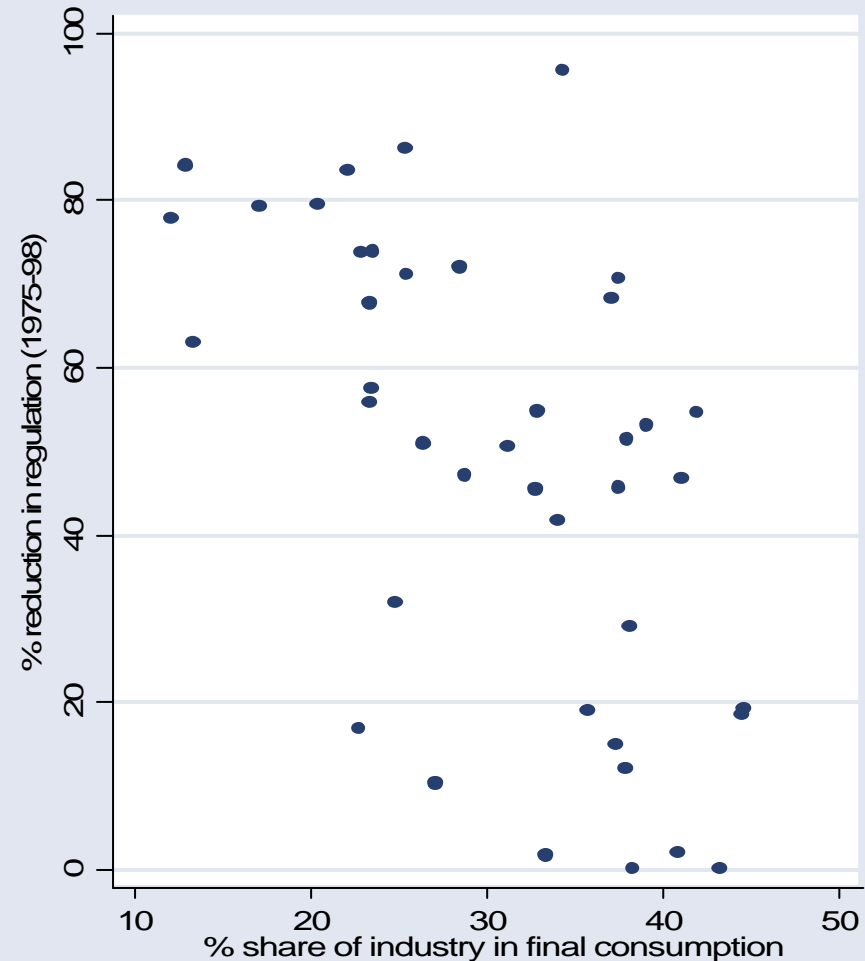
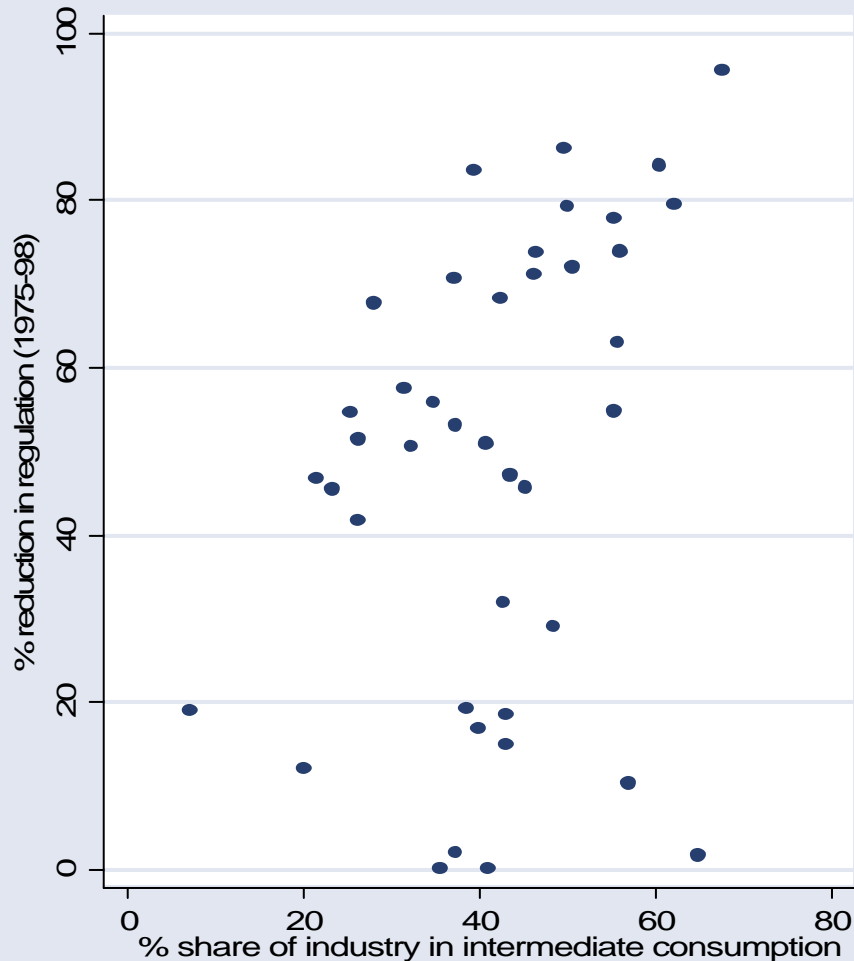
Divide and conquer strategies

| Dependent variable | Regulation net of public ownership | | |
|---|------------------------------------|--------|--------|
| Explanatory variables | | | |
| Regulation_{t-1} | 0.06 | 0.07 | -0.13 |
| | 7.14 | 6.58 | -5.56 |
| EU membership | -0.03 | | |
| | -1.8 | | |
| Regulation_{t-1}*EU membership | | -0.003 | -0.004 |
| | | -0.32 | -0.52 |
| Public ownership | | | 0.06 |
| | | | 2.71 |
| Regulation in trading partners | | | 0.21 |
| | | | 8.38 |

- Privatised / corporatised first
(Telecom Italia vs France Telecom)

Divide and conquer strategies

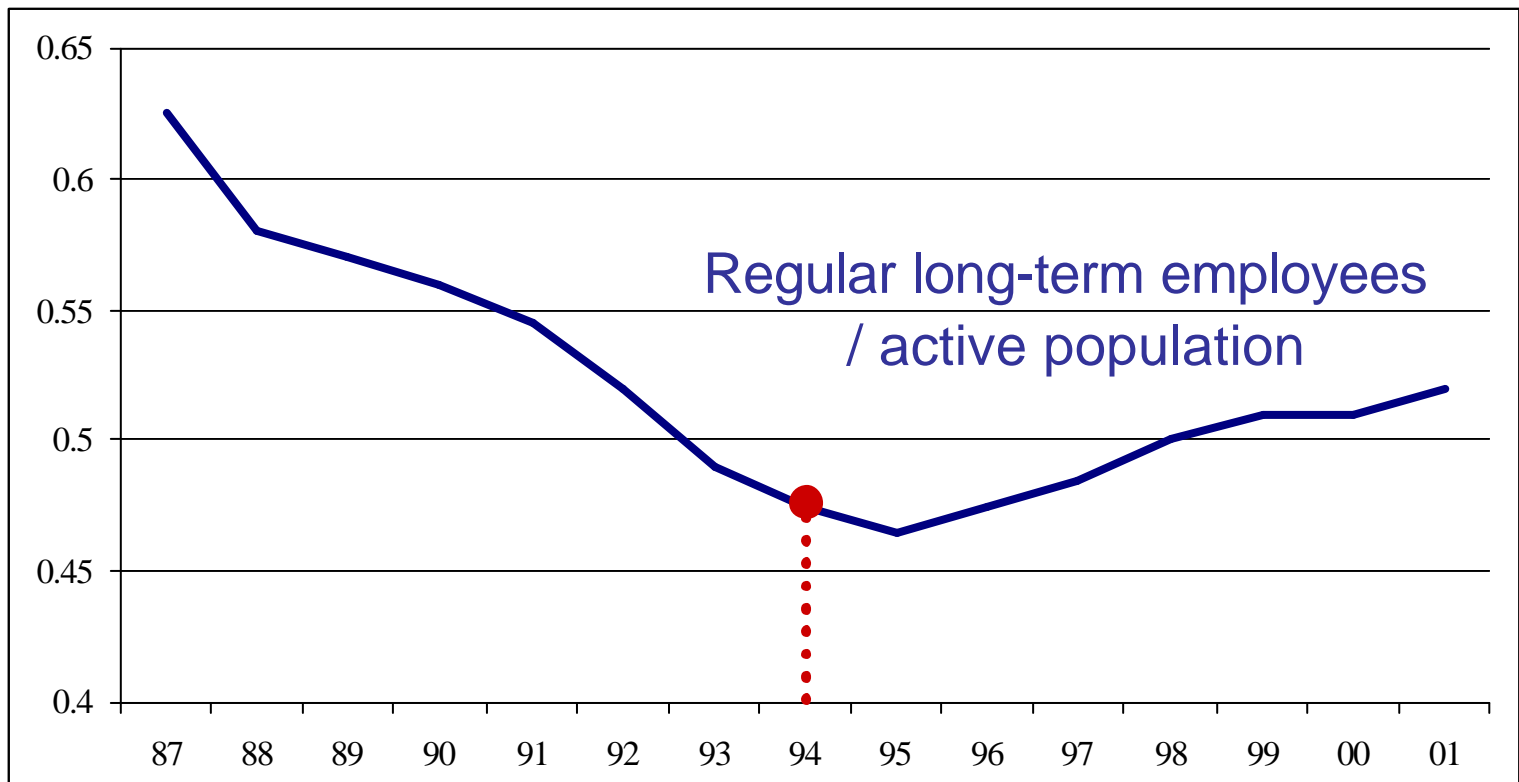
- Break vertical chain: intermediate goods



Divide and conquer strategies

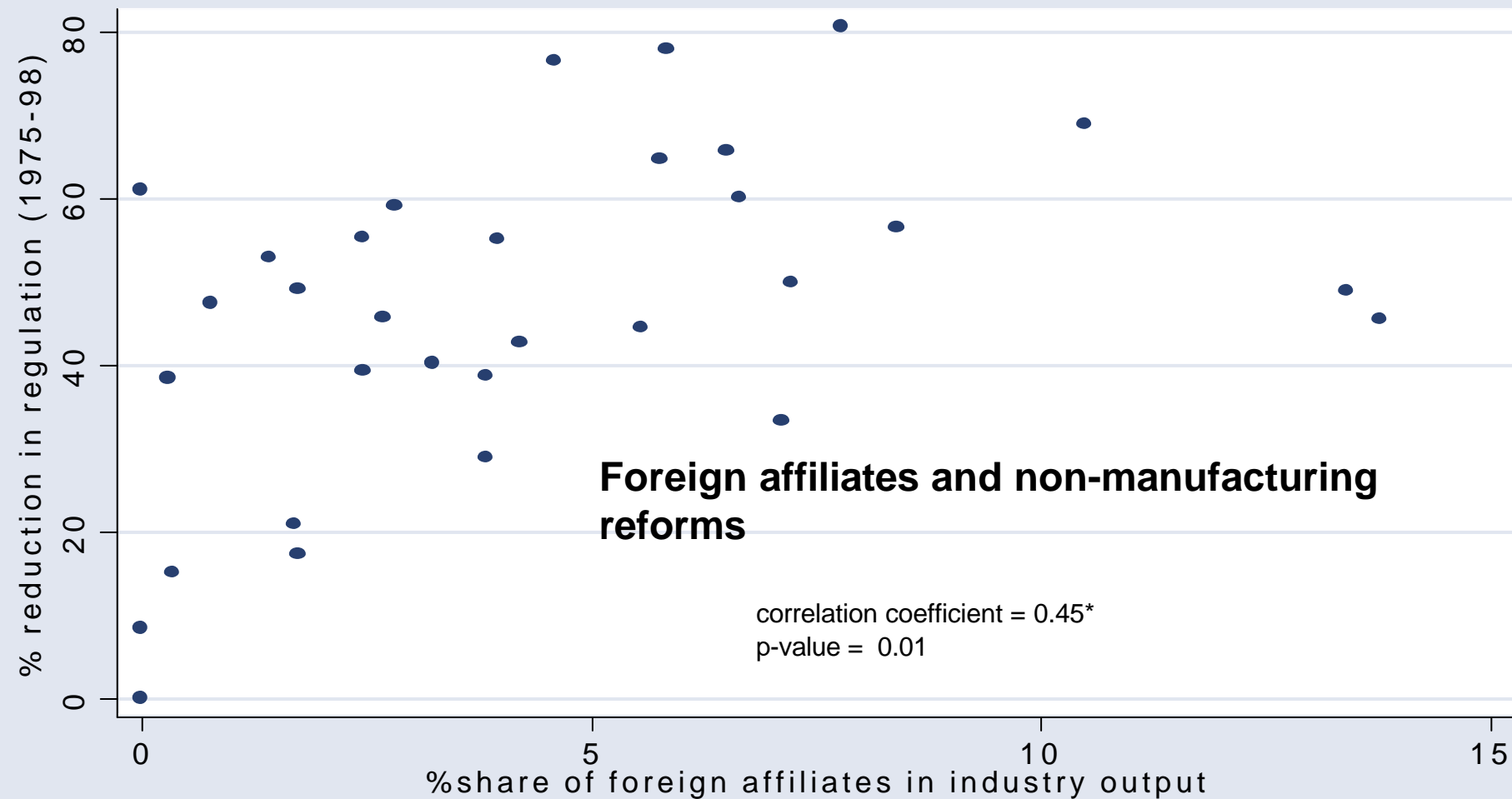
■ Labour market:

- **Spain:** reform of temporary contracts in 1984, of permanent contracts in 1994 and 1997



Trickle down strategies

- Non-manufacturing: open up to trade



Next possible “recipe”

- Exploit parliamentary majority
- Tailor reform to widen political base
- Divide & conquer
 - Divide oppositions
 - Trickle down effects
- **Exploit external constraints**
- Inform voters (reduce uncertainty)

Exploit external constraints

■ Fierce opposition

- Politically costly to reform...
- ...appeal to external constraints (WTO, EC)
- Reduces government's accountability

■ Idea: change identity of pressure groups

- Change “bargaining level”
- Web of interests changes as well

Exploit external constraints

■ Privatisation of Škoda

- **Political mood:** “fear” of foreign ownership
- Most privatisations: **vouchers**
- Car producers: need **external support**

■ Czech government

- **Committed** to an efficient privatisation scheme, with VW
- Repeatedly **resisted** pressure groups
- EU accession: “**external anchor**”

Exploit external constraints

■ Privatisation of AvtoZAZ

- Few privatisations, few reforms
- **AvtoZAZ**: on the verge of bankruptcy

■ Ukrainian government

- Protected *pressure groups*, above population
- Privatisation meant to **prevent lay-offs**
- **Lack** of “external anchor”
⇒ No ability to commit or resist pressures
- **Little or no “strategic” restructuring**

Last, but not least

- Exploit parliamentary majority
- Tailor reform to widen political base
- Divide & conquer
 - Divide oppositions
 - Trickle down effects
- Exploit external constraints
- **Inform your electorate**
(reduce uncertainty)

Inform your electorate

- Opposition to pension reform

Do you want to shrink the welfare state?

- Informed: **yes**
- Not informed: **no**

- **Informing** about costs and benefits
changes attitudes

- Successes in other countries and sectors
- More difficult when networks, externalities,...

Summing up.....“recipes” to reform

- Exploit parliamentary majority
- Tailor reform to widen political base
- Divide & conquer
 - Divide oppositions
 - Trickle down effects
- Exploit external constraints
- Inform voters (reduce uncertainty)