

How to gain Popular Support for Reforms.

Comments

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- Welcome report on political economy of reforms blending facts, theory, case studies.
- Political economy of reforms was very important for the transition from socialism to capitalism.
- Is important today in the European Union and in individual member states: Challenges of:
 - Institutional reforms
 - Pension reform and reform of welfare state
 - Labor market reform
 - Product market reform
 - Capital market reform
 - Education reform

- Pensions: Ideological push in UK facilitated by majoritarian system vs gradual plan in Italy triggered by fiscal situation (and EMU). Clear story and good contrast.
- Labor market: Denmark had flexibility but high insurance, Spain rigidity and low insurance. In both, reforms passed only through social dialogue. Comparison for reforms well chosen?

- Product market: cross-country analysis. Variation in extent and timing of reforms. Role of technological progress. Difficult to interpret correlation between intensity of deregulation and share of industry in final consumption. Contrast between Italian success and French failure not clear. Gradual approach by “divide and rule” and disenfranchising special interests.

- Privatization: less political economy analysis in this chapter; interesting contrast between Skoda and Avtovaz. Success in building commitment seems to be main difference between both. Why the external anchor mattered not clear here?
- Chapter on corporate governance in Russia a bit orthogonal. Emphasis on lack of legitimacy of Eltsin administration.

	Electoral system	External constraint	Emergency	Spillover From other reforms	Commitment Building	Divide And rule	Experimentation
pensions	X	X	X		X	X	
Labor market		X	X	X	X		
Product market		X		X		X	X
privatization	X	X			X	X	
Corporate governance					X		

- Which general road to take? Electoral reform versus consensus building?
- Choice of majoritarian system because it “helps reform” is a poor argument because constitutional change cannot be purely instrumentally rationalized. General choice behind (partial) veil of ignorance. Pure majoritarian logic also allows to hurt minority groups and leave them without protection. Forms of consensus-building inevitable.

- Consensus-building versus “divide and rule” in general interest (legitimate interests and social pact) versus special interest politics (illegitimate interests and rents)?
 - Not always easy to distinguish between both but reforms that call into question social pacts (public service pensions, unemployment benefits, European pacts?) benefit from consensus-building because notions of fairness are involved. Implicit notions that certain actions not allowed and that breach of pact and of mutual trust allows destructive actions.
 - Importance of signaling true intentions and of defining common goals (fear of deceit is powerful factor of blocking reforms).
 - Different institutions => different attitudes between social partners (Calmfors-Driffill absent in report!)

- Dual track principle (pareto-improving).
Applied in China.
 - Seems present in pension reforms.
 - Elements seem present in Spanish labor markets.
 - Present in companies (wages of new hires).

Can create dualism or be part of a social pact.

- Go beyond analysis purely in terms of interests. Demographic shifts should predict absence of pension reform and even worsening of situation in most advanced countries. Why do politicians start reforms in the first place?
- Beliefs about the world also play an important role. Many actions and policies based on wrong beliefs, ...
- ...many recommendations of economists turn out to be wrong.

- Economists can play special role in helping general public understand “smokescreen” of special interests but also in promoting more efficient social pacts. Can generally help influence beliefs.
- Role of experimentation with policy reform generally not sufficiently emphasized nor understood.
- Policy analysis in recent years emphasized too much “credibility building”, not enough “coalition building”.