

10

Policy Reforms, Responsive Governments and (Strategic) Delay

1. A Seemingly Trivial Question: Why Reforms?
2. What Type of Reforms? Some Ideas about Optimal Policies
3. Reforms in Comparative Perspective
4. Reforms, Number of Parties and the Distribution of Voter Preferences
5. Obstacles to Reforms: A First Look at Veto-Player Theory
6. Obstacles to Reforms and Strategic Delays

Why do Governments from time to time implement policy reforms and sometimes even begin the 'transformation' of the polity?

Discuss!

Why do Governments from time to time implement policy reforms and sometimes even begin the 'transformation' of the polity?

- of course: reforms could always result from a change in government
- the 'old policy' has proven to be suboptimal (but are governments really social welfare optimizers?)
- sticking to the 'old policy' threatens to wipe the incumbent out of the office

that is: the incumbent responds to changes in the aggregate preferences of the selectorate

- if a simple policy is largely reducing political support of the incumbent, why didn't the government conduct reforms much earlier?
- hence: 'what causes reform delay' is an important question

More open questions:

Why do governments in different countries respond differently to common shocks?

Why do some governments do not respond at all?

Why do some governments seem to overreact at times?

How do governments respond to changes in voter preferences?

How do governments respond to new 'debates'? (Some call it 'new ideas', but in fact it is either an additional policy dimension or a change in the issue salience of one dimension.)

Normative Background: The Washington Consensus

- Fiscal Discipline
- Public Expenditure aiming at building Human Capital and Infrastructure
- Broaden Tax Base and Cut Marginal Rates
- Financial Liberalization
- Reduce Tariffs and Eliminate NTB's
- Remove Capital Controls
- Privatization of Public Corporations
- Ensure Property Rights
- Remove Superfluous Regulations

the normative recommendations fall in two camps:

- reforms that eliminate market distortions
- reforms that eliminate unsustainable policies

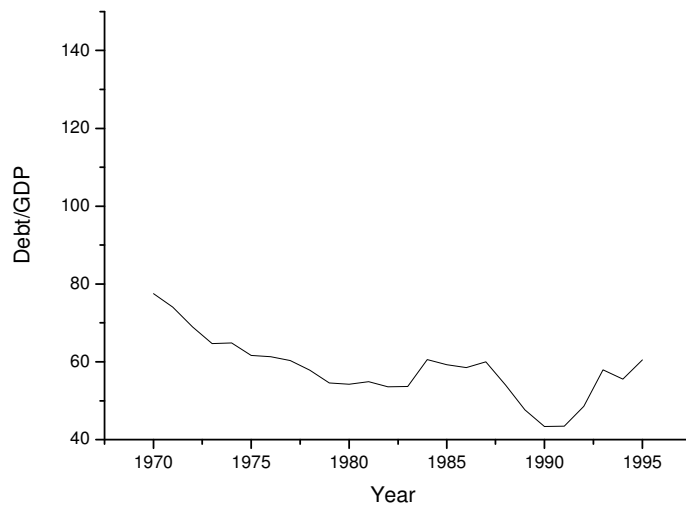
(Absence of) Reforms in Comparative Perspective

Public Debt

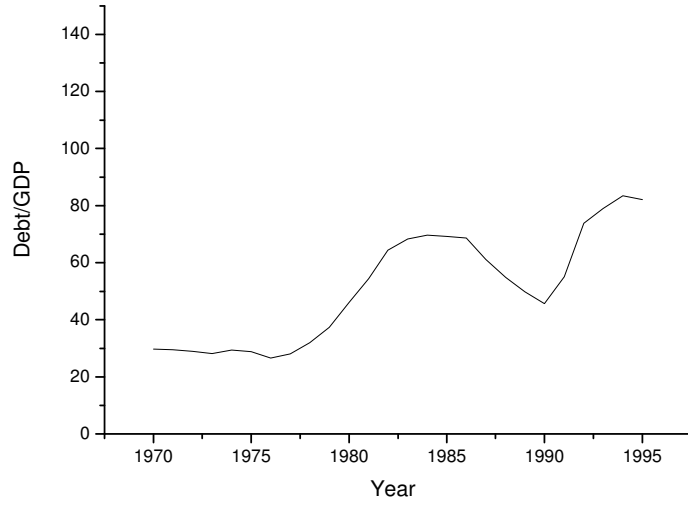
Belgium



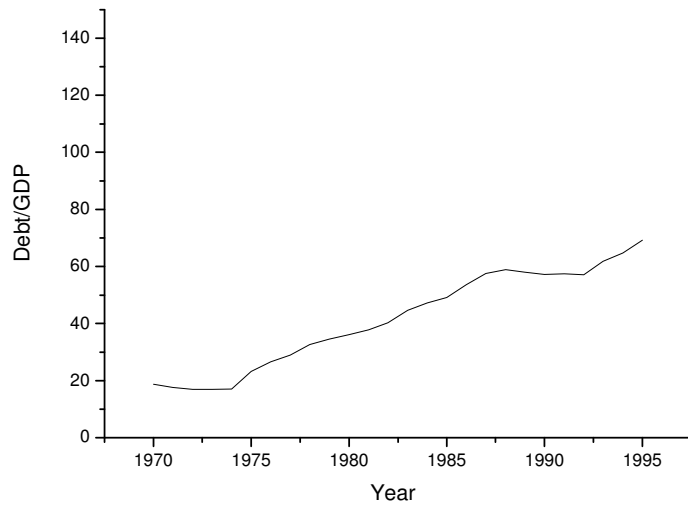
Great Britain



Sweden



Austria



Reforms and the Number of Parties

- a) change in the mean voter's position
- b) change in issue salience

case a): all political systems respond app. equally

case b): two-party systems do not respond at all

the more relevant parties in multiparty systems,
the stronger the response to a shift in issue
salience

only a model artifact?

Obstacles to Reform 1

A first look at Veto Player Theory
(we come back to VPT in 2-3 weeks)

What are veto players?

Does the number of reforms decline in the number
of veto players?

Necessarily?

Fernandez-Rodrik: Reform Inactivity

Assumptions

Reforms have a strong redistributive effect

- winners and losers
- individuals know whether they win or lose
- majority of voters are winners (by assumption),
- but that is unknown to the voters

payoffs:

do nothing: 0

successful reform

(reform and majority of voters is winners: 1

unsuccessful reform

(reform and majority of voters is winners: -1)

Alesina and Drazen: War of Attrition

Assumptions:

- reforms are beneficial to all voters (by assumption)
- there are two groups of voters: a and b
- one group has to bear the burden of reform
- the gains per individual exceed the costs

Why does this constellation lead to delay and possibly reform inactivity?