

Enabling subsidy reform through integrated and inclusive processes

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3 presentations:

Whole of Govt decision-making

**Integrated approaches to energy
subsidy reform**

**Integrated approaches to subsidy
reform in fisheries**

**What are the lessons, common
elements and differences?**

Link the 3 presentations to:

- 1. Findings of 2 new studies on the political economy of reform**
- 2. Discussions on political economy of reform at the OECD Council Meeting at Ministerial Level (May 2006)**

Findings of 2 new studies:

- The Political Economy of Structural Reform - Evidence from OECD Countries (*OECD-study*)**
- How to Gain Political Support for Reforms? (*IGIER - Innocenzo Gasparini Institute for Economic Research*)**

Network of National Economic Research Organisations (NERO); 12 June 2006

Papers available at www.oecd.org

3 drivers of reform

- **Economic (major crises trigger reforms, but reforms easier to implement during upswing)**
- **Ideological (left-of-centre govts less likely to implement reforms affecting labour market)**
- **External constraints (EU accession, WTO, OECD peer pressure)**

What did the Ministers say?

- **Explain to public in clear language why reforms are necessary**
- **Be realistic, do not underestimate the costs and overestimate the benefits of reforms**
- **Be comprehensive**
- **Once reforms are announced, implement them**
- **Build domestic coalitions for reform**
- **Use peer pressure and international organisations to inform the public**

From initial motivation to actual implementation

- **Coalition building: helps to gain support for reform**

Scope for coalition building and extent of consensus needed depend on

- **framework conditions facing govt**
- **drivers for reform (economic, ideological, external)**

Coalition building is needed to

- **Generate & maintain momentum for reform**
- **Ensure sufficient support for reform**

Framework conditions define

- **Govt's authority within the institutional political system (scope for reform)**
- **The main actors who can interfere with the reform process**

Coalition building is needed to

- form sufficiently big political coalition
- “buy out” (or soften) the opposition

Possible strategies:

- Packaging of reforms
- Focus on burden-sharing
- “Protect people, not jobs”
- Pacing (long transition periods)

Status quo bias

- Uncertainty about winners and losers
- *Ex ante* opposition vs. *ex post* benefits
- Political support for reform vs. reform’s true economic value
- **Status quo bias often very strong**

Strong govt, large majority, major reform affecting large public

- Substantial lag before benefits of reform
- Uncertainty about winners & losers

Strategy:

- Strong govt can push reforms through
- Once reforms have been decided, need to stick to them

Weak govt (*de jure* or *de facto*), major reform affecting large public

- Substantial lag before benefits of reform
- Uncertainty about winners & losers

Strategy:

- Widen political base through coalition building
- Design reform to “buy” support
- Do not forget social dialogue

(Weak) govt, reform affecting large public, strong interest groups

- Substantial lag before benefits of reform
- Uncertainty about winners & losers

Strategy:

- Widening of political base through coalition building difficult
- Divide and conquer

External constraints

- EU accession, WTO, OECD peer pressure
- **Efficient way to build commitment to pursue reform**
- **Can be easier to get support from public**

To conclude

- No “one-size-fits-all”
- Pay attention to framework conditions
- Political and social institutions affect scope and pace of reform
- Crises trigger reforms, but reforms easier to implement during upswing
- **Information: Public needs more and better information on benefits of reform and cost of status quo**