INCENTIVES FOR REFORM
Discussant comments on Castanheira et al

Iain Begg
Visiting Professor, European Institute,
London School of Economics & Political Science

(Copyright rests with the author)
CONTEXT OF REFORM

- Ideas and their influence
- Wider consensus on desirability of reform
  - “Time for a change” underpinned Thatcher
- Fact (or perception) of crisis: no alternative?
- Economic performance:
  - Receptiveness to change or scope for ‘bribery’
- All factors that can transcend cost-benefit and/or balance of power calculations
EXPLAINING DIFFERENCES

- Can episodes be compared?
- Impact of long run changes
  - Loss of natural monopoly from new technologies or external pressures
- Political and/or administrative competence
  - UK/Russia comparison
- Final/intermediate demand convincing, but
  - Should relate to purpose of reforms
  - And underplays normative questions
ALTERNATIVE INTERPRETATIONS

- UK pensions story overlooks:
  - Institutional starting point of 2nd pillar
  - Wider sense of crisis in economy

- Why was France Telecom so different in what it inherited?
  - Public service ethos

- Dubious on political costs [83/87 elections]

- Approach, at times, too deterministic
  - Juppé failure to build a coalition
STRUCTURAL REFORMS
The latest in U-shaped curves?

Sense of crisis in economy

Intensity of reforms

Political support for reforms

Performance of economy

JUPPE 1995

ESTONIA 1992-94
THATCHER 1982-5

SPAIN 1994-97?

DE VILLEPIN?

ITALY TODAY?
HOW TO ACHIEVE REFORM

‘No EU member is going to accept the pain of reform just because Mr Blair makes a good speech in the European Parliament, or because an EU summit passes a stirring resolution. Economic reforms in France or Germany will be carried through by French politicians or not at all’

Charlemagne column, *The Economist*, 9th July 2005
CONCLUDING COMMENTS
Implications for ‘Lisbon’

- Can quality of reforms be left out of story?
- There may be endogeneity in reform path
  - Because of sequencing
  - Building of reputation effects
- Politics of reform central to success
  - General climate for or against reform
  - Cannot be conducted in a normative vacuum
  - Transparency: trust the people