



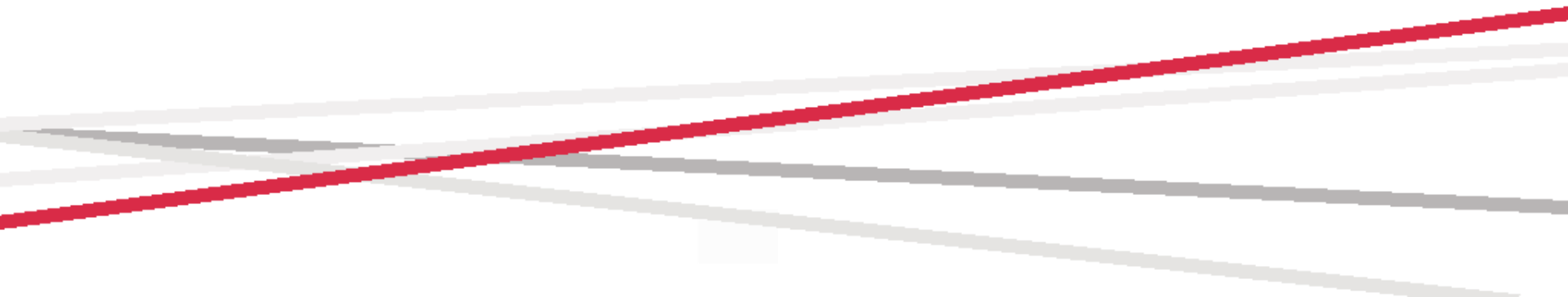
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Forum for Research
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Emerging Economies



Institutions and the support for market reforms

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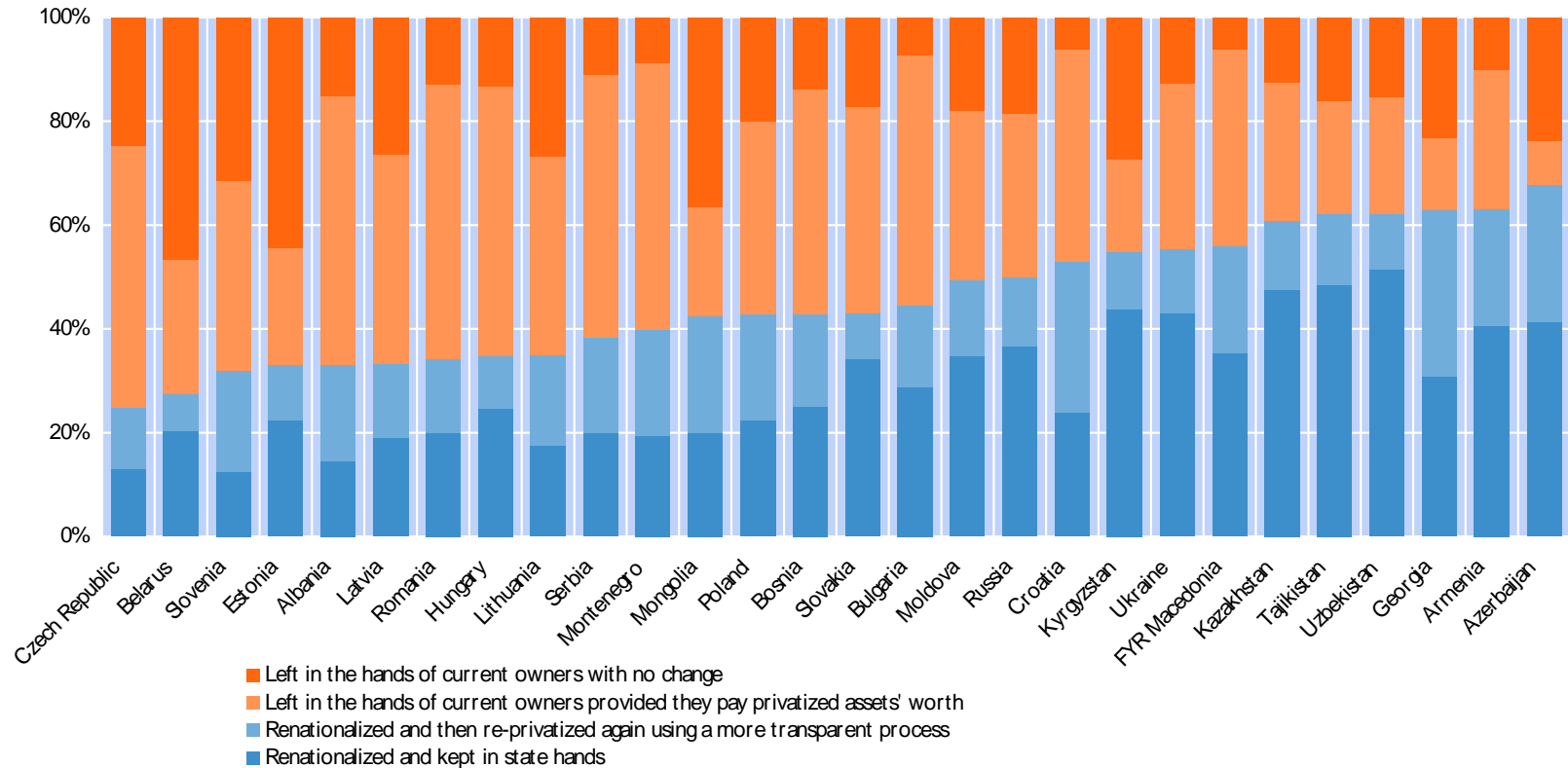
A puzzle of transition from plan to market

- Very high public opposition to key market reforms (privatization) in almost all the transition countries
- In spite of the evidence that social benefits of market reforms outweigh its costs
- Denisova, Eller, Frye and Zhuravskaya. 2009. “Who Wants to Revise Privatization? The Complementarity of Market Skills and Institutions”. *American Political Science Review* 103 (2): 284–304
- Denisova, Eller, Frye and Zhuravskaya. 2012. “Everyone Hates Privatization, but Why? Survey Evidence From 28 Post-Communist Countries”. *Journal of Comparative Economics* 40: 44-61.

Public Support for Revising Privatization Across Countries

What should be done with most privatized companies? They should be...

weighted shares in total observations per country



Source: own calculations basing on EBRD/Worldbank Life in Transition Survey.

Why should one care?

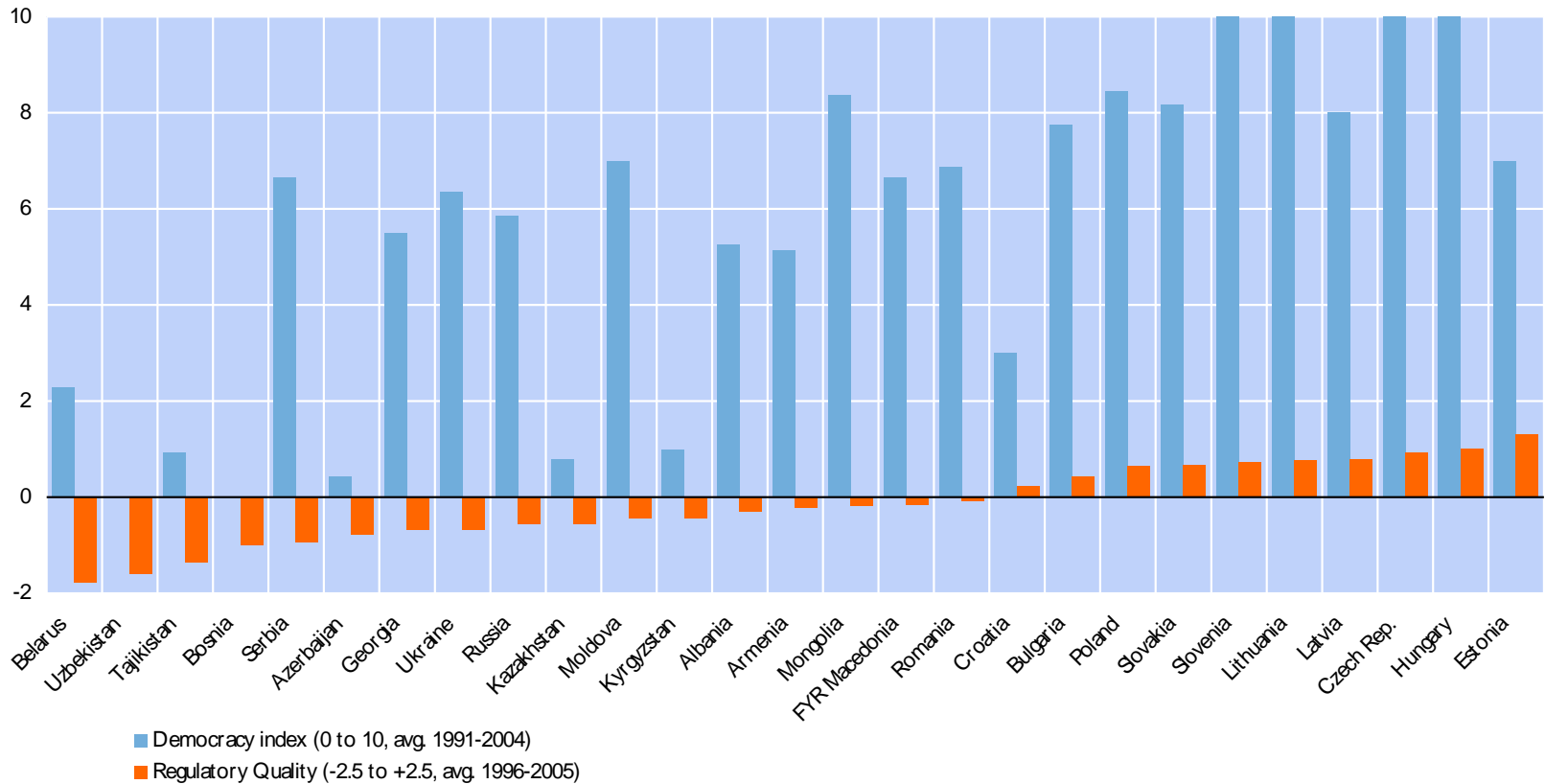
- Mass public support for market reforms (privatization) is important for economic efficiency
 - The threat of revising privatization weakens incentives of current owners to invest in their business
 - May lead to an increase in state ownership
- Lack of public support → many privatization reversals
 - Russia: *OMZ* ("United Machine Plants"), *Siloviye Mashini* ("Power machines"),
 - Ukraine: *Kryvorozhstal* (giant steelmaker)
- In corrupt countries, elites may use public sentiment against privatization to redistribute assets to themselves and their supporters (e.g., *Yukos* case in Russia)

Why do some support privatization while some are strongly against?

- Individual traits
 - Market skills
- Institutions
 - Democracy and governance
- Interactions of individual traits (market skills) with institutions in shaping support for reforms
 - Substitutability versus complementarity hypotheses based on the sample of transition countries
- Complementarity view:
 - Good institutions (GI)
 - *less rent extraction* (higher executive constraints, lower degree of opportunistic policy changes)
 - high-skilled individual (HS) can realize higher gains from economic reform
- Substitutability view:
 - Good institutions (GI)
 - *more redistribution* (more incentives in democracies, better state capacity in the case of good governance)
 - returns after reform b/w HS and LS are less differentiated since support of LS increases

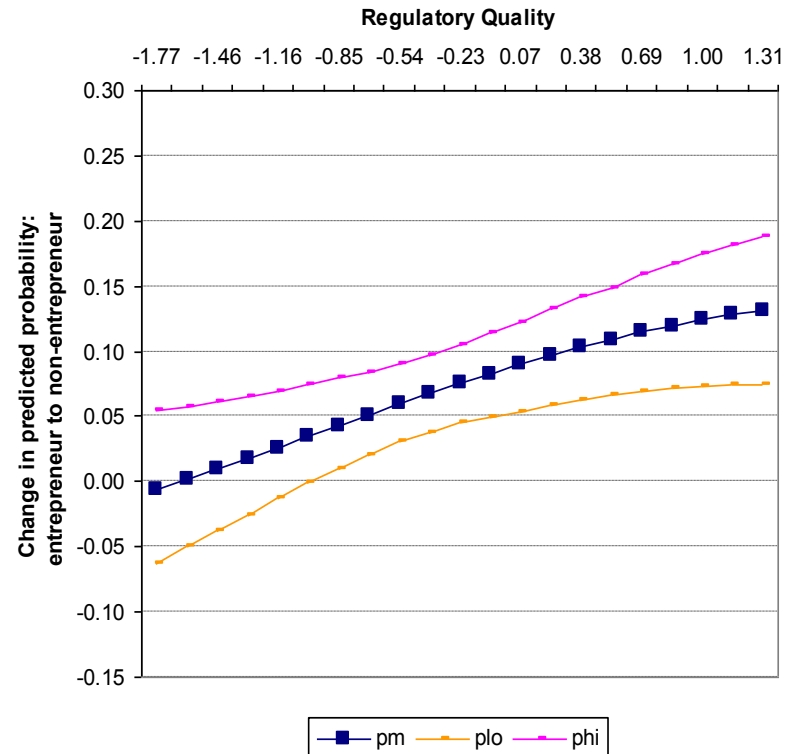
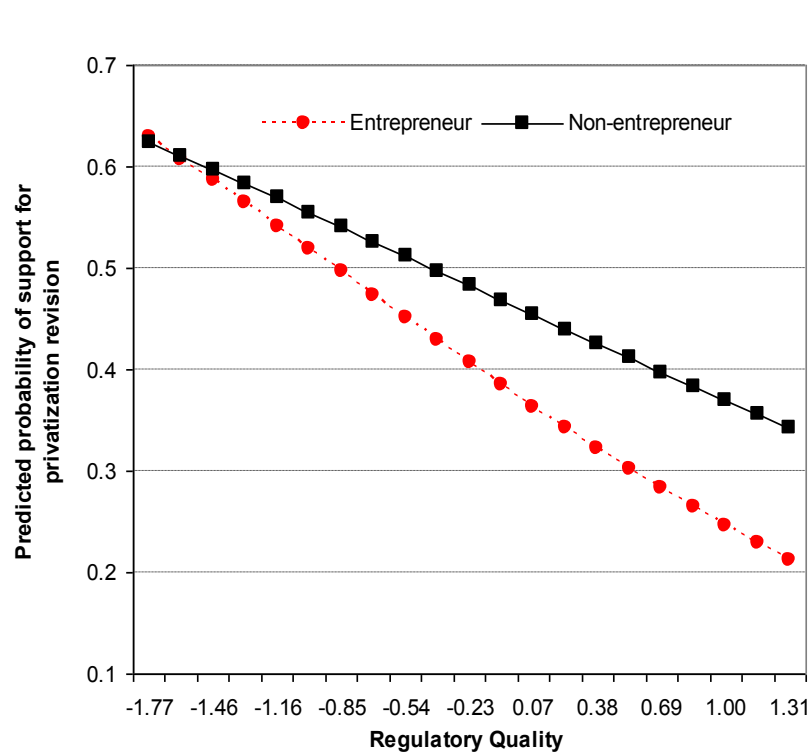
Institutional Quality Across Countries

Average Degree of Democracy and Regulatory Quality Across Countries

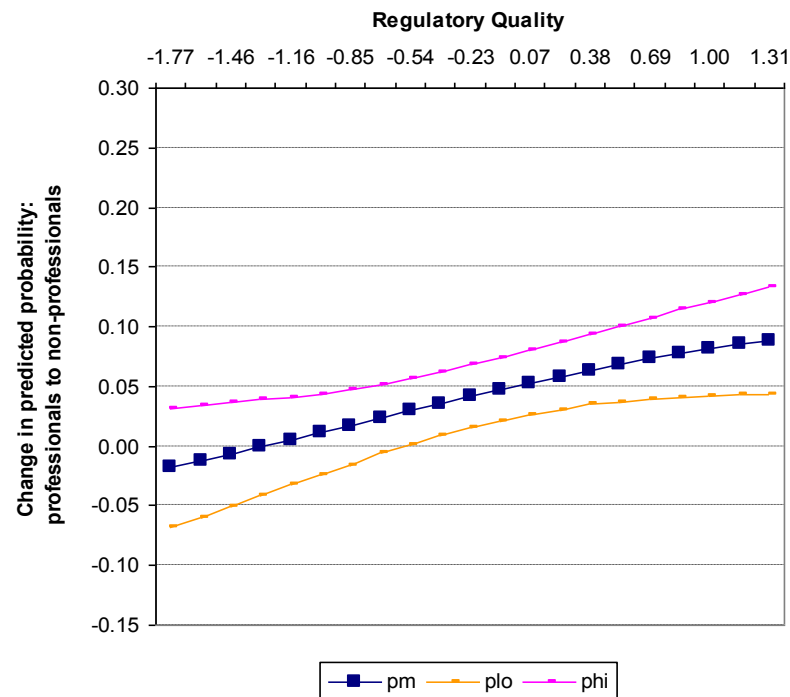
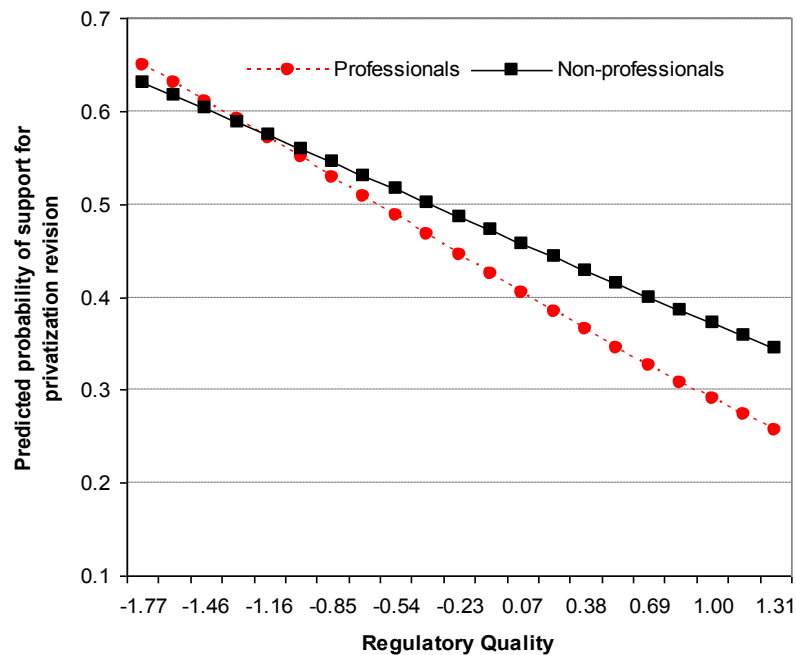


Source: Polity IV dataset, Worldbank.

Support for privatization revision: entrepreneurs vs non-entrepreneurs at different levels of regulatory quality



Support for privatization revision: professionals vs non-professionals at different levels of regulatory quality



Policy implications

- Politics of economic reform that rely on those with more market-relevant skills to push for economic reform, may have limited relevance in weak institutional environments.
 - Different coalitions, formal and informal, may be needed to advance economic reform under weak and strong institutions
- Both economic self-interest and social concerns shape the composition of supporters and opponents to market reforms, with the influence varying across groups.
 - If economic self-interest then a redistributive transfer to the potentially disadvantaged (in monetary terms or in terms of publicly provided training) to diminish opposition.
 - If legitimacy or fairness of the reform then a simple redistributive transfer could be not enough and some revision of the reform could be inevitable.



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Thank you