

## Common Obstacles to Policy Design and Implementation

- 25 Reform programmes usually present obstacles in terms of both design and implementation. These obstacles include the politics of balancing the interests of various groups, the nature of the political environment, information asymmetry, the competence and capacity of the bureaucracy, and donor influence.
- 26 A major obstacle to reform is the desire for economic security. Inasmuch as economic misfortune is perceived to be man-made, it is deemed avoidable. Economic security also has a peculiar dynamic. Every instance of providing such security leads to demands for more. If protection is given to one industry, why not to another? A most important complication is that users of the product of the protected industry pay a price higher than their foreign competitors do. To the extent that this may make them uncompetitive, it becomes justification for them also to ask for protection to offset the effects of that already given. Democratic governments also appear unable to tolerate the failure of large economic actors. But this creates a demand for the rescue of the smaller ones from their mistakes as well. A negative answer to such demands is seen as tantamount to unprincipled discrimination and double standards.
- 27 Economic security, however, guarantees those who fail that their current earnings opportunities will not disappear. But this locks in current activities and makes it difficult to shift to new products and processes that are at the heart of economic progress. Eliminating the losses of those who fail can only mean reversing the reform that is the cause of their failure. The search for economic security not only blocks reform, it produces an ossified society incapable of adjusting to new circumstances.
- 28 Reforms have suffered reverses or even failed because of the obstructionist influence of 'vested interests'. For example, the nontradeable goods sector opposes devaluation, import competing goods producers balk at trade liberalisation and farmers object to the cutting of agricultural subsidies. Politicians and bureaucrats are sensitive to these pressures because they rely on interest groups for support, votes, and money. Moreover, democratic societies permit the formation of alliances 'in which each thinks it can best protect its fortunes if stabilisation is scrapped.'
- 29 In addition, sharply unequal income distribution creates social and political divisions that undermine consensus for economic reform, increases uncertainty about the actions of future governments, and shortens time horizons. These developments produce such undesirable economic outcomes as tax evasion, capital flight, investment strikes, and unreasonable wage demands. Greater inequality of income can lead to polarisation of contending parties, undermining the co-operation required to sustain macro-economic stability. It has also been found to increase the probability of following counterproductive populist policies.

- 30 The East Asian Tigers – Korea, Taiwan, Singapore and Hong Kong – are cited as having undertaken reforms under authoritarian or administrative auspices. And China's recent reforms have been undertaken under the explicit premise that economic and political liberalisation need not go hand in hand.
- 31 The model of the authoritarian regime as a boon to developmental reform, however, has serious shortcomings. A critical assumption made is that of an enlightened despot. On the other hand two diametrically opposed strategies are possible: enlightened despotism; and predatory behaviour. Not surprisingly, therefore, economic performance varies no less among authoritarian regimes than among democratic ones. There have been military regimes that have made policy mistakes as egregious as their civilian counterparts in different parts of the world. Furthermore, there have been authoritarian regimes, e.g. Albania, Iran, Myanmar, Romania, Zaire, in which policies contributed to such spectacular failures that only a dictatorship could sustain them.
- 31 Electoral cycles have in a number of instances proven to be formidable obstacles. Good macroeconomic and trade policies yield their payoffs gradually, but the costs are borne up-front. This has led to instances in which political leadership has attempted to manipulate macro-economic policy in the short-run to maximise electoral chances, stimulating the economy at the approach of elections and stabilising after elections. There are a number of features in society that make such occurrences take place. Important among these is the myopia of the electorate. Politicians too often, are not judged by the long-term consequences of their actions. This phenomenon has been caricaturised as a model of 'a collection of rogues competing for the favours of a larger collection of dupes.' It has been claimed that with full anticipation of the consequences of unrealistic election promises the election cycle should simply disappear.
- 33 Reforms seem to require a much longer time horizon than initially envisaged. Members of Parliament and other representatives seeking re-election every few years would want to support popular reforms that bring them votes. They may not be too keen to stick their necks out for a good cause that may conflict with their careers. Even more fundamentally, reforms typically involve long periods in which costs accrue, with benefits following much later. The politician that incurs the cost is unlikely to be the one that reaps the benefit.
- 34 It must be recognised, however, that informational asymmetries between a government and its citizens can generate political business cycles, even if voters behave rationally. There may be a dearth of key institutions – independent media covering economic policy issues or autonomous policy research organisations or histories of electoral experience – that enable voters to keep the opportunism of politicians in check. And where poverty is extensive or welfare systems are non-existent, voters may be more concerned with the short-run, supporting governments that deliver short-run material benefits even if at the expense of long-run welfare.
- 35 In addition, the milieu in which the bureaucracy operates is important. Pervasive corruption can turn the

bureaucracy into a well-positioned interest group aligned against reform. There is also the problem of political interference. Inasmuch as the effectiveness of policies depends on the widespread belief that they will be sustained, delegating decision making authority to autonomous institutions can enhance credibility about commitment. This reduces the capacity to reverse decisions in response to short-term considerations. Central bank independence has been found to have beneficial effects on inflation and real growth.

- 36 External donors have also sought to influence policy through loan conditionality as typified in the SAPs. The debate about the political economy of conditionality has centred on the extent to which outside agencies actually influence the policy process. Creditors

often have power over the flow of resources which gives them great leverage. But they also tend to have multiple and conflicting goals with respect to reforming aid recipients. Concern to support a strategically important client has often overridden the interest in promoting reforms.

- 37 The reform experience also shows that where leaders are already committed to reform, additional finance may help it succeed. Sustainability is enhanced by the extra resources which allow for higher consumption without necessitating cutbacks in investment. A rather disturbing finding by the World Bank is that countries receiving substantial adjustment lending from it have shown a tendency to do better at sustaining consumption than investment.