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REVIEW ARTICLES

Insulating the Technopols: The Politics of Economic Reform

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*R. H. Bates and A. O. Krueger (eds), **Political and Economic Interactions in Economic Policy Reform,** Blackwell, Cambridge, Mass., 1993*

*John Williamson (ed.), **The Political Economy of Policy Reform,** Institute for International Economics, Washington, D.C., 1994*

How to implement economic reform is an extremely important issue. Broad agreement exists on the set of policies that should be implemented. But successful implementation of them has proved elusive in many cases. Unsuccessful reform has bedevilled countries in Africa, Eastern Europe, and Latin America, as it has the international finance and other institutions that have been trying to help them. These setbacks have provided critics of the multilateral institutions with plenty of ammunition. Attempts to implement reform through the structural adjustment programs of the international finance institutions without the commitment of the country's leaders were seen to have failed only after some years of trial. It has also taken some time to recognise the relevance of the specific cultural, institutional and political features of individual countries.

Bringing together economists and political scientists to investigate this issue (as do the two publications under review) seems, therefore, to make sense. However, the two collections ask somewhat different questions and research them in different ways. Whereas Bates and Krueger appoint a political scientist and an economist to jointly analyse each country's experience, Williamson presents country reports from insider economists that are then analysed by political scientists. In my judgment, Bates and Krueger's approach is the more successful.

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Different Research Methodologies

Williamson asks 'how it proved possible to mobilise and maintain the political support that made reform possible' (p.25). To research this question, nine economists (most of whom have held key political positions in their countries' governments) write about the experience of policy reform in a range of developed, developing and transition countries: Australia, Colombia, Indonesia, Mexico, New Zealand, Poland, Portugal, Spain and Turkey. These so-called 'technopols' were asked to focus on how they managed to get their programs accepted. The nine countries were chosen because they had managed to consolidate all or most of a program of economic reform. The volume also includes an earlier paper on Chile's success with economic reform, as well as papers on Brazil and Peru in order to provide some coverage of countries that had attempted but failed to consolidate reforms. In addition, three economists with experience in the policy reform efforts in Bulgaria, Russia, and Ukraine were invited to write on the implications of the other studies for reform of these so-called economies in transition.

The country papers were discussed at a conference that involved several political scientists who have been writing on economic reform or structural adjustment programs, such as Robert Bates, Stephan Haggard, Joan Nelson and Barbara Stallings. (Many of the same caste of political scientists were involved in the Bates and Krueger project.) The panel discussions are included, as are an after-lunch speech by Enrique Iglesias, the president of the Inter-American Development Bank, and an after-dinner speech by Jeffery Sachs, which prompted a written response from the IMF (published together with Sachs's response).

The country authors were asked to discuss the applicability of 13 often-competing hypotheses for explaining when policy reform is possible. These include Mancur Olson's idea that reform is most likely after a crisis; Joan Nelson's suggestion that reform becomes possible when the opposition is discredited; and the claims that it happens when the reforming government has won a mandate for change or when there is a visionary leader or an authoritarian or rightist government. The authors were also asked to discuss the length of time taken for politically significant groups to realise that they were benefiting from the reform program and what efforts were made to mobilise public support for the measures.

In the Bates and Krueger project, teams of political scientists and economists were asked to analyse 'the economic and political issues associated with the need for reform, the reform measures undertaken, and the outcome of the reform process' (p.2). The countries chosen were Brazil, Chile, Ecuador, Egypt, Ghana, Korea, Turkey, and Zambia. This list includes countries that have been very successful in consolidating economic reform, such as Chile and Korea; countries that have been reasonably successful (Ghana and Turkey); and countries that have had little success with economic reform despite several attempts (Brazil, Ecuador, Egypt, and Zambia). For each country the researchers were asked to consider, *inter alia,* the impact of interest groups on the success of the reforms and the institutional context in which the reforms were carried out. They were asked to review the country's history over three periods: pre-reform, reform, and post-reform.

The two volumes are put together in much the same way, with comprehensive introductory chapters setting out the questions the country studies were asked to consider. Following the country studies, there are an extensive analyses of the country studies by John Williamson and Stephan Haggard in the Williamson volume and by Robert Bates and Anne Krueger in their volume. The concluding chapters provide a good summary of the main points made in each book.

Understanding Political Processes

Williamson's approach doesn't work well, for several reasons. First, in several cases the economists spend most of the time describing the reforms and little time writing on the political processes at work. This leaves the political scientists little information to work with. It is reasonable to assume that in some cases the economists would not feel confident writing about things on which they have little expertise. There are some exceptions. Leszek Balcerowicz's report on Poland's experience has insightful comments on the political process, and the technopols' role in that process, in a country in crisis. Balcerowicz differentiates between times of 'ordinary politics' and times of 'extraordinary politics': during the latter kind of period, when a country is in deep crisis, there may be no professional politicians in power, so that public choice theory as elucidated by James Buchanan and Gordon Tullock may not apply. For instance, during the period when they hold power, technopols may be more inclined to act in the common interest than professional politicians would be. Miguel Urrutia's chapter on Colombia gives a very detailed account of the reform efforts and of the parts played by the various technocrats and politicians as well as by the interest groups in the private sector. By contrast, José Córdoba's paper on Mexico is mostly about the details of the economic reform: which is a pity, as the Mexican story of economic reform and its underlying processes must be one of the most interesting of recent times. I found the comments on these reform stories by the political scientists, who are all well versed in the political economy literature, to be the most insightful. The fact that most of these people had been involved in the earlier Bates and Krueger project helps to account for this.

Being part of the process of reform itself also made it difficult for the country authors to provide useful information about that process. But probably the main reason why the Williamson approach is less successful is the methodology used. Williamson asked the country authors to say whether the country's circumstances fulfilled the conditions required by the 13 hypotheses explaining successful economic reform. I agree with Carol Lancaster's comment from one of the discussion sessions that this approach is 'potentially misleading and uninteresting' (p.485). Trying to give 'yes' or 'no' answers to these various hypotheses of undetermined weight distracts attention from the task of developing an understanding of the complex set of factors at work in each case and defining behavioural determinants to these processes.

The Williamson volume concludes that the evidence strongly supports the hypotheses suggesting the need for a strong political base, for visionary leadership, and for a coherent economic team. Negative findings are also seen as important, such

as that authoritarian or right-wing governments are not necessary for successful reform. However, there is little here in the way of insights into the political processes or the institutional arrangements that make effective implementation possible.

The Political Economy of Reform

This is not the case with the Bates and Krueger volume, which attempts systematically to derive an understanding of the political processes at work behind the initiation and implementation of economic reform and to develop theories (or, at least, apply existing theories) that explain them.

The analysis is based on interest-group theory. The starting point is to ask why interest groups appeared to have little or no role in initiating the reforms. The conclusion is that the outcome of reforms is subject to such uncertainty that interest groups' decisions are influenced more by the rhetoric of particular economic theories or ideological positions than by statements about the incidence or effects of policies. (This raises questions about the role of estimates from trade models as opposed to the rhetoric restating the economic theory of free trade in influencing the outcome of trade negotiations.)

Because of the uncertain future size and distribution of the benefits of reform and the more immediate and concentrated nature of its costs, the *status quo* is likely to be maintained — unless there is a change in government. Economic reform 'appears to emerge as a by-product of political struggles' (p.457). But there are exceptions. For example, reforms were initiated by President Carlos Salinas de Gortari in Mexico without any change in government. Bates and Krueger pose the question: what determines the behaviour of politicians? For an explanation they examine the structure of political institutions, including the rules that shape political competitions. For example, in Latin American countries such as Ecuador and Mexico presidents cannot hold office for more than one term — in which case (as in Mexico) they may well undertake actions that would not even be considered were they able to run for office again. Compare this result with countries where the political term is not fixed and the political leaders struggle to stay in power. These differences within democratic systems lead to an interesting conclusion as to why no significant difference emerges in these studies between democratic and authoritarian governments in terms of their willingness to undertake economic reform programs. The explanation advanced for this is similar to what is known in agricultural science as the 'within plot-between treatment' problem: a phenomenon common to much scientific research. The variation in the results from applying the same fertiliser or seed treatment to several plots of ground is so much larger than the variation from applying a different treatment to the same plot of ground that it is difficult to obtain a scientifically significant result from the different treatments. Bates and Krueger argue that differences in the political rules between democracies lead to very large differences in the behaviour of politicians. So large are these differences that a significantly different outcome cannot be detected between democracies and authoritarian regimes. This result highlights the need to understand fully the political rules

and processes at work in each country: a point that the authors could have stressed more than they did.

Bates and Krueger also examine the implementation of reforms through the interest-group prism. They find that variations in the pattern of interest groups fail to account for variations in the success of reform programs. They do find that the reform efforts led to the restructuring of interest-group representation and to changes in political institutions. One such change that they highlight is that successful economic reform involves a strengthening of the executive branch of government and, within the executive branch, a strengthening of the financial ministry. An important role of this restructuring is to protect the technocrats within these core ministries from interest-group pressure — except, of course, from the group that benefits from the reforms.

Under what circumstances will technocrats be given such power over and through the economic bureaucracies? (Treating the technocrats as a part of a complex process points up the difficulty with the Williamson project's approach of asking the technocrats involved to analyse the whole process. It is difficult for people so involved to be able to stand back and see the whole process at work.) One answer is that, in order to avoid the problem — the 'politicians' dilemma' — of all politicians distributing benefits to interest groups with the objective of remaining in power, institutions are created — a form of delegation — that can commit them individually to strategies that are collectively rational. These agencies gain special status by acting in defence of the public interest. This explains why making political appointments to such public agencies as courts, central banks, and even statistical offices generates such critical reaction in many countries. Conversely, in many countries a lack of political independence in central banks, courts, and so on is a source of policy and political instability (to say nothing of corruptive practices). Another answer draws on so-called 'partisan theory': economic institutions are created to institutionalise policies that serve particular interests.

The authors do not say which explanation they prefer, concluding that 'the country studies offer evidence in support of both theories' (p.467). Maybe Bates and Krueger differed over the conclusion and decided to leave it at that. In the later Williamson book, however, Bates declares that he prefers the partisan model to the politicians' dilemma model. As I understand them, however, these are not competing explanations. Bates's favoured partisan model is an explanation for empowering technocrats for any purpose. That is, all policies can be thought of as favouring one group of interests over another; for example, the application of *dirigiste* policies requires giving power to certain agencies and not to others. If the politicians' dilemma is an accurate explanation of the emergence of economic institutions that impose a collectively rational discipline on government expenditure, this would explain empowering specifically *economic* technocrats, not technocrats in general. As with any other policy, it will favour some groups over others, even if these policies are thought of as being for the 'common good'. Those groups who were previously receiving rents from industry protection will be disadvantaged from inflation, or from over-valued exchange rates.

What Have We Learned?

Bates and Krueger make a convincing case for some form of safety net to protect those who lose their jobs as a result of the reforms. Otherwise, it becomes too easy for the vested interests that suffer from reform to use the workers who have lost jobs as pawns in a political struggle to overturn the reforms.

Both volumes touch only lightly on the role of organised labour in underpinning or undercutting reforms. Bates and Krueger mention briefly the role of labour in the 'corporatist' small, industrial state. Ross Garnaut's chapter (in Williamson's volume) on economic reform in Australia provides an example of this. However, very little research has been conducted into the role of organised labour in the newly industrialising, reform-minded economies.

Above all, the two projects suggest the importance of a well-trained team of policy advisers who are somehow protected from interest-group pressure. This conclusion highlights the importance of education in developing groups of highly-skilled advisers, as well as the need to understand the country's political, cultural and institutional system so that an effective mechanism for insulating the technocrats can be devised. It leaves to be decided the appropriate institutional mechanism in each case. It may be possible to initiate reforms under a range of circumstances: revulsion against the previous economic system; visionary leadership; a change of government; or a crisis of some sort. But can the conditions for initiating reforms be fostered, even by external forces? Or does a country have to stew in its own juice until the desire for reform arises? Perhaps, as John Toye observes in Williamson's volume, 'economically, there is no situation so bad that it cannot get worse' (p.41). Or perhaps, as Bates and Krueger argue, the rents eventually disappear and the politicians no longer have the means to pay off the interest groups.