

# Institutions and the support for market reforms

## A combination of individual self-interest and good institutions determines the level of public support for market reforms

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### ELEVATOR PITCH

Economic self-interest and social considerations are the key determinants of public support for market reforms in transition countries. However, political strategies that rely mainly on public support for pushing through economic reforms have limited relevance if the prevailing institutional environment is weak or corrupt. Poor governance and under-developed democracy significantly reduce the level of support. A good institutional framework allows the potential gains from reforms to be realized in a beneficial way, while corruption and poor governance deny the prospect of gains for individuals and for society.

### KEY FINDINGS

#### Pros

- ⊕ Individual, economic self-interest is the key driver of support for market reforms.
- ⊕ “Market-friendly” institutions increase the support for market reforms.
- ⊕ Attitudes towards market reforms can change from opposition to support if there is a framework of good governance and well-developed democratic institutions.
- ⊕ Public support for market reforms has converged between the Commonwealth of Independent States and the Baltic and Central Europe Countries over time, due to economic growth, less income inequality, and improved governance.

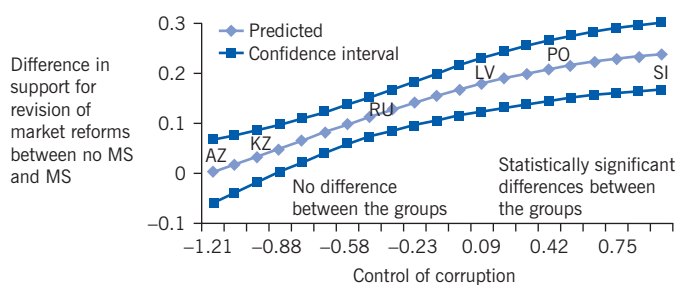
#### Cons

- ⊖ The prevailing conditions at the time reforms are introduced can increase the degree of political constraints and hinder the development of democratic institutions.
- ⊖ Opposition to reforms is largely defined by concerns about the legitimacy of those reforms.
- ⊖ When market institutions are not developed, public attitudes toward market reforms are generally uniformly negative.
- ⊖ Higher inflation, unemployment, and income inequality increase the opposition to market reforms.

### AUTHOR'S MAIN MESSAGE

Evidence from transition countries reveals the importance of both individual and institutional determinants in shaping public opinion toward market reforms. In countries with autocratic and poor governance, both the potential winners and losers from reforms are equally negative about their possible benefits. As the quality of governance and democracy improves, however, support for market reforms increases and the supporters distance themselves from other groups of citizens. In addition to economic self-interest, public perceptions of the legitimacy of reforms are equally important for generating support.

#### Weak institutions erode the difference in support for the revision of reforms



Note: “MS” = market skills. “Control of corruption” = extent to which public power is exercised for private gain as well as “capture” of the state by elites and private interests; higher values = better governance.

Source: Based on data from [1].