

What Ukrainians Expect From Reforms

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Ukraine needs reforms badly. However, there is a huge difference in how the government, the expert community, and the general public understand reforms. According to a recent survey conducted by a prominent Ukrainian newspaper, people expect that reforms should, in the first place, improve their personal wellbeing. However, research findings beware that in the short run structural changes in the country can worsen economic performance and increase inequality. To reduce the pain of unmet expectations and popular discontent, the government should openly communicate any difficulties to come, and wisely mix the most painful measures, like the increase of tariffs for the use of public infrastructure, with empowering changes that give citizens a sense of progress, like actions that strengthen democracy and help SMEs to flourish.

A recent survey (ZN, 2014) by Zerkalo Nedeli (Fig.1) showed that what many Ukrainians expect from reforms is that reforms will improve their own lives. Most people, for example, think health care reform should be the biggest priority: about a third of the respondents hope for a return of the pension age to 55 for women and 60 for men, and about half of the respondents indicated that reforms for them means an increase of wages and pensions.

It is still early to foresee whether and how the planned reforms in Ukraine will actually be implemented. As a consequence, it is hard to foresee whether these reforms will meet the people's expectation and improve their life, and if they do so, when these improvements will appear and whom they will benefit the most. However, we can get an idea of what to expect by looking at what has been the international experience with past reforms. Several lessons can be drawn from that experience.

First, don't expect an immediate pay-off; pain comes first, and real sizeable improvements in

quality of life will only be noticeable after years. A study by Jan Babecky and Tom Havranek of the Czech National Bank (Babecky and Havranek, 2013) analyzes the results of 60 studies that estimated the links between reforms (as measured by the World Bank and the European Bank for Reconstruction Development) and GDP growth in 26 transition countries. They find that in the short run (within one year), a typical reform reduces growth by 0.4 percentage points, but they also find that benefits start outweighing costs already after the first year and that the long run effect is an increase in trend GDP growth by 0.3 percentage points.

Second, reforms do not necessarily benefit everybody to the same extent. A growing GDP does not guarantee that all, or even many will benefit. Still, Branko Milanovic and Lire Ersado (Milanovic and Ersado, 2008) found that GDP growth in transition countries increased the absolute incomes of both the poor and the rich, but more so for the rich, thus increasing inequality. Focusing on the effects of reforms on inequality in the period 1990-2005, they also find that overall, reforms are

likely to increase inequality: structural reforms increased the income share of the richest 20%, while they decreased the share of the bottom 40%. Even the absolute levels of income of the bottom 40% can decrease if reforms do not increase growth enough or reduce inflation enough.

Figure 1. Survey by Zerkalo Nedeli (2014)

Reform for you is	Ukraine overall, %
Providing more rights to local communities	16,1
Providing greater power to local authorities	20,3
Introduction of death penalty	5
Introduction to life imprisonment for judges, prosecutors and officials for the large scale corruption	27,7
Cancel the single tax system, as the basis for large-scale shadow schemes	9,1
Increase of pensions and wages	51
Introduction of the mandatory tax declaration of revenues and expenditures for all citizens of Ukraine	8,4
Nationalization of oligarchs' property	26,3
Revision of the privileges and social benefits, their reduction and monetization of the remaining	9,8
Installation of cash registers in all outlets	5,5
Ban on cash payments in the amount of more than 10 000 UAH	3,3
Maximum simplification of administrative services provision and creation of unified database of all the citizens of Ukraine	10,9
Public access to the property registers	12,3
Removing MPs immunity	58
Removing judges' immunity	48,3
Removing the Presidents' immunity	34,4
Creation of professional army and elimination of the general conscription	24,8
Reform and reduction of the Ministry of Internal Affairs staff	14,9
Reduction of bureaucratic apparatus and increase in their salaries	14,3
Setting the salaries for MPs, ministers, judges and officials at the national average level until Ukraine is recovered from the crises	34
Criminalization of the payment of wages in envelopes	15,1
Criminalization of receiving salaries in envelopes	6,4
Austerity energy saving program and opt out from Russian energy carriers	10,7
Creation of a municipal police	4,3
Election of judges	15,5
Federalization of Ukraine	3,5
Adoption of the law on free sale of land	2,6
Increase of the retirement age to 63-70 years like in Europe	0,7
Return to the retirement age of 55 years for women and 60 for men	31,9
Other	2,4
Hard to say	8,3
Refuse to answer	1,8

Third, who benefits or loses the most from reforms depends on which specific reforms are implemented. Milanovic and Ersado (2008) for example found that infrastructure reforms (typically the introduction or increasing of fees

for the use of public infrastructure) disproportionately hurt the poor, while small-scale privatization and improving the level of democracy in a country increased the income shares of the poor. Similarly, Olga Popova of CERGE-EI (Popova, 2010), using data from about 20000 respondents from 27 transition countries, found that people's life satisfaction was negatively affected by infrastructure reforms but positively by corporate governance reforms and the extent of enterprise restructuring, and by the extent of small-scale privatization.

The abovementioned Zerkalo Nedeli survey, not only showed that many people are mainly interested in the final outcome of a reform, namely the improvement of their own standards of living, but also suggests that people are less interested or even opposed to the actual reform process needed to get to this final outcome. Combined with what we know about past reforms, this suggests that there is ample opportunity for unmet expectations and popular discontent.

To avoid this, the government would do well to manage people's expectations by communicating openly about any difficulties to come. The government would do well to think about 'quick wins' that immediately and positively affect the daily life of people, and which can symbolize that reforms are going in the right direction. This will help to keep support levels for reforms high, despite the unavoidable initial pains that overall reforms will bring. Moreover, the government would do well to mix the painful but badly needed infrastructure reforms with reforms that strengthen the democracy in Ukraine, that help to better target the social security system and that help small businesses to flourish. In short, mix reforms which can help the not so rich to help themselves.

* A version of this policy brief has been published in Russian at Forbes.ua.

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