

The background is a purple gradient with various colorful abstract shapes in shades of blue, green, yellow, orange, and red. A dark grey rectangular box is positioned on the right side of the slide, containing the title and speaker information.

# THE REFORM TRIANGLE

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# RESEARCH BACKGROUND

- PhD in Economics. Information Asymmetries, Contract Theory and Game Theory.
- Research after joining ESCI-UPF in 2004: competitiveness, internationalization and innovation (COPCA & ACCIO)
- 2009-2012. On leave, Spanish PM Economic Bureau, Economic Advisor on competitiveness, including regulation and public sector reform.
- 2013-2017. Founder and Academic Director, SpanishReform project (with support from FUNCAS & PPSRC-IESE). Unique database of reforms and international recommendations for the Spanish economy.
- Regular collaborator of FUNCAS, FUNDACIÓN COTEC and Unesco Chair on Life Cycle and Climate Change.
- Current research: combination of economics, public management, comparative analysis of institutions ... and still learning about sustainability management.

# MOTIVATION I



MONEY NEWS JUNE 24, 2010 / 7:51 AM / UPDATED 13 YEARS AGO

## ECB's Trichet: austerity plans don't risk stagnation

By Reuters Staff

4 MIN READ



FRANKFURT (Reuters) - Budget austerity plans will not drag the euro zone economy into stagnation, European Central Bank President Jean-Claude Trichet was quoted on Thursday as saying.

**"I firmly believe that in the current circumstances, confidence-inspiring policies will foster and not hamper economic recovery, because confidence is the key factor today."**



STRICTLY CONFIDENTIAL  
Reclassified for release on 19 December 2014

Mr. José Luis Rodríguez Zapatero  
Prime Minister  
Presidente del Gobierno de España  
Complejo de la Moncloa  
Avenida de Puerta de Hierro, s/n  
28071 Madrid  
Spain

Frankfurt/Madrid, 5 August 2011

Dear Prime Minister,

The Governing Council of the European Central Bank discussed on 4 August 2011 the situation in Spain's government bond markets. The Governing Council considers that for Spain pressing action by the Spanish authorities is essential to restore the credibility of the sovereign's signature in capital markets.

We recall that the Euro area Heads of State or Government summit of 21 July 2011 concluded that "*all euro countries solemnly reaffirm their inflexible determination to honour fully their own individual sovereign signature and all their commitments to sustainable fiscal conditions and structural reforms*". The Governing Council considers that Spain needs to urgently underpin the standing of its sovereign signature and its commitment to fiscal sustainability and structural reforms with credible evidence.

At the current juncture, we consider the following measures to be essential:

# MOTIVATION II

**Table 1.** Dimensions of policy choice in managing the euro area crisis

Dimension of policy choice	Policy trade-off
1. Degree of inter-state cooperation	National redemptions vs. solidarity
2. Degree of coordination between ID and fiscal and monetary policies	Uncoordinated adoption vs. consideration of negative feedback effects

Global Policy (2020) 11:4

Pre Covid Analysis

## Dutch PM faces dissent at home over hardline coronabonds stance

Coalition partners call on Mark Rutte to reconsider position as southern Europe suffers



Two of the four parties that make up the Dutch government have distanced themselves from Mark Rutte and Wopke Hoekstra. © Bart Maat/ANP/AFP/Getty

Mehreen Khan in Brussels APRIL 1 2020

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Mark Rutte is facing growing dissent within his four-party coalition against the Netherlands' firm rejection of so-called [coronabonds](#). This has put pressure on the veteran prime minister, whose government has been the subject of stinging criticism in southern Europe for its [opposition](#) to the issuing of collective debt

Post Covid

Natural Disaster, No Moral Hazard, but stil...



# GOAL

- Presenting an ongoing Research Programme: Critical Vision of Structural Reforms
- Motivation: past research on Economic Policy Reforms in the Euro Area with Spain as a case study
- Any evidence of policy learning – that could be useful for Covid or other forthcoming crises?

# REFORM EPISODES IN SPAIN

EU fiscal reforms	<ul style="list-style-type: none"> <li>SGP</li> <li>SGP reform</li> <li>Six Pack</li> <li>Fiscal Compact</li> <li>Two Pack</li> </ul>																
Spanish fiscal reforms	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
					O. Law 5/2001					O. Law 3/2006				First Cutbacks	Art. 135	O. Law 2/2012	AIReF
Type of Spanish government	Conservative minority			Conservative majority				Socialist minority				Socialist minority			Conservative majority		

- CNMC
- Fiscal Consolidation: cutbacks, Art. 135, Law Fiscal Sustainability, AIReF

# COMPETITION & REGULATION (CNMC)

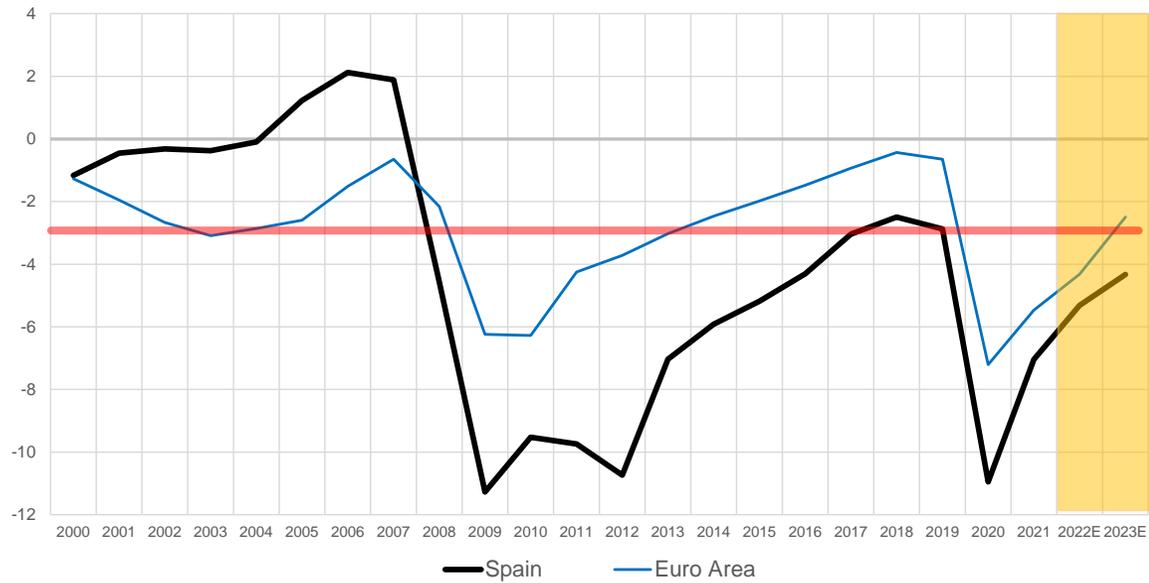
- The Spanish government created the CNMC as a macroregulator in 2013. The reform merged the competition policy authority with virtually all sector regulators, excluding finance.
- Principles of institutional architecture: (1) regulatory independence, (2) incentive theory, (3) relationship between *ex-ante* and *ex-post* intervention (regulation vs anti-trust or competition policy).
- Drafts of the reform leaked in 2012. EC was concerned about devolution of powers to line ministries. Former regulators (CNC, Energy, Telco) also critical with the draft.
- Important shortcomings in the Spanish reform:
  - Be careful with “extreme” integrations - different rationales for reform in Spain (alleged economies of scale and institutional stability) and the Netherlands (consumer welfare and protection).
  - The most advanced competition authorities (US, UK) rely on ambitious investigative tools that have “sharp teeth” and that deliver useful information in the information-gathering; not the case of Spain.

# FISCAL ADJUSTMENT AND GOVERNANCE

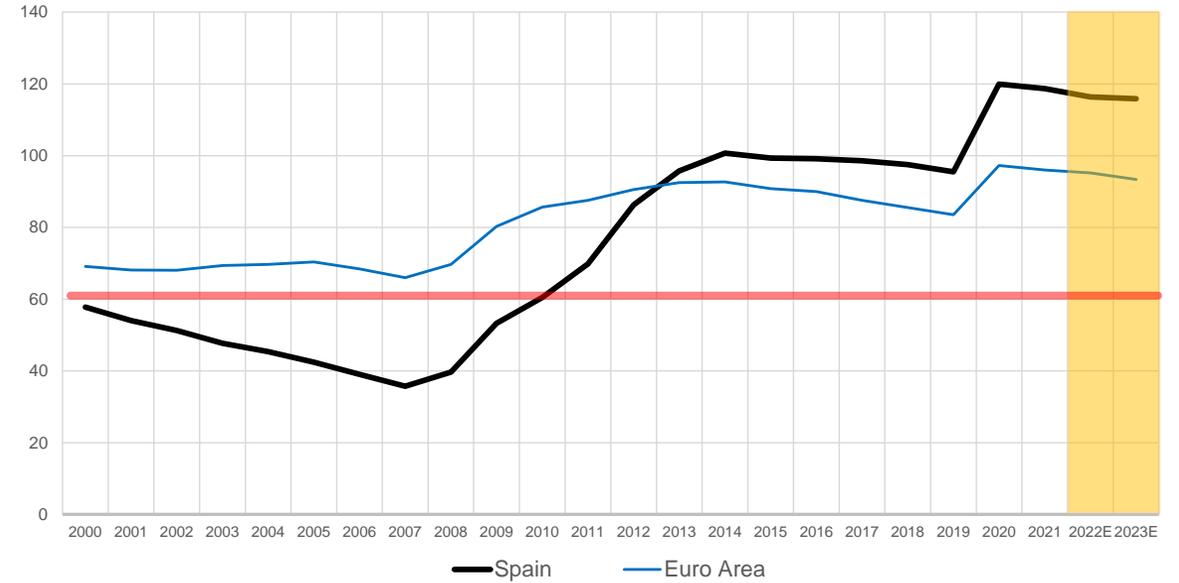
- Spain adopted two main fiscal reforms in aftermath of the global financial crisis: Law Budget Stability and the creation of AIReF (independent fiscal authority), mandated by the EU-EC-ECB.
- These reforms reflect:
  - intention to reform, by designing rules and institutions (AIReF) according to the international blueprints, but also
  - Intention to resist, by regaining as much decision-making power as possible for the central government (LBS).
- As a result, there have been tensions between these reforms: AIReF exercises fully its independence from the executive up to the limits granted by law, while the LBS was unable to curb deficit (significant structural deficit) and has some other technical limitations (e.g. expenditure rule).

## FISCAL RULES IN SPAIN

General government net lending/borrowing, % of GDP (3%)



General government gross debt, % of GDP (60%)



# NON-PRICE COMPETITIVENESS

- Setup. Classical international trade model, with CES utility and iceberg trade costs: in order to sell one unit of good  $i$  in country  $j$ , country  $i$  needs to ship  $\tau_{ij} \geq 1$  units. Iceberg trade costs reinterpreted.
- A country's export share is affected both by Price- and Non-Price competitiveness (quality)
- Structural reforms have been largely motivated to regain fiscal discipline and contain (labour) costs. These policies may have important adverse effects on crucial drivers of non-Price competitiveness. ECB under Draghi shifting towards more emphasis on pro-competitive, non-price competitiveness reforms (supply side, institutions, education, innovation)

$$\frac{X_{ij}}{E_j} = \varphi_{ij}^{1-\sigma} \left( \frac{P_i}{P_j} \right)^{1-\sigma} \quad (6)$$

Market share  $\rightarrow$   $\frac{X_{ij}}{E_j}$   $\leftarrow$  Price-competitiveness

$$\varphi_{ij} = \tau_{ij} \psi_{ij} \frac{P_{ii}}{P_i} \quad (7)$$

Non-Price competitiveness  $\rightarrow$   $\varphi_{ij}$

# BAILOUTS

**Table 1.** Financial assistance programmes to EU member states.

Type of programme	Country and period	MoU signature date
Economic adjustment programmes	Greece, 2010–2012*	May 2010
	Greece, 2012–2015	March 2012
	Greece, 2015–2018	August 2015
	Ireland, 2010–2013*	December 2010
	Portugal, 2011–2014*	May 2011
	Cyprus, 2013–2016*	April 2013
Recapitalization of financial institutions	Spain, 2012–2013*	July 2012
Balance of payments assistance programmes	Hungary, 2008–2010	October 2008
	Latvia, 2009–2012	January 2009
	Romania, 2009–2011	June 2009
	Romania, 2011– 2013	June 2011
	Romania, 2013–2015	November 2013

Source: EC. \*Programme reviewed in this article.

## REFORMS

### Motivation

- To improve competitiveness and pay debts
- To boost confidence of investors

### Rhetoric

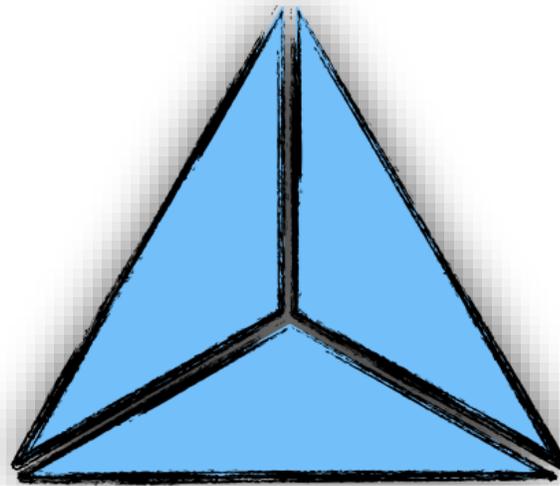
- “Never Let a Good Crisis Go to Waste”
- “Cure the Patient”

### Effects

- ECO. Deflationary effects of structural reforms and fiscal austerity (decapitalization)
- POL. Danger of social unrest, instability and electoral extremism

# REFORM TRIANGLE

REFORM  
MOTIVATION



REFORM  
RETHORIC

REFORM  
EFFECTS



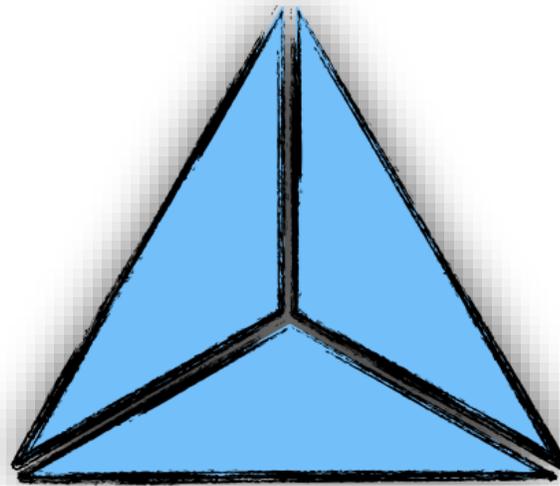
# RATIONALES FOR REFORM

1. Crisis as driver of reform: “crisis as an opportunity” vs “threat-rigidity”
2. New Public Management (NPM): from boom in early 1980s to the “cruellest invention of human spirit”
3. Resource Dependency; in extreme cases, an organization can be directed by outsiders
4. The need to protect the drivers of non-price competitiveness

# RELATED WORK IN PROGRESS

With Yulia Kasperskaya, "Spending Reviews: Public Policy and Budgeting Process Outcomes - The case of Spain"

REFORM  
MOTIVATION



REFORM  
RETHORIC

REFORM  
EFFECTS

With Elena Golovko, "One Reform for All? Firms' responses to structural Reforms"

# AIREF SPENDING REVIEWS

## Content of Spending Reviews (three phases)

### **Phase I (1.5% of GDP)**

1. Evaluation of Subsidy Strategy and Procedure (amount not available). 2. Medication dispensed through Prescription, 10171 M€ (2017)
3. Active Labour Market Policies Programme, 2000 M€ (2018)
4. University Education Scholarships, 816 M€ (2017)
5. Program for the promotion of Talent and its employability in R&D+I, 305 M€ (2017)
6. Strengthening firms' competitiveness (Reindustrialization and Industrial Competitiveness Program), 550 M€ (annual average, 2008-2016).
7. Evaluation of Sociedad Estatal de Correos y Telégrafos, and Provision of the Universal Postal Service, 145 M€ (annual average, 2011-2020)

*Adopted by the Spanish Government on August 1 2017 and January 26. 2018. Public release of the results in July 2019.*

### **Phase II (3% of GDP)**

1. Tax Benefits, 60000 M€
2. Expenditure on Pharmacy and Investment in Capital Goods in the Spanish National Health Service, 7000 M€
3. Transport Infrastructures, 13.500 M€ (annual average since 1986).
4. Hiring Incentives, 2000 M€

*Adopted by the Spanish Government on December 14, 2018. Public Release of the results in July 2019 - October 2020.*

### **Phase III**

1. Financial instruments of the Public Sector supporting private industries, 7000 M€
2. Urban Waste Management, 4250 M€

*Adopted by the Spanish Government on June 29, 2021. On-going*

**Source:** compiled by the authors on the basis of AIREF publications

# AIREF SPENDING REVIEWS

## Outcomes of Spending Reviews (on the basis of follow-up report M. Finance)

Spending Review	Proposals issued by AIREF	Follow-up			Responding ministry
		Implemented	Partially implemented	Non implemented	
1.1 Evaluation of Subsidy Strategy and Procedure	9	0	9	0	M. of Finance and Civil Service
1.2 Medication dispensed through Prescription	18	10	5	3	M. of Health and M. of Finance and Civil Service
1.3 Active Labour Market Policies	23	2	20	1	M. of Employment and Social Economy
1.4 University Education Scholarships	45	19	14	12	M. of Education and Vocational Training and M. of Universities
1.5 Program for the promotion of Talent and its employability in R&D+I	68	37	18	13	M. of Science and Innovation and M. of Universities
1.6 Strengthening firms' competitiveness	3	3	0	0	M. of Industry, Trade and Tourism
1.7 Evaluation of State Postal Service	16	7	4	5	M. of Transportation and Postal Agency
2.1 Fiscal Benefits (tax reductions, incentives)	14	4	1	9	M. of Finance and Civil Service
2.2 Expenditure in the Spanish National Hospital Service	30	7	0		M. of Health
2.3 Hiring incentives	20	6	14	0	M. of Employment and M. of Inclusion
2.4 Transport infrastructure	24	1	19	4	M. of Transportation
<b>Total</b>	<b>277</b>	<b>119</b> (43%)	<b>111</b> (40%)	<b>47</b> (17%)	1p

# ONE REFORM FOR ALL?

How firms' characteristics determine their response to a reform that increases wage flexibility. We focus on two activities which are directly related to a firm's competitiveness - exports and innovation. As an empirical context, we use the Spanish labor market reform of 2012. We compare firms' choices on employment and wages in the pre-reform (2010-2011) and post-reform (2012-2013) periods. We find evidence of heterogeneous reaction to the reform depending on the firms' export and innovation status

We proceed by exploring the impact of the reform on the variation in employment and employment cost with the regression analysis to take into account other variables that may influence the decisions on employment. We estimate the following difference-in-differences specifications to assess the changes in employment and wage cost in pre- and post-reform period.

$$\Delta \ln \text{number of employees}_{it} = \beta_0 + \beta_1 \times \text{reform}_t \times \text{export}_{it} + \beta_2 \text{reform}_t + \beta_3 \text{export}_{it} + \gamma X_{it} + \varepsilon_{it} \quad (1)$$

$$\Delta \ln \text{number of employees}_{it} = \beta_0 + \beta_1 \times \text{reform}_t \times \text{innovation}_{it} + \beta_2 \text{reform}_t + \beta_3 \text{innovation}_{it} + \gamma X_{it} + \varepsilon_{it} \quad (2)$$

$$\Delta \ln \text{total employment cost}_{it} = \beta_0 + \beta_1 \times \text{reform}_t \times \text{export}_{it} + \beta_2 \text{reform}_t + \beta_3 \text{export}_{it} + \gamma X_{it} + \varepsilon_{it} \quad (3)$$

$$\Delta \ln \text{total employment cost}_{it} = \beta_0 + \beta_1 \times \text{reform}_t \times \text{innovation}_{it} + \beta_2 \text{reform}_t + \beta_3 \text{innovation}_{it} + \gamma X_{it} + \varepsilon_{it}, \quad (4)$$

where  $\text{reform}_t$  is a dummy variable that equals 1 in the years 2012-2013 and 0 in 2010-2011 and  $\text{export}_{it}$  and  $\text{innovation}_{it}$  are dummy variables which indicate the firm's export and innovation (product and process) status respectively of firm  $i$  in year  $t$ . To capture the differential impact of the reform on the firms' employment decisions we use the interaction terms between the reform and the firm's export and innovation status variables.<sup>3</sup>

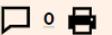
# REFORMS & INTERNATIONAL BUSINESS

- Structural Reforms as determinants of a competitive economic environment for conducting international business and investment (credibility, sovereign risk, private risk, contagion).
- Structural Reforms as a requisite of the process of EU integration and preparedness to new crises (Member States' solidarity, resilience and “strategic autonomy”).

Eurozone economy [+ Add to myFT](#)

## Spanish banks are downgraded

Victor Mallet in Madrid, Peter Spiegel in Brussels and Vivianne Rodrigues in New York  
JUNE 26 2012



Spain's banking sector came under further pressure on Monday night after ratings agency Moody's downgraded the debt of a swathe of lenders on the same day Madrid formally asked for aid for its financial sector.



**THANK YOU!**

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