

Heinemann, Friedrich; Grigoriadis, Theodor

**Working Paper**

## Origins of Reform Resistance and the Southern European Regime

WWWforEurope Working Paper, No. 20

**Provided in Cooperation with:**

WWWforEurope - WelfareWealthWork, Wien

*Suggested Citation:* Heinemann, Friedrich; Grigoriadis, Theodor (2013) : Origins of Reform Resistance and the Southern European Regime, WWWforEurope Working Paper, No. 20, WWWforEurope, Vienna

This Version is available at:

<https://hdl.handle.net/10419/125675>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



## **Origins of Reform Resistance and the Southern European Regime**

**Working Paper no 20**

**Authors: Friedrich Heinemann (ZEW),  
Theocharis Grigoriadis (ZEW)**

**July 2013**

**Authors:** Friedrich Heinemann (ZEW), Theodor Grigoriadis (ZEW)

**Reviewed by:** Ivo Bischoff (EBS - Business School)

# ***Origins of Reform Resistance and the Southern European Regime***

***Work Package 104***

***MS20 "Research paper on behavioural origins of reform resistance"***

***Working Paper no 20***

This paper can be downloaded from [www.foreurope.eu](http://www.foreurope.eu)

Please respect that this report was produced by the named authors within the WWWforEurope project and has to be cited accordingly



Funded under Socio-economic Sciences & Humanities

*THEME SSH.2011.1.2-1*

*Socio-economic Sciences and Humanities Europe  
moving towards a new path of economic growth  
and social development - Collaborative project*

## **Origins of Reform Resistance and the Southern European Regime**

**Friedrich Heinemann (ZEW), Theocharis Grigoriadis (ZEW)**

### **Contribution to the Project**

This research paper will deal with a special feasibility aspect of the socio-ecological transition which is the project's overriding interest. The focus is on reform resistance in general and behavioural types of resistance in particular which may pose serious obstacles to the necessary transition. The regional focus is Southern Europe with comparative data for the whole EU.

# Origins of Reform Resistance and the Southern European Regime

Friedrich Heinemann

(ZEW Mannheim and University of Heidelberg)

Theocharis Grigoriadis

(ZEW Mannheim and Free University of Berlin)

July 2013

**Acknowledgement:** Financial Support from the FP7-WWWforEurope project is gratefully acknowledged. We thank participants of WWWforEurope workshops in Vienna and Mannheim for helpful comments and suggestions.

## ZEW

Zentrum für Europäische  
Wirtschaftsforschung GmbH

Contact

Friedrich Heinemann

ZEW

L 7, 1 · 68161 Mannheim

PO Box 10 34 43  
68034 Mannheim

Germany

E-Mail [heinemann@zew.de](mailto:heinemann@zew.de)

Fon +49 621 1235149

Fax +49 621 1235223

## Nontechnical summary

This analysis deals with reform obstacles in general and with the particular challenges of institutional change under the conditions of Southern Europe in particular.

It presents a survey on the possible drivers of reform resistance. This includes very different qualities of approaches ranging from classical economics and political-economic explanations to more innovative explanations linked to behavioral economics. This classifying approach on potential reform obstacles is novel with respect to its broadness and systematization and offers a basis for the measurement and empirical testing.

The subsequent part analyzes qualitatively and quantitatively to which extent the “Southern European regime” may imply a particular relevance of some of the potential reform obstacles classified before. While a generalization on common factors is always at risk of oversimplification, the literature clearly points towards some relevant similarities which contrast the southern EU member countries with the rest of Europe. Reform ability profiles quantify several of the reform obstacles (or reform drivers) to compare EU countries in their likely reform predisposition. These profiles confirm particular Southern European weaknesses which tend to reduce the political-economic feasibility of long-term reforms: a low effectiveness in poverty protection, high intertemporal discounting and uncertainty avoidance, a poor information level of the population and deeply shattered trust in national institutions.

In a microeconomic analysis based on Eurobarometer survey data, the analysis leaves the highly aggregated level and looks into the individual heterogeneity in reform acceptance. It is shown that several of the reform obstacles identified in theory are also empirically correlated with the individual inclination to accept reforms. The perception of procedural fairness (i.e. satisfaction with the way democracy works) together with trust are the keys for the acceptance of reforms. The impression that outsiders, contrary to theoretical expectations, do not push hard for institutional change is confirmed by the micro-data.

These findings are not only helpful to understand the difficulties and constraints of reform strategies. They may also back the development of more convincing crisis strategies. At least for those countries where the trust in national elites, public administration and the democratic system is almost fully eroded, a strong European involvement in guiding the reform process may help to foster acceptance. Of course, this

only holds as long as the EU institutions have a trust advantage over national institutions – which empirically seems to be the case for some Southern European countries. Furthermore, there is a clear priority for a particular reform of the Southern European welfare state which should accompany the otherwise required cutback of benefits and privileges. This priority relates to a system of an effective poverty protection. Without a credible minimum insurance system it is unrealistic to expect that important groups of the population are willing to give up their old privileges. Finally, an important challenge is to win the support of current outsiders whose reform supporting potential is so far not being realized.

**Keywords:** behavioral economics, Eurobarometer, European debt crisis, reform resistance, trust

**JEL Codes:** D7, D8, H3, O1, P2, P3

## Contents

|                 |  |                  |
|-----------------|--|------------------|
| <b><u>1</u></b> | <b><u>INTRODUCTION</u></b>   | <b><u>4</u></b>  |
| <b><u>2</u></b> | <b><u>CAUSES FOR LACKING REFORM-SUPPORT: A LITERATURE SURVEY</u></b>                   | <b><u>6</u></b>  |
| 2.1             | EXPLANATIONS FOR REFORM RESISTANCE   | 6                |
| 2.2             | FULL RATIONALITY AND FULL INFORMATION  | 8                |
| 2.3             | FULL RATIONALITY AND LIMITED INFORMATION   | 9                |
| 2.4             | A RICHER MODELING OF THE UTILITY FUNCTION: OTHER-REGARDING PREFERENCES AND RECIPROCITY | 11               |
| 2.5             | A RICHER MODELING OF THE UTILITY FUNCTION: PREFERENCES FOR THE STATUS QUO              | 13               |
| 2.6             | PERCEPTIONAL BIASES  | 14               |
| 2.7             | ABSENCE OF A STABLE AND ACCURATELY PERCEIVED UTILITY FUNCTION                          | 16               |
| 2.8             | INSIGHTS ON REFORM DRIVERS   | 18               |
| <b><u>3</u></b> | <b><u>REFORM PROBLEMS INHERENT TO THE “SOUTHERN EUROPEAN REGIME”</u></b>               | <b><u>20</u></b> |
| <b><u>4</u></b> | <b><u>REFORM ABILITY COUNTRY PROFILES OF SOUTHERN EUROPE IN A EU COMPARISON</u></b>    | <b><u>24</u></b> |
| <b><u>5</u></b> | <b><u>MICROECONOMETRIC ANALYSES</u></b>  | <b><u>29</u></b> |
| <b><u>6</u></b> | <b><u>CONCLUSIONS</u></b>  | <b><u>38</u></b> |



## 1 Introduction

Why do reforms fail? The European debt crisis has revealed the pressing need for structural change in numerous European countries. At the same time the crisis experience provides an impressive record of the challenges for any far reaching reform policy in terms of voter acceptance and resulting political feasibility. It appears that the kind of policies which is deemed necessary to safeguard the economic future of a country may often fail to be consistent with the political constraints. Economic advice which hints at the sustainability of the welfare state, the budgetary system, the labor market or the monetary union may be irrelevant if it does not consider these political constraints. Hence, the nature of anti-reform incentives matters for the design of effective reform packages, because reforms require majority approval not only in representative institutions but also at the level of society in order to have long-term effects and fulfill their stated objectives.

Furthermore, anecdotal evidence from the crisis countries seem to suggest that reform resistance is not less intense in those groups of the society who are the losers of the institutional standstill: for example the young who do not benefit from lifelong positions, unemployed outsiders who have no advantage from highly regulated labor markets or those groups who do not benefit from hidden corruption and other privileges. With other words: It is not easy to understand why there are no stronger and more visible pro-reform pressure groups originating from these societal groups demanding the dismantling of existing rigidities.

It is our objective to explore the factors which are of relevance for reform resistance with a particular focus on Southern European countries in the era of a deep crisis of confidence. The paper's contributions are the following:

First, we give a concise survey on the possible drivers of reform resistance (section 2). In this survey we include very different qualities of approaches ranging from classical economics and (also more or less standard) political-economic explanations to more innovative arguments related to bounded rationality, behavioral insights and perceptual limitations and biases. We think that classifying approach on potential reform obstacles is novel with respect to its broadness and systematization and that it offers a basis for the subsequent measurement and empirical testing.

Second, we analyze qualitatively and quantitatively to which extent the "Southern European regime" may imply a particular relevance of some of the potential reform ob-

stacles classified before (section 3). While a generalization on common factors is always at risk of oversimplification, the literature clearly points towards some relevant similarities which contrast the southern EU member states with the rest of Europe. We also provide own aggregate descriptive evidence along these lines (section 4). Our reform ability profiles quantify several of the reform obstacles (or reform drivers) to compare EU countries in their likely reform disposition. These profiles confirm particular Southern European weaknesses which tend to reduce the political-economic feasibility of long-term reforms: a low effectiveness in poverty protection, high intertemporal discounting and uncertainty avoidance, a poor information level of the population and deeply shattered trust in national institutions.

Third, in our microeconomic analysis based on recent Eurobarometer survey data, we leave the highly aggregated level and analyze individual heterogeneity in reform acceptance (sections 5). Here, we are able to demonstrate that several of the reform obstacles identified in theory are also empirically correlated with the individual inclination to accept reforms. The perception of procedural fairness (i.e. satisfaction with the way democracy works) together with trust are the keys for the acceptance of reforms. The impression that outsiders, contrary to theoretical expectations, do not push hard for institutional change, is confirmed by the micro-data.

We conclude with insights on the design of reform strategies: A strong EU involvement is recommendable where trust in European institutions can substitute lacking confidence at the national level. Furthermore, a reform design should address the poor effectiveness of poverty protection in the traditional Southern European welfare state since reform processes are supported by functioning poverty insurance. Finally, an important challenge is to win the support of current outsiders whose reform supporting potential is so far not being realized.

## **2 Causes for lacking reform-support: a literature survey**

### **2.1 Explanations for reform resistance**

For a survey on reform obstacles and reform drivers the following two questions are helpful to guide a classifying survey: First, why do individuals or groups of society reject reforms although these reforms are regarded by experts to be beneficial for the long-run economic prospect of a society? And second, which environment is conducive to overcoming reform resistance? Both questions are deeply interrelated. We start by summarizing answers to the first question before we embark on questions to the second question.

There is a whole universe of possible answers to the first question given in the literature or indirectly emerging from certain strands of the literature. These answers could be classified in the following way although a precise distinction is in some cases hard to make: (A) consistent with full rationality and full information, (B) consistent with full rationality and limited information, (C) consistent with bounded rationality and behavioral views on human decision making, (D) consistent with behavioral views of human preference formation.

It must be stressed that many phenomena classified as “behavioral” do not defy the concept of full rationality but only reject a narrow definition of self-interest. Other-regarding preferences (e.g. related to reciprocity and distributional fairness preferences) are an example in this respect. Here, behavioral economics point to a richer modeling of preferences but does not negate the assumption that individuals are rational optimizers. Hence, there is a considerable overlap between rational choice-approaches and behavioral economics. Nevertheless, certain aspects of behavioral economics clearly are in contrast to rational optimization. With respect to the behavioral C-type answers below, C1 explanations do not contradict the assumption of rationality, whereas explanations C2-C4 are in conflict with full rationality.

**Box 1: Classification reform obstacles**

**Why do individuals or groups of society reject reforms although these reforms are regarded by experts to be beneficial for the long-run economic prospect of a society?**

(A) Answers consistent with full rationality and full information

- A1: In contrast to the society as a whole, the individual is a long-run reform loser.
- A2: The individual is a short-run loser and has a limited time-horizon or is discounting the future heavily.
- A3: The reform consequences have a positive expected value but are associated with uncertainty and the individual is risk-averse.

(B) Answers consistent with full rationality and limited information

- B1: The individual has no reliable information on the consequences of reforms compared to those of the status quo.

(C) Answers consistent with behavioral views

- C1: Individuals do not form reform preferences primarily with respect to their narrow self-interest but stress procedural and/or distributive fairness and reciprocity.
- C2: Individuals have a bias in favor of the status quo however accidentally it may have emerged.
- C3: Individuals have computational limits and apply misleading heuristics and rules of thumb to decide their position on reforms. These decision rules may be biased against reforms.
- C4: Individuals do not form reform preferences based on a stable and accurately perceived utility function. People may not correctly predict how reform impact on their utility even if there is no uncertainty on the consequences of a reform.

## 2.2 Full rationality and full information

A1: In contrast to the society as a whole, the individual is a long-run reform loser.

A1-types of explanations for reform resistance are part of conventional political-economy: Hardly any reform will exclusively produce winners, and losers have incentive to invest into reform-resistance (Rodrik, 1996). Olson's theory of interest groups (Olson, 1965) stresses the fact that under certain conditions losers can defend their interests even if they are a minority. Labor markets offer an important example where insiders (employees with generous protection) are being privileged at the expenses of outsiders (unemployed or employees in non-regular and unprotected employment) and where insiders are able to defend this divide (Saint-Paul, 1997). If, however, in crisis times the privileges of protected lobby groups turn highly costly for outsiders and costs become very visible, change should be expected. Olson points out that big upheavals imply a chance for change and to overcome long-grown rigidities. In theory, distributive reform effects could be addressed by compensatory packages. In reality, any such compensations may be too complex and transaction costs too high to be bearable (Grüner, 2002).

A2: The individual is a short-run loser and has a limited time-horizon or is discounting the future heavily.

The time horizon of reform policies' outcomes (A2) is increasingly identified to be particularly relevant in ageing societies where a growing number of voters – already from purely biological reasons – have a short time horizon or lack intergenerational ties (i.e. no own children). Without assuming intergenerational altruism an ageing society has increasing difficulties to vote for the type of reforms necessary to stabilize the welfare state in general and the pension system in particular (Werding and Konrad, 2012). The "gerontocracy" (Sinn and Uebelmesser, 2002) is characterized by a short time-horizon and a protection of privileges for the old. Country panel analyses are consistent with this view: Heinemann shows that reform progress (measured as an increase in indicators of economic freedom) can be attributed to rational ignorance and an ageing society (2004: 21-22). The general message is that reforms for which the benefits are delayed or even preceded by initial societal losses (J-curve effect) societal discounting has a crucial impact on the acceptance.

A3: The reform consequences have a positive expected value but are associated with uncertainty and the individual is risk-averse.

Uncertainty of reform consequences in combination with risk aversion is a further explanation of reform resistance fully in line with usual neoclassical behavioral assumptions. If a reform increases expected income but raises income volatility this reform may simply not be utility increasing for a risk-averse median voter. Uncertainty on different groups' reform costs may lead to a war of attrition and a reform standstill (Alesina and Drazen, 1991).

It has been stressed in the literature (Heinemann, 2004) that his argument is, however, only applicable if the status quo compared to a post-reform situation implies less uncertainty. In a situation where the status quo (e.g. of public finances or social security systems) has become unsustainable, a reform may even reduce uncertainty compared to doing nothing. Intuitively, the uncertainty argument has low relevance in today's crisis context where reform denial is associated with highly risky and hardly predictable scenarios (inorderly sovereign default, exit from euro area).

### 2.3 Full rationality and limited information

B1: The individual has no reliable information on the consequences of reforms compared to those of the status quo.

The origins of today's economic crises are highly complex. Even if one assumes that there is an expert consensus on the list of crucial factors and the promising reform strategy, one cannot assume that voters can easily share that knowledge.

Anthony Downs's concept of "rational ignorance" (Downs, 1957) implies that due to lacking individual benefits of voter information, voters tend to be "rationally ignorant": They lack the incentive to engage in costly information gathering if the expected benefit from better information is low. And from the individual perspective, a well-informed voter, due to her negligible impact on the voting result, has a low expected benefit. One important insight from rational expectation economics is, however, that imperfect information cannot be equated with systematically biased information (Wittman, 1995). While some poorly informed voters may underestimate the benefit from reforms, other may exaggerate it. Hence, poor voter information increases the variance of expectations but not the mean.

However, already a high variance of views may also increase the difficulties to sell a reform. This high variance should translate into a high polarization of society: Individuals and groups which have unduly pessimistic expectations on reform consequences are confronted with those who are too euphoric. Thus, a badly informed electorate should be associated with more aggressive disputes and higher costs of conflicts, and larger difficulties to find reform preparing compensation packages. Thus, better informed societies should also be societies more united on the promising way out of a critical economic situation.

A crucial question of bad information-explanations for reform-resistance relates to societal learning. Even if there is poor information shouldn't individuals and societies correct their mistaken beliefs from the ongoing confrontation with empirical realities? One interesting question in this context is under which conditions media are able to correct information deficiencies. The literature on media bias (surveyed in Gentzkow and Shapiro, 2008) is optimistic that competition of independent media helps correcting biases which result from government manipulation or single media's manipulative objectives. According to this literature, media competition is not able to correct biases which are demand-driven because consumers may ask for biased news or for news without significant information content. Here, media competition implies that this "demand for non-information" is satisfied: competitive media provide each group with the kind of bias which corresponds to this group's views, beliefs and prejudices.

A further question is why voters do not simply rely on what experts or the government is saying. Indeed, for Swiss direct democracy Stadelmann and Torgler (2012) show that voters tend to follow parliamentary recommendations if referenda are complex (complexity measured on the presence of multiple referenda). This complexity reaction is, however, only possible if voters regard experts or politicians as a reliable advisor and if these groups do not send out massive signals of disagreement.

A modern strand of the theoretical literature also looks into "endogenous indoctrination", i.e. the survival and permanent reproduction of economic beliefs (e.g. the working of a market economy) even if they may not be consistent with empirical observations. Saint-Paul (2010) observes that anti-reform beliefs are endogenously defined by educational institutions and their intellectuals. He assumes that individuals with rather anti-market beliefs self-select into public occupations such as teachers. If schools compared to families have a strong impact on belief formation of the young, this process keeps anti-market beliefs alive. This process is stable even if these beliefs are constantly falsified by the actual experience of those employed in the private sector.

B1-type explanations for reform resistance may be reinforced strongly by C2- and C3-type explanations (see below) where information deficiencies are also allowed to be the outcome of bounded rationality.

#### **2.4 A richer modeling of the utility function: Other-regarding preferences and reciprocity**

C1: Individuals do not form reform preferences primarily with respect to their narrow self-interest but stress procedural and/or distributive fairness and reciprocity.

Behavioral economics deals with deviations from standard assumptions on human decision making of very different types. In his influential review article, Rabin (1998) classifies these phenomena into three different types: first, a more complex modeling of the utility function including, inter alia, other regarding preferences; second, perceptual biases; and third, phenomena which are not consistent with a “coherent, stable, and accurately perceived” (Rabin, 1998, p. 12) utility function. All three classes have large potential relevance in the explanation of reform resistance.<sup>1</sup>

For a long time, a conventional assumption in economic modeling of individual utility was that individual utility exclusively depends on the individual consumption of goods, services or leisure, but not of other persons’ consumption or utility.<sup>2</sup> Behavioral approaches, based on empirical observations of human decision making in the real world (field experiments) or in an artificial setting (laboratory experiments) have substantiated the role of other-regarding preferences over the last twenty years. A simple, but famous model is that of “inequality aversion” (Fehr and Schmidt, 1999) where individuals derive utility not just from their consumption bundle but also from an equal dis-

---

<sup>1</sup> The first type is not in contradiction to assumptions of rationality, the other types challenge rational assumptions because they imply a mistaken use of available information or, more serious, the absence of a utility function.

<sup>2</sup> It is not true to say that other-regarding preferences have completely been ignored by classical economic thinking. On the contrary, they have played a prominent role e.g. in the writing of Adam Smith and his “Theory of Moral Sentiments”. However, this dimension has hardly received much interest in mainstream economics up to the rise of behavioral and experimental economics. See Heinemann et al. (2011) for an extensive survey and empirical evidence for Germany on the role of fairness related reform resistance.



tribution within their reference group. Andreoni (1990) does not focus on the distributional outcome but on the act of giving: donors receive positive utility (a “warm glow”) from their doing. Voluntary giving in this sense is nothing but a subtle type of utility generating consumption.

A further class of models and empirical studies point the role of procedures which result in a certain distributional outcome. It may not be the outcome as such but the decision procedure which creates satisfaction or discomfort. The acceptance of a certain distributional outcome will then depend on how the procedure is perceived. Tyler (2000) identifies the following favorable properties: neutrality and absence of biased interest groups influence in the decision process; balanced involvement of all affected groups; these groups have a voice in the process. If this and other conditions are fulfilled a decision procedure is regarded as fair and the distributional outcome more likely to be accepted. Related to the procedural view are intentional models (Rabin, 1993; Falk and Fischbacher, 2006): the outcome is more acceptable if the intentions of the other players are regarded to be non-selfish e.g. because these players appear to be constrained themselves (“there is no alternative”). These approaches stress the role of reciprocity: A behavior which is perceived to be unfair provokes resistance whereas a fairly achieved outcome is easier to accept even if it involves losses.

There is a particular dimension of procedural fairness with respect to market friendly economic reforms. Here, the acceptance depends significantly on beliefs related to the origins of income differences in a market economy (Alesina and Angeletos, 2005): If these differences are perceived to be the outcome of differences in individual effort they tend to be more acceptable whereas they are rather rejected if income differences are seen to reflect simply societal rigidities or luck. Based on survey data analyses, this link has been shown to be relevant with respect to labor market reforms (Heinemann, Bischoff and Hennighausen, 2009) or the heterogeneity of social fairness assessments (Bischoff, Heinemann and Hennighausen, forthcoming).

Reciprocal behavior is also one of the robust findings from experiments (Güth et al., 1982; Fehr and Gächter, 2000a,b, 2002): In games like the ultimatum game participants sanction a behavior which is perceived to be unfair (“negative reciprocity”). What is highly relevant for the context of reforms: negative reciprocity occurs even then if sanctioning involves costs and even then if the player herself is not the victim of the unfair behavior. This means that people are obviously willing to punish an unfair treatment of third parties even if they themselves have no immediate disadvantage from this unfairness.

These richer models of utility formation involving procedures and other-regarding preferences provide additional answers to our overriding question: An individual may reject a reform (even if it has a positive effect on this individual's economic well-being with certainty so that his reform resistance is individually costly) because this reform is perceived to be the outcome of a biased and unfair procedure or may lead to utility losses due to higher inequality.

## 2.5 A more inclusive setup of the utility function: preferences for the status quo

C2: Individuals have a bias in favor of the status quo however accidentally it may have emerged.

While neoclassical modelling of utility function stresses the level of income or consumption as crucial driver of utility, behavioural approaches tend to stress changes. This different perspective has an immediate relevance in the context of reforms (for a survey of reform relevant biases see Heinemann, 2001). The “status quo bias”, the “endowment effect” or “loss aversion” can play an independent role for reform resistance or may also strengthen existing rational channels. A “status quo bias” is given if an individual has a preference for one option among many others only because this option happens to be the status quo (Samuelson and Zeckhauser, 1988). Thus, a historical accident may lead to an institutional outcome which may be highly suboptimal but nevertheless be protected by the support of voters with a status quo bias. The status quo bias has an interesting reform implication: reform resistance prior and post-reform will differ significantly. Once reformed institutions are the new status quo, the bias will tend to stabilize this new institutional solution.

The “endowment effect” describes preferences which differ whether a certain good is possessed or not: A good possessed receives a higher valuation compared to a situation if the same good is no personal possession even if possession is the outcome of accident. The endowment effect is empirically shown in experiments where the willingness to pay for acquiring good  $x$  is significantly smaller than the willingness to accept for giving up good  $x$  (Kahneman et al., 1991). Equally to the status quo effect, this behavioural phenomenon stabilizes existing structures complicates compensation solutions: Voters who are threatened to lose certain public goods or services which they currently benefit from may demand a high compensation for giving it up. This compen-

sation may be higher than the price they would be willing to pay for acquiring this public good or service.

Loss aversion, finally, denotes the fact that the absolute change in utility associated with a loss is larger than the absolute change in utility associated with a gain (Tversky and Kahnemann, 1991). With loss aversion the utility function is non-continuous in the reference point which tends to be the status quo. In the reform context, loss aversion points to the fact that reform resistance may outweigh reform support even if gains and losses cancel out. If losers perceive their losses more intensely than winners they will also have a stronger motivation to lobby against the reform than winners to lobby in favour.

## 2.6 Perceptual biases

C3: Individuals have computational limits and apply misleading heuristics and rules of thumb to decide their position on reforms. These decision rules may be biased against reforms.

Approaches as described in the preceding section do not yet fundamentally challenge rational economics since they just argue for a richer and empirically better founded specification of the utility function. With reference to this modified utility function, agents still optimize and fully exploit available information. A further reaching diversion from the usual assumptions of unbounded rationality is implied by insights which point to the incorrect processing of available information. These have been identified in the context of numerous cognitive biases.

These biases have to be strictly distinguished from B1-approaches related to incomplete information due to costly information procedures which is a standard facet of conventional classical modeling. Cognitive biases relate to the imperfect mental use of the available information in a consumer's or voter's optimization process. If information gathering and the process of exploiting the available information are costly it is fully rational to apply rules of thumb. A rational agent, however, would only apply those rules which do not systematically lead to wrong results. Hence, with biased heuristics one leaves the field of Downs's "rational ignorance" and enters "rational irrationality" (Caplan, 2001): Biased information processing and deviations from rational expectations can be a rational conversion to irrationality: If irrationality is associated with low private costs the demand for it will increase. Biased positions on economic policy

reform options are clearly associated with negligible private costs for an individual voter: It is highly unlikely that reform beliefs on one individual will have a noticeable impact on societal decision making.

Behavioral economics has identified a large list of cognitive biases (see for example Rabin, 1998): people wrongly derive general insights from few observations (“law of small number”) or they don’t exploit available information if it is contradictory to pre-existing strong hypotheses (“confirmatory bias”). Confirmatory bias is distinct from incomplete information and rational ignorance: Rational ignorant voters would nevertheless constantly correct their prejudices if they – accidentally – are confronted with new information contradicting their priors. The confirmatory bias, however, suggests that available information is filtered so that beliefs can survive even massive contradicting information. For long, psychology has described these phenomena with the theory of “cognitive dissonance” (Festinger, 1957): Incompatible cognitions create “dissonance” and human beings try to avoid this unpleasant situation, for example, by repressing signals contradicting prior beliefs. Basov, Blanckenberg and Gangadharan, based on an evolutionary-dynamic model, provide additional types of heuristics such as the caution heuristic, the recognition heuristic or the selecting-the-best heuristic (2007).

Further approaches stress the limits of memory and mental constraints in processing past information (Rubinstein, 1998; Mullainathan, 2002). Here, the memory is the place where true history is transformed into partially perceived history. Mullainathan makes the critical distinction between hard and soft information at the onset of his model (2002: 738-739). He defines as hard information the type of information that is readily available in records and can be easily reiterated; soft information, on the contrary, can be evoked or not, based on a binary probability (2002: 738-739). As Maullainathan underscores, soft information events that are forgotten are as if they never happened (2002: 740-741).

These mental biases can explain why even robust information on the beneficial consequences of certain reforms (e.g. from neighboring countries) does not necessarily induce learning processes. A bias may also interact with other behavioral phenomena: It may well be the case that a reform option which is being regarded as unfair will also receive a prejudiced perception with respect to its objective consequences.

## 2.7 Absence of a stable and accurately perceived utility function

C4: Individuals do not form reform preferences based on a stable and accurately perceived utility function. People may not correctly predict how reform impact on their utility even if there is no uncertainty on the consequences of a reform.

An even more fundamental challenge for homo oeconomicus approaches are those behavioral insights which point to the absence of a coherent and accurately perceived utility function. A key assumption of mainstream economics is that individuals behave as if they knew their utility function and, hence, could predict how a certain objective outcome will impact on their utility.<sup>3</sup> The behavioral literature points out that this assumption is falsified in many real life situations (Kahneman and Sudgen, 2005; Kahneman and Thaler, 2006): The current emotional state influences the forecasts of the pleasure from certain goods: Hungry shoppers shop tend to buy food more aggressively compared to those who have just eaten before entering a shop. A key finding is also that people underestimate their ability to adapt to changing circumstances in very different contexts. Be it with respect to a salary increase, a move to a “better” region (e.g. California), divorce or marriage, or even paraplegia: if one compares the ex-ante prediction how these changes affect life satisfaction with the actual ex post outcome, the predictions are systematically exaggerated. People adapt much stronger to new life circumstances than they would predict themselves. Both the pleasure from positive changes and the suffering from negative changes are overestimated. In the terminology of Kahneman and Thaler there is a low correlation between ex ante “decision utility” which drives the choice between alternatives and the ex post “experienced utility” which corresponds to the actual hedonic experience from these alternatives. Since reforms imply changing the institutional environment of voters, false predictions of the resulting utility will play a role in this context as well. If people underestimate their ability to adjust to the changing institutions, the reform resistance ex ante will be larger than the reform resistance ex post (once voters actually experience their utility in the new environment).

---

<sup>3</sup> One should stress that neoclassical economics does not necessarily assume that everybody knows his utility function. The assumption is rather that people behave as if they maximize a known utility function.

A further phenomenon not consistent with the conventional utility function relates to discounting, i.e. the utility impact of deferred consumption. Deferred consumption is an essential feature of reform processes where often immediate costs (e.g. through cutting of public transfers or subsidies) are traded against future benefits (higher growth, income and employment). Hence, it is crucial how, prior to a reform, this future pattern of reform consequences translates into expected utility. The traditional approach is to assume predictable and stable time preference. However, empirical observations point to time-inconsistent preferences (Frederick et al., 2002): This means that they do not stick to their original intentions with respect to the timing of a certain activity: Students plan to get up early and invest the weekend into exam preparations, when the weekend arrives they do not get up before noon. Obese consumers plan their diet for the New Year and do not stick to this intention when the 1st of January has arrived. In many contexts, people are keen to shift the start of a more “prudent” behavior to tomorrow but would be largely neutral (today) if they had to decide between two consecutive days next year. These time preferences are inconsistent because individuals take optimizing decisions for some time in the future which they then will tend to revert once the envisaged date has arrived.

Some more or less radical deviations from standard modeling have been the consequence (Frederick et al., 2002): A less radical model is hyperbolic discounting: discount rates are assumed to decline with the time distance from the presence. A more radical approach abandons the assumption that the individual is an agent with a uniform set of preferences. Instead, the individual is modeled to consist of “multiple selves” (Thaler and Shefrin, 1981; Schelling, 1984). These selves have different preferences but interact. In the context of saving decisions, Thaler and Shefrin (1981) distinguish between a single “planner” and many “doers” within one individual. While the planner intends to maximize lifetime utility, the doers only exist for one period and are exclusively interested in maximizing utility of this period without any considerations for the consequences for the subsequent doers.

A common consequence of these alternative discounting models for reform policies is that lagged implementation of reforms may be a way to overcome reform resistance: Discounting is much milder with respect to two periods in the future compared to an immediate inter-temporal trade-off. Hence voters may be ready to accept some reform costs in the distant future but not immediately today. Lagged implementation – a credible reform decision today which takes effect at some point in the future – exploits this pattern. Indeed, lagged implementation is often observable (e.g. for Germa-

ny with respect to the increase of the pension age or the introduction of the new constitutional debt brake in 2008 taking full effect not before the year 2020 (Heinemann, 2010).

## 2.8 Insights on reform drivers

While the drivers of reforms resistance are thus highly diverse, many of them may be influenced in a similar way by certain environmental characteristics. Thus, we now turn to the second guiding question in this survey: Which environment is conducive to overcoming reform resistance?

Three dimensions have been identified in the literature as potential reform drivers: crisis, trust and reform in competing countries. The “crisis hypothesis” states that deep economic crisis increases the probability that institutional change can occur. It is supported by numerous studies from case studies or country panel analyses (Abiad and Mody, 2005, Dreher et al., 2006; Duval and Elmeskov, 2005, Helbling et al., 2004; Heinemann, 2004, 2006, Heinemann et al., 2008, Pitlik and Wirth, 2003). Pitlik (2010) identifies a modification of the crisis hypothesis in the context of banking crises which is relevant for the European situation today: Only if these crises occur in a highly regulated market environment they foster market-friendly reforms. If they occur in an unregulated financial market they tend to push regulation. Hence, banking and financial market crises may not necessarily be as conducive for reforms as growth or unemployment crises.

Furthermore, general trust has shown to be fostering the reform ability of countries (Heinemann and Tanz, 2008). The authors show that trust as measured in the World Values Survey has a positive effect on financial, economic, legal and bureaucratic reforms. Apart from that, competitive interactions between governments and thus policy diffusion can positively affect policy change in OECD countries; this is particularly the case for regulatory, trade and monetary policy (Pitlik 2007).

The empirical role of crisis, trust and reform examples in similar or neighboring countries can well be reinterpreted in the light of our overview of possible sources of reform resistance (Table 1). The essential impact of a deep economic and social crisis is not only that it fundamentally weakens all types of status quo biases. It also can help politicians to communicate institutional change as a project not driven by particular interest groups but by mere necessity. Trust is an important driver for reforms because

it lowers societal transaction cost on all types of compromises and compensation mechanisms conducive for a successful crisis strategy. And reform examples in comparable and/or neighboring countries can help overcoming information problems of all sorts.

**Table 1: Impact of reform drivers**

|   | Crisis ...   | Trust ...  | Reforms examples ...  |
|---|--|--|---|
| A1: reform loser  | helps to identify losers from status quo.  | makes compensation promise credible.                                     | can help to identify reform winners.  |
| A2: discounting/limited time horizon                    | underlines the immediate costs of the status quo.                                | -  | -   |
| A3: uncertainty/risk-aversion                           | makes the uncertainty of the status quo visible.                                 | makes compensatory insurance schemes more credible.                      | can reduce uncertainty of reforms.  |
| B1: limited information                                 | gives a strong hint to the suboptimality of the status quo.                      | reduces costs of information: credibility of experts and/or politicians. | allow learning of reform consequences.  |
| C1: fairness/reciprocity                                | demonstrates that politicians are not selfish but forced to change institutions. | activates positive reciprocity.  | can point to external constraints, hence politicians not selfish but forced to change institutions. |
| C2: status quo bias/loss aversion                       | demonstrates that the status quo is no available option any longer.              | -  | -   |
| C3: biased heuristics                                   | -  | reduces costs of information: credibility of experts and/or politicians. | -   |
| C4: underestimation of adaption, hyperbolic discounting | -  | -  | offers examples how voters' utility actually changes after reforms.                                 |



### **3 Reform problems inherent to the “Southern European Regime”**

While this diversity of reform obstacles may be relevant in general, some of them might develop a particular force in the specific environment of Southern Europe (i.e. Greece, Italy, Portugal and Spain). With respect to this country grouping a caveat is necessary from the beginning: It is always a simplification to group different countries with their rich different cultural, historic, political, economic and social facets under one joint heading. Also with respect to the crisis, conditions are highly diverse in these four countries. Greece was early hit and suffered from a dramatic GDP decline since 2010 whereas the impact of the crisis on Italy was more delayed and much milder. And a country like Spain did not, in contrast to Italy and Greece, suffer from a significant public debt problem prior to 2009 but from excessive private debt and a real estate bubble. In spite of differences like these, all four countries undoubtedly have to undergo far-reaching reforms which is a first justification to look for possible common features. A second originates from the comparative political science literature which, in several contexts, identifies certain similarities which make this country group distinct from other European or non-European OECD countries.

A first similarity is related to the welfare state: In comparative analyses of the welfare state, Southern Europe (Portugal, Spain, Italy and Greece) is seen to share common and specific welfare state characteristics. These four countries are regarded to jointly represent the “Southern” or “Mediterranean” welfare state regime (Ferreira, 2007; Rhodes, 1996). This perspective contrasts to earlier approaches like the Esping-Andersen-classification, where Southern European welfare states are rather seen as latecomers to the “conservative-continental” group of countries. What makes the Southern European welfare state distinct is a low level of poverty protection and a low efficiency of social transfers in reducing poverty (Ferreira, 2007). Those living in poverty are often not reached by transfers and social assistance is described as “rudimentary” (Matsaganis, 2003). Nevertheless, welfare state spending has been increasing strongly but with the remaining lack of a comprehensive anti-poverty strategy. While systematic poverty protection is weak certain social programs are even “overdeveloped” (Matsaganis, 2003: 642) which holds for pensions in Italy and Greece in particular. The particular protection of the old and the relative neglect for citizens in poverty is related to a strong weight of pensioners in the trade unions. Southern European trade unions are not only characterized by a narrow traditional alignment to certain

political parties of the left (Fulton, 2011) but also by a strong influence of pensioners and public sector employees: For example, almost half of the members of Italian trade unions are retired and all major Italian trade unions have their majority of members in the public sector (Namuth, 2013). Pensions are not generous in general because even the pension systems introduce new inequities: In Greece, pension rules favor the self-employed over wage earners, public over private employees, middle-aged contributors over younger ones, standard over non-standard workers, and men over (most) women (Matsaganis, 2002).

The absence of a stringent welfare state protection of the subsistence level is paralleled by two elements which offer a specific type of protection: clientelism and a traditionally strong (but weakening) role of the family also as provider of emergency protection. One symptom of clientelism is the privileged recruitment into the public sector. Political appointments after an election are of a very high number by international standards in Portugal, Spain and Greece (Sotiropoulos, 2004). In Greece, waves of appointments even took place after a re-organisation of the cabinet of the same government. Patronage in public sector job offerings also relates to normal public sector jobs: Parties offer jobs to their voters in all four countries. In these recruitments competitive entrance requirements are bypassed (Sotiropoulos, 2004, Christodoulakis 2000, Graham 1986). Families also could substitute the lacking welfare state poverty reaction to some extent in the past (Matsaganis, 2003): they acted as redistributive system to the advantage of family members in need or provided social services like child, old age and sick care. However, the usual trends – lower marital stability, fewer children, higher mobility – have weakened the protective effectiveness of families, although the family is still of crucial social importance as it is impressively being demonstrated in the current crisis.

A further common feature of Southern Europe is a deficient public administration in general and poor tax administration effectiveness in particular. With respect to all available indicators on administrative capacity the four southern European countries perform poor or very poor in international rankings (Pitlik et al., 2012). In addition, corruption is a problem more wide-spread than common in other EU or OECD countries: According to the Corruption Perception Index (Transparency International: [www.icgg.org](http://www.icgg.org)) Greece and Italy (ranks 57 and 55 in 2008) are on particular poor positions for western democracies, but also Portugal and Spain (ranks 32 and 28) are well behind other Western European countries. Furthermore, these countries are among the OECD positions with respect to the size of the shadow economy (Buehn and

Schneider, 2012). Estimated shares amount to approximately one quarter of official GDP. The large size of the informal sector is also seen as indication for a lacking legitimacy for the existing rules (Ferreira, 2008).

How do all these features impact on these countries' reform ability? Clearly, these country peculiarities first of all point to the strong relevance of the classical A1 type explanation (reform losers). Particular privileges under the status quo related to patronage and clientelism create very strong vested interests. Those who owe their job and fortune to the party patronage of the old system risk a lot with a reform push towards a more meritocratic system. Time discounting problems (A2 type) are highly relevant as well given that pensioners are among the main beneficiaries of the old system. With increasing age it is unlikely that the reform benefits (higher growth and income potential for the active population) which materialize at some time in the future will still outweigh the immediate costs (e.g. of severe pension cuts). The gerontocracy problem is not only present in the society as a whole but also in important interest groups (trade unions) given the high share of pensioners among their members. The poor poverty protection effectiveness of the Southern European welfare state exacerbates reform problems of the A1 and A3 type (uncertainty/risk aversion): so far, there is no system in place which could credibly guarantee a certain protection against the risks of fast institutional change and against the loss of protection from the erased patronage system. In this sense, the absence of effective minimum income protection in the Southern welfare state regime is a reform obstacle in itself: the system does not even guarantee protection from severe poverty for the losers of reform.

Clearly, a most relevant type of reform obstacles under the Southern European condition is C1 (fairness/reciprocity): The combination of party patronage, prevalence of corruption, and inefficient public administration undermines trust in the acting politicians and bureaucrats. This is a severe handicap in any reform process and can even set in motion a vicious cycle of eroding trust and reform failure (Exadaktylos and Zahariadis, 2012): There is, for example, the indication that Greek taxpayers already in the past reacted with increasing evasion activities to consolidation measures. These measures are perceived to hit particularly "the honest or those (taxed at source) unable so easy to evade" (Rhodes, 1996: 17). Hence, the reform attempts by themselves exacerbate the perception of an unfair system which continues to defend vested interests. This reduces the chances for reform success (e.g. stabilization of tax revenues with increasingly non-cooperative and "retaliating" tax payers). Thus, a further shrinking

trust in the impartiality of the reform strategy and the reform capacity of the government is likely to increase both reform resistance and reform costs.

The depth of the crisis in countries like Greece, Spain or Portugal should, nevertheless, strongly activate pro-reform mechanisms overcoming C2-type obstacles: It is out of the question that the institutional status quo of the pre-2010 era would still be an available option. Currently, the status quo bias inherently present in human thinking on change should be deeply weakened. But these pro-reform effects are confronted with resistance which can be expected to be particularly severe in groups of the population (e.g. civil servants) whose cooperation is of high importance for the success of reforms.

## 4 Reform ability country profiles of Southern Europe in a EU comparison

The reform obstacles present in the Southern European regime have been discussed in a qualitative way above. Some quantification is necessary also to correct some of the necessary generalizations of the preceding section and to paint a more differentiated picture of the four countries. Furthermore, quantifications can put their reform related characteristics into a comparative European perspective. We are thus able to give more differentiated profiles of reform ability and also to present an indicative overall “reform ability index”.

For that purpose, we assign proxy indicators to several of the major classes of reform obstacles which have been developed and substantiated qualitatively in the Southern European context. Table 2 summarizes the assignments and sources.

The A1 type of reform obstacles are depicted by indicators which describe a welfare state’s ability to protect its citizens from poverty and sharp inequality (at-risk-of poverty rate, Gini coefficient, ratio between top and bottom quintile). With the background of the lacking protective power of the Southern welfare state regime, this choice is motivated by the fact that an effective poverty-protection could cushion reform losers.

A2 type proxies cover both the gerontocracy problem that older voters may constitute reform blocking vested interests at least with respect to reforms targeting at privileges of the older generation (old age dependency ratio, fertility). Moreover, we add a measure of population-individual discounting originating from a recent large-scale international survey (Wang et al., 2011).

Uncertainties related to far reaching institutional change (A3 type of obstacles) are a particular challenge for societies which a high degree of uncertainty avoidance for which we make use of the Hofstede indicator (Hofstede et al., 2010).

A straightforward way to measure information limitations is to make use of educational attainment indicators. In addition to general PISA scores on reading and mathematical skills we also include an indicator of economic literacy (taken from Jappelli, 2010) given the economic complexities of crises and reforms.

**Table 2: Reform ability proxies**

| Class                                    | Proxy                                     | Source                           | Weight proxy | Weight class |
|--|---|----------------------------------|--------------|--------------|
| A1:<br>Reform losers, poverty protection | At-risk-of poverty rate 2010              | Eurostat                         | 0.067        | 0.2          |
|  | Gini coefficient 2011                     | Eurostat                         | 0.067        |              |
|  | Income top quintile/bottom quintile 2010  | Eurostat                         | 0.067        |              |
| A2:<br>Discounting                       | Choosing to wait                          | Wang et al. (2011)               | 0.067        | 0.2          |
|  | Old-age-dependency ratio 2009             | Eurostat                         | 0.067        |              |
|  | Fertility 2009                            | Eurostat                         | 0.067        |              |
| A3:<br>Uncertainty                       | Hofstede Uncertainty Avoidance Index      | Hofstede et al. (2010)           | 0.2          | 0.2          |
| B1: Information                          | Pisa reading score 2009                   | Klieme et al. (2010)             | 0.067        | 0.2          |
|  | Pisa mathematics score 2009               | Klieme et al. (2010)             | 0.067        |              |
|  | Economic literacy                         | Jappelli (2010)                  | 0.067        |              |
| C1:<br>Trust, reciprocity                | Trust in political parties                | Eurobarometer 72.4 (Gesis, 2012) | 0.067        | 0.2          |
|  | Trust in EU                               | Eurobarometer 72.4 (Gesis, 2012) | 0.067        |              |
|  | Trust in regional or local administration | Eurobarometer 72.4 (Gesis 2012)  | 0.067        |              |

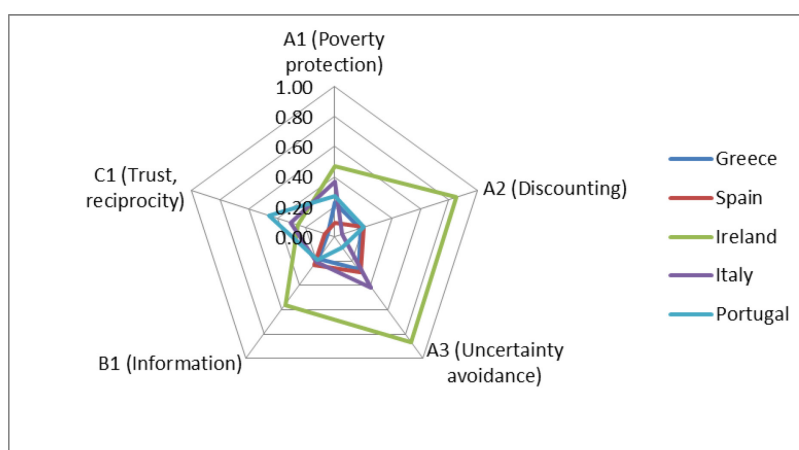
The perception of unfair decision and administrative procedures is a serious burden for deciding and implementing reforms successfully. We measure this perception through trust indicators related to different institutions (from Eurobarometer): national political parties, public administration (local and regional) and the European Union. Through the inclusion of the trust in the European Union indicator we acknowledge that trust in European institutions could to some extent compensate for a lack of trust in national institutions in a situation where Europe has a strong impact on the course of reforms.

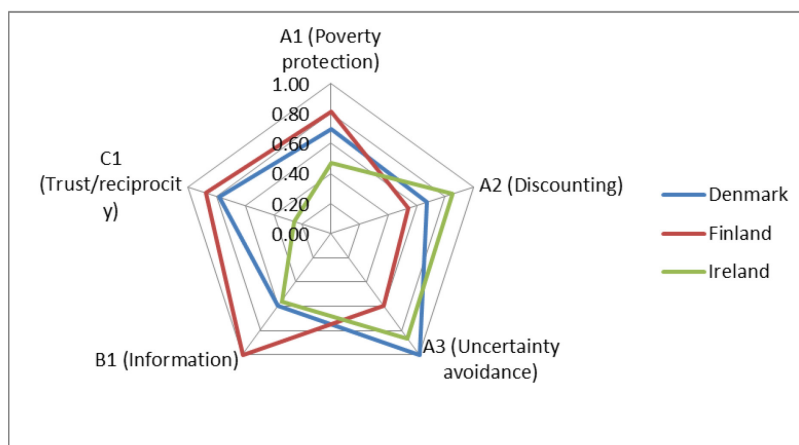
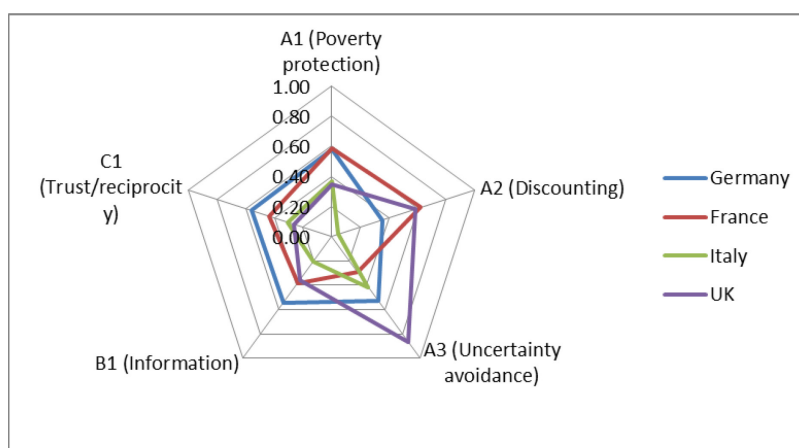
These indicators enable us to derive reform ability profiles which substantiate some of the qualitative findings for Southern Europe summarized before and puts them into comparison with other EU countries which shows the strong contrast between the South and the rest. Thus, the cobweb diagram in Figure 1 adds Ireland to the Southern European crisis countries. This comparison clarifies how superior the Irish features are with respect to better information, readiness to accept uncertainty and a long-term

perspective. Southern European countries jointly perform very poor in all dimensions. On a low level Portugal benefits from some more trust compared to the other countries (which is due to a better confidence in public administration). Italy is an interesting case with respect to its underlying trust scores: very low levels of trust in domestic institutions are contrasted by a relatively high level of trust in the EU (which is not the case at all in Greece or Spain). Figure 2 compares Ireland with the top RAI performers Denmark and Finland who beat Ireland with much more effective poverty protection, trust and information (the latter particularly pronounced for Finland).

Figure 3 finally portrays the profiles of the four largest EU member countries. It visualizes the reform impeding factors for Italy but also clarifies that a country like France only beats Italy in two out of five classes (discounting and information). UK has a particular profile with its strong relative strength in accepting uncertainty. Germany's profile is more balanced with middle positions along all classes.

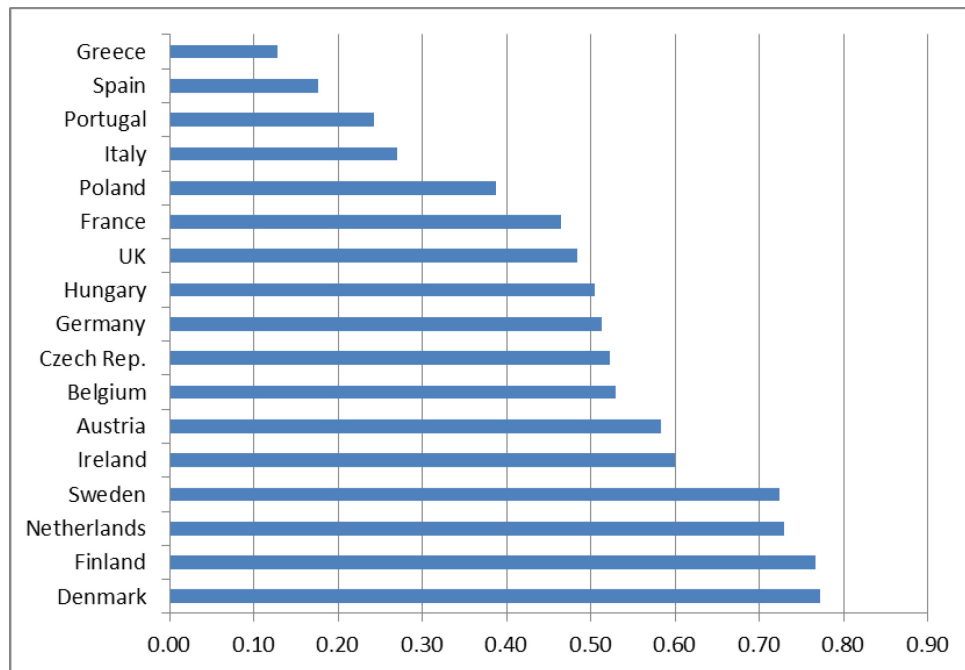
**Figure 1: Reform ability profiles: crisis countries**



**Figure 2: Reform ability profiles: Ireland and high RAI performers****Figure 3: Reform ability profiles: large EU countries**

For illustrative purposes, we also integrate these indicators into one overall “reform ability index”. For that purpose, all variables are linearly transformed to continuous indicators between 0 and 1 where 0 (1) represents the least (most) reform friendly observation in the country cross section. For the aggregation we apply equal weighting both within and between each class of reform obstacles. Figure 4 presents the resulting Reform Ability Index (RAI). Due to the standardization the interpretation of the indicator values is as follows: A country which performed best (worst) in all proxies would have an overall indicator value of 1 (0).



**Figure 1: Aggregate Reform Ability Index**

Southern European characteristics strongly point to a particularly difficult environment for reforms by EU comparison. This supports the qualitative finding of the preceding section. The ranking is highly robust to weighting variations since the crisis countries are among the poorest performers in each single of the classes as the country profiles above have shown.

## 5 Microeconomic analyses

The preceding analysis was based on country aggregate information. By nature, such an approach cannot provide any insights on within-country heterogeneity and the drivers of reform acceptance on the individual level. Therefore, a micro-econometric analysis is conducted as a next step which provides important complementary insights. The analysis asks to which extent some of the potential reform drivers such as trust or fairness perceptions are actually correlated with reform acceptance on the individual level. Here, we pay a particular attention to the reform disposition of outsiders. Those excluded from the labor market are those who have to bear particularly high costs of delayed institutional adjustments. Hence, these groups should be among the pro-reform pressure groups, in theory. We will ask to which extent this is really the case or which other individual characteristics, views and perceptions unrelated to the outsider-status may be more important.

We base our testing on Eurobarometer survey results. Specifically, we have chosen Eurobarometer 72.4 which was in the field in autumn 2009 (Codebook: Gesis, 2012).<sup>4</sup> This particular Eurobarometer has particularly helpful characteristics for our purpose: It includes as a special aspect social change and values which offers useful questions to measure the individual inclination to accept reforms. The timing is ideal for our purpose since it is conducted in the year in which the industrialized world experienced the deepest post-war recession and which was the eve of the upcoming European debt crisis. Thus, the responses are on the other hand not yet influenced by the acute and often panic-arousing events of the escalating debt crisis. This backs a certain confidence that the survey results reveal preferences which are not just the mirror of some dramatic current events. On the other hand, during the survey's field work the financial crisis had already revealed the vulnerability of the status quo and started to push reform debates.

As our dependent variable (for all variables with descriptive statistics, definition and Eurobarometer variable code see Appendix) we have chosen a question which asks for a very general association with the term "reform" (*"Could you please tell me, whether*

---

<sup>4</sup> European Commission, Brussels: Eurobarometer 72.4, October-November 2009, TNS OPINION & SOCIAL, Brussels [Producer]; GESIS, Cologne [Publisher]: ZA4994, dataset version 3.0.0, doi: 10.4232/1.11141.

*the term brings to mind something very positive, fairly positive, fairly negative or very negative*"). For robustness checks, we also employ a similar associative question related to *"liberalization"* and a question targeting for the need of reform (agreement with *"our country needs more reforms to face the future"*).

Besides standards individual characteristics (gender, age, children in household and marital status) we were able to identify several questions which proxy some of the important reform relevant dimensions. The first dimension concerns the role of perceived fairness and reciprocity (C1 type of reform obstacles): We include trust in political parties and trust in the EU (*"tell me if you tend to trust it or tend not to trust it"*). Thus we are able to make a distinction between (a lack of) trust in national and/or EU institutions. For the national sphere, trust in parties is more general and less related to a specific individual party preference compared to the standard *"trust in government"*-question. We add as a further proxy for the perception of procedural fairness a question on satisfaction with the country's democracy (*"how satisfied are you with the way democracy works in our country?"*). A related variable is also the agreement with the statement that equality is an important value (i.e. whether respondents mention equality being asked for the *"three most important values for you personally"*).

As an information proxy (and, hence, related to B1 types of reform obstacles) we make use of a factual knowledge question: this question asks for the number of EU member countries and we are able to distinguish between participants giving a correct or wrong answer.

Because the crisis hypothesis according to which difficult economic situations increase the likelihood of reforms has been empirically successful on the macro-level we put it to a micro-test and include a perceptual indicator on the economic situation of the own country (*"how would you judge the situation of the national economy?"*).

To identify outsiders we employ two alternative proxies: occupational status and the ability to make long-term planning. Compare to income proxies this question has a higher response rate and, nevertheless, reveals information on possible financial constraints

In a descriptive analysis (Table 3) we ask to which extent *"outsiders"* think differently on reforms. There is only one outsider-dimension which supports the theoretical prediction that outsiders as losers of the status quo should be reform-supporters: This only holds for the student outsider proxy (both for all EU countries and for a sample limited to Southern Europe). In contrast to that, both the unemployed and those una-

ble to make long-run planning are, if anything, less supportive for reforms. Only multivariate testing can reveal to which extent reform inclination is correlated to the outsider status as such or rather to other individual characteristics.

**Table 3: t-test on equality of means – reform seen positive (from 0 to 4 with increasingly positive view)**

|                                      | 1    | 0    | t-statistic | p-value |
|--------------------------------------|------|------|-------------|---------|
| All countries                        |      |      |             |         |
| Student or unemployed                | 2.87 | 2.88 | 0.92        | 0.359   |
| Student                              | 2.94 | 2.88 | -3.65       | 0.000   |
| Unemployed                           | 2.82 | 2.89 | 4.58        | 0.000   |
| Not able to make plan for the future | 2.80 | 2.94 | 14.53       | 0.000   |
| Southern European countries          |      |      |             |         |
| Outsider                             | 3.01 | 2.99 | -0.48       | 0.629   |
| Student or unemployed                | 3.07 | 2.99 | -1.82       | 0.069   |
| Unemployed                           | 2.96 | 3.00 | 1.08        | 0.282   |
| Not able to make plan for the future | 2.98 | 3.03 | 2.23        | 0.026   |

Our multivariate testing is based on the estimation of an ordered probit appropriate for the ordered answer scale of our reform acceptance questions. Table 4 reports results of different specifications based on the complete Eurobarometer sample (i.e. including responses from EU-27 plus Turkey, Croatia and Macedonia). All estimations presented included country fixed effect to filter out unobserved time-invariant country effects.

Specifications (1) and (2) still leave out proxies on beliefs, preferences and information but concentrate on the isolated impact of outsider status. Specifications (3) and (4) augment the remaining controls to find out to which extent the outsider effect is ro-

bust. Signs differ for students and unemployed with the former more and the latter less enthusiastic about reforms. Neither the student, unemployed nor combined dummy is robustly significant. However, the inability to make plans for the future also increases the uneasiness about reforms.

Among the significant proxies related to reform obstacles all signs are as expected with one exception. The exception is the crisis perception proxy: increasing awareness of a bad economic situation in the macroeconomy lowers the enthusiasm for reforms. In line with theory better information, higher trust and satisfaction with democracy foster reform acceptance. The size of effects can be read from the average marginal effects reported: The procedural fairness variable is particularly large. Someone who is satisfied with the way democracy works in his country has a 4.7 percentage points higher probability to place himself in the top answer scale on reform acceptance. For those, who trust in political parties, this marginal effect amounts to 2.9 percentage points. Among the other individual characteristics there is a robust gender effect with female participants more reluctant to embrace reforms (between 1.6 and 1.9 percentage points lower probability to choose top answer scale).

Table 4 reports identical specifications but the sample is now limited to Southern Europe (Italy, Greece, Portugal, Spain and Cyprus) with the lower number of observations explaining less significant results. In addition to trust in political parties, trust in EU is added in specification (5). The procedural fairness proxy is robustly and strongly correlated with reform support: In Southern Europe, respondents who think that the democratic system works well in their country are more reform inclined (marginal effects range between +5.0 and +5.9 percentage points). Trust in parties does not play a significant role whereas trust in EU does with a very large marginal effect (+10.0 percentage points). Moreover, those who see equality as an important value are more pro-reform. Neither the knowledge proxy nor the crisis perception indicators are significant. Again, an insider status is clearly not associated with a more pro-reform stance. Signs of insider proxies are largely negative but with one exception do not reach significance. The lower reform enthusiasm of women in the overall sample is not significantly reconfirmed for Southern Europe.

Table 5 includes checks for alternative reform proxies: a positive view of “liberalization” and the agreement to the need of reforms for one’s country. The liberalization-question is more specific since it points to reforms of a supply-side character whereas the question on “reforms” in general may also activate associations with other dimensions of institutional and societal change.

The liberalization-related dependent variable confirms the role of trust and procedural fairness for the acceptance of reforms whereas the equality related proxy loses significance. It does not come as a surprise that liberalization is not necessarily seen as a reform area promoting equality.

The need-for-reform proxy produces a very different picture which underlines that the individual perception of reform necessity must not be equated with individual reform support. The signs for satisfaction with democracy and trust in political parties are reverted. This is not implausible since problems with these dimensions indicate the need for change. It is striking that for this dependent variable there is no a significantly positive correlation with the outsider status (either student or unemployed). Thus, while outsider groups – possibly driven by the experience from their individual situation – are more sensitive for the need of change they do not, however, translate these views into a more active reform support. Trust in EU has a robustly positive sign and a considerable size across all specifications on our reform inclination proxy including the need variable.

Of course, this micro-evidence must be interpreted with caution. From a regression analysis of these cross-sections one must not jump to conclusions about causal inference. Thus, the reported significant effects do not necessarily inform us about the true impact channels. Furthermore, the 2009 survey is not yet informative how the escalation of the crisis in the subsequent years may have change the picture e.g. through a further erosion of trust. Nevertheless, the picture emerging points to the following key insights:

Individuals who trust in their country's political system and perceive a satisfactory performance of their democratic decision making process are more open for reforms. This finding is consistent with C1-types of reform resistance: The impression that reform decisions are legitimized by a working democracy activates positive reciprocity and may thus work in favor of their acceptance. Conversely, this is a hint to the potential of vicious cycles: If crises shatter the confidence not only into the economic but also the political system of a country this will further reduce the likelihood of successful reforms.

Trust in European institutions can be a substitute for a crisis of confidence regarding national institutions. This is an interesting result given the prominent role of EU coordination in the current reform process. The downside of this observation is that reform

courses may be in a deadlock if both national and EU institutions lose acceptance as neutral moderator of complex adjustment processes.

Interestingly, the “crisis-hypothesis” firmly supported by aggregate empirical tests (see above 2.8) does only partially show up in our individual data. There appears to be a significant correlation between the individual perception of a difficult economic situation and the perceived need for reforms. Yet, this does not translate into immediate reform support.

With respect to the outsider issue our results show that hardly anywhere in Europe reforms are really pushed by those groups who are among the particular losers of the standstill. This is a severe political-economic challenge since those who are privileged by the status quo lobby hard for the defense of their interests. Hence, the anti-reform lobbies fail to be neutralized by their natural outsider-counterparties.

**Table 4: Reform support all countries – regression results**

| Ordered probit regressions with answer to reforms “very negative” (1) to “very positive (4) as dependent variable, Southern European countries, average marginal effects for outcome (4) |                      |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|
| Independent Variables  | (1)                  | (2)                  | (3)                  | (4)                  |
| <i>Beliefs, preferences, information:</i>  |                      |                      |                      |                      |
| Trust in political parties   |                      |                      | 0.029***<br>[0.008]  | 0.029***<br>[0.008]  |
| Satisfaction with democracy  |                      |                      | 0.047***<br>[0.005]  | 0.047***<br>[0.005]  |
| Perception of economic problems own country  |                      |                      | -0.020***<br>[0.004] | -0.020***<br>[0.004] |
| Correct knowledge number EU members  |                      |                      | 0.017**<br>[0.008]   | 0.017**<br>[0.008]   |
| Equality important value   |                      |                      | -0.009<br>[0.006]    | -0.010<br>[0.006]    |
| <i>Outsider-proxies:</i>   |                      |                      |                      |                      |
| Student or unemployed  | -0.001<br>[0.004]    |                      | 0.002<br>[0.005]     |                      |
| Student  |                      | 0.014<br>[0.008]     |                      | 0.006<br>[0.009]     |
| Unemployed   |                      | -0.010**<br>[0.005]  |                      | -0.000<br>[0.005]    |
| Not able to make plans for future  | -0.043***<br>[0.009] | -0.041***<br>[0.009] | -0.026***<br>[0.007] | -0.026***<br>[0.008] |
| <i>Other individual characteristics:</i>   |                      |                      |                      |                      |
| Age  | -0.000<br>[0.000]    | -0.000<br>[0.000]    | -0.000<br>[0.000]    | -0.000<br>[0.000]    |
| Children   | 0.000<br>[0.004]     | 0.002<br>[0.004]     | -0.000<br>[0.004]    | 0.000<br>[0.004]     |
| Female   | -0.019***<br>[0.004] | -0.019***<br>[0.004] | -0.016***<br>[0.005] | -0.016***<br>[0.005] |
| Married  | 0.004<br>[0.004]     | 0.005<br>[0.004]     | 0.003<br>[0.004]     | 0.004<br>[0.004]     |
| <i>Regression diagnostics:</i>   |                      |                      |                      |                      |
| Observations   | 27,304               | 27,304               | 25,239               | 25,239               |
| Pseudo-R <sup>2</sup>  | 0.0325               | 0.0326               | 0.0465               | 0.0465               |

Country dummies included, standard errors in brackets, standard errors clustered at countries.



**Table 5: Reform support Southern Europe – regression results**

| Ordered probit regressions with answer to reforms “very negative” (1) to “very positive” (4) as dependent variable, Southern European countries, average marginal effects for outcome (4) |                   |                   |                     |                     |                     |
|---|-------------------|-------------------|---------------------|---------------------|---------------------|
| Independent Variables   | (1)               | (2)               | (3)                 | (4)                 | (5)                 |
| <i>Beliefs, preferences, information:</i>   |                   |                   |                     |                     |                     |
| Trust in political parties  |                   |                   | 0.043<br>[0.035]    | 0.043<br>[0.035]    | 0.015<br>[0.035]    |
| Trust in EU   |                   |                   |                     |                     | 0.100***<br>[0.037] |
| Satisfaction with democracy   |                   |                   | 0.059***<br>[0.013] | 0.059***<br>[0.013] | 0.050***<br>[0.012] |
| Perception of economic problems own country   |                   |                   | -0.004<br>[0.003]   | -0.004<br>[0.003]   | -0.004<br>[0.004]   |
| Correct knowledge number EU members   |                   |                   | -0.034<br>[0.031]   | -0.034<br>[0.031]   | -0.029<br>[0.027]   |
| Equality important value  |                   |                   | 0.034**<br>[0.016]  | 0.034**<br>[0.016]  | 0.032**<br>[0.014]  |
| <i>Outsider-proxies:</i>  |                   |                   |                     |                     |                     |
| Outsider  | -0.013<br>[0.008] |                   | -0.011*<br>[0.006]  |                     |                     |
| Student or unemployed   |                   | 0.007<br>[0.015]  |                     | -0.000<br>[0.018]   | -0.001<br>[0.017]   |
| Unemployed  |                   | -0.026<br>[0.019] |                     | -0.017<br>[0.014]   | -0.010<br>[0.015]   |
| Not able to make plans for future   | -0.014<br>[0.020] | -0.012<br>[0.020] | -0.000<br>[0.017]   | 0.001<br>[0.017]    | 0.011<br>[0.011]    |
| <i>Other individual characteristics:</i>  |                   |                   |                     |                     |                     |
| Age   | -0.001<br>[0.001] | -0.001<br>[0.001] | -0.001<br>[0.001]   | -0.001<br>[0.001]   | -0.001<br>[0.001]   |
| Children  | 0.009<br>[0.007]  | 0.011<br>[0.008]  | 0.005<br>[0.008]    | 0.005<br>[0.008]    | 0.010<br>[0.008]    |
| Female  | -0.013<br>[0.013] | -0.013<br>[0.013] | -0.012<br>[0.014]   | -0.012<br>[0.014]   | -0.005<br>[0.012]   |
| Married   | 0.008<br>[0.009]  | 0.010<br>[0.008]  | 0.009<br>[0.011]    | 0.010<br>[0.010]    | 0.005<br>[0.011]    |
| <i>Regression diagnostics:</i>  |                   |                   |                     |                     |                     |
| Observations  | 4,246             | 4,246             | 4,029               | 4,029               | 3,741               |
| Pseudo-R <sup>2</sup>   | 0.0335            | 0.0337            | 0.0488              | 0.0489              | 0.0533              |

Cyprus, Greece, Italy, Portugal and Spain, country dummies included, standard errors in brackets, standard errors clustered at countries.

**Table 6: Reform support Southern Europe, alternative reform proxies – regression results**

| Ordered probit regressions with alternative reform readiness proxies as dependent variable, both on answer scale (1) to (4) with increasing acceptance, Southern European countries, average marginal effects for outcome (4) |                         |                           |
|---|-------------------------|---------------------------|
| Independent Variables   | (1)<br>„liberalization“ | (2)<br>„need for reforms“ |
| <i>Beliefs, preferences, information:</i>   |                         |                           |
| Trust in political parties  | 0.033**<br>[0.016]      | -0.078**<br>[0.031]       |
| Trust in EU   | 0.093***<br>[0.017]     | 0.078***<br>[0.014]       |
| Satisfaction with democracy   | 0.028***<br>[0.009]     | -0.095***<br>[0.016]      |
| Perception of economic problems own country   | -0.016<br>[0.011]       | 0.039**<br>[0.019]        |
| Correct knowledge number EU members   | -0.011<br>[0.010]       | -0.009<br>[0.017]         |
| Equality important value  | -0.002<br>[0.023]       | 0.030**<br>[0.014]        |
| <i>Outsider-proxies:</i>  |                         |                           |
| Student   | 0.025<br>[0.017]        | 0.063***<br>[0.023]       |
| Unemployed  | -0.016<br>[0.019]       | 0.043***<br>[0.011]       |
| Not able to make plans for future   | -0.002<br>[0.006]       | -0.013<br>[0.018]         |
| <i>Other individual characteristics:</i>  |                         |                           |
| Age   | -0.001***<br>[0.000]    | 0.000<br>[0.001]          |
| Children  | 0.008<br>[0.010]        | -0.012<br>[0.012]         |
| Female  | -0.005<br>[0.004]       | 0.004<br>[0.009]          |
| Married   | 0.002<br>[0.007]        | 0.018<br>[0.017]          |
| <i>Regression diagnostics:</i>  |                         |                           |
| Observations  | 3,608                   | 3,661                     |
| Pseudo-R <sup>2</sup>   | 0.0320                  | 0.0430                    |

Cyprus, Greece, Italy, Portugal and Spain, country dummies included,  
Standard errors in brackets, standard errors clustered at countries.

## 6 Conclusions

This analysis has put some light at the complexities involved in understanding reform resistance. The insights are both of a general and a specific nature where the latter is focused on the current Southern European situation.

On the general level, the theoretical reasoning and the empirical jointly suggest that a theory of reform resistance is severely flawed if it is simply based on the view of reform-resistance driven by narrow self-interest. The micro-evidence, in particular, underlines the role of (procedural) fairness considerations. Voters need a minimum confidence into their democratic institutions in order to accept the uncertainties involved in far-reaching institutional change. Interestingly, trust in European institutions can to some extent be a substitute for trust in national institutions. Further handicaps for reforms can originate from high societal discount rates in ageing societies, from poor economic knowledge or from behavioral phenomena which tend to favor the status quo. Finally, the status quo bias is so strong because those outsider-groups who are most likely among the winners of change, do not form pro-reform pressure groups but are hardly different from the population in general in their caution against change.

The specific insights related to the crisis countries confirm the relevance of these general reflections. The EU member countries in Southern Europe are characterized by features which have been identified to be reform-relevant in general: high intertemporal discounting and uncertainty avoidance, a poor information level of the population and deeply shattered trust in national institutions. Moreover, a low effectiveness in poverty-protection is a severe obstacle since the welfare state fails to offer credible insurance against the individual risks of reforms.

These findings are not only helpful to understand the difficulties and constraints of reform strategies. They may also back the development of more convincing crisis strategies. At least for those countries where the trust in national elites, public administration and the democratic system is almost fully eroded, a strong European involvement in guiding the reform process may help to foster acceptance. Of course, this only holds as long as the EU institutions have a trust advantage over national institutions – which empirically seems to be the case for some Southern European countries. Furthermore, there is a clear priority for a particular reform of the Southern European welfare state which should accompany the otherwise required cutback of benefits and privileges. This priority relates to a system of an effective poverty protection. Without

a credible minimum insurance system it is unrealistic to expect that important groups of the population are willing to give up their old privileges. Finally, an important challenge is to win the support of current outsiders whose reform supporting potential is so far not being realized.

## References

- Abiad, A. and Mody, A., 2005, Financial Reform: What Shakes It? What Shapes It, *American Economic Review* 95 (1), 66-88.
- Alesina, A. and Angeletos, G.-M., 2005, Fairness and Redistribution, *American Economic Review* 95 (4), 961-980.
- Alesina, A. and Drazen, A., 1991, Why Are Stabilizations Delayed? A Political-Economic Model, *American Economic Review* 81, 1170-88.
- Andreoni, J., 1990, Impure Altruism and Donations to Public Goods. A Theory of Warm Glow Giving, *Economic Journal* 100, 464-477.
- Basov, S., Blanckenberg, L. and Gangadharan, L., 2007, Behavioral Anomalies, Bounded Rationality and Simple Heuristics, The University of Melbourne Department of Economics Working Papers, No. 1012.
- Bischoff, I., Heinemann, F. and Hennighausen, T., (forthcoming), Individual Determinants of Social Fairness Assessments - the Case of Germany, *Schmollers Jahrbuch/Journal of Applied Social Science Studies*.
- Boycko, M., Shleifer, A. and Vishny, R., 1996, A Theory of Privatization, *The Economic Journal* 106, 309-319.
- Buehn, A. and Schneider, F., 2012, Shadow Economies around the World: Novel Insights, Accepted Knowledge, and New Estimates, *International Tax and Public Finance* 19, 139-71.
- Caplan, B., 2001, Rational Ignorance Vs. Rational Irrationality, *Kyklos* 54 (1), 3-26.
- Christodoulakis, N., 2000, The Greek Economy Converging Towards the EMU, in: Achilleas, M. and Mosialos, E. (eds.), *Contemporary Greece and Europe*, Aldershot, Ashgate, 93-114.
- Downs, A., 1957, *An Economic Theory of Democracy*, New York.
- Dreher, A., Lamla, M., Rupprecht, S. and Somgyi, F., 2006, The Impact of Political Leader's Profession and Education on Reforms, mimeo.
- Duval, R. and Elmeskov, J., 2005, The Effects of EMU on Structural Reforms in Labour and Product Markets, *OECD Economics Department Working Paper Series* 438, Paris.

- Exadaktylos, T. and Zahariadis, N., 2012, Policy Implementation and Political Trust: Greece in the Age of Austerity, London School of Economics and Political Science, Hellenic Observatory, European Institute, GreeSE Paper No. 65.
- Falk, A. and Fischbacher, U., 2006, A Theory of Reciprocity, *Games and Economic Behavior* 54 (2), 293-315.
- Fehr, E. and Gächter, S., 2000a, Fairness and Retaliation: The Economics of Reciprocity, *Journal of Economic Perspectives* 14 (3), 159-181.
- Fehr, E. and Gächter, S., 2000b, Cooperation and Punishment in Public Goods Experiments, *American Economic Review* 90, 980-994.
- Fehr, E. and Gächter, S., 2002, Altruistic Punishment in Humans, *Nature* 415, 137-140.
- Fehr, E. and Schmidt, K., 1999, A Theory of Fairness, Competition and Cooperation, *Quarterly Journals of Economics*, 114 (3), 817-868.
- Ferreira, L.V., 2008, Persistent Poverty: Portugal and the Southern European Welfare Regime, *European Societies* 10 (1), 49-71.
- Festinger, L., 1957, *A Theory of Cognitive Dissonance*, Stanford.
- Frederick, S., Loewenstein, G. and O'Donoghue, T., 2002, Time Discounting and Time Preference: A Critical Review, *Journal of Economic Literature* 40 (2), 351-401.
- Gentzkow, M. and Shapiro, J.M., 2008, Competition and Truth in the Market for News, *Journal of Economic Perspectives* 22 (2), 133-54.
- GESIS, 2012, Variable Reports, 2012/299, Eurobarometer 72.4 – Variable Report, GESIS Study No. ZA4994.
- Graham, L., 1986, Changes and Continuity in Portuguese Public Administration: The Consequence of the 1974 Revolution, Technical Paper Series No. 53, Institute of Latin American Studies, University of Texas, Austin.
- Güth, W., Schmittberger, R. and Schwarze, B., 1982, An Experimental Analysis of Ultimatum Bargaining, *Journal of Behavior and Organization* 3 (4), 367-388.
- Grüner, H.-P., 2002, Unemployment and Labor-Market Reform: A Contract Theoretic Approach, *Scandinavian Journal of Economics* 104, 641–656.
- Heinemann, F., 2001, Die Psychologie begrenzt rationale Wirtschaftspolitik: Das Beispiel des Reformstaus, *Zeitschrift für Wirtschaftspolitik* 50 (1), 96-110.
- Heinemann, F., 2004, Explaining Reform Deadlocks, *Applied Economics Quarterly* 55 (Supplement), 9-26.
- Heinemann, F., 2006, How Distant Is Lisbon from Maastricht? The Short-Run Link Between Structural Reforms and Budgetary Performance, in: European Commission (ed.), *European Economy. Economic Papers* 248, Brussels, 130-168.
- Heinemann, F., 2010, Eine Gabe an St. Nimmerlein? - Zur zeitlichen Dimension der Schuldenbremse, *Perspektiven der Wirtschaftspolitik* 11 (3), 246-59.

- Heinemann, F. and Tanz, B., 2008, The impact of trust on reforms, *Journal of Economic Policy Reform* 11 (3), 173-185.
- Heinemann, F., Förg, M., Frey, D., Jonas, E., Rotfuß, W., Traut-Mattausch, E. and Westerheide, P., 2008, *Psychologie, Wachstum und Reformfähigkeit*, Baden-Baden: Nomos.
- Heinemann, F., Bischoff, I. and Henninghausen, T., 2009, Choosing from the Reform Menu Card: Individual Determinants of Labour Market Policy Preferences, *Jahrbücher für Nationalökonomie und Statistik* 229, 180-197.
- Helbling, T., Hakura, D. and Debrun, X., 2004, Fostering Structural Reforms in Industrial Countries, in: International Monetary Fund (ed.), *World Economic Outlook 2004*, Washington D.C., 103-146.
- Hofstede, G., Hofstede, G.J., Minkov, M., 2010, *Cultures and Organizations: Software of the Mind*, Revised and Expanded 3rd Edition, New York: McGraw-Hill USA.
- Jappelli, T., 2010, Economic Literacy: An International Comparison, *The Economic Journal* 120, F429-F51.
- Kahneman, D., Knetsch, J.L. and Thaler, R.H., 1991, Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias, *Journal of Economic Perspectives* 5 (1), 193-206.
- Kahneman, D. and Sudgen, R., 2005, Experienced Utility as a Standard of Policy Evaluation, *Environmental & Resource Economics* 32, 161-181.
- Kahneman, D., Thaler, R.H., 2006, Anomalies, Utility Maximization and Experienced Utility, *Journal of Economic Perspectives* 20 (1), 221-234.
- Klieme, E., Artelt, C., Hartig, J., Jude, N., Köller, O., Prenzel, M., Schneider, W. and Stanat, P. (eds.), 2010, *PISA 2009, Bilanz nach einem Jahrzehnt*, Waxmann, Münster/New York.
- Matsaganis, M., Ferrera, M., Capucha, L. and Moreno, L., 2003, Mending Nets in the South: Anti-poverty policies in Greece, Italy, Portugal and Spain, *Social Policy & Administration* 37 (6), 639-655.
- Matsaganis, M., 2002, Yet another piece of pension reform in Greece, *South European Politics & Society* 7(3), 109-122.
- Mullainathan, S., 2002, A Memory-Based Model of Bounded Rationality, *The Quarterly Journal of Economics* 117 (3), 735-773.
- Namuth, M., 2013, *Trade Unions in Italy, Central and Eastern Europe*, Friedrich-Ebert-Stiftung.
- Olson, M., 1965, *The Logic of Collective Action*, Boston: Harvard University Press.
- Pitlik, H., 2007, A race to liberalization? Diffusion of economic policy reform among OECD countries, *Public Choice* 132, 159-178.
- Pitlik, H. and Wirth, S., 2003, Do Crises Promote the Extent of Economic Liberalization?: An Empirical Test, *European Journal of Political Economy* 19 (3), 565-581.
- Pitlik, H., 2010, Are Financial Crises Drivers of Market-Oriented Reforms or of a Setback of Liberalization?, Paper prepared for the American Public Choice Society Meeting 2010.

- Pitlik, H, Hölzl, W., Brandtner, C., Heinemann, F., Misch, F., Yeter, M., Steuers, G., Gagnage, S. and Mertens, K., 2012, Excellence in Public Administration for Competitiveness in EU Member States, Report Prepared for the European Commission, DG Enterprise and Industry. Brussels: European Union.
- Rabin, M., 1993, Incorporating Fairness into Game Theory, *American Economic Review* 83 (5), 1281-1302.
- Rabin, M., 1998, Psychology and Economics, *Journal of Economic Literature* 36 (1), 11-46.
- Rhodes, M., 1996, Southern European Welfare States: Identity, Problems and Prospects for Reform, *South European Society and Politics* 1 (3), 1-22.
- Rodrik, D., 1996, Understanding Economic Policy Reform, *Journal of Economic Literature* 34 (1), 9-41.
- Roland, G., 1994, On the Speed and Sequencing of Privatization and Restructuring, *The Economic Journal* 104, 1158-1168.
- Roland, G., 2000, *Transition and Economics: Politics, Markets and Firms*, The MIT Press.
- Rubinstein, A., 1998, *Modeling Bounded Rationality*, The MIT Press.
- Saint-Paul, G., 1997, The Rise and Persistence of Rigidities, *American Economic Review* 87 (2), 290-94.
- Saint-Paul, G., 2010, Endogenous Indoctrination: Occupational Choices, the Evolution of Beliefs and the Political Economy of Reforms, *The Economic Journal* 120, 325-53.
- Samuelson, W., and Zeckhauser, R., 1988, Status Quo Bias Decision Making, *Journal of Risk and Uncertainty* 1(1), 7-59.
- Schelling, T.C., 1984, Self-Command in Practice, in Policy, and in a Theory of Rational Choice, *American Economic Review, Papers and Proceedings* 74 (2), 1-11.
- Shleifer, A. and Treisman, D., 1999, *Without a Map: Political Tactics and Economic Reform in Russia*, The MIT Press.
- Sinn, H.W. and Uebelmesser, S., 2002, Pensions and the Path to Gerontocracy in Germany, *European Journal of Political Economy* 19, 153-158.
- Sotiropoulos, D.A., 2004, The EU's Impact on the Greek Welfare State: Europeanization on Paper?, *Journal of European Social Policy* 14 (3), 267-284.
- Stadelman, D. and Torgler, B., 2012, Bounded Rationality and Voting Decisions Exploring a 160-Year Period, CREMA Working Paper, No. 2012-11.
- Thaler, R.H. and Shefrin, H.M., 1981, An Economic Theory of Self-Control, *Journal of Political Economy* 89 (2), 392-406.
- Tversky, A. and Kahneman, D., 1991, Loss Aversion in Riskless Choice: A Reference-Dependent Model, *The Quarterly Journal of Economics* 106(4), 1039-1061.
- Tyler, T.R., 2000, Social Justice, Outcome and Procedure, *International Journal of Psychology* 35 (2), 117-125.

- Wang, M., Rieger, M.O. and Hens, T., 2009, An International Survey on Time Discounting, National Centre of Competence in Research, Financial Valuation and Risk Management, Working Paper No. 597.
- Werdinger, M. and Konrad, K.A., 2012, Reforming the European Welfare State, in: In The Continuing Evolution of Europe, Buettner, T. and Ochel, W. (ed.), Cesifo Seminar Series, Cambridge: MIT Press, 71-118.
- Wittman, D., 1995, The Myth of Democratic Failure: Why Political Institutions are Efficient, Chicago: University of Chicago Press.



**Appendix - Table: Descriptive statistics**

| Variable                                    | Obs   | Mean  | Std. Dev. | Min | Max | Variable Code * | Definition   |
|---|-------|-------|-----------|-----|-----|-----------------|--|
| Reforms positive                            | 27851 | 2.88  | 0.76      | 1   | 4   | v383            | 1 to 4 with increasingly positive view                       |
| Liberalization positive                     | 25534 | 2.78  | 0.75      | 1   | 4   | v381            | 1 to 4 with increasingly positive view                       |
| Need for reforms                            | 26600 | 2.96  | 0.84      | 1   | 4   | v372/V373       | 1 to 4 with increasing agreement for need of reform          |
| Trust in political parties                  | 28710 | 0.19  | 0.39      | 0   | 1   | v213            | 0: tend not / 1: tend to trust                               |
| Trust in EU                                 | 26934 | 0.59  | 0.49      | 0   | 1   | v216            | 0: tend not / 1: tend to trust                               |
| Satisfaction with democracy                 | 29096 | 2.41  | 0.86      | 1   | 4   | v271            | 1: not at all to 4: very satisfied                           |
| Perception of economic problems own country | 29330 | 3.02  | 0.74      | 1   | 4   | v85             | 1: very good to 4: very bad                                  |
| Correct knowledge number EU members         | 30238 | 0.33  | 0.47      | 0   | 1   | v266            | 0: false or don't know / 1: correct                          |
| Equality important value                    | 30238 | 0.19  | 0.39      | 0   | 1   | v409            | 0: equality not / 1: equality mentioned as important value   |
| Student or unemployed                       | 30238 | 0.18  | 0.38      | 0   | 1   | v690            | 0: neither student nor unemployed / 1: student or unemployed |
| Student                                     | 30238 | 0.08  | 0.27      | 0   | 1   | v690            | 0: no student / 1: student                                   |
| Unemployed                                  | 30238 | 0.10  | 0.29      | 0   | 1   | v690            | 0: not unemployed / 1: unemployed                            |
| Not able to make plans for the future       | 29548 | 0.42  | 0.49      | 0   | 1   | v337            | 0: more long-run perspective / 1: live day by day            |
| Age   | 30238 | 47.61 | 18.22     | 15  | 96  | v585            | in years   |
| Children                                    | 30238 | 0.28  | 0.45      | 0   | 1   | v593, v595      | children until 14 in household                               |
| Female                                      | 30238 | 0.54  | 0.50      | 0   | 1   | v584            | 0: male / 1: female  |
| Married                                     | 30162 | 0.54  | 0.50      | 0   | 1   | v584            | 0: not-married / 1: married                                  |

\*Variable codes refer to Gesis (2012)



The research leading to these results has received funding from the European Community's Seventh Framework Programme FP7/2007-2013 under grant agreement n° 290647.

## **Project Information**

### **Welfare, Wealth and Work for Europe**

#### **A European research consortium is working on the analytical foundations for a socio-ecological transition**

##### **Abstract**

Europe needs a change: The financial crisis has exposed long neglected deficiencies in the present growth path, most visibly in unemployment and public debt. At the same time Europe has to cope with new challenges ranging from globalisation and demographic shifts to new technologies and ecological challenges. Under the title of Welfare, Wealth and Work for Europe – WWWforEurope – a European research consortium is laying the analytical foundations for a new development strategy that enables a socio-ecological transition to high levels of employment, social inclusion, gender equity and environmental sustainability. The four year research project within the 7<sup>th</sup> Framework Programme funded by the European Commission started in April 2012. The consortium brings together researchers from 33 scientific institutions in 12 European countries and is coordinated by the Austrian Institute of Economic Research (WIFO). Project coordinator is Karl Aiginger, director of WIFO.

For details on WWWforEurope see: [www.foreurope.eu](http://www.foreurope.eu)

##### **Contact for information**

###### **Kristin Smeral**

WWWforEurope – Project Management Office  
WIFO – Austrian Institute of Economic Research  
Arsenal, Objekt 20  
1030 Vienna  
[wwwforeurope-office@wifo.ac.at](mailto:wwwforeurope-office@wifo.ac.at)  
T: +43 1 7982601 332

###### **Domenico Rossetti di Valdalbero**

DG Research and Innovation  
European Commission  
[Domenico.Rossetti-di-Valdalbero@ec.europa.eu](mailto:Domenico.Rossetti-di-Valdalbero@ec.europa.eu)

## Partners

|   |   |                    |                |
|---|---|--------------------|----------------|
|    | <b>Austrian Institute of Economic Research</b>                      | WIFO               | Austria        |
|    | <b>Budapest Institute</b>   | Budapest Institute | Hungary        |
|    | <b>Nice Sophia Antipolis University</b>                             | UNS                | France         |
|    | <b>Ecologic Institute</b>   | Ecologic           | Germany        |
|    | <b>University of Applied Sciences Jena</b>                          | EAH Jena           | Germany        |
|    | <b>Free University of Bozen/Bolzano</b>                             | FUB                | Italy          |
|    | <b>Institute for Financial and Regional Analyses</b>                | GEFRA              | Germany        |
|    | <b>Goethe University Frankfurt</b>                                  | GUF                | Germany        |
|    | <b>ICLEI - Local Governments for Sustainability</b>                 | ICLEI              | Germany        |
|    | <b>Institute of Economic Research Slovak Academy of Sciences</b>    | IER SAVBA          | Slovakia       |
|    | <b>Kiel Institute for the World Economy</b>                         | IfW                | Germany        |
|    | <b>Institute for World Economics, RCERS, HAS</b>                    | KRTK MTA           | Hungary        |
|    | <b>KU Leuven</b>  | KUL                | Belgium        |
|    | <b>Mendel University in Brno</b>                                    | MUAF               | Czech Republic |
|   | <b>Austrian Institute for Regional Studies and Spatial Planning</b> | OIR                | Austria        |
|  | <b>Policy Network</b>   | policy network     | United Kingdom |
|  | <b>Ratio</b>  | Ratio              | Sweden         |
|  | <b>University of Surrey</b>   | SURREY             | United Kingdom |
|  | <b>Vienna University of Technology</b>                              | TU WIEN            | Austria        |
|  | <b>Universitat Autònoma de Barcelona</b>                            | UAB                | Spain          |
|  | <b>Humboldt-Universität zu Berlin</b>                               | UBER               | Germany        |
|  | <b>University of Economics in Bratislava</b>                        | UEB                | Slovakia       |
|  | <b>Hasselt University</b>   | UHASSELT           | Belgium        |
|  | <b>Alpen-Adria-Universität Klagenfurt</b>                           | UNI-KLU            | Austria        |
|  | <b>University of Dundee</b>   | UNIVDUN            | United Kingdom |
|  | <b>Università Politecnica delle Marche</b>                          | UNIVPM             | Italy          |
|  | <b>University of Birmingham</b>                                     | UOB                | United Kingdom |
|  | <b>University of Pannonia</b>                                       | UP                 | Hungary        |
|  | <b>Utrecht University</b>   | UU                 | Netherlands    |
|  | <b>Vienna University of Economics and Business</b>                  | WU                 | Austria        |
|  | <b>Centre for European Economic Research</b>                        | ZEW                | Germany        |
|  | <b>Coventry University</b>  | COVUNI             | United Kingdom |
|  | <b>Ivory Tower</b>  | IVO                | Sweden         |