



THE POLITICAL ECONOMY OF POLICY REFORM

John Williamson
Editor

INSTITUTE FOR INTERNATIONAL ECONOMICS

Michael J. Trebilcock

Dealing with Losers

The Political Economy
of Policy Transitions

OXFORD

Before April 2011:

**Consumers pay
\$5.10
at the store**



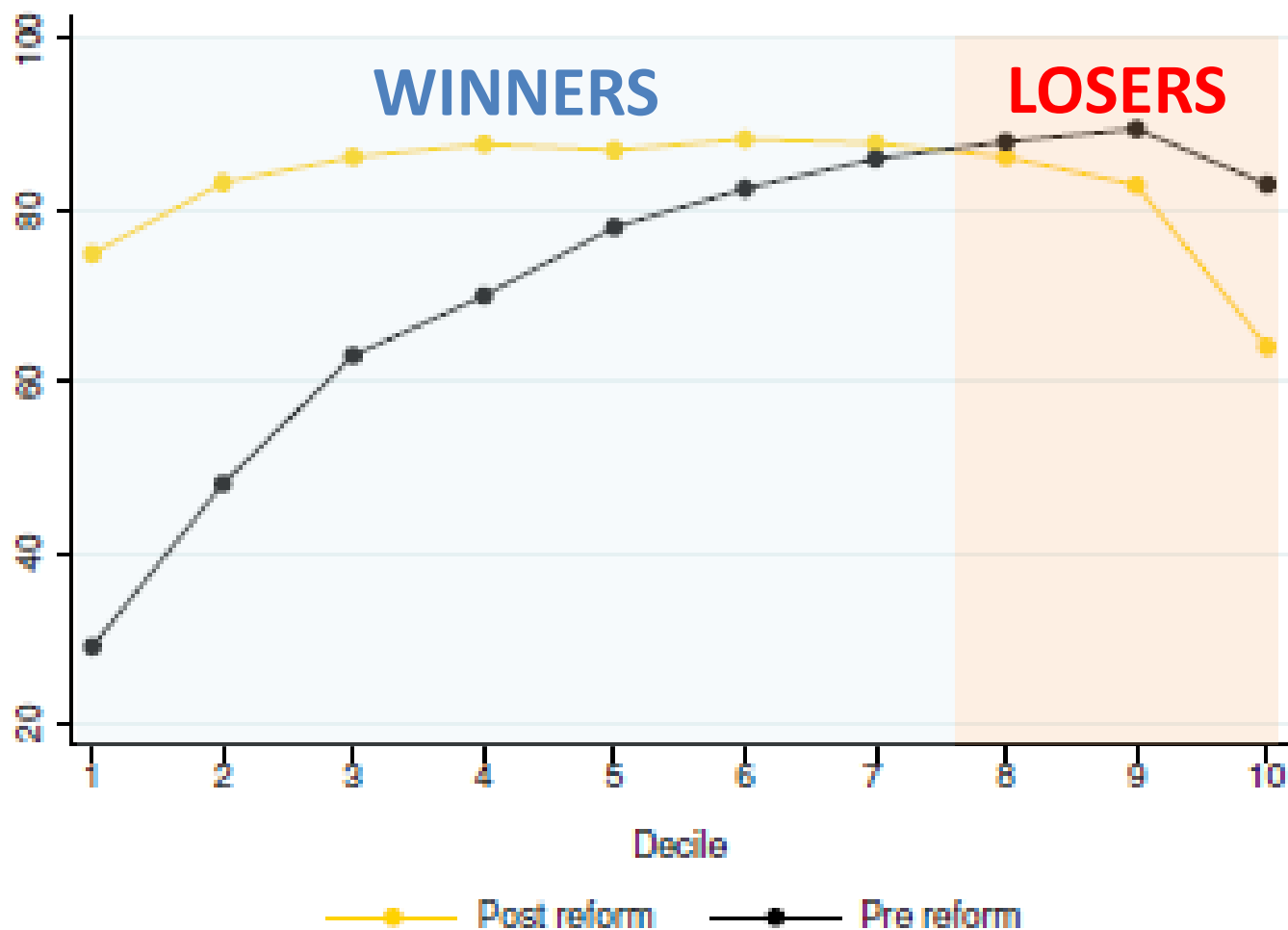
After April 2011:

**Consumers pay
\$13.60
at the store**

**And receive
\$8.50
in electricity bill
(or collect from
CENADE office)
IF electricity
consumption less
than
200Kwh/month**

The reform was pro-poor...

Figure 1: Incidence by income decile of the LPG subsidy.



...but unpopular

Percent of people satisfied or
very satisfied with reform
(January 2011)

Bottom 40 percent of income	28
Rest	33

Losers (>200 Kwh/month)	27
Winners (<200 Kwh/month)	31

Escobar Alas expressed his concern that
“the poor may be left out”





The pain of paying

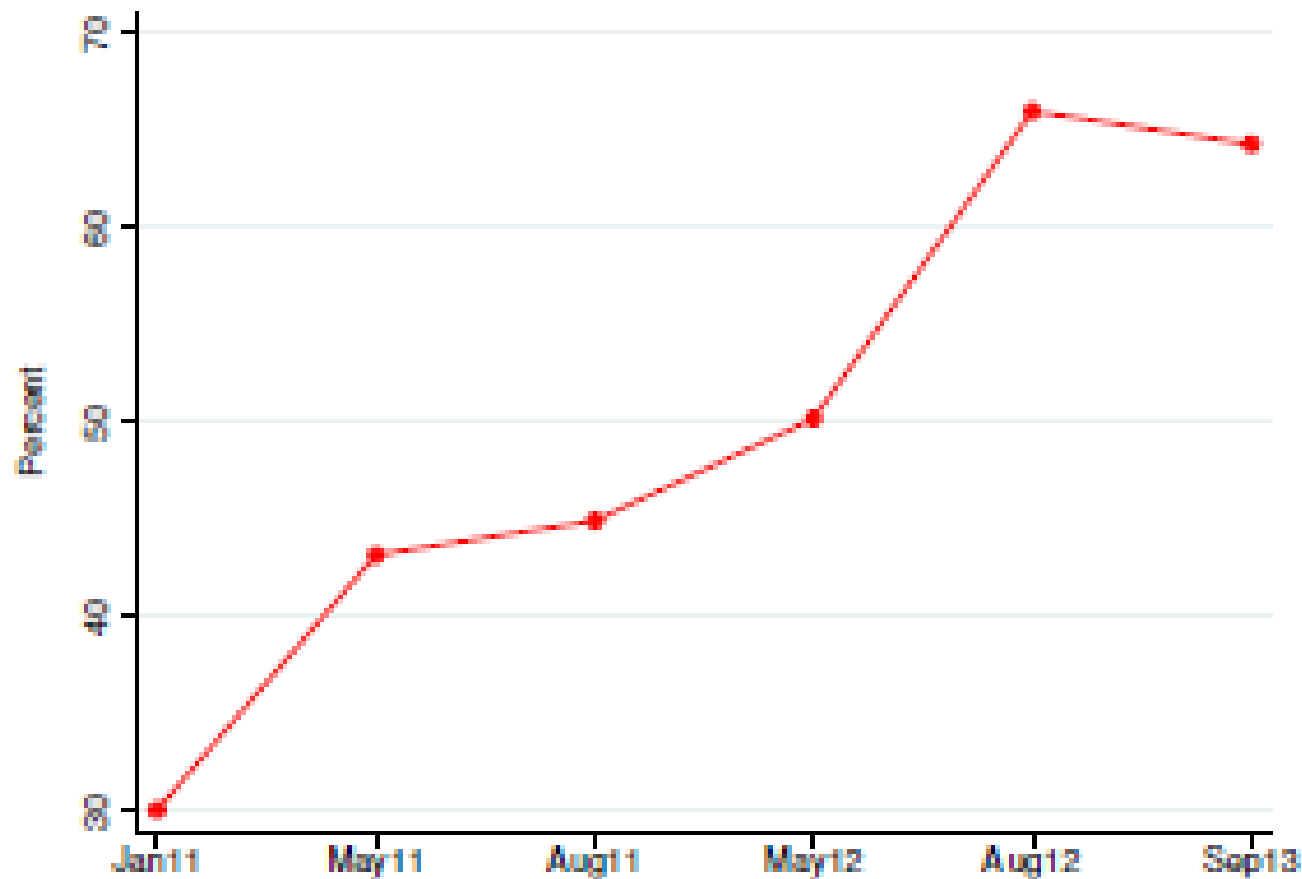


Our analysis

- Surveys before and after
- Degree of satisfaction with the reform plus
 - Self-reported degree of information about reform
 - Positive and negative impacts of reform
 - Income
 - Consumption of LPG and electricity
 - Political support
 - Other household characteristics
- Probit model able to test two hypothesis:
politics, information

Perceptions change but are sticky...

Figure 2: Satisfaction rate over time.



Note: people answering either 'satisfied' or 'very satisfied'.

...and politically costly

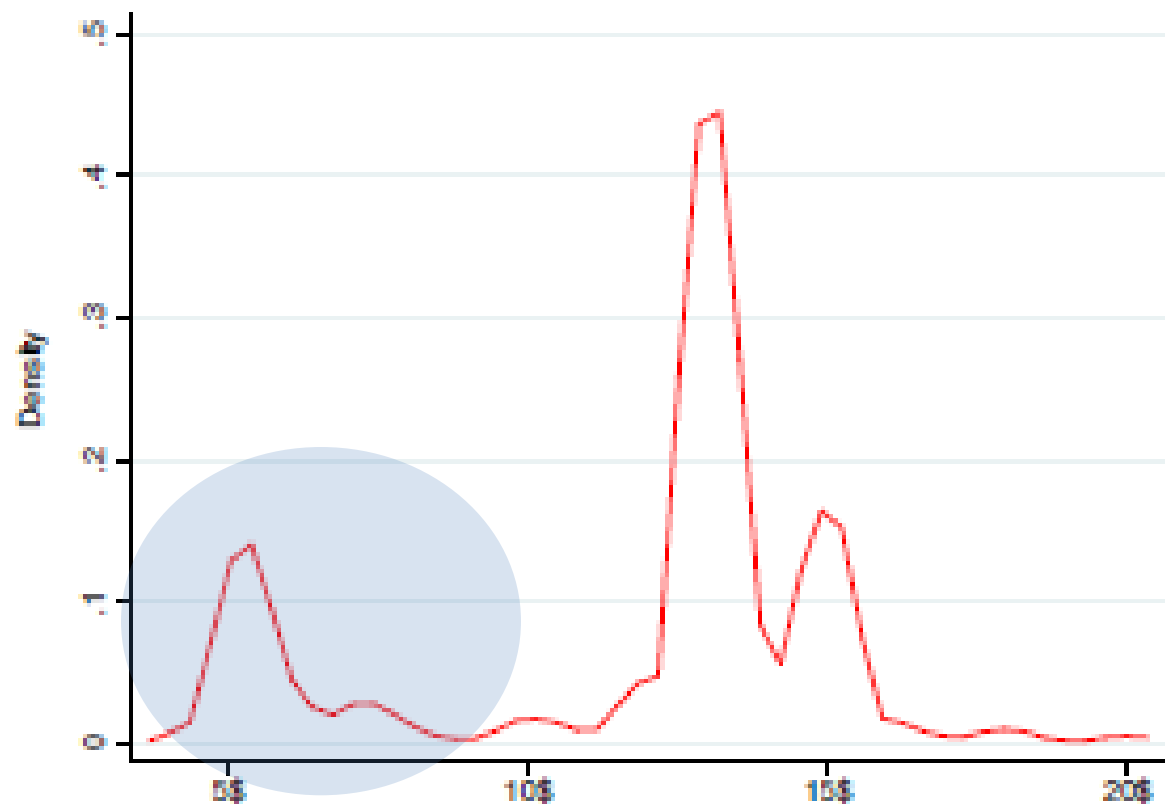
- Head of **ARENA** in Congress, Donato Vaquerano: the subsidy reform had been a “**colossal mistake**” by FMLN
- Head of **FMLN** party organization, José Luis Merino: subsidy reform “undoubtedly had an effect among urban sectors who have **resented** the measure”
- FMLN president of Congress, Sigfrido Reyes: the defeat (in 2012) had been due in part to “**serious mistakes** [including] the change in the gas subsidy [which] increased tremendously the price of gas for domestic use”

Limited knowledge about the subsidy

25 percent of the population did not know what the true market price of gas would be without the subsidy

And another 22 percent significantly underestimated it

Figure 3: Kernel density - perception about unsubsidized price.



Note: Kernel = Epanechnikov, Bandwidth = 0.9178.

Negativity bias



Informed
54% satisfied

Uninformed
24% satisfied

Positive
impacts?

Helps poor: 20%

None: 10%

Helps poor: 4%

None: 40%

Negative
impacts?

Inflation: 8%

None: 9%

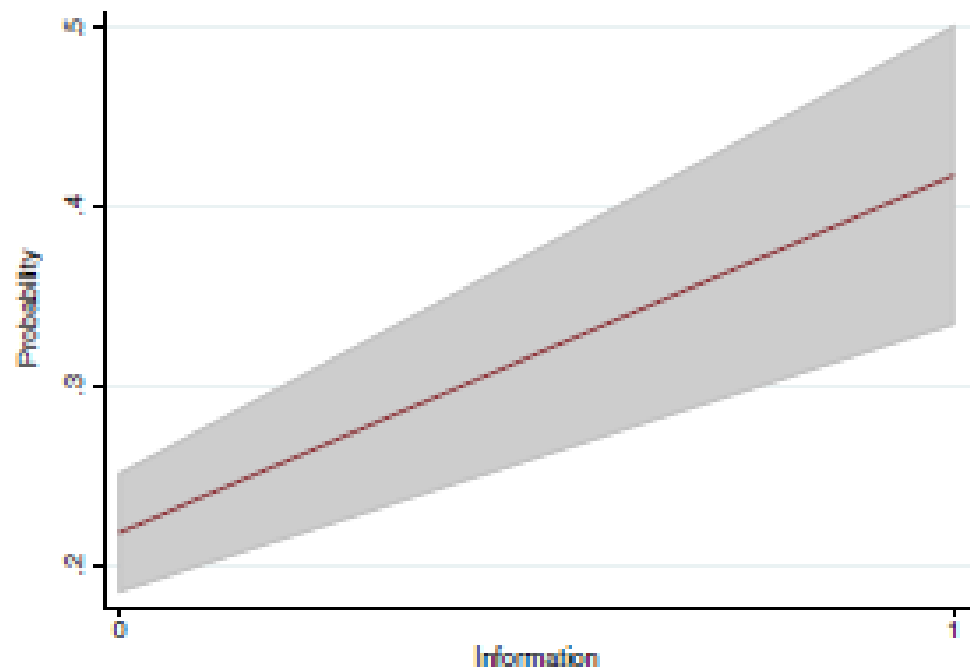
Inflation: 21%

None: 1%

The role of information

- Being informed about the reform increased the probability of being satisfied with the reform by around 20 percentage points

Figure 4: Marginal effect - Information (Jan '11 survey).



Lessons

- It is not enough to have a sound compensation mechanism
 - Implementation mishaps are very costly
- Do not assume that people know
 - People will fill in the blanks
 - Pay attention to ‘surprising validators’
- Test, learn, and adapt

PS. Update





Cómo usar tu **TARJETA SOLIDARIA** para comprar gas



cantidad·precio·calidad
Cabal

Para recibir tu subsidio al gas utilizando tu Tarjeta Solidaria, realiza los siguiente pasos:

①

Busca o contacta la tienda de gas subsidiado de tu preferencia



②

El vendedor digitará en el celular *Telegas* el número de tu Tarjeta Solidaria



③

Digitarás tu PIN o número secreto en el *Telegas*

Recuerda,
tu PIN es secreto,
tú debes digitarlo,
no lo compartas
con nadie



④

El vendedor recibirá la autorización del subsidio y tú únicamente cancelarás la diferencia del precio mensual vigente.



consulta los precios del gas en

www.

www.minec.gob.sv



Ministerio De Economía Minec



@minec_sv

denuncias y mayor información al

2565-5555