The Role of Veto Players in Economic Reform

Scott Gehlbach University of Wisconsin–Madison E-mail: gehlbach@polisci.wisc.edu Edmund J. Malesky University of California–San Diego E-mail: emalesky@ucsd.edu

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Abstract

What is the role of veto players in economic reform? Contrary to the conventional understanding of a negative relationship between the number of veto players and policy change, we show that movement from the status quo may be more likely when veto players are added if there is a consensus among veto players about the desired direction of change, and if the marginal veto player is endowed with agenda-setting power. We find support for our perspective in an empirical study of the relationship between veto players and economic reform in Eastern Europe and the former Soviet Union. The effect of veto players on policy change in postcommunist countries is positive for values of the status quo associated with an unreformed socialist system, when there is relative consensus among veto players about the desired direction of change, but negative after completion of initial reforms.

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1 Introduction

How does the possibility of economic reform depend on the number of veto players, i.e., on the number of political actors with the ability to block change from the status quo? The conventional understanding is that reform is made difficult by the presence of multiple veto players. Each additional veto player either shrinks the set of policies that can defeat the status quo—the unanimity winset—or leaves it unchanged. Thus, policy stability is presumed to be greater as veto players are added (Tsebelis, 1995, 2002). Such stability may be desirable when there is a need to commit to established policy, but can be detrimental when economic reform is necessary (e.g., Cox and McCubbins, 2001).

We show that the conventional understanding is incomplete. The set of veto players determines not only the set of policies that can defeat the status quo, but also what policy within that set is chosen. Thus, even though the set of policies that could in principle be chosen is no larger as veto players are added, the particular policy chosen may be farther from the status quo when a) there is a consensus among veto players about the desired direction (not magnitude) of change, and b) the marginal veto player is endowed with agenda-setting power. Previous theoretical analyses have missed this effect by explicitly or implicitly assuming that the identity of the agenda setter remains unchanged as veto players are added (e.g., Keefer and Stasavage, 2003; Milner and Rosendorff, 1996; Tsebelis, 2002). The surprising normative implication is that the institutions that promote economic reform may be precisely those that guarantee its irreversibility.

We examine the relevance of this theoretical perspective in an empirical study of the relationship between veto players and economic reform in postcommunist countries. At the beginning of the postcommunist transition, there was broad consensus among veto players in many postcommunist countries about the need to dismantle elements of the socialist state, though disagreement about the optimal degree of change. Together with the fact that the marginal veto player in many countries was supportive of extensive reform and endowed with agenda-setting power, this implied a positive relationship between the number of veto players and economic reform. As the transition progressed, however, consensus broke down about the desired direction of change, and the relationship between the number of veto players and economic reform turned negative. This interaction between the status quo and number of veto players is consistent with our approach, but not with the conventional understanding of the role of veto players in economic reform.

Our paper has obvious antecedents in the literature on veto players and economic reform. Haggard and Kaufman (1995, , esp. ch. 5) present the conventional perspective, arguing that economic reform is less likely when party systems are fragmented and polarized. Haggard and McCubbins (2001) offer a related argument, contrasting the "separation of powers" defined by constitutions with the "separation of purpose" that arises when veto players have diverse views. From our perspective, the key distinction is whether a separation of purpose manifests itself in disagreement about the desired direction of change. Notably, most existing empirical studies of the impact of veto players on economic reform have focused on policy environments—often, though not always, in OECD countries—where such disagreement seems likely: tax policy (Hallerberg and Basinger, 1998), trade policy (Henisz and Mans-

field, 2006; Mansfield, Milner and Pevehouse, Forthcoming; Milner, 1997), monetary and fiscal policy (Franzese, 2002; Keefer and Stasavage, 2003; Treisman, 2000), capital-controls policy (Kastner and Rector, 2003), and labor law (Tsebelis, 2000). It is precisely in such contexts that we would expect the number of veto players to be negatively correlated with policy change.

The early experience of Poland in postsocialist economic reform suggested that similar effects might be at work in postcommunist countries, with policy gridlock (especially in reform and privatization of state-owned enterprises) seemingly related to political fragmentation under Poland's constitutional separation of powers and electoral system (Balcerowicz, 1994; Keefer and Shirley, 2001; Lipton and Sachs, 1990; Przeworski, 1991). Over time, however, it appeared that countries with more veto players had generally progressed further from the communist status quo. Hellman (1998) explains this pattern by proposing that executives were less likely to be captured by winners from partial reform when others were also well represented, an argument consistent with our perspective. Similarly, Frye and Mansfield (2003) show that trade liberalization was more likely in postcommunist countries with fragmented political power, while Andrews and Montinola (2004) link progress on institutionalization of the rule of law to a large number of veto players. Nonetheless, as reforms progressed, the more conventional relationship between veto players and policy change has seemed to assert itself. O'Dwyer and Kovalĉík (2007) note in particular that "second-generation" reforms (e.g., flattax implementation) have been more likely in countries with few veto players. Consistent with our argument, they observe that these reforms differ critically from first-generation reforms in that they are opposed by the general public, and thus by well-institutionalized political parties that are in a position to block reform.

The paper proceeds as follows. In Section 2 we present our theoretical argument, demonstrating the relationship between veto players, agenda-setting power, and policy change. In Section 3 we test this argument through an empirical analysis of economic reform in Eastern Europe and the former Soviet Union. We offer concluding thoughts in Section 4.

2 Veto Players, Agenda-Setting Power, and Policy Change

Two perspectives guide the conventional understanding of the role of veto players in economic reform. The first, associated especially with Tsebelis (1995, 2002), has its roots in social-choice theory. The second, drawing for inspiration on the pioneering work on agenda control of Romer and Rosenthal (1978), Shepsle (1979), and Shepsle and Weingast (1984), is game-theoretic in nature. Both perspectives suggest that policy movement from the status quo cannot be greater, and may be smaller, as veto players are added.

From a social-choice perspective, adding a veto player either shrinks the set of policies weakly preferred by all veto players to the status quo, i.e., the unanimity winset, or leaves it unchanged. This effect can be seen most clearly when veto players have Euclidean preferences over one-dimensional policy, as in Figures 1–3. With only one veto player—say A—the winset of the status quo, $W(\bar{x})$, is the set of all policies no farther from A's ideal point x_A than is the status quo \bar{x} , i.e., $W(\bar{x})$ is A's preferred-to set. With the addition of a second veto



Figure 1: Equilibrium policy when A is agenda setter.

player B, the winset of the status quo becomes the intersection of A's and B's preferred-to sets. In Figures 1–3, for any status quo $\bar{x} > x_A$, $W(\bar{x})$ is strictly smaller when A and B are both veto players than when only A is; in contrast, for $\bar{x} \leq x_A$, W(x) is unchanged. If one assumes that all points in the winset of the status quo are equally likely, then the impact of the marginal veto player is to make policy change less likely or just as likely, depending on whether the winset has shrunk or not.

The winset of the status quo is the set of policies that *could* be chosen, given the status quo and veto players' preferences. A more game-theoretic perspective pins down the particular policy chosen by specifying who among all veto players has the power to set the agenda. The typical approach is to assume that one veto player has agenda control, and makes a takeit-or-leave-it offer to the other veto players. In equilibrium, this is equivalent to the agenda setter's choosing the point in the winset of the status quo that it most prefers. (If the winset is empty, then in any subgame-perfect Nash equilibrium the status quo is implemented.) If one further assumes that agenda control remains unchanged as veto players are added, then the policy chosen is never farther from the status quo with the addition of a veto player, and is sometimes closer.

Figure 1 illustrates the effect of adding a second veto player when agenda control remains unchanged. When A is the sole veto player, the equilibrium policy is A's ideal point, x_A . When B is also a veto player but A retains agenda control, A's agenda-setting power is constrained for any status quo $\bar{x} \in (x_A, 2x_B - x_A)$. In particular, when $\bar{x} \in (x_A, x_B]$, i.e., when the status quo is in the core, then the equilibrium policy is the status quo: any move either direction leaves one of the two veto players worse off, and so would be vetoed (by B) or not proposed (by A). For $\bar{x} \in (x_B, 2x_B - x_A)$, A can use its agenda-setting power to choose a point that leaves B just indifferent between vetoing and not, but B's veto power results in less movement from the status quo than if A were unconstrained.

Both a social-choice and game-theoretic perspective therefore seem to yield the same conclusion: the addition of veto players makes movement from the status quo no more, and possibly less, likely. However, in each case this conclusion rests on a tenuous assumption. From a social-choice perspective, the key assumption is that all points in the winset of the status quo are equally likely. This clearly ignores the power of the agenda setter to choose the point in the winset most to its liking. From a game-theoretic perspective, the critical assumption is that agenda control remains unchanged as veto players are added. But this is by no means universally true.

Indeed, for any constitutional system, examples can be constructed in which the set of veto players expands and agenda control shifts. In a presidential system, the loss of parliamentary control by the presidential party may have the effect of increasing the number of effective veto players and shifting agenda control to the new parliamentary majority (e.g., Cox and McCubbins, 2005). In a parliamentary system, the incorporation of a new party into a coalition government may be associated with transfer of agenda control to that party, at least in some policy arenas (e.g., Laver and Shepsle, 2004).

Moreover, when comparing constitutional systems, the marginal veto player in a system with more veto players may have agenda-setting power. Fish (2005), for example, observes that postcommunist countries that meet Duverger's (1980) definition of semipresidentialism differ critically in the powers that they grant to parliaments. In semipresidential systems with weak parliaments, as in Russia and Kazakhstan, presidential rule is relatively unconstrained, even though the prime minister must formally be approved by parliament. In contrast, in semipresidential systems with strong parliaments, as in Romania and Mongolia, the parliament acts as veto player and has substantial ability to set the agenda.

What is the impact on policy change of adding a veto player and transferring agenda control to that actor? As Figures 2 and 3 demonstrate, the effect can be to increase policy movement from the status quo. As depicted, the marginal veto player has an ideal point to the right of that of the other veto player, i.e., $x_B > x_A$. For values of the status quo $\bar{x} < x_A$, B can take advantage of its agenda-setting power to obtain a policy to the right of x_A . In that case, movement from the status quo is greater than would be the case if A were the sole veto player. In contrast, if $\bar{x} > x_A$, then the addition of B as a veto player results in less movement from the status quo: either the status quo is in the core, in which case there is no movement, or the status quo is to the right of x_B , in which case B prevents movement beyond x_B .

Thus, the addition of a veto player and transfer of agenda control to that actor can result in greater policy change if there is consensus among all veto players about the desired direction of change (so that some movement from the status quo is possible), and if the new veto player prefers more change than does the previous agenda setter (because in equilibrium the



Figure 2: Equilibrium policy when *B* is agenda setter.

agenda setter chooses the point in the winset it most prefers). Absent these conditions, the "conventional" relationship always holds: policy change is no more, and possibly less, likely as veto players are added.

A surprising normative implication of this analysis is that the institutions that facilitate economic reform may be precisely those that ensure its irreversibility. Dispersed power can promote economic reform, so long as whoever has agenda control is most supportive of change. At the same time, veto power distributed among multiple actors can assure that reform, once enacted, is not easily reversed. Put succinctly, there is no necessary tradeoff between relaxing "ex ante" and "ex post" political constraints (Dewatripont and Roland, 1992, 1995; Fernandez and Rodrik, 1991). Our advice to constitutional designers acting during moments of economic crisis or transition would be to focus on who among veto players is granted agenda control, and not to assume *a priori* that there is a tradeoff between enacting reform and guaranteeing its irreversibility.

In the following section we test our theoretical perspective in an empirical study of economic reform in postcommunist countries. In doing so, we face the usual difficulties in identifying the preferences of veto players, compounded here by potential ambiguity about who among veto players has agenda control in questions of economic reform. Nonetheless, the discussion above suggests a simple test of our perspective against the conventional understanding of the role of veto players in economic reform. An observation that the number of veto players is positively associated with policy change for some values of the status quo, and negatively



Figure 3: Impact on policy movement of adding *B* as veto player and shifting agenda control from *A* to *B*. Marginal policy change is $|x_{AB}^* - \bar{x}| - |x_A^* - \bar{x}|$, where x_{AB}^* and x_A^* are equilibrium policy when both *A* and *B* are veto players, and only *A* is, respectively.

associated for others, is consistent with our perspective but not with the conventional understanding. We therefore examine the effect on policy change of the interaction of the number of veto players with the status quo. As we discuss in the following section, we anticipate in particular that the effect of veto players on policy change may be positive for values of the status quo associated an unreformed socialist system, when consensus among postcommunist veto players about the desired direction of change is greater, and negative after some level of economic reform has been reached.

3 Evidence

The theoretical perspective outlined in the previous section suggests that the number of veto players may be positively associated with policy movement when the status-quo policy is "extreme," in the sense that there is consensus among all veto players about the desired direction of policy change. The postcommunist setting is ideal for testing this prediction. Following the collapse of communism in Eastern Europe and the former Soviet Union, a broad consensus emerged among political actors in many postcommunist countries about the desirability of moving away from state socialism toward a system that emphasized market coordination and private ownership. Although policy makers and their advisors disagreed on the optimal degree and pace of change, most actors generally saw the status quo as unsustainable.

At the same time, some reforms have proven easier to implement than others (e.g., Kitschelt, 2003; Malesky, 2006; Svejnar, 2002). Most postcommunist governments quickly introduced measures to at least partially liberalize prices and trade, generally viewed by elite actors as essential for dealing with shortages and repressed inflation.¹ Similarly, "small privatization"— the privatization of retail trade and consumer services—provoked relatively little opposition, given the underdevelopment of these sectors under communism (e.g., Earle et al., 1994). In contrast, the privatization of manufacturing enterprises often triggered massive opposition among workers and managers afraid of losing their jobs (e.g., Jackson, Klich and Poznańska, 2005; McFaul, 1995; Shleifer and Treisman, 2000); as a consequence, "large privatization" has generally not proceeded as quickly or as far as small privatization. Finally, the creation of institutions supportive of a market economy—bankruptcy law, competition policy, financial-sector regulation—has been systematically contested by those who stand to lose from such changes, often the winners from earlier, easier reforms (Hellman, 1998).

We follow numerous studies in measuring the extent of economic reform in postcommunist countries with yearly indexes provided by the European Bank for Reconstruction and Development (e.g., EBRD, 2005). We focus on 24 countries in Eastern Europe and the former Soviet Union for which the EBRD provides data and for which we also have data for the other measures we discuss below.² EBRD evaluates reform progress on a scale from 1 to 4.3 along eight policy dimensions: price liberalization, trade liberalization and foreign-exchange reform, small privatization, large, privatization, enterprise reform, competition policy, bank financial reform, and non-bank financial reform. The average of these eight variables is a widely cited indicator of economic reform in postcommunist states. To facilitate interpretation of results, we rescale all variables to lie between 0 and 100. As can be seen from Table 1, which provides summary statistics for these and other variables, the average value of the reform index is substantially greater for the "easy" reforms of price liberalization, trade liberalization, and small privatization.

To examine the influence of veto players on economic reform, we adopt a widely employed measure developed by Witold Henisz. As described in Henisz (2000), this variable measures the number of formal veto points outside of executive control, taking into consideration the partisan control of other branches of government, as well as the degree of preference homogeneity within those branches. Thus, a legislature that is constitutionally designated as a veto player is counted as such only if it is controlled by a party different from that which controls the executive; the implicit assumption is that parties have distinct preferences. As we discuss below, our results are robust to the use of two alternative measures of veto players. We adopt Henisz's measure primarily because it has the broadest coverage across

¹Liberalization is an important candidate explanation for the substantial output drop experienced by all postcommunist countries in Eastern Europe and the former Soviet Union. This effect, however, was not generally anticipated. See Blanchard and Kremer (1997) and Roland and Verdier (1999).

²The countries in our data set are Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kyrgyzstan, Kazakhstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

postcommunist time and space.

We investigate the interactive effect of veto players and the status quo by estimating variants of the following equation:

$$|\Delta r_{i,t}| = \alpha_t + \beta v_{i,t-1} + \gamma r_{i,t-1} + \delta v_{i,t-1} \cdot r_{i,t-1} + \eta \mathbf{x}_i + \theta \mathbf{z}_{i,t} + \epsilon_{i,t}, \tag{1}$$

where *i* and *t* index country and year, respectively. The variable *r* refers to average reform or some particular reform, so that $|\Delta r_{i,t}|$ is the absolute value of change in reform *r* in country *i* from time t - 1 to time *t*. The variable α_t signifies the presence of year fixed effects. The variables $v_{i,t-1}$ and $r_{i,t-1}$ are our measures of veto points and reform in the previous year, respectively, while β , γ , and δ are parameters to be estimated. Our primary interest is in β and δ , which together indicate whether the impact of veto players changes sign as the status-quo level of reform $r_{i,t-1}$ evolves over the course of the postcommunist transition. In some models we also include a vector of country-specific initial conditions \mathbf{x}_i , as well a vector of characteristics $\mathbf{z}_{i,t}$ that varies across both countries and time; η and θ are the associated vectors of parameters to be estimated. (We slightly abuse notation by including all timevarying characteristics in $\mathbf{z}_{i,t}$, even though some of the variables included in $\mathbf{z}_{i,t}$ are lagged.) Finally, $\epsilon_{i,t}$ is an idiosyncratic error term.

Most of the results that we report are OLS estimates of Equation 1, where we correct for panel heteroskedasticity and contemporaenous correlation of errors across countries by calculating panel-correct standard errors (Beck and Katz, 1995). The functional form of Equation 1—with change in reform regressed on its level in the previous period—does not suggest serial correlation of the errors, and standard Lagrange multiplier tests generally do not reject the null hypothesis of no serial correlation. Nonetheless, for our model of change in average economic reform, we also report results from a Prais-Winsten regression, where we assume that $\epsilon_{i,t}$ follows a panel-specific AR(1) process.³

In most versions of Equation 1 we include a set of initial conditions that may have influenced both constitutional choice and the support for economic reform in postcommunist countries. Countries in physical proximity to the West may have been more likely to adapt their policies and institutions to those of the European Union. We follow Kopstein and Reilly (2000) in controlling for this possibility by including the distance from a country's capital to Vienna or Berlin, whichever is closer.⁴ In addition, resource endowments and inherited industrial structure may have determined both the stakes from economic reform and the desirability of various institutional arrangements. We include two variables to control for this possibility. The first, adapted from de Melo et al. (2001), is a dummy variable equal to

³Missing values preclude estimation of a model with a common autoregressive parameter. A few of the models reported in Table 3 with particular indexes of economic reform do exhibit serial correlation (of inconsistent sign). For reasons of space and consistency of reporting we present results there only for OLS regressions. Nonetheless, we reran all models as Prais-Winsten regressions. All key qualitative results are identical.

⁴As a robustness check, we replaced distance from the West with the lagged value of an index provided by Stone (2002) that measures the incentive effect of EU negotiations. The only qualitative change is that the estimated coefficient on the interaction term when change in large privatization is the dependent variable, not precisely estimated in the results reported below, is negative and statistically significant when the EU variable is included.

one if the country is endowed with natural-resource wealth. The second follows Pop-Eleches (Forthcoming) and Gehlbach (Forthcoming) in using energy efficiency as a proxy for inherited industrial structure: the assumption is that economies disproportionately populated by Stalinist-era industrial enterprises will be less energy-efficient. In particular, we use GDP per unit of energy use (U.S. dollars per kilogram of oil equivalent) from the World Bank's 2005 World Development Indicators database.⁵ Finally, for various reasons, countries that were relatively wealthy at the beginning of transition may have favored institutions and policies different from those that were relatively poor. We therefore control for the level of economic development at the beginning of transition, using 1989 GNP per capita at purchasing power parity in U.S. dollars, from de Melo et al. (2001).

In some versions of the model we also include time-varying characteristics that may be correlated with both changes in the number of veto players and the evolution of economic-reform policies. Postcommunist legislatures dominated by communists should be less likely to enact economic reform. We therefore follow Norgaard (2000) and Frye (2002) in including the proportion of seats in the legislature controlled by communists, using data from Armingeon and Careja (2004). In addition, countries that are more democratic may be more or less inclined to implement economic reform for reasons unrelated to our argument about veto players. Consequently, we include the country's Polity score, a widely employed measure of democratic politics that takes on values from -10 (most authoritarian) to 10 (most democratic) (Polity IV Project, 2005). Finally, we include GDP per capita in U.S. dollars and a dummy variable equal to one if the country was at war, using data from various EBRD *Transition Reports* (e.g., EBRD, 2005) and Horowitz (2004), respectively. We lag all time-varying characteristics but the dummy for war to reduce endogeneity concerns.

Table 2 presents estimation results for four variants of Equation 1, where the dependent variable is the absolute value of change in the average EBRD economic reform index. The estimated parameters of interest—the coefficient on lag veto players and its interaction with the status-quo level of reform—are quite similar across all four models. At low levels of economic reform (values of the EBRD index close to zero—recall that the EBRD index is rescaled to take on values from 0 to 100), the effect of veto players on economic reform is positive and large: a one-standard deviation increase in veto players is associated with a yearly change in the economic-reform index of approximately two points, which is approximately half the mean yearly change in the index.

At high levels of economic reform, however, the effect of veto players is to discourage policy change. At the bottom of Table 2 we provide the value of the EBRD index at which the estimated effect of veto players turns negative (calculated by dividing the estimated coefficient on lag veto players by the absolute value of the estimated coefficient on the interaction term). As shown, for all four models the effect of veto players turns negative at "moderate" levels of economic reform, i.e., for values of the index roughly halfway between the starting point of 0 (associated with state socialism) and 100 (the endpoint of economic transition, as defined by EBRD).

 $^{^{5}}$ We use data from 1992, the first year generally available, for all countries but Azerbaijan, for which the measure is available only from 1993.

These results are consistent with the theoretical perspective outlined in the previous section, but not with the conventional understanding of the role of veto players in economic reform. Looking across postcommunist space and time, the estimated impact of veto players on policy change is positive when the status quo is close to state socialism. In such an environment, consensus among veto players about the desired direction of change may be high, so that policy movement is more likely so long as the marginal veto player is endowed with agendasetting power.

The point at which the impact of veto players on policy change turns negative may differ across policies, however. As discussed above, consensus about the desired direction of change may be greater for the "easy" reforms of price and trade liberalization and small privatization, than it is for the "hard" reforms of large privatization, enterprise reform, institution of competition policy, and financial-sector reform. Table 3 reports results from a test of this proposition, where we regress the absolute value of change in particular EBRD reform indexes on the set of determinants in the most complete version of Equation 1.

In general, the evidence is consistent with the expectation that the impact of veto players on policy change should turn negative more quickly for "hard" than for "easy" reforms. At the bottom of Table 3 we report the value of the EBRD index at which the effect of veto players becomes negative for the five reforms where the estimated coefficient on the interaction of lag veto players and lag economic reform is statistically significant (and negative in all cases). Obviously, these estimates must be treated with caution, as the indexes may be constructed differently, so that equivalent values on two indexes may in fact measure different levels of reform. With that caveat, however, the positive/negative cutoff is substantially larger for the "easy" reforms of trade liberalization and small privatization than it is for the "hard" reforms of enterprise reform, bank reform, and non-bank financial-sector reform. (Indeed, the estimated coefficient on lag veto players for non-bank financial-sector reform is statistically insignificant, though positive, so that we cannot reject the null hypothesis of no effect of veto players on economic reform when the EBRD non-bank index takes a value of zero.)

As a robustness check, we reran all models, replacing Henisz's measure of veto players with two alternative measures: a measure of political checks and balances developed by Keefer (2002) and described in Beck et al. (2001), and a measure of political fragmentation constructed by Frye, Hellman and Tucker (2000).⁶ Our key qualitative results were generally unchanged. The one consistent difference from the results reported in Tables 2 and 3 is that the estimated coefficient on the interaction term when change in competition policy is the dependent variable, not statistically significant from zero in the model with the Henisz measure, is statistically significant and positive in the models with the other two measures. With this exception, the picture is identical to that presented above: the impact of veto players on economic reform is generally positive when the status quo is close to state socialism, turns negative at higher levels of economic reform, and turns negative more quickly for "hard" than for "easy" reforms.

⁶We thank Tim Frye for providing an updated version of the Frye et al. database.

4 Conclusion

It is conventionally understood that economic reform is difficult in the presence of multiple veto players. We show that this understanding is incomplete. Movement from the status quo may be more likely as veto players are added if there is consensus among veto players about the desired direction of policy change, and if the marginal veto player is endowed with agenda-setting power.

We find support for this argument in a study of the relationship between veto players and economic reform in Eastern Europe and the former Soviet Union. At the beginning of the postcommunist transition, veto players in many countries were in agreement about the need to move away from state socialism toward a system that emphasized market coordination and private ownership. In this environment, policy change was more likely in the presence of multiple veto players. As transition progressed, however, consensus among veto players broke down, and the "conventional" relationship between veto players and policy change asserted itself.

A surprising implication of our analysis is that the institutions that make economic reform possible may be precisely those that assure its irreversibility. In the postcommunist context, constitutional designers who opted for strong presidencies in the hope of rapidly implementing economic reform may have miscalculated. Not only is economic reform consistent with a broad distribution of power, so long as agenda-setting power is properly allocated, but once implemented reforms may be more likely to stick when veto players are numerous.

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	Ν	Mean	Std. Dev.	Min	Max
Veto players	282	0.300	0.225	0	0.667
~ ~					
Average economic reform	282	49.0	22.0	0	86.7
Price liberalization	282	68.8	23.2	0	100
Trade liberalization	282	69.7	35.3	0	100
Small privatization	282	71.5	29.2	0	100
Large privatization	282	49.3	27.9	0	90.9
Enterprise reform	282	33.3	21.7	0	69.7
Competition policy	282	31.3	18.6	0	60.6
Bank reform	282	38.5	25.9	0	90.9
Nonbank reform	282	29.7	21.4	0	81.8
Change in average economic reform	282	3.8	4.6	0	27.7
Change in price liberalization	282	4.8	10.6	0	39.4
Change in trade liberalization	282	4.6	10.5	0	60.6
Change in small privatization	282	4.5	9.4	0	39.4
Change in large privatization	282	4.9	10.2	0	42.4
Change in enterprise reform	282	3.2	8.0	0	30.3
Change in competition policy	282	2.6	7.8	0	39.4
Change in bank reform	282	4.5	8.9	0	30.3
Change in nonbank reform	282	3.1	7.6	0	39.4
Dummy for natural resources	24	0.375	0.495	0	1
1989 GNP per capita (1000 USD)	24	5.685	2.106	1.400	9.200
Industrial structure (GDP/kg oil equiv.)	24	2.357	1.347	0.743	5.276
Distance from West (1000 km)	24	1.029	0.899	0	2.868
GDP per capita (1000 USD)	282	1.749	1.472	0.212	5.899
Postcommunist seats	282	0.142	0.241	0	1
Polity	282	3.309	6.527	-9	10
Dummy for war	282	0.167	0.373	0	1

 Table 1: Summary statistics

Note: Summary statistics given for lagged values of all time-varying measures but change in reform index and dummy for war. Change in reform index is absolute value of change.

	1	2	3	4
Lag veto players	8.608***	9.911***	7.541***	8.232***
	(2.420)	(2.591)	(2.596)	(2.226)
Lag reform	0.017	0.011	-0.039^{**}	-0.027
	(0.012)	(0.012)	(0.020)	(0.018)
Lag veto players \times lag reform	-0.168^{***}	-0.207^{***}	-0.177^{***}	-0.189^{***}
	(0.047)	(0.053)	(0.054)	(0.047)
Distance from West		0.119	0.825^{***}	0.639^{**}
		(0.198)	(0.283)	(0.272)
Natural resources		-0.377	-0.317	-0.264
		(0.354)	(0.344)	(0.319)
Industrial structure		0.099	0.359^{***}	0.382^{***}
		(0.085)	(0.128)	(0.137)
1989 GNP per capita		0.279^{***}	0.247^{***}	0.260^{***}
		(0.092)	(0.096)	(0.079)
Lag postcommunist seats			-1.588^{**}	-1.223^{**}
			(0.693)	(0.622)
Lag Polity			0.174^{***}	0.140^{***}
			(0.037)	(0.034)
Lag GDP per capita			-0.038	-0.032
			(0.106)	(0.082)
War			-0.555	-0.551
			(0.600)	(0.510)
Year fixed effects	Yes	Yes	Yes	Yes
Panel-specific AR1 process	No	No	No	Yes
Observations	282	282	282	282
Countries	24	24	24	24
R-squared	0.40	0.41	0.43	0.50
Negative/positive cutoff	51.2	47.9	42.6	43.6

Table 2: Interactive effect of veto players and status quo on economic reform

Notes: Dependent variable is absolute value of change in average EBRD reform index. OLS regressions in Columns 1–3, Prais-Winsten regression in Column 4. Panel-corrected standard errors in parentheses. Significance levels: $^{***} = .01$, $^{**} = .05$, $^* = .10$. Negative/positive cutoff is value of EBRD reform index at which estimated effect of veto players on economic reform turns negative.

Table 3: Interactive effect of veto players and status quo on particular reforms

	f	E	5	,	F		- f	
	Price	Irade	Small	Large	Enterprise	Competition	Bank	Nonbank
	liberalization	liberalization	privatization	privatization	reform	policy	reform	reform
Lag veto players	-0.645	27.074^{***}	27.207^{***}	0.699	7.425^{**}	-1.042	8.229^{**}	1.984
	(9.753)	(6.908)	(4.369)	(3.319)	(3.091)	(4.697)	(3.834)	(4.196)
Lag reform	-0.271^{***}	-0.066^{**}	-0.121^{***}	-0.161^{***}	-0.148^{***}	-0.195^{***}	-0.137^{**}	-0.040
	(0.059)	(0.033)	(0.033)	(0.028)	(0.050)	(0.060)	(0.057)	(0.057)
Lag veto players \times lag reform	-0.000	-0.374^{***}	-0.326^{***}	-0.048	-0.185^{**}	0.038	-0.186^{***}	-0.202^{*}
	(0.115)	(0.083)	(0.062)	(0.065)	(0.084)	(0.105)	(0.062)	(0.121)
Distance from West	1.566	2.624^{**}	3.026^{***}	2.155^{***}	0.666	0.691	0.162	0.329
	(1.198)	(1.055)	(0.759)	(0.622)	(0.854)	(1.044)	(1.153)	(0.406)
Natural resources	-0.133	0.023	-0.115	-1.858^{*}	0.305	-0.607	0.497	0.961
	(0.526)	(1.315)	(1.387)	(1.104)	(0.987)	(0.914)	(0.924)	(0.856)
Industrial structure	0.252	0.813^{*}	1.758^{***}	0.324	1.057^{**}	0.402	1.453^{**}	0.891^{***}
	(0.191)	(0.469)	(0.533)	(0.298)	(0.416)	(0.314)	(0.589)	(0.327)
1989 GNP per capita	-0.382^{**}	0.261	0.677^{***}	-0.011	0.877^{***}	0.112	0.545^{**}	0.798^{***}
	(0.185)	(0.368)	(0.158)	(0.268)	(0.169)	(0.181)	(0.236)	(0.232)
Lag postcommunist seats	-5.387^{***}	-5.074^{**}	-4.251^{***}	-1.110	-0.590	-6.443^{***}	-8.444^{***}	-2.221
	(1.930)	(2.221)	(1.301)	(2.935)	(1.558)	(1.623)	(1.525)	(1.757)
Lag Polity	0.437^{***}	0.375^{***}	0.243^{***}	0.609^{***}	0.155^{*}	0.142	0.106	0.128
	(0.139)	(0.121)	(0.086)	(0.094)	(0.083)	(0.096)	(0.144)	(0.086)
Lag GDP per capita	-0.209	-0.062	0.086	0.027	-0.499^{**}	-0.279	-0.239	-0.056
	(0.151)	(0.247)	(0.237)	(0.441)	(0.236)	(0.265)	(0.292)	(0.219)
War	1.408^{*}	-0.131	0.191	-1.272	-1.229	-2.926	-3.061^{***}	-2.576^{*}
	(0.820)	(1.857)	(1.499)	(1.490)	(0.883)	(1.997)	(0.979)	(1.441)
Year fixed effects	\mathbf{Yes}	\mathbf{Yes}	\mathbf{Yes}	\mathbf{Yes}	\mathbf{Yes}	Yes	$\mathbf{Y}_{\mathbf{es}}$	Yes
Observations	282	282	282	282	282	282	282	282
Countries	24	24	24	24	24	24	24	24
R-squared	0.61	0.24	0.42	0.26	0.22	0.20	0.22	0.19
Negative/positive cutoff		72.4	83.5	1	40.1		44.2	9.8
Notes: Dependent variable is a parentheses. Significance level	absolute value of ls: *** = .01, **	f change in part = $.05, * = .10.$	icular EBRD re Negative/posit	eform index. O ive cutoff is val	LS regressions lue of EBRD	s, with panel-co reform index at	rrected stanc which estim	lard errors in ated effect of
veto players on economic refor-	im turns negative							