Reforming Mechanism Implementation Failures and Lessons from Estonian Transition

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Abstract

This chapter analyses the dynamics of economic reform mechanisms and their potential failures using a “soft” Bayes-Nash co-ordinated implementation. The methodological results are applied to the case of Estonia in the period 1987-2006. Through this example, the model analyses types and subperiods of the reform period and characterises the most significant reform mechanism failures. In the theoretical section, the problems of co-ordinated, adaptive and approximate implementation mechanisms of socially desirable economic reform are discussed. It is shown that rigorous long-run implementation in Nash equilibrium is almost surely impossible in the traditional non-co-ordinated and non-dictatorial sense. First of all, the social preferences may not conform to preferences of the non-co-operative agents when there are information asymmetries. Second, the social preferences are adaptive or not motionless in the highly uncertain environment and also the implementing mechanisms are adaptively changing. Thus, it is more rational to discuss the extended co-ordinated mechanisms (game rules) and admissible implementation errors and to study the properties of these quasi-implementing mechanisms. These models may be useful as a complementary tool for the design of reforms of the economic institutional structures.

On the basis of the described theoretical analysis, we make some remarks regarding the Estonian economic reforming mechanism types and their sub-periods in the period 1987-2006 and comment on their short- and long-run failures.

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Keywords: system failure, economic reforming mechanisms and systems, design, implementation, social choice correspondence, private information, transition and harmonisation of economic institutions, probability models, high uncertainty, Estonian economic
institutional reform mechanism types and classifications of their sub-periods, co-ordination, transfers, quotas.

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1. Introduction

Economic institutions and structures are the outcomes of the design process for reforming systems. Thus, to understand more adequately the processes of economic reforms, we have first of all to understand the dynamic changes in the types of the reforming systems (meta-systems) and their characteristics.

At the moment, it seems that the closest “hard” (rigorous mathematical) theory to analyse the types of dynamic institutional designing systems is the Bayesian-Nash co-ordinated implementation theory where the implementation of the socially desirable reform is modelled as an extended mathematical game with incomplete information, co-ordination and side payments (Ennuste, 2001).

However, that theory presents a difficulty in that it is mathematically extremely complicated and so far only very few mathematically “nice” special cases have been elaborated on, mainly for static social choice correspondence models of markets and with very simple mechanisms in Nash equilibrium (Tatamitani, 2002). But “ugly characteristics such as complementaries of designs and flexibility of reforms in the face of new information are also required for the really adequate social choice reform design models. Extended models with co-ordination of the private utilities and social values are also needed to represent the true reform process. In the case of the latter models, the rigorous mathematical approach is not permissive (Matsushima, 1993) or it is mathematically clumsy and inconvenient.

In the following, we will overcome this obstacle by taking a “soft” implementation theoretic approach: meaning we will apply, according to Bates et al. (1998), analytical verbal narratives in the theoretical and methodological discussion and in the empirical case analysis based on
the principles and rhetoric of implementation theory\(^1\). Verbal narratives principles and terms borrowed from non-market public choice theories and design problem analyses are blended with ideas from the economic sequential equilibrium theory.

In our approach, we limit ourselves to certain classes of institutional reforms that are mainly connected with evolutionary adaptive transitions from centralised to the decentralised types of systems and the co-ordinated dynamic mechanism of quasi-implementing economic institutions in an environment of high uncertainty and asymmetric information.

As a relevant case study, we use this methodology to analyse sub-periods of different mechanism types in the Estonian reform system in the period 1987-2006.

The paper is organised as follows. In the second section, we describe the theoretical principles of relevant co-ordinative implementation theory under asymmetric information. Next, we offer some methodological analytical remarks. This is followed by a presentation of an empirical case study to explain some reform mechanism failures mainly during the transition period in Estonia. The paper concludes with a few modest proposals.

2. Theoretical Remarks

With economic reforming systems, we consider the set of relevant agents and their interaction mechanism, the latter consisting of strategy space and outcome function on this space. Under the reforms, we consider the changes in the economic institution structure. The economic theory with these elements has many novelties in new implications.

First, some extra-market agents whose strategic behaviour is connected with the development of economic institutional systems are integrated into the theory. There are the parliament, the government, the central bank, ministries, lobby groups, non-governmental organisations, labour unions etc. Consequently, the implementation model includes heterogeneous agents, non-co-operative, and co-ordinative.

The second implication is that the complication of the system reorganisation makes it impossible to implement reforms in one-step and in short-range designs. In this way, studies should examine the sequential nature of these processes, and the problem of sequencing the decision about systems, and especially the adaptivity and flexibility of the designs. We use the term adaptivity here to mean that new
information is incorporated in the path-dependent decision-making. Another important issue arises here. This is the question of additional transitional uncertainties connected with the reforms in the economic systems. The study of these processes in the context of deterministic or complete information models may give completely distorted results.

In the traditional implementation theory (e.g. Vartiainen, 1999; Tatamitani, 2002), a mechanism implements a social choice rule or function if there is a unique equilibrium in the Nash game of all agents with the outcome equivalent to the outcome of the social choice rule.

If we turn now to adaptive implementation, we have social choice decisions in the form of partly preliminary path variables and sequentially the previous decisions and plans are corrected (Ennuste, 2001). Demanding the strict implementation results to these decisions is not adequate to the reality and not reasonable. In other words, in the adaptive treatment, the social choice function and the implementation function are partly unknown and the condition of their equivalence is not applicable.

A convenient implementation criterion may be based on Marschak's maximum possible error idea (Source) or on the probable movement in the direction of the quasi-gradients of the social choice rule. We use here the following quasi-implementation criterion: the mechanism in each period is implementing if it is most likely to take full steps in the right direction.

The study of such implementation criteria says that the traditional theory's social choice function is no longer crucial for the implementation. Rather, the crucial factor is that the implementing mechanism should work in the limits of possible maximum errors or in the right directions (quasi-gradients) based on the existing information.

In the light of these points, we describe the processes of sequential economic systems. This is a two-stage Bayes-Nash model with heterogeneous agents. In addition to common economic agents (producers and consumers), there are also agents such as the parliament and the government.

We argue that the social choice model should explicitly consider the economic system design decisions, and the impact of certain decisions on other agents design decisions as conditions or restrictions. In fact, it is extremely difficult to integrate these designs into a rigorous stochastic allocation model, where the dynamics are a vital aspect (one example of such model is given in the last Chapter of this book). To avoid these difficulties, we base our social choice model and the deduction of its implementation system on heuristic assumptions and procedures and on qualitative analysis.
The crucial point here is that in the initial form the social choice model of reform may be in the constrained setting (e.g. optimal planning model) and to prepare this for the implementation analysis we have to, first, transform it into relaxed form (with Lagrangean co-ordination and in parallel introducing for the agents side constraints or quotas (Ennuste, 1978)). And second, we have to introduce a co-ordinating transfer system for the agents to encourage truth-telling (Matsushima, 1993). In other words, we have to introduce some kind of co-ordinative agents into the implementation system to make it effective.

In the implementation mechanism, we consider that the information of the agents in Bayes-Nash game is asymmetric and sequentially changing. The announcements of the agents are strategic on the available strategy space, meaning that they take into account that their choice of policy will affect the expected behaviour of other agents who have some influence on forming the system. In the case of preferences, we also have to consider short- and long-term effects as *ex ante* and *ex post* effects. Now the crucial problem is the adaptive implementation of the socially desirable transitions. Is the implementation in some sense (in principle) possible in democracy? Alternatively, are the uncertainties, asymmetries and status quo biases too strong (Fernandez and Rodrik, 1991; Dollar and Svensson, 2000).

In fact, the ordinary (endogenous and exogenous) uncertainties are supplemented with transitional uncertainties or magnified uncertainties. These are due to the structural changes in the real economy and in the economic system and ultimately in the reforming system. The new completely different market-economic information flows and their rapid changes are for many incompetent agents and individuals not absorbable and cause anxieties, especially in the ethnic minority groups (Ott and Ennuste, 1996).

In effect, the agents are not capable of learning from some conventional sources of their information. E.g. in the period of structural changes the macro-econometric models loose their credibility, because in these models the assumption of *ceteris paribus* also contains the fixed economic structure. With these issues in mind, we pose the implementation question in a different and more adequately relaxed quasi perspective: the mechanism is quasi implementing when the errors caused by some evident failures of the mechanism design (based on hitherto known information) are in the admissible limits compared with the socially desirable design or that the mechanism is probably adaptively sufficiently moving in the socially desirable direction.
3. Methodological Remarks for Applied Implementation Analyses

For application, it is rational to focus the analysis first of all on the most central element of the reforming system - that is on the strategy space. The structure of the available strategy space characterises the possible activities of the agents and the co-ordination instruments active in the system.

In the central planning of economic institutional structure, the mechanism is a simple direct mechanism with command plans: the strategy space for the agents is their private data space and they send signals from this set to the centre and the centre gives to the agents the directive institutional structure that may be modelled as central co-ordination with quotas. As a rule, in the centralised command mechanisms that are mainly functioning in the dictatorial political environments, there is no need for the construction of truth-telling sub-mechanisms to create the condition of self-selection or the fulfilment of the truth-telling revelation principle. In other words, we assume that the agents are here just behaving like automata and not as strategic players in the decentralised systems. In the dictatorial systems, truth-telling and following the command plan are expected to be imperative.

In the decentralised systems, the implementing mechanisms of economic institutional structures are more complicated in range. First of all, there should be in the strategy space an additional subset for co-ordination of optimal self-selection by agents and another subset for the co-ordination of the agents truth-telling. We solve implicitly this co-ordination problem in the following by a simplifying assumption about the correlation of agents types (information) that allows the construction of a simple and credible truth-telling side-payment mechanism worked out by Aoyagi (1998).

For simplification, we assume that in the reforming systems the objective of the co-ordinating agents is to disseminate co-ordination parameters that result in societal efficient design allocations. We consider especially the mechanisms where the agents have expectations of getting much additional information in the next period, and they are even unsure about the future structure of the game mechanism that will apply. It is easy to see that in this situation agents consider themselves to be in greater risk situation and put more weight on the credibility and reputation problems, including the reputation of the co-ordinating agent, and therefore the heavily over-co-ordinated game may be even more effective.
Following our previous claim that properties of the design mechanism strategy spaces are crucial for the adaptive implementation, we formulate two necessary conditions for these spaces to be implementive.

First, the strategy space may be implementive if it satisfies the sufficient communicativeness conditions. The meaning and reasons behind this condition are as follows. The social choice function is working with information available for all the agents. Thus, to implement social choice, it is assumed that the agents are "sincere and obedient" and transmit their relevant private and co-ordinative information to each other to work out the socially desirable solution (Forges, 1990, and Ennuste, 1992). It is reasonable to assume that, in order for the system to be implementive, the strategy space should be sufficiently large and with adequate structure.

The communicativeness conditions may not be fulfilled e.g. in cases of too aggregate data, or when the strategy space is not exploited sufficiently by the agents through partial transmission of information etc.

Second, the mechanism may be implementive if it satisfies the optimisation condition. The reasons behind this condition come from the optimisation theory. The solution of social choice function is at the least Pareto-optimal. This means that the implementing mechanism also has to find Pareto-optimal solutions. The existence of Pareto optimality is easy to verify by the experts.

The issue of whether these two conditions can be fulfilled in the mechanism and the possibilities to eliminate the breaching factors are still open questions and remain to be analysed in concrete environments.


4.1. Specifications

The theoretical starting point in this section is that the type of economic reforming system in applications is most convenient to characterise by the types of its strategy spaces. In the following, we use the probability measurements (located in the unit interval from 0 to 1) by expert assessments of the effective implementation of theoretically available strategy spaces (sets of indicators) in the mechanism as the types.

Two remarks are in order. First, the theoretically available strategy spaces are nominally deduced from implementation theoretic
remarks given in the previous sections. The available socially desirable volumes of these sets (cardinal numbers) are assessed by the experts.

Secondly, the assessed probability values of effective strategy implementations we define as levels to what extent these available volumes of strategy spaces are actually effectively apply in the communication process.

According to these rules for the characterisation of the types of the mechanisms, we use the experts’ evaluations e.g. as follows: if the experts’ opinion is that a certain field had been probably fully effectively exploited in a certain type of mechanism, we quantify this situation with the digit 1, and if the estimation was that the certain field had probably not been applied in the mechanism, we denote this state with digit 0; and if the probability of effective use of the certain type of strategy field in the certain mechanism was about one half (considering the rate of distortions, the rate of the used volume of the sub-space etc.), the calibration value will be .5 etc.

On the basis of Section 3, we classify the strategy spaces of the mechanisms into main fields A and B and their subfields as follows:

A. Primary information strategy spaces
   A-I Agents primal input information
      A-I-I Economic information
      A-I-II Social information
      A-II Agents’ final output proposals

B. Co-ordinative dual information strategy spaces
   B-I Structural institutional co-ordination
      B-I-I Quotas
      B-I-II Transfers
   B-II Socio-economic and political co-ordination
      B-II-I Quotas
      B-II-II Transfers
   B-III Informational co-ordination
      B-III-I Quotas
      B-III-II Transfers

The experts assessment according to this classification of available sets of strategies is that it is reasonable to distinguish two main periods and four sub-periods in the total transformation period of 1987-2006. These sub-periods are:

II. Accession period co-ordinated system – 1998-2006
   II-I. sub-period: under-co-ordinated system 1997-2003
   II-II. sub-period: bi-co-ordinated system – 2004-2006

The aggregated results of the experts’ assessments are given in Table 1 below.

According to the expert estimates of the efficiency probability values, the aggregated failure probabilities of the mechanism may be defined as their complement values (one subtracted the weighted average of efficiency probability). Using unit weights, the aggregated failure probability estimates are approximately as follows:

I.-I. about four-fifths, I.-II. about four-fifths, II.-I. about two-thirds, II-II. about one-third and in 1987-2006 the summary estimate is about two-thirds.

4.2. Analysis of the Changing Types of Estonian Economic Reforming Mechanisms and their Failures

In this section, we comment on the short- and long-run transformational changes of the Estonian institutional design mechanism during the period 1987-2006 and explain some of the mechanism properties and failures in terms explained in the methodological paragraphs. Most of the empirical chronological information comes from Ennuste, 2001, pp. 348-357.

I. From the incompletely relaxed central directive system to the under-co-ordinated decentralised system - 1987-1997: characterisation of the main types of mechanisms


In the beginning of this sub-period, a directive (dictatorial) reform mechanism prevailed in Estonia, where the non-central reforming agents such as committees, ministries, etc. were forced to announce to the centre their information derived from their information sets while the centre, based on collected common information, announced to the agents the final reform plan. The centre was a compact monolith composed of the Communist Party Central
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<th>Available Strategy Spaces</th>
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<td>A-I Agents primal input information</td>
<td>B-I Structural institutional Co-ordination</td>
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<td>A-I-I Economic information</td>
<td>B-II Socio-economic and political co-ordination</td>
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<td>B-III Information coordination</td>
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<td>I-II. sub-period incompletely co-ordinated system – 1992-1997</td>
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<td>II-I. sub-period: under-co-ordinated system – 1997-2003</td>
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<td>II-II. sub-period: bi-co-ordinated system – 2004-2006</td>
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Committee, the Parliament, the Government etc. The reform plan was theoretically composed by the centre according to the principles of optimal central planning with the constrained form of result function. The main constraints on the available reform plan design set and plan structure were dictated by the constraints forced by the Soviet Union Central Institutions. These constraints excluded all Western style, private property and market-orientated reforms.

It is easy to see that this simple mechanism may have produced reforms at great speed and coherence and enabled long-term unpopular decisions to be made. But for this mechanism to make socially desirable reforms, there were two conditions: 1) the centre’s constrained result function had to be equivalent to the social choice function, and 2) the agents had to be non-strategic players or automatic truth-tellers. Neither of these conditions were fulfilled: the resulting function and strategy basis neglected social dimensions and the entire system was orientated mainly to enhance the war economy and the agents manipulated information (Mygind, 1994, 181-184).

According to the Hayekian dictums, this type of mechanism in the more or less pure form could prevail only under political dictatorship. As the Gorbatchovian reforms had already started to dismantle dictatorship, the centralised dictate planning system also started to disintegrate and some elements of decentralised planning mechanisms started to blend into this system. The disintegration started first of all with the relaxation of the result function constraints and the introduction of some new elements of agents’ strategy spaces, first of all elements of reform proposals.

Due to the political transition and political pressures on the centres in the middle of the sub-period, centres had to relax the result function in the direction of introducing some sporadic institutional changes towards the market economy. As the political relaxation allowed for some uninstitutional lobby groups to start parallel additional competitive informing and advising of the centre, the quality of the information the centre used improved.

As a result, in the middle and especially at the end of the sub-period, a plethora of market-orientated, mostly elementary reforms were speedily accomplished and initiated, among them some significant reforms in the field of ownership and privatisation (Kein and Tali, 1995). Understandably, these reform acts were heavily under-co-ordinated mainly due to the lack of competence of the agents in the field of design of institutional structures of capitalist market economies, and procrastinated due to the Moscow-led political constraints.
As a result of this situation, many of the enacted reforms needed immediate repeated amendments (Ennuste, 2001, 348-350). The reforms were chaotic particularly in the sense of their timing and sequencing priorities. E.g. a very significant and urgent reform in the Estonian transition, the introduction of Estonian kroon, was postponed at least a year (in the sense of secession of Estonian monetary system from the rouble zone, see Kallas and Sõrg, 1995). With that procrastination in the dissent from the galloping inflationary Soviet rouble, certainly great harm was done to the Estonian socio-economic development.


Only the adoption of a democratic Constitution and democratic parliamentary elections in 1992 changed completely the type of the Estonian economic reforming system. The main elements of the centralised direct dictate system were replaced by the elements of decentralised system. Now politically available strategy spaces included a co-ordinating parameters space for co-ordinating agents with dual prices, allocative constants etc. and the strategy spaces of the designing agents now started to contain not only direct private information but also the information about proposals of the agents for reform designs. Additional strategy spaces were made available for Western agents: Washington twins, Estonian émigré elite, Western learning world lobbies, Western venture investment institutions etc. And the outcome functions changed from central planning to the equilibrium outcomes of the reforming institutions.

In this system, the government may be modelled as the main co-ordinating agent (side payments and/or disseminating allocative constraint information) and the parliament as the final balancing and socially harmonising agent of reform outcomes.

Both types of the co-ordinating institutions may be modelled as sub-games containing subagents and game rules.

Understandably, at the beginning, this system was incomplete and the co-ordination of the enacted reform structures had been evidently insufficient. According to Lauristin and Vihalemm (1997, 113-116) even the functioning of the parliamentary procedures were sometimes chaotic in character.

As a matter of fact, in this sub-period the Estonian parliamentary democracy, political forces and parliamentary coalitions were not yet formed based on pivotal electorate interests groups or social groups, say e.g. left- and rightwing groups, and had not as their primary objective the protection of certain group interests. The main political objective of the
main coalitions was the sovereignty, “return to the West”, establishment of capitalist market economy etc. (Lauristin and Vihalemm, 1997, 113-116). This led to incomplete play in the role of final co-ordinator and socially balancing agent of the reform outcomes in the interest of the society. As a result, in this sub-period, the reforms had been biased and a failure for the social security sphere in particular (Pliss and Aedna, 1995; Venesaar and Hachey, 1995).

Understandably, the majority voting rule in the parliamentary procedures could not avoid passing Pareto inferior or socially undesirable economic reform laws, and Pareto optimal or socially desirable and balanced laws could have been blocked by an opposing coalition on the basis of different information.

In this period, among many generally successful market reforms as the introduction of the Estonian kroon, the Securities Market Act, establishment of the efficient Privatisation Agency (Ott and Ennuste, 1995) etc. there were socially faulty reforms which were neglecting the elderly, unemployed, poor (Venesaar and Hachey, 1995) and land tax reform (Ott, 1999) etc.

We have to remark also that there have been the possibilities of deforming the co-ordinative information or blocking the co-ordination of socially optimal decisions in the government by certain interest groups (Terk, 2000).

II. Accession period co-ordinated system – 1998-2006

II-I. Under-co-ordinated system - 1997-2003

By the beginning of this sub-period, the main types of co-ordination instruments were nominally applied in the reforming process but not yet in sufficient quantities, especially considering the high amount of transitional uncertainties, limited rationality of agents. Evidently, the truth-telling co-ordination is still working insufficiently (Ennuste, 1999 and 2001).

The crucial point here was that the increase in institutional uncertainties and decreasing institutional credibility attributed to rapid change in Estonian Governments were not sufficiently active in the stabilising co-ordination processes. The co-ordinations reached in this kind of governmental processes have been extremely temporary and have been corrected within short periods many times over and over again. The long-run co-ordination developments have been a succession of these preliminary temporary solutions.

Understandably, this led the reform system in some cases to prefer “too little and too late” and even status quo policies. For agents, the most preferable wait-and-see strategies and potentially even better course of
action was the adoption of the suspension of some of the reform process (Fernandez and Rodric, 1991) or even paralysis of the economic institutional transition, e.g. Riigikogu passed the Competition Act only in 1998 and the Anti-Corruption Act with big delays only in 1999.

Consequently, to have socially effective changes of the economic system, the co-ordinating agents have not provided the system with sufficient credible information about their long-term strategies and these strategies have not always been concrete enough.

II-II. Hierarchical over-co-ordinated system – 2004-2006

As a prospective member of the European Union from the middle of 2004, the Estonian economic reform system will be inevitably exposed to further hierarchical co-ordination by Brussels. This probably means that there will be further constraints by the quotas deducted from the evolving acquis communautaire, and the transfers will be enhanced.

It is easy to see that these changes will be in the direction of more complicated co-ordination and will make the probabilities of co-ordination failures more significant and the adaptive economic institutional design process relatively slower and less flexible. This may result in some Pareto inefficiencies for the future Estonian economic reform processes. The latter, especially in the case of a very small economy still in quite turbulent transformation cycle, the rationality of relatively more flexible reform approaches is evident.

5. Conclusions

Theoretical and Methodological

The novel features of our narrative adaptive quasi-implementation model are that the implementing economic reforming mechanisms and the economic agents are heterogeneous non-market agents, the parliament and the government etc. The non-co-operative model blends the features of Bayes-Nash two-stage game and some elements of public good and choice theory. Our approach of adaptivity of the reforming mechanism reacts especially to the problem of transitional reforming and the expected arrival of new prospective information.

On the basis of heuristic analysis, we have shown that the Bayesian-Nash outcomes of the traditional implementation models may implement the socially desirable economic system transition "only by accident". This is due to the problematical nature of the adaptive target of the social choice function, asymmetric information
of the heterogeneous agents, different objectives of the heterogeneous agents, difficulties with parliamentary voting decision procedures, difficulties with impartial co-ordination of the agents by the government, etc.

To overcome this dead end, we have, first, shown that the reasonable implementation criterion in the adaptive case is the criterion of the fulfilment of admissible implementation errors or probabilities of making sufficient steps in the right direction in the socially desirable transition paths or corridors. Under this approach, the crucial problem is no longer the type of socially desirable correspondence but the properties of the design mechanisms. Our finding is that there are two necessary elements or conditions for the quasi-implementing mechanisms: co-ordination of the agents’ decisions (communicativeness) and optimisation in the agents’ decision-making, including consideration of Pareto conditions.

Second, the crucial point here is that in the initial form the social choice function of the reform design may be in the constrained setting (e.g. optimal planning model, model with constrained preferences etc.) and to prepare this kind of function for the permissive implementation analysis we have to transform it into a relaxed form (with Lagrangean co-ordination or introducing for agents side constraints or quotas). Moreover, we have to introduce the co-ordinating transfer system for the agents to induce them to tell the truth. In other words, we introduce some kind of co-ordinative agents into the implementation system to make it effective.

To improve the implementations, a few modest proposals are in order. First, in the parliamentary decisions the condition of Paretian optimality should be strictly followed. Second, the transitional uncertainties should be minimised by taking the decisions (specification of time limits, and other necessary conditions and avoiding loop-holes in the laws). And third, the biased influence of particular interest groups in working out the governmental co-ordination decisions should be avoided.

Further extension of our methodological design implementation mechanism results may also be achieved by considering more complicated economies, e.g. overlapping generation economies under uncertainty in different market structures. Chattaopadhyay and Gottardi (1999) considers a general class of pure exchange overlapping economies under different market structures. The results by Brusco and Jackson (1999) also offer much interest for extensions in this field.
Empirical Analysis

The empirical analysis gives rise to the following conclusions. First, implementation analysis of the changing Estonian economic reforming mechanisms in 1987-2006 has demonstrated many implementation inefficiencies and failures in these structures. Mainly there has been chronically incomplete and under-co-ordination with constantly distorted information of the reforming agents.

Partly as a result of these mechanism failures, there have been many chaotic and biased design solutions in the Estonian economic institutional system transition. The main failures have been in the sequentially irrational reforms, socially biased reforms, there still prevails in the socio-political decision-making system circulation of distorted information that is damaging credibility of reforms and reinforcing in the current period the tendencies to reform “too little, too late” etc.

With these failures in the Estonian economic reforming system, the first step should be to establish co-ordination mechanisms of stimulating side payments and limiting constraints to enhance truth-telling as a best strategy for the reforming agents.

Secondly, an intelligent reform strategy is required to give more room to the strengthening of the position of reforming agents in the field of designing more efficient social protection institutions in both in the realm of budgetary and tax policies. The sustainable economic growth must not be used as an excuse for inaction in this field.

Thirdly, particular attention should be devoted to transform the Estonian economic reforming system into the proper conditions of the new member state of the European Union, to be encouraged to adopt efficiently all new effective reforming resources that open up with the accession and not to stay in the defensive positions.

Notes

1. Bates et al. (1998, p. 12): "Our use of rational choice and game theory transforms the narratives into analytic narratives. Our approach therefore occupies a complex middle ground between ideographic and nomothetic reasoning." In the case of this paper, the use of game theory is changed for the use of implementation theory. Implementation theory is here defined as a synthesis of game theory with side co-ordination and decomposed social optimal planning theory (Ennuste, 1978).
2. Matsushima (1993) defines social choice function as a pair composed by a public decision rule and a transfere rule. That means he is explicitly starting from the co-ordinated type of decision problem.

References


