UNDERSTANDING THE SOCIAL ACCEPTABILITY OF STRUCTURAL REFORMS

As the world grapples with a prolonged period of economic weakness, demographic shifts, and the imperative of navigating the green transition and technological upheavals, the urgency for structural reforms is clearer than ever. Policymakers are being urged to implement measures that foster competition, facilitate resource allocation to emerging sectors, and bolster labor supply amid aging populations. However, despite the clear need for action, securing broad social acceptability for policy changes has often been a significant obstacle, with reform efforts waning since the global financial crisis amid rising public resistance. This chapter explores the factors that shape public attitudes toward structural reforms and assesses the effectiveness of various strategies for increasing the social acceptability of policy changes. It finds that resistance to reforms often transcends economic self-interest and instead is deeply rooted in behavioral factors that include perceptions, misinformation, and trust deficits. Information strategies that raise awareness of the need for reform and correct misinformation about policies and misperceptions about how they work can significantly boost reform support. However, effective strategies require more than just better communication. They must be backed by a strong institutional framework that fosters trust and a two-way dialogue from the early stages of policy design. Thorough consultation with all stakeholders and the public is essential for identifying mitigating measures to address the personal and societal concerns that undercut support for reform. This chapter underscores the potential of informed, inclusive, and trust-based approaches not only to enhance the quality of policies but also to significantly increase the likelihood of implementing and sustaining structural reforms that are critical for boosting productivity, employment, and growth.
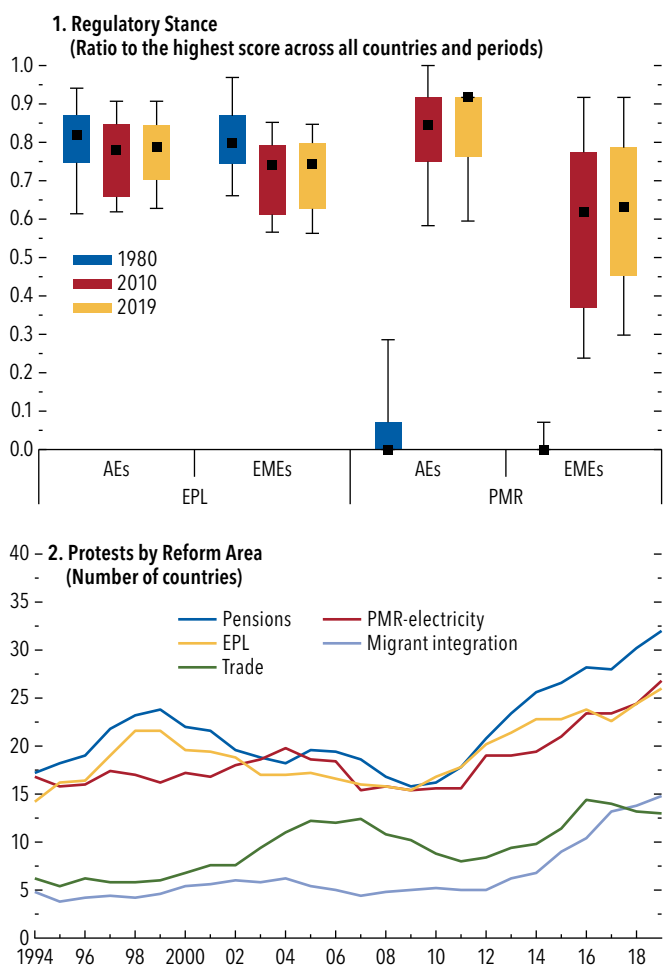
Introduction

The global economy has been enduring a prolonged period of structural weakness, and medium-term prospects under current policies remain bleak. The slowdown in global growth is attributed largely to aging populations, weak investment, and structural frictions that hinder the reallocation of capital and labor toward productive firms (see Chapter 3 of the April 2024 *World Economic Outlook* [WEO]). This is especially concerning because demographic pressures are expected to continue, and structural transformations related to the green transition and technological changes will require significant investment and resource reallocation.

In this context, policymakers are urged to advance structural reforms—that is, to update the rules and policies that shape how an economy operates—to boost productivity, employment, and growth. Key priorities include easing entry barriers and fostering competition in product markets to facilitate the reallocation of resources across sectors, thus helping countries harness the potential benefits of new technologies. Similarly, reforms to encourage workers to work longer and to facilitate the integration and improve the skill matching of foreign-born workers can help counterbalance the labor supply challenges posed by aging populations.

However, progress on progrowth structural reforms has historically been slow and uneven across countries and policy areas (Figure 3.1, panel 1). Although compromises regarding noneconomic goals may play a role (for instance, prioritizing state control in certain sectors for national security reasons), securing social acceptability for policy changes is often a major challenge (Figure 3.1, panel 2). A large body of literature on the political economy of reforms has emphasized that weak acceptability and slow progress reflect the uneven distribution of the costs and benefits they entail, across the economy and over time (for example, Boeri and Navaretti 2006). There is mounting awareness, however, that resistance to policy changes is often rooted in behavioral aspects that may dwarf the economic self-interest and equity considerations that have traditionally

Figure 3.1. Structural Reforms: Uneven Convergence amid Public Resistance

1. **Regulatory Stance**
(Ratio to the highest score across all countries and periods)

2. **Protests by Reform Area**
(Number of countries)

Sources: IMF, Structural Reforms Database; Mass Mobilization Project; and IMF staff calculations.

Note: Panel 1 shows the cross-country distribution of product and labor market reform indices–where higher values denote looser regulatory stance–expressed as a ratio to the highest score across all countries and periods in the sample. The marker inside each box represents the median; the upper and lower edges of each box show the top and bottom quartiles; and the black markers denote the top and bottom deciles. Panel 2 shows the five-year moving averages of the number of countries facing protests, with x-axis labels indicating the final year of the rolling window. AEs = advanced economies; EMEs = emerging market economies; EPL = employment protection legislation; PMR = product market regulation.

underpinned public economics analysis. Among various behavioral factors influencing reform acceptability, misinformation about the problems tackled by the reform and misperceptions about how policies work can be critical deterrents to support (for example, Douenne and Fabre 2022; Duval and others 2024).

Motivated by the urgent need to move forward on inclusive growth reform agendas, this chapter pursues two intertwined objectives: (1) to shed light on factors that influence the social acceptability of structural reforms, and (2) to identify strategies, tools, and institutions that can enhance the acceptability of policies, with the ultimate objective of passing reforms that closely align with desired plans, end up being implemented, endure over time, and pave the way for advancing broader agendas. To achieve these objectives, the chapter seeks to address the following questions:

- *Historical overview of reform episodes.* How difficult has it been to implement structural reforms? How common is the reliance on active communication and consultation strategies, as well as the use of complementary or compensatory mitigating measures, to garner consensus, and how effective are these strategies in practice?

- *Drivers of social acceptability.* What drives individuals' attitudes toward reforms? To what extent do individual characteristics and economic self-interest determine support? What is the role of perceptions, information, and other beliefs in driving policy preferences?

- *Policy toolkit for consensus and reform sustainability.* Can information strategies correct misperceptions about reforms, notably regarding the need for and the effect of policy changes, and influence attitudes toward reforms? What other tools, strategies, and institutions can help policymakers forge consensus, improve the policy design process, and ensure that reforms not only are implemented but also endure?

To answer these questions, the chapter focuses on a set of product and labor market reforms. It begins by leveraging a novel narrative database to uncover key facts surrounding reform attempts since the mid-1990s to ease product market regulation (PMR) and increase competition in the electricity sector, provide incentives for the labor supply of elder workers, and integrate foreign-born workers into the labor market. The chapter then collects new evidence from surveys of individuals to (1) investigate how beliefs and, in particular, misinformation and misperceptions about policies affect support for reforms and (2) test whether providing information—for instance, on how policies work or complementing reforms with measures that address specific concerns—can increase support. Finally, the chapter conducts an in-depth review of 11 labor market reform episodes to contextualize lessons from the survey analysis and identify a broader set of strategies and tools that have helped policymakers build consensus and sustain reform efforts.

The chapter's main findings are as follows:

- *Passing structural reforms has typically been challenging, but the use of strategies to garner consensus is associated with higher chances of implementation.* A historical overview of reform episodes shows that the pace of reform efforts has more than halved since the global financial crisis of 2008–09. Moreover, a substantial fraction of reforms that are attempted are never implemented—nearly 20 percent of policies aimed at increasing competition in the electricity sector and almost 50 percent of those providing incentives for workers to work longer—or get passed only after being diluted amid resistance. The macroeconomic or political context in which reforms are attempted can sometimes matter, but it does not seem determinant. Instead, the use of communication and consultation strategies and mitigating measures are more reliable predictors of reform implementation.

- *Beliefs and perceptions are key determinants of attitudes toward structural reforms.* Socioeconomic characteristics underlying individuals' economic self-interest do influence policy views but, for instance, in the surveys conducted for this chapter they account for only 6 percent of individuals' support for reforms to increase competition in network sectors and 11 percent for policies to integrate foreign-born workers. Instead, individuals' beliefs and perceptions explain about 80 percent of reform support, and misinformation about policies and misperceptions about how they work account for about half that support.

- *Communication and information strategies, as well as complementary and compensatory measures, can shift policy views, especially when forged in a context of trust.* Randomized survey experiments on different policy areas and in countries at different stages of development show that providing information to populations can correct misperceptions about policies and increase support for reforms. Raising awareness regarding the need for reform can often help, and explaining the effect of policies and how they work appears critical to increasing social acceptability for reforms. For instance, in the surveys conducted for this chapter, additional support for migrant integration policies in the group that received information about how those policies work was equivalent to more than 40 percent of the share of those in the control group who were opposed. Survey analyses also show that tailored mitigating measures (complementary policies and compensatory measures) that address not only self-interest, but also distributional and other societal concerns, can improve acceptability. However, lack of trust in the parties involved in the reform and in governments' ability to adequately implement policies and mitigating measures can still undermine social acceptability.

- *An expanded toolkit and a strong institutional setting fostering a two-way dialogue with stakeholders and the population at large can help policymakers garner support for implementing and sustaining reforms.* Effective strategies require far more than enhancing communication. The chapter's review of country cases confirms the importance of trust in both the message and the messenger. Conducting and diffusing policy research by independent, nonpartisan institutions has often been key to raising awareness about the need for reform and building consensus. A strong institutional setting that facilitated consultations with stakeholders, including in the policy design stage, helped cement trust in policymaking and move forward reforms that also endured. Instead, attempts to pass reforms that were not tailored to domestic conditions or that were pushed along with multiple other major reforms often faced major implementation challenges or were eventually reversed.

The chapter's findings and their implications for boosting the chances of reform implementation come with some caveats. *First*, social acceptability is not the only factor that matters for implementation success. For instance, vested interests can influence decision-making bodies and affect the course of reform attempts, regardless of whether the population broadly agrees with the proposed reform. *Second*, the strategies underscored in this chapter to cement social acceptability are not a substitute for sound policy design. The findings underscore that a poor understanding of policy mechanisms undermines public support, but a better understanding will not (and should not) help policymakers pass policies that are ill designed. *Third*, public resistance can reflect justifiable concerns about inappropriately designed reforms. In the same vein, social acceptability should not be viewed as an end in itself. Some inconsistent, counterproductive, or welfare-detrimental reform attempts may encounter little social resistance, and yet the reforms they are advocating should not be passed. This underscores the importance of the chapter's finding on the role of

knowledge and understanding of policies. A sustained effort to make independent and trustworthy policy analysis widely available can help protect societies from opportunistic populist proposals that hide costs and undesirable outcomes. *Finally*, understanding country- and policy-area-specific conditions is critical. However, with appropriate caveats, the broad principles drawn in this chapter from different policy fields and countries at various stages of development can still help policy-makers navigate the challenges of implementing and sustaining reforms.

Social Acceptability of Reforms: A Primer

In essence, structural reforms are policy changes that modify acquired rights and economic rents with the aim of improving the allocation of resources in the economy. As such, they inevitably create winners (the beneficiaries from efficiency gains) and losers (those whose rents or acquired rights the reforms affect negatively).[1] For instance, reforms to foster competition can boost output and reduce prices, benefiting workers and consumers throughout the economy, but the immediate targets are the rents of the few firms with market power under existing rules and the workers in those firms.

The implications for the acceptability of reforms are, however, less straightforward than simply identifying winners and losers and eventually offsetting losses. Gains and losses from reforms are unevenly distributed not only across society, but also over time (Blanchard and Giavazzi 2003). Costs are often more evident in the short term and concentrated in a few well-organized and easily mobilized groups, whereas gains are diffused and mostly accrue slowly over time. This dynamic makes the status quo appealing, as its costs are not immediately apparent and the materialization of payoffs is uncertain (Fernandez and Rodrik 1991; Tompson 2009).

Securing social acceptability for reforms can be challenging, even when they are designed to balance increasing overall welfare with fairly compensating those who are adversely affected. A growing body of literature has pointed out that public resistance is not based solely on objective economic self-interest grounded in individuals' socioeconomic characteristics, such as employment status, age, and education level.

Individuals' views on policies—and consequently, the social acceptability of reforms—are also significantly influenced by their beliefs and perceptions, including those regarding the effects of policies and the willingness or ability of policymakers to implement them as promised.

For instance, lack of trust in plans to compensate those affected by policy changes has either derailed tax and subsidy reforms or required the use of earmarking schemes and other commitment solutions at the cost of efficiency considerations (Guillaume, Zytek, and Farzin 2011; Douenne and Fabre 2022; Kanbur and Levy 2022). Similarly, if potential winners do not comprehend how a policy change will benefit them, they may not trust or support it (Stantcheva 2021; Dechezleprêtre and others 2022; Alfaro, Chen, and Chor 2023; Dabla-Norris and others 2023; Duval and others 2024).

With these considerations in mind, the rest of the chapter investigates how policymakers can enhance the social acceptability of policies, with the ultimate objective of implementing and sustaining structural reforms. It focuses on policies that have been previously identified as critical to facilitating the reallocation of resources across sectors and boosting labor supply amid aging populations (for example, Ostry, Prati, and Spilimbergo 2009; Chapter 3 of the April 2016 WEO; Chapter 3 of the October 2019 WEO; Chapter 4 of the April 2020 WEO; Budina and others 2023; Chapter 3 of the April 2024 WEO) but does not explore their macroeconomic effects—or what constitutes solid policy design—since this has been covered extensively.

The Challenge of Implementing Structural Reforms: Key Facts

Despite the well-recognized challenges of passing structural reforms, there is a surprising lack of cross-country data documenting both successful and unsuccessful reform attempts. To fill this void, this chapter constructs a new database that tracks product and labor market reform episodes during 1996–2023 (Online Annex 3.2).[2] The documented reforms aimed to (1) ease product market regulation to increase competition in the electricity sector (*PMR-electricity* hereafter), (2) provide incentives for labor participation among elder workers (*elder LP* hereafter), and

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[1]See, for instance, Boeri and Navaretti (2006), Tompson (2009), and Alesina and others (2023) for discussions on the political economy of structural reforms.

[2]All online annexes are available at www.imf.org/en/Publications/WEO.

(3) increase the integration of foreign-born workers into labor markets (*migrant integration* hereafter). The database is constructed using text analysis of quarterly country reports from the Economist Intelligence Unit (EIU) spanning 26 advanced economies, 36 emerging market economies, and 14 low-income countries. For each policy area covered, it allows each country-year observation to be classified into one of three categories: (1) no relevant reform was under discussion, (2) a reform was under discussion but was not yet implemented, or (3) a reform was implemented.[3] Validation tests confirm that the data set accurately captures reform information from the EIU reports.

A first notable observation is that the number of reform episodes, including those when policy changes were discussed but not implemented, has declined over time in almost all policy fields and country groups (Figure 3.2). Splitting the sample in half around the time of the global financial crisis shows a particularly sharp drop in *PMR-electricity* reform episodes—despite still-large cross-country heterogeneity in regulatory stances. The pace of *elder LP* reforms in advanced economies and emerging market economies has also slowed in recent years, notwithstanding rising longevity.[4] The reduction in reform intensity could reflect shrinking scope for reforms in some policy areas and countries, such as PMR in network sectors in advanced economies. However, it has coincided with a documented increase in social discontent, notably since the global financial crisis, as captured by episodes of civil unrest, as well as distrust in public institutions, dissatisfaction with democracy, and lower voter turnout (OECD 2021). This suggests that less appetite for policy change among the public may have deterred policymakers from even attempting needed reforms.

The data also reveal how difficult it has been historically to pass reforms. Only about 50 percent of all *PMR-electricity* and *elder LP* reforms that have been discussed in advanced economies over the past three decades were eventually implemented. The implementation rate for *elder LP* reforms in emerging market economies is comparable, whereas for *PMR-electricity*

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[3]The first category can include both cases in which a reform was not needed and those in which it was needed but was not being considered. Earlier structural reform databases (for instance, Alesina and others 2023) identify only implemented reforms, with no-reform observations including both categories (1) and (2).

[4]There have been barely any attempts to undertake *elder LP* reforms in low-income countries, which is not surprising, because most are still benefiting from a youthful and growing working-age population or have incipient pension programs.

Figure 3.2. Reform Episodes by Implementation Outcome
(Total number of reform episodes)

The intensity of reform efforts has declined over time, and a substantial share of reform attempts are either dropped or implemented amid resistance and diluted.
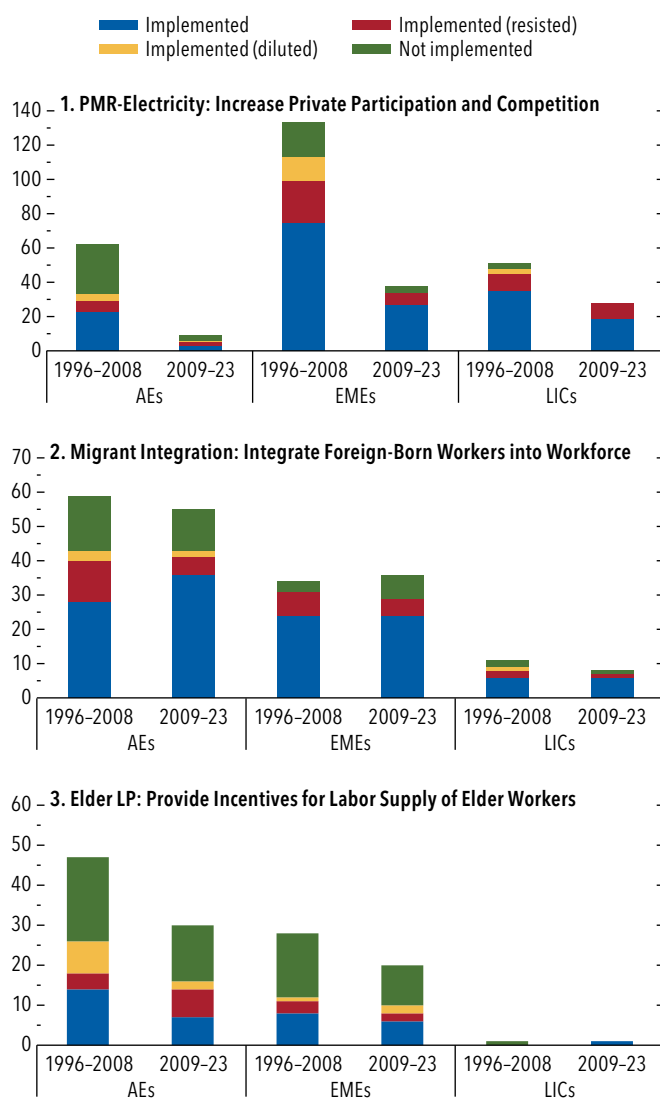
Source: IMF staff calculations.

Note: The figure shows the shares of reform episodes across reform areas by implementation outcome: implemented (not resisted); implemented but resisted; implemented but resisted and diluted; and not implemented. AEs = advanced economies; EMEs = emerging market economies; LICs = low-income countries; LP = labor participation; PMR = product market regulation.

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reform episodes, the share of implemented reforms is 90 percent for emerging market economies and for low-income countries. The implementation rate for *migrant integration* reform episodes is comparable across country groups, at about 80 percent.

In addition, in a significant fraction of episodes that did end in reform implementation, the reform

was nonetheless resisted by the public, as evidenced by strikes, protests, or riots: roughly 22 percent of *migrant integration* episodes, 30 percent in the case of *PMR-electricity* episodes, and as many as 40 percent for *elder LP* reform episodes. In many of those episodes, policymakers had to scale down the scope of the reform to secure its implementation (for instance, this occurred in nearly 40 percent of resisted *elder LP* reform episodes and in as many as 45 percent of episodes in the second half of the sample). Moreover, public resistance need not always preclude implementation, but it may affect the sustainability of a reform. Indeed, additional analysis reveals that among reforms that were enacted but later reversed, a higher share had faced resistance when implemented (Online Annex Figure 3.2.1).

Strategies for Building Consensus for Structural Reforms

Earlier studies argue that communication and consultation efforts aimed at informing voters and stakeholders of both the need for and the goals of reform have often played a key role in securing implementation and reducing the chances of policy reversals (for example, Tompson 2009; OECD 2010). Besides early engagement with all stakeholders, those studies also underscore the role that mitigation measures have played in securing consensus. However, the evidence on the use of these strategies is drawn largely from case studies covering a handful of mostly advanced economies. To shed light on how extensively used these strategies are and what role they may have played for securing implementation, this section shows evidence based on two new indicators (see details in Online Annex 3.2):

- *Use of consultation and communication strategies.* An indicator variable records whether policymakers resorted to any of several tools—such as consultations, hearings, referendums, or independent communication agencies—to communicate, engage, and negotiate with various stakeholders at any point within a reform episode.

- *Complementary and compensatory measures.* Analogously, an indicator variable captures whether the authorities considered any of various mitigating measures—such as job training programs, temporary job protections, price subsidies, or grandfathering clauses—aimed at compensating those negatively affected by reforms or to offset transition costs.

Figure 3.3. Strategies for Building Consensus for Reform
(Share of reform episodes using each strategy, percent)

The use of consensus-building strategies has varied widely across episodes, reform areas, and income groups.
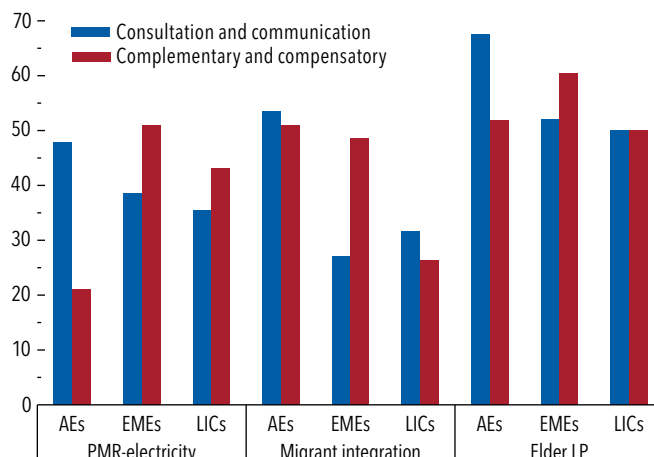
Source: IMF staff calculations.
Note: The figure shows the shares of reform episodes using each strategy by reform and country income group. AEs = advanced economies; EMEs = emerging market economies; LICs = low-income countries; LP = labor participation; PMR = product market regulation.

Although countries in all income groups have used both sets of strategies across reform areas, in a significant share of reform episodes (close to half, on average), the use was not prominent enough to be captured in the data (Figure 3.3). Advanced economies appear to have resorted more often to consultation and communication strategies, compared with their use of complementary and compensatory measures, although the share of reform episodes in which they used these mitigating measures has picked up significantly since the global financial crisis. In contrast, emerging market economies and low-income countries seem to have relied more on complementary and compensatory measures, particularly in *PMR-electricity* reform episodes, in which subsidies or price controls were frequently part of the policy packages.

The heterogeneity in both the use of strategies to secure consensus and the implementation outcome across reform episodes raises a natural question: Has the use of these strategies helped overcome the challenges of passing reforms? Although causal effects cannot be convincingly tested with these aggregate data, an exploration of historical correlations based on multinomial logit regressions suggests that these strategies are associated with a more than 6 percentage point

increase, on average, in the likelihood of implementing proposed reforms across policy areas, with stronger effects for attempts facing resistance (Online Annex Figure 3.2.2). Indeed, in reform episodes that are met with public resistance, reaching implementation is more likely when explicit efforts to consult or communicate with social stakeholders are used than when they are not used. Also, the use of compensatory and complementary measures is generally associated with a higher likelihood of implementing reform proposals in the case of both resisted and less resisted episodes, with some differences across reform areas.

This does not mean that the use of these strategies is the only factor determining reform outcomes. The analysis also finds that the macroeconomic and political contexts in which reforms are attempted (for instance, whether a reform is proposed in good times or after a severe crisis, or at the beginning of a new administration versus closer to the next elections) can somewhat influence the likelihood of reform proposals being implemented. However, the correlations are not always consistent, with the role and significance of individual variables varying across reform areas (Online Annex Table 3.2.3).[5] In addition, when the importance of reform strategies is compared with that of other factors for predicting the implementation of reform proposals, reform strategies jointly explain about 28 percent of the implementation likelihood, on average, across different policy areas (Figure 3.4). This is relatively large: by comparison, the variables capturing the macroeconomic context or the political context explain 16 percent and 22 percent, respectively, on average. Taken together, this suggests that active use of consultation, communication, and mitigating strategies is a more robust predictor of implementation success than the context in which reforms are attempted.

Attitudes toward Reforms: Evidence from Surveys

The role of reform design strategies documented in the previous section highlights the importance of understanding what drives individuals' skepticism regarding policy change and how policymakers can

[5]Earlier studies have also documented ambiguous relationships between the likelihood of reform implementation (with respect to nonreforming, without distinguishing reform discussions from other nonreform observations) and potential drivers related to cyclical conditions, macroeconomic policies, and political factors (see discussion in Duval, Furceri, and Miethe 2020).

Figure 3.4. Relative Importance of Reform Strategies for Predicting Reform Implementation
(Share of implementation likelihood explained, percent)

Consensus-building strategies significantly boost chances of implementing reforms.
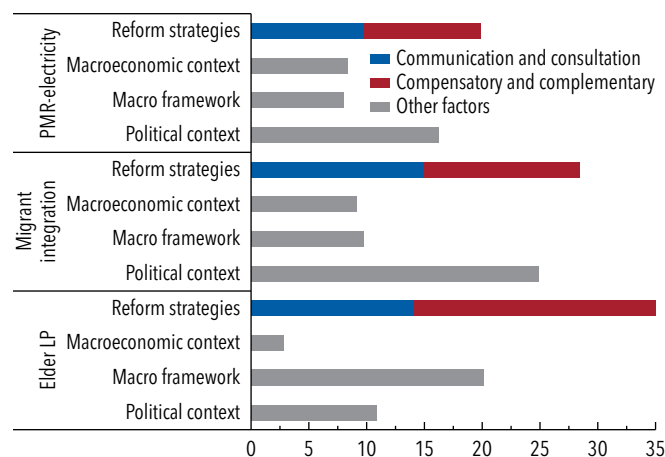
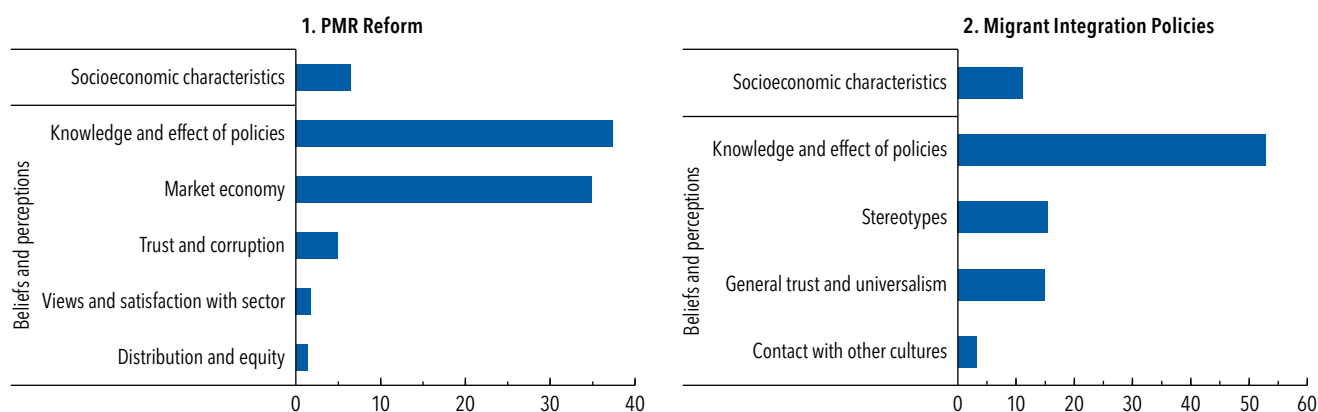Source: IMF staff calculations.
Note: The figure shows the relative predictive power of each set of factors for the implementation of reform proposals across different areas. Estimates are obtained through dominance analysis based on a multinomial logistic regression (Online Annex 3.2). PMR = product market regulation; LP = labor participation.

incorporate their concerns when designing reforms. To shed light on this matter, the chapter uses surveys of 12,600 individuals from six countries covering two different policy areas (Online Annex 3.3; Albrizio and others 2024a, 2024b):

- *PMR reforms* to enhance private participation and foster competition in the electricity and telecommunications sectors in emerging market and developing economies (the survey is conducted in Mexico, Morocco, and South Africa). Attracting private investment is critical to narrowing infrastructure gaps that can affect the ability of these economies to harness benefits from digitalization and artificial intelligence technologies (for example, Balza and others 2020; Devine and others 2021; Cazzaniga and others 2024). Public attitudes toward these policies, however, have been notably negative in the past (for example, Fay and Morrison 2007; Andrés, Schwartz, and Guasch 2013).
- *Migrant integration policies* to integrate foreign-born workers into labor markets in advanced economies (the survey covers Canada, Italy, and the United Kingdom), such as improving the recognition of immigrants' qualifications and experiences, offering free language courses and professional training, and

Figure 3.5. Drivers of Reform Support
(Share of support explained, percent)

Individuals' reform support is driven primarily by beliefs and perceptions, especially about the effect of policies.

Source: IMF staff calculations based on IMF-YouGov survey.

Note: The figure shows the results of a dominance analysis that quantifies the share of variance in support for reforms or policies explained by individuals' socioeconomic characteristics and different sets of beliefs and perceptions based on an ordinary least squares regression (Online Annex 3.3.1). The regression controls for country fixed effects and treatment indicators, whose contributions are not shown. PMR = product market regulation.

providing job placement programs that connect immigrants with employers looking for their specific expertise. These policies can boost labor supply and productivity amid aging populations (for example, Aiyar and others 2016; Mitaritonna, Orefice, and Peri 2017; Chapter 4 of the April 2020 WEO) but are often resisted on account of various concerns (for example, Dennison and Dražanová 2018; Grigorieff, Roth, and Ubfal 2020; Alesina and Tabellini 2024).

Predicting Policy Support: The Role of Beliefs

What drives individuals' attitudes toward reforms? Policy preferences can be determined, first, by people's socioeconomic characteristics (such as age, education level, employment, income level, and geographic location), which underpin their economic self-interest. They can also be influenced by a wide range of perceptions and beliefs, including those regarding policies (that is, how much individuals know about policies and how they think policies may affect outcomes they care about, such as jobs, prices, and crime rates).

The results from both surveys reveal that individual characteristics do play a role but account for only 6 percent of individuals' support for *PMR reforms* and 11 percent of support for *migrant integration policies* (Figure 3.5; Online Annex Figure 3.3.2). Instead, policy views are driven primarily by individuals' beliefs and (mis)perceptions, some of which can

be affected by the design of reforms (Online Annex 3.3.1):

• Not surprisingly, those who believe that productive activities should be handled primarily by private firms and that the government should not intervene in price-setting decisions support *PMR reforms*, and overall, market-oriented beliefs account for a substantial share (35 percent) of policy views. Respondents who perceive the distribution of income in their country as unfair are less supportive. And distributional concerns, together with trust and perceptions on corruption, weigh as much as individual characteristics in explaining support.

• Stereotypes about immigrants play a key role in explaining individuals' support for *migrant integration policies*. Respondents who have a positive view of immigrants (for example, that they are hardworking), associate immigrants with refugees, or think that immigration can have a positive economic and cultural effect are more likely to support these policies, whereas the opposite is true for those who associate immigrants with illegal workers or a negative economic or cultural outcome.

• Importantly, knowledge about and perceptions of the effect of policies explain more than 50 percent of support for *migrant integration policies*. Respondents who correctly identify policies for better integrating foreign-born workers or who believe that integrating immigrants can be beneficial for the

Table 3.1. Hypotheses to Boost Policy Support

Survey	Treatment: Information Provided	Hypothesis
PMR Reform	*Status quo:* Factual evidence on the cost, quality, and access to electricity or telecommunications services.	Status quo
	Status quo + effects of policies: Adds research-based evidence on the effect of policies to foster competition in network sectors on cost, quality, and access to electricity and telecommunications services.	Effect of policies
Migrant Integration Policies	*Effect of policies:* Research-based evidence on the effect of policies to integrate foreign workers on labor market outcomes for native workers, public finances, and immigrants' crime rates.	
	Effect of policies + mechanisms: Adds detailed information explaining the mechanisms through which immigration policies lead to those outcomes.	
	Immigrants' stories: Three stories sourced from newspaper articles about immigrants' struggles in the labor market, their perseverance, and their success.	Empathy

Source: IMF staff compilation.
Note: PMR = product market regulation.

economy are more likely to support such policies. Knowledge and perceptions of policies also explain the lion's share (37 percent) of support for *PMR reforms*. Individuals are more likely to support the reform if they believe that private firms competing in the sector will lead to lower prices, higher quality, or broader access to electricity or telecommunications services.

The importance of beliefs in shaping policy support extends beyond the areas included in this study. For example, Duval and others (2024) find that beliefs play a bigger role in explaining attitudes toward employment protection legislation than individual socioeconomic characteristics (such as employment status or education level). Dechezleprêtre and others (2022) and Dabla-Norris and others (2023) find similar results for climate policies.

Information Strategies to Boost Reform Acceptability

Because knowledge and perceptions of policies strongly influence individuals' attitudes toward structural reforms, this section uses an experimental setup to investigate how providing information about policies affects support for reforms. Survey respondents are randomly assigned at the country level to different groups before their perceptions of and views about policies are elicited in order to test three hypotheses, reported in Table 3.1, regarding the role of information strategies in boosting policy support: (1) providing information on the costs of not reforming (*status quo hypothesis*), (2) explaining the effect of policies (*effect-of-policies hypothesis*), and (3) providing a real-life narrative of immigrants' experiences (*empathy hypothesis*). Comparing responses on policy support by

individuals who receive an information treatment at random with responses of those who do not makes it possible to causally test these hypotheses.[6]

Testing the *status quo hypothesis* is particularly relevant for *PMR reforms*, because these often entail opportunity costs (for example, a missed opportunity to improve competitiveness), which individuals find harder to visualize than actual costs of not reforming, as in the case of unsustainable pension programs (Tompson 2009). The results show that raising awareness of the need for reform has a positive impact on support for *PMR reforms* in the electricity sector (Figure 3.6). Compared with that in the control group, support increases by 4.5 percentage points for respondents who receive the *status quo* treatment.[7] The effect is also positive, but not statistically significant, for the telecommunications sector. This may reflect that, on average, respondents perceive private participation as higher in the telecommunications sector, so simply informing them that there is room for improvement does not necessarily change their views on allowing private firms to operate in the sector.

However, when information about the need for reform is complemented with research-based evidence on the effect that *PMR reforms* have had on

[6]The analysis controls for a rich set of individual characteristics, beliefs and perceptions, and country fixed effects (Online Annex 3.3.2). Moreover, although the survey questions can elicit individuals' policy support directly, one concern is that self-reported preferences may not match real behavior. Several studies have nonetheless shown that when both survey responses and real-world behaviors can be measured, they tend to correlate (for example, Fehr, Epper, and Senn 2021). Although the setting here does not allow real-world behavior to be measured, the survey includes real-stakes questions (for example, gathering willingness to sign a petition) that can serve as a proxy. The results are reported in Online Annex 3.3.2.

[7]In all treatments, respondents are given the sources for the evidence on the effect of policies and links to the relevant publications. Examples of treatments are reported in Online Annex 3.3.2.

Figure 3.6. Effect of Information Strategies on Reform Support
(Additional support relative to the control group, percentage points)

Information strategies that raise awareness about the need for reform and correct misperceptions about how policies work can significantly boost reform support.
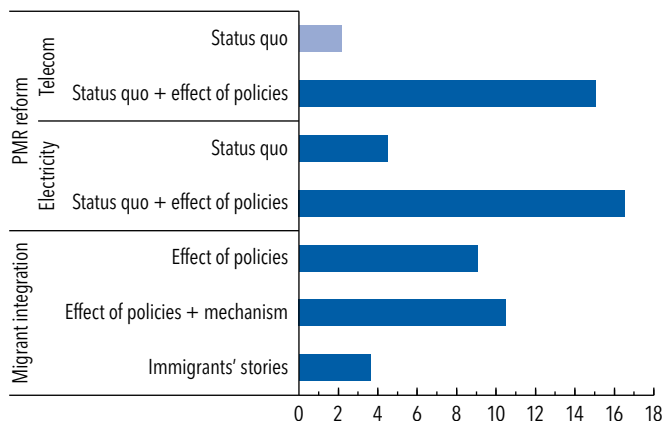
Source: IMF staff calculations based on IMF-YouGov survey.
Note: The figure shows the difference in support shares between each treatment group and the control group. Dark-blue bars denote that the difference is statistically significant at the 90 percent confidence level according to the regression analyses in Online Annexes 3.3.1 and 3.3.2. PMR = product market regulation.

price, quality, and access to electricity and telecommunications services in other countries, the effect is stronger and statistically significant in regard to both sectors (the *status quo + effect of policies* treatment in Figure 3.6), lending support to the *effect-of-policies hypothesis*. The share of respondents who would support *PMR reforms* increases by almost 16 percentage points, on average, across sectors, from 41.4 percent in the control group to 57.1 percent among those who receive the treatment.[8] This additional support is equivalent to 46.7 percent of the share of respondents who oppose *PMR reforms* in the control group.

Similarly, the share of respondents who would support *migrant integration policies* increases by about 9 percentage points between the control group and those who receive the *effect-of-policies* treatment (and the effect is statistically significant).[9] The treatment effect is also equivalent to 30 percent of the share of respondents who

[8]Providing information about the benefits of easing regulation has also been found to increase support for labor market reforms (see Duval and others 2024).
[9]The *effect-of-policies* treatment is designed to address four potential misperceptions related to key drivers of attitudes toward immigration identified in the literature: labor market concerns, welfare concerns, security concerns, and cultural concerns (Alesina and Tabellini 2024; Dustmann and Preston 2007; Dennison and Dražanová 2018; Dražanová 2020; Haaland and Roth 2020).

oppose *migrant integration policies* in the control group. Moreover, the effect on reform support is even larger (10.5 percentage points) when respondents are given an explanation of the mechanisms underlying the policy effects under the *effect of policies + mechanism* treatment (equivalent to about 42 percent of the share opposed in the control group). Importantly, heterogeneous analysis shows that explaining how policies work is particularly effective in shifting support among respondents with negative stereotypes of immigrants and politically right-leaning respondents (Online Annex Table 3.3.2).

Additional results confirm that the information treatment in both surveys influences reform support by addressing individuals' misperceptions about the effect of policies. It has a statistically significant and large effect on the share of respondents in the PMR survey who perceive competition in the provision of electricity and telecommunications services as beneficial for consumers (Online Annex Table 3.3.1). Similarly, respondents who receive either of the two treatments on the effects of policies are significantly more likely to believe that policies to integrate immigrant workers can have a positive effect on natives' jobs, public finances, and crime rates (Online Annex Table 3.3.2). The effect is stronger in particular for crime rates, suggesting that misperceptions about foreign-born workers and crime are a key channel for support for policies related to migrants.

The *empathy hypothesis* is particularly relevant in the context of immigration, in which negative attitudes are often driven by concerns about cultural and work ethic differences (Dennison and Dražanová 2018; Alesina, Miano, and Stantcheva 2023). The treatment evaluates whether appealing to empathy, by highlighting real-life examples of policy-related obstacles faced by immigrants in entering the labor market, has a different impact than providing information on the benefits of integration policies. The treatment is indeed effective in increasing support for *migrant integration policies*, but with a less pronounced effect than for the *effect-of-policies* treatment.

Taken together, the survey experiments show that beliefs not only play a key role in driving reform support but can also be shaped by policy interventions. Providing clear information on the impact of policies is particularly effective in increasing support for reforms.[10]

[10]Although misinformation campaigns can induce misperceptions and decrease policy support (for instance, Di Tella, Galiani, and Schargrodsky 2012; Alesina and Tabellini 2024), this does not lessen the case for enhancing information efforts by policymakers seeking reform.

Figure 3.7. Reasons for Nonsupport and the Role of Compensatory and Complementary Measures
(Share of responses, percent)

Concerns about the effects of reforms on others, especially the vulnerable, are key obstacles for reform, but adequate mitigating measures can boost support.
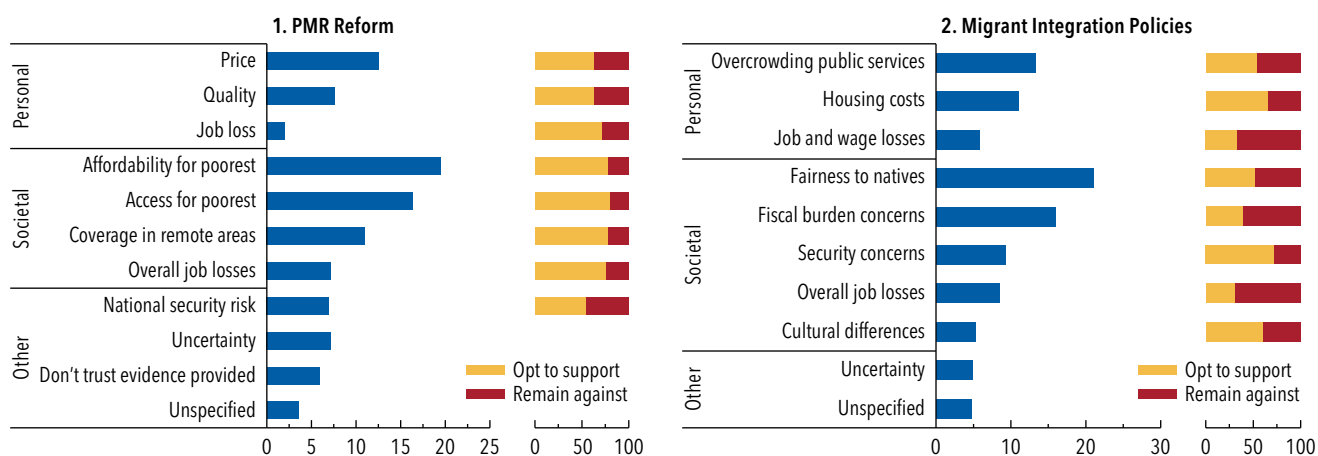
Source: IMF staff calculations based on IMF-YouGov survey.

Note: The blue bars show the distribution of respondents' reasons for not supporting the reform (control group only). The yellow (red) bars display the proportion of these respondents that would opt to support (remain against) policies if offered mitigating measures (Online Annex 3.3.3). PMR = product market regulation.

Understanding Individuals' Concerns to Improve Policy Design

Merely explaining the need to reform and how policies can improve outcomes is not enough to secure comprehensive support. Addressing distributional concerns, unintended side effects, and the short-term costs of reforms requires additional strategies, as reflected by the evidence that compensatory or complementary measures have often helped tilt the balance toward securing reform implementation. To shed light on these strategies, the surveys zoom in on individuals who say they would not support policy change. This helps to (1) identify the main reasons for nonsupport and (2) test whether complementing reforms with mitigating measures would change their support.

When responses are grouped according to whether individuals are concerned that policy changes would hurt them directly (personal concerns) or would hurt their communities (societal concerns), the results from the two surveys indicate that societal concerns play a much larger role (Figure 3.7).

- The two most cited concerns against *PMR reforms* are consequences for the poorest households in terms of service affordability and access if private companies are permitted to manage the sector. Taken together, all societal concerns account for more than half of total responses. In turn, self-interest or personal

concerns about the price or quality of services or the possibility of losing one's job represent 22 percent of responses.

- The primary reasons for not supporting *migrant integration policies* are concerns about fairness—specifically, the belief that it is unfair to assist immigrants when many locals struggle to find jobs—followed by worries that public services like hospitals, schools, and public transport may become overcrowded. Self-interest concerns account for 30 percent of responses, with access to public services or housing featuring more prominently than jobs.

Importantly, the results indicate that, irrespective of the concerns raised by respondents, offering tailored complementary and compensatory measures can significantly foster support for reforms (Online Annex 3.3.3). Although results should be interpreted as indicative rather than causal evidence, 50–80 percent of respondents in the control group initially opposed to *PMR reforms* indicate they would change their stance toward support if mitigating measures were taken to address their concerns—for example, respondents who express concerns about the cost and quality of utility services following *PMR reforms* are asked if they would change their support, assuming the government committed to creating an independent regulatory agency (Figure 3.7, panel 1). Further analysis

shows that mitigating measures play an important role in boosting support from individuals who may fear job losses from *PMR reforms*, such as workers in public utility companies or individuals with close connections to them.

The share of respondents who would change their stance varies more across specific concerns and is generally somewhat lower for those initially against *migrant integration policies*, but still sizable, at about 50 percent, on average (Figure 3.7, panel 2). One of the complementary policies that would significantly increase support is international coordination and cooperation. The EU Temporary Protection Directive, enacted in response to the massive inflow of immigrants during the war in Ukraine, is a good example of a cross-country agreement that, together with member states' policies aimed at removing barriers to accessing labor markets, has helped achieve high employment rates for foreign-born workers in record time (Box 3.1).

Individuals who say they would still oppose reforms mostly cite reasons related to trust in the parties involved and doubts about institutions' ability to implement reforms or mitigating measures effectively (Online Annex Table 3.3.3). This is in line with results in OECD (2024) showing that, on average, only 39 percent of the population in a country finds it likely that the government will clearly explain how individuals will be affected by a reform, with lower shares in countries where trust in government is weaker. These findings highlight the importance of designing mechanisms that build trust in the reform process. Examples of such mechanisms include the use of crowdsourcing or participatory budgeting to allow collective understanding, design, and oversight of the reform and compensatory measures (OECD 2022), or the use of pilot cases, as discussed in the next section. The findings also underscore that strengthening trust in public institutions through reforms to address governance and corruption vulnerabilities, as advocated in IMF engagement with member countries (see IMF 1997, 2018), can also pave the way for the successful implementation of labor and product market reforms.

Tools and Strategies for Sustainably Advancing Reform Agendas: Lessons from 11 Country Cases

A historical overview of product and labor market reform attempts suggests that strategies to build consensus are associated with higher chances of implementation. Survey analysis presented earlier in the chapter

Table 3.2. Historical Employment Protection Legislation Reform Episodes

Country Cases	Country Classification at Reform	Reform Status
Bolivia (1985)	LIC	Reversed in 2006
Brazil (2017)	EME	Implemented with some resistance
Denmark (1990s)	AE	Implemented and sustained
France (2015–17)	AE	Implemented with some resistance
Georgia (2006)	LIC	Reversed in 2013
Germany (2003–05)	AE	Implemented with some resistance
India (2014–2020)	EME	Legislated in 2020 but not yet fully implemented
Korea (2016)	AE	Largely withdrawn as a result of resistance
Mexico (2012)	EME	Implemented and sustained
Peru (2008)	EME	Implemented with adjustments
Vietnam (2012)	LIC	New labor code enacted in 2012 and sustained

Source: IMF staff compilation.
Note: AE = advanced economy; EME = emerging market economy; LIC = low-income country.

confirms that effective communication of the need for reform and how policies work can shift individuals' attitudes toward reforms. It also highlights the need to complement reforms with additional measures to address concerns. But how have these strategies been deployed in practice? And what other tools and institutions have helped policymakers sustain reform efforts? To shed light on these questions, this section examines 11 reform episodes in countries of different income levels (Table 3.2; Online Annex 3.4). To facilitate comparability, the analysis focuses on one policy field, employment protection legislation (EPL), in which it has proved particularly difficult to enact reforms over the past four decades. It is also a policy area in which intertemporal trade-offs can lead to strong resistance and political gridlock: the benefits of deregulation accrue only gradually over time, whereas deregulation can lead to higher unemployment and lower wages in the short term (Blanchard and Giavazzi 2003). Understanding what has helped to build consensus and overcome political resistance in this context can be particularly useful for other reform areas that entail similar trade-offs.

Building Consensus for Reform

Despite varying outcomes in terms of implementation status, a commonality among the majority of the successfully legislated reforms has been the achievement of some level of consensus prior to legislation.

In some instances, the necessity for reform was demonstrated by economic crises, such as *Bolivia*'s hyperinflation crisis in the 1980s or high unemployment rates in countries such as *Denmark* (early 1990s), *Germany* (early 2000s), and *France* (after the euro area crisis). These situations made it clear that the status quo was unsustainable and changes were needed to revive the labor market and the economy. However, the macroeconomic context alone was neither a sufficient nor a necessary condition for the reforms. Governments needed to employ multiple approaches to successfully garner consensus:

- *Securing explicit electoral mandates for reform.* A strong electoral mandate for policy changes, underpinned by effective communication and far-reaching efforts to convince voters and stakeholders of the need for reform during an electoral campaign, was instrumental in several instances for EPL reform success (Tompson 2009). For example, the economic policy agenda that President Emmanuel Macron proposed for the 2017 *French* presidential election included a labor reform aimed at introducing flexibility in hours worked and collective bargaining, with the goal of reducing unemployment to 7 percent by 2022. In *India*'s 2014 elections, the Bharatiya Janata Party campaigned on the "Gujarat model" for growth and development, featuring business-friendly policies with simplified regulatory frameworks and relatively flexible labor laws to attract industries. Successful election outcomes may have signaled some public buy-in of the new government's economic policy agenda. Strong electoral campaigns also helped in regard to reforms in *Georgia*, *Mexico*, and *Peru*.

- *Extensive communication with key stakeholders.* Engaging early with key stakeholders, such as trade unions and business associations, has also been an effective approach toward communicating the need for EPL reforms. In *Denmark*, continuous social dialogue and tripartite negotiations involving workers, employers, and the government have been a long-standing practice with respect to labor market issues (Petersen 1998). In *France*, the 2007 Larcher Act mandated national-level negotiations between the government and social partners regarding labor law matters, but the 2016 El Khomri law was adopted without prior negotiations and was followed by protests (Gazier 2019).

- *Pilot cases.* Using pilot cases, with key measures usually deployed first in only a few regions, can help demonstrate the benefits of reforms and build public confidence, particularly for EPL reforms, which often involve substantial up-front costs with delayed and indirect benefits. For instance, pilot projects and evaluations have commonly been employed in *Denmark* when introducing new labor market measures, such as paid leave arrangements (Madsen 1999) and public employment services (Hendeliowitz and Woollhead 2007). Similarly, in *India*, key principles deployed in the states of Gujarat and Rajasthan, which pioneered more flexible labor laws, skill development initiatives, and job creation strategies, were later adopted for national labor law reforms.

- *Policy research and international comparisons.* In *Bolivia* and *Brazil*, for instance, policy analysis by independent researchers helped raise awareness about how much more rigid these countries' labor markets were compared with those of peers and how deregulation could enhance productivity growth and competitiveness. International financial institutions also played a crucial role in some cases by raising awareness and providing analysis that local authorities could leverage. For example, the IMF stressed the importance of easing restrictive labor laws in *India* during bilateral consultations (see IMF 2012, 2013, 2014). Similarly, the IMF identified labor market rigidities as the most challenging structural problem in *Germany* (IMF 2001) in the early 2000s, and the Organisation for Economic Co-operation and Development identified comprehensive labor reform in *Germany* (OECD 2001) and *France* (OECD 2015) as top priorities.

No single approach has been sufficient on its own to build a strong case for reforms. In nearly all episodes, governments have had to adopt multiple strategies to build consensus, especially when facing strong resistance. This has been particularly evident when trade unions were politically influential yet fragmented—with each representing a small fraction of the labor force and thus hesitant to support any reform that did not directly benefit its own members, even if beneficial for the broader workforce—as in *Bolivia* and *India*, or when achieving consensus required agreements at multiple levels. For example, in *India*, full implementation of new labor codes required both federal and state-level agreements. And sometimes reform adoption has built on numerous previous reform attempts across different administrations, as in *Brazil*, where attempts to increase labor market flexibility can be traced back to the 1990s (de Oliveira 2018).

Carefully Crafted Policy Design

The case studies reviewed indicate that, besides securing strong consensus, a well-articulated policy design that balances the needs of different social interest groups is critical to implementing sustainable reforms. One particularly effective approach is to involve social partners in negotiations during the policy design stage. In *Denmark*, for instance, key policy changes have often been the result of tripartite negotiations among business associations, trade unions, and the government. Similarly, key principles in *Mexico*'s 2012 labor reform were based on extensive parliamentary negotiations among political parties representing diverse social interest groups.

To ease the negative effect of less stringent employment protection on workers, several countries have supplemented flexibility-enhancing reforms with compensatory measures, such as improved social security and unemployment benefits (Online Annex Table 3.4.1). Examples include *Brazil*, *Denmark*, *France*, *Germany*, and *Korea*. Complementary measures to facilitate the reallocation of workers, such as enhanced active labor market policies and training programs, have been included in episodes in *Denmark*, *France*, *Germany*, and *Vietnam*. These measures have often helped garner support for EPL reforms.

Independent research institutes and think tanks can also play a crucial role in facilitating better policy design and communicating the benefits of labor reforms to the public. For instance, during *Germany*'s Hartz reforms, the economic research institutes RWI and ZEW were commissioned to develop a conceptual framework for evaluating draft policies (Hopp 2019). In *France*, independent institutions such as France Stratégie and the CESE not only conduct labor market analyses and policy evaluation but also advise the government and facilitate dialogue with various sectors of society.

Incremental Implementation

Incremental rollout of reform measures, starting with focused areas that do not immediately threaten core benefits of several social groups, is often associated with stronger sustainability of reforms. For instance, an important focus of *Brazil*'s reform was on reducing excessive labor litigation costs, *India*'s labor reform efforts began with consolidating and standardizing minimum wage regulations across all sectors, and *France* started with simplifying collective bargaining. In *Denmark*, although the first wave of labor reforms occurred in the early to mid-1990s, subsequent reforms, including measures targeting youth and long-term unemployment,

extended into the 2010s. Conversely, when governments have pursued multiple substantial market-oriented reforms simultaneously (Online Annex Table 3.4.1), reform implementation has usually been less successful: in *Bolivia* and *Georgia*, for instance, some of the reforms that were enacted were eventually reversed. This could reflect the fact that negotiating extensively in several reform areas at the same time eventually exhausts governments' political capital or that fast-track implementation of multiple substantial reforms does not allow governments to adequately balance social interests.

Conclusions and Policy Implications

Policymakers worldwide are under pressure to revive improvements in living standards and ensure their economies flourish amid ongoing structural changes that present both opportunities and challenges. In this context, it is critical to implement policies and reforms that boost labor participation and facilitate the reallocation of labor and capital to high-productivity firms and growing sectors. Historically, gaining the necessary social and political support to enact and sustain these policies and reforms has been a formidable challenge. This chapter presents several strategies that policymakers can employ to navigate this challenge, enhance the social acceptability of their reform agendas, and thereby increase the chances of successful implementation.

Although the context in which reforms are attempted can sometimes influence the outcomes, it is by no means determinant. Historical evidence shows that active use of multipronged strategies to build consensus is a more reliable predictor of implementation success. These strategies include consultation and communication efforts and mitigating measures to compensate those affected by reforms. However, whether individuals see themselves as winners or losers with regard to prospective policy changes is not determined solely by objective socioeconomic characteristics—such as employment status, education level, or income. Individuals' views on policies—and thus the social acceptability of reforms—are driven largely by beliefs such as trust in government and institutions, distributional concerns, and perceptions about the effects of policies on themselves and their communities (for example, the overall availability of jobs, access to public services for the neediest, and national security).

Importantly, the chapter's analysis, based on randomized survey experiments, shows that certain communication interventions can shift individuals' perceptions and policy views. First, informing them about the cost of not

undertaking necessary structural reforms raises awareness of the need for the reforms and increases support for policy change. Second, trustworthy communication on the economic effects of policies is effective in correcting misperceptions. For instance, providing research-based evidence on the impact on crime rates of granting work permits to foreign-born workers significantly boosts support for policies to facilitate these workers' integration into labor markets. Although the survey experiments conducted for this chapter focus on specific policies, the consistency of results across distinct policy fields and countries at different stages of development lends support to the general applicability of their policy implications.

The lessons from the chapter's survey analysis and review of country-specific reform episodes extend far beyond simply improving communication or marketing reforms. An effective communication strategy must be supported by a strong institutional framework that fosters trust among all stakeholders and the general population. For instance, the chapter's review of historical cases underscores the importance of independent policy research to build awareness of the need for reform and to achieve consensus. Establishing credible and independent public bodies—such as the CPB Netherlands Bureau for Economic Policy Analysis, the Productivity Commission in Australia, or the Conseil d'orientation des retraites in France—that conduct and validate policy analysis can be particularly helpful (Tompson 2009).

At the same time, dialogue needs to take place in both directions. For instance, the case studies examined in the chapter indicate that not only consultation with stakeholders, but also their involvement in the reform design stage, plays a key role for reform sustainability. Policymakers across the globe are appropriately scaling up their toolkits to incorporate citizens' views into the policy design process. Examples of tools deployed to foster an effective two-way dialogue include large-scale surveys (Blanchard and Tirole 2021), scenario planning (Volkery and Ribeiro 2009), participatory budgeting (OECD 2022; Nicol and Burn-Murdoch 2024), laboratories to evaluate policies through focus groups and pilots (such as the Avalua·lab in Valencia), and open town hall meetings (such as the Grand débat national organized in response to the Yellow Vest movement in France). New civic technologies, such as digital community engagement platforms, are also opening the potential to improve representation and citizen participation processes (see further discussion and examples in Stankova 2019 and OECD 2022). These tools can help identify individuals' concerns and find

mitigating measures that increase reforms' acceptability. As the chapter's survey results show, these measures do not always involve compensating those who lose out, which needs to be balanced against fiscal constraints. Sometimes they entail providing the necessary institutional framework and participatory mechanisms to build trust regarding a reform, which can be achieved even in a fiscally constrained environment.

Finally, the chapter's findings underscore how lack of trust can drive resistance to policy change, even when the benefits of reforms are explained and mitigating measures are considered. For instance, in the context of the experimental surveys discussed in the chapter, the main reason cited by respondents for ultimately not supporting policy change is lack of trust in the parties involved in the reform and, notably, skepticism about governments' ability to implement an adequate reform or deliver mitigating measures. Some mechanism designs have proved useful for reducing mistrust in the context of specific reforms. For instance, the Islamic Republic of Iran handed out cash transfers ahead of phasing out subsidies in a 2010 reform (Guillaume, Zytek, and Farzin 2011). Although funds from the transfers could not be withdrawn until the reform was implemented, the fact that individuals could see the deposits in their accounts raised confidence regarding the compensation plan. However, changing deep-rooted values, like trust, is not an easy task and takes time (Tabellini 2008). Countries that manage to leverage early engagement and effective communication to unlock reform support typically have a high degree of mutual trust rooted in many decades of dialogue among social partners.

Previous IMF studies have underscored the importance of "first-generation" governance reforms—such as enhancing the rule of law, controlling corruption, and establishing an impartial public administration—for economic growth (see Chapter 3 of the October 2019 WEO; and Budina and others 2023). The findings in this chapter indicate that strengthening governance can also be critical to successful passage of second-generation reforms in product and labor markets. The importance of carefully designing policy changes and advancing governance reforms to overcome trust deficits also needs to be reflected in IMF program design.

In summary, effective reform design should involve thorough consultation and communication. Expanding policymaking toolkits to enable a more participative reform process not only strengthens public understanding of reform proposals but also reinforces trust in public institutions, leading to greater social acceptance and successful implementation of policies.

Box 3.1. Policies to Facilitate the Integration of Ukrainian Refugees into the European Labor Market: Early Evidence

The integration of immigrants into the EU labor market during 2022–23 was significantly faster than in the past. Following a slump in global migration as the pandemic shut down borders, immigration into the EU reached a historic high in 2022—driven by more than 4 million refugees from Ukraine—and remained above prepandemic levels in 2023. About two-thirds of jobs created between the end of 2019 and the end of 2023 were filled by non-EU citizens, even as the unemployment rate for EU citizens remained at record lows.[1] Available data suggest that Ukrainian refugees integrated into EU labor markets noticeably faster than previous waves of refugees. Several countries have already estimated employment rates among Ukrainian refugees at about or above 50 percent, which is usually achieved only five or more years after arrival (OECD 2023). Migrants have helped meet unprecedented labor demand during this period.

Among other factors, the EU Temporary Protection Directive (TPD), along with member states' efforts, played a crucial role in the swift integration of foreign-born workers in the recent episode. The TPD provided immediate protection and rights across countries, including residency rights, access to housing and social welfare assistance, medical or other assistance, and means of subsistence. At the same time, many EU member states removed barriers to ensure access to the labor market.[2] For instance, they simplified entry requirements for certain regulated professions and provided a range of measures to facilitate access to the labor market, including language courses, skills validation and recognition of qualifications, skills mapping, financial incentives for employers to recruit TPD beneficiaries, and on-the-job training (EMN 2024). Other factors also facilitated swift labor market integration during the recent episode. First, survey data show that individuals displaced from Ukraine are highly educated, with most having a tertiary education (Caselli and others 2024). Second, a tight labor market in many EU countries also supported fast integration. Nevertheless, as is common in regard to immigrants, there is evidence of widespread worker overqualification and skills mismatches (EMN 2024), which points to further room for improvement in immigrant integration policies.

The recent experience offers important policy lessons. Granting asylum seekers early access to private and public sector labor markets and self-employment, as the current TPD has done for Ukrainian refugees, is a key prerequisite for their speedy integration into workforces (Aiyar and others 2016). The availability of language courses is also crucial to enabling immigrants to overcome one of the most important barriers to obtaining a job. Finally, simplified entry requirements for certain regulated professions, skills validation, and recognition of qualifications are also important elements for successful integration of refugees.

The authors of this box are Francesca Caselli and Frederik Toscani.

[1]It is still too early to assess the effect of the recent immigration wave on native workers' wages.

[2]For specific country examples, see EMN (2024) and Caselli and others (2024).

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