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REGULATORY REFORM: THE NEXT STEPS

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REGULATORY REFORM: THE NEXT STEPS

1. Regulatory reform continues to be on the front-burner in many Member countries. The OECD work on regulatory reform is intended to assist countries in promoting market-led growth and keeping their markets open, while efficiently achieving policy objectives in important areas such as environmental quality, safety and health, and consumer protection. The regulatory reform programme is part of the overall effort at the OECD to promote structural reforms and transparency. It fits with other initiatives such as the fight against corruption, cartels and harmful tax competition, the Jobs Study, and principles of good corporate governance.

2. Progress is being made in meeting the Ministerial mandate on regulatory reform. The centrepiece of the programme is a series of country reviews of regulatory practices based on self-assessment, multidisciplinary analysis, benchmarking, and peer review by OECD expert committees. The first four reviews on *Japan*, *Mexico*, the *Netherlands*, and the *United States* were published in 1999. The second four reviews -- of *Denmark*, *Hungary*, *Korea*, and *Spain* -- are on schedule for completion in early 2000.

3. The country reviews present an integrated assessment of regulatory reform in sectors such as electricity and telecommunications, and in framework areas such as the macroeconomic context, quality of the public sector, competition policy and enforcement, and integration of market openness principles.

4. On 6 July 1999, Deputy Secretary-General Joanna R. Shelton asked Delegations and Committee chairs involved in the peer reviews for their views about the value and process of the country reviews. Responses were received from 15 countries and four committees. Almost all responding Members and committees supported the reviews, though one Member would prefer to treat regulatory issues in a special chapter of EDRC, and a committee chair felt the value of the reviews was not commensurate with costs. The responses proposed improvements to the review process, but did not call for important structural changes to the reviews. The most important change desired was more flexibility in choosing sectors.

5. Other work on regulatory reform is proceeding. For example, ECO is examining cross-country patterns of product market regulation and its effect on performance, using an extensive database assembled from various sources. Analysis by DSTI on regulatory reform in the transport sector is leading to technical work that could support any negotiations that could take place under a new trade round. DAFFE is undertaking a series of examinations of the interactions between competition policy and regulatory reform. Trade is using the country reviews to examine regulatory transparency. PUMA is developing a report on improving the quality of regulations in social policy areas, again using the country reviews.

6. At the OECD Ministerial Council meeting of May 1999, Ministers indicated that "they look forward to the successful completion of the second round of reviews...in 2000, and to the extension of the review process to more countries." A number of Member countries have already declared their interest in being reviewed in 2000 and 2001. Continuing assessment of regulatory quality also points to the need for the development of effective self-assessment capacities. The Secretary-General's proposed Programme of Work and Budget for 2000, in light of the budget situation and competing high priorities, calls for a re-orientation of the regulatory reform programme toward development of self-assessment tools. The four country reviews now underway would be completed, and resources then moved immediately into development of self-assessment tools. The framework and benchmarks derived from the country reviews

would be used as the basis for this new work and continuing self-assessment by Member and non-Member countries of their regulatory practices.

Results of the country reviews so far

7. The reviews show that progress has been made in each country, and, in each country, additional reforms would produce further significant gains. The reviews demonstrate how, against a backdrop of basic market rules, a comprehensive approach to regulatory reform creates positive synergies. Empowering market competition, freeing trade, and reforming government institutions are mutually supportive elements of reform. The reviews also examine concerns about impacts on workers in restructuring sectors, consumer protection, environmental quality, and equity impacts and, in some areas, suggest steps to ensure that reform does not threaten important public policy goals. Major benefits of regulatory reforms have been:

- boosting consumer benefits by reducing prices for services and products such as electricity, transport, and health care, and by increasing choice and service quality. In the United States, the effects of sectoral reforms are still working through the economy, but the medium-term results are clear: in every major sector, the results for consumers in terms of prices, quality, and choice are solidly positive. Prices declined primarily because real operating costs fell in most sectors by 25 to 75 per cent. In Japan, where weak competition in many sectors has contributed to price levels that were in 1993 the highest in the OECD, regulatory reform has begun to reduce prices.
- reducing the cost structure of exporting and upstream sectors to improve competitiveness in regional and global markets. Increased efficiency has particularly high payoffs for small open economies such as the Netherlands. Improving productive efficiency by reducing costs for critical inputs such as communications, land, and transport services boosted the growth of Mexico's export sector.
- addressing a lack of flexibility and innovation in the supply-side of the economy. In the United States, dynamic effects of market-opening were more important than anticipated, and allowed the US economy to adapt more quickly to changes in technology and to external shocks; improved trade-offs between inflation, growth, and unemployment; and boosted the US lead in productivity. Greater responsiveness of the Mexican economy after the 1995 recession, compared to earlier recessions, reflects the increased openness of the economy and enhanced flexibility due to structural reforms.
- helping to increase employment rates by creating new job opportunities, and by doing so reducing fiscal demands on social security, particularly important in ageing populations. Broad programmes to increase competition -- considered economy-wide -- create jobs, though costs may be borne by workers who face job losses. Positive employment effects of market liberalisation can be enhanced by effective social security systems, labour market reforms, and active measures to upskill the workforce.
- maintaining and increasing high levels of regulatory protections in areas such as health and safety, the environment, and consumer interests by introducing more flexible and efficient regulatory and non-regulatory instruments, such as market approaches.

8. These gains have, however, been enjoyed by only some countries in some sectors. The multidisciplinary and multi-sectoral characteristic of optimal reform places it in the category of reforms that governments find hardest to do well. A politically difficult task of pushing forward with these reforms lies ahead. There are encouraging signs that OECD regulatory reviews are stimulating public debates in the countries reviewed and are influencing concrete policy reforms.

Outreach

9. In the outreach activities of the Organisation, and as part of the Governance outreach, efforts are being made to emphasise the role of regulatory reform in the mix of economic policy reforms needed to move toward sustainable growth. We are currently engaged in building ties in preparation for possible co-operation in Asia and in Brazil.