Chapter 1

Reform beyond the crisis

by William Tompson*

This chapter draws out some of the principal lessons that emerge from reform experiences in OECD countries. It seeks to identify both common patterns across policy domains and factors that appear to be specific to particular types of policy reform. The chapter begins with a consideration of the challenge of cross-country policy learning in an environment characterised by broadly similar reform challenges but widely differing reform contexts, a fundamental issue that confronts all the authors in this collection, as well as officials and policy makers in OECD countries who seek to learn from each other's experiences. The discussion then turns to some of the cross-cutting lessons for policy makers that nevertheless seem to be emerging from the "Making Reform Happen" work. The chapter goes on to deal with specific policy domains, highlighting some of the main points that emerge from the individual chapters in this book. A further section explores the meaning of these findings in light of the global economic and financial crisis and looks at the challenge of reform after the crisis. The final set of issues addressed concerns the implications of these findings for the work of the OECD.

* Head of the Regional and Rural Development Unit, OECD Directorate for Public Governance and Territorial Development. The author is grateful to Aart de Geus, Pier Carlo Padoan, Jørgen Elmeskov, Jean-Luc Schneider and Cheonsik Woo for their feedback on earlier drafts, as well as the contributors to this volume and the other members of the OECD's "Making Reform Happen" network.

Over the last few decades, OECD countries have implemented policy reforms in a wide range of domains, with a view to enhancing living standards by raising labour utilisation and productivity, increasing the resilience of the economy to shocks and improving welfare by addressing social concerns such as equity and environmental quality. Despite a broad consensus on the need for reforms in many fields, their depth, scope and timing have differed considerably across both countries and issue areas. Indeed, the reform process has often stalled or been thrown into reverse. The political and technical challenges involved in actually realising reforms are enormous.

In an effort to help governments meet these challenges, the OECD has since 2007 undertaken a substantial and growing body of analytical work under the aegis of the horizontal project "Making Reform Happen" (MRH), which seeks to better understand both the obstacles to reform that governments face in different domains and the most effective ways of overcoming them. In parallel with this work, the OECD has been strengthening its capacity to provide analytical and other support aimed at helping individual governments identify the most effective ways to realise reforms. Though undertaken prior to the global economic and financial crisis, both these strands of MRH work have taken on a new urgency in the wake of the crisis, since OECD governments now face the challenge of trying to restore public finances to health without undermining a recovery that in many areas may remain weak for some time. This will require a careful mix of fiscal policies and growth-enhancing structural reforms.

This volume presents some of the findings that have so far emerged from ongoing work within the context of MRH.[1] Its principal aim is to see how an understanding of past reform experiences may be of use to policy makers seeking to design, adopt and implement reforms in the years to come. The chapters that follow examine the particular challenges to reform and explore possible ways to meet those challenges in a number of distinct policy areas, including labour- and product-market regulation, tax and budgetary policies, education, health care and environmental policy. Two further chapters offer analyses of how to build "reform capacity", by changing the way public administrations work ("reforming the reformers") and putting in place institutions and processes for generating high-quality regulation. These are all areas that have seen considerable reform activity in recent years and that remain high on the policy agendas of most, if not all, OECD members.

The individual chapters that follow have been prepared under the aegis of the OECD directorates active in the areas covered, and most have been discussed in the relevant OECD committees. They reflect the experiences of the OECD and its member countries in each domain, with reference to both OECD-wide trends and specific cases, in the belief that a better understanding of past successes and failures should enhance prospects for better design and implementation of future reforms. The focus in each instance is on the political economy of reform – that is, on the political factors that facilitate or hinder the adoption and implementation of reforms that would be likely to improve performance in a given domain. In other words, the initiatives examined in this volume are broadly considered to have been "good" reforms, as opposed to straightforward policy failures, although that should not be taken to imply that the reform designs were in all cases unproblematic, let alone perfect.

Common challenges and diverse contexts

Would-be reformers face common problems arising from the heterogeneity of agents…

At the root of many of the obstacles to reform lies the central problem of political economy: the heterogeneity of agents. If all citizens had similar activities, endowments and preferences, then most policies would affect all alike, and it would be relatively easy to devise and implement optimal policies – at least, if governments had perfect information, so that it would not be possible for individuals to free-ride. The problem is

not merely that agents' economic endowments are unequal but that they are often different in kind and held in forms that are highly context-specific.[2] Many workers have skills that are firm- or even job-specific, and many firms are invested in capital and equipment that may be of value only for pursuing certain activities in particular locations. Such human or technological capital may be difficult to redeploy in response to a changing environment. The different endowments and/or preferences of different groups mean that many reforms will have a differential impact on them, sometimes substantially altering the relative value of different types of human and physical capital. Even socially beneficial reforms may therefore contradict the interests of many, largely because of distributional consequences that may be unrelated to the core aims of the reform. This heterogeneity finds expression in the political process, not least because it structures the incentives of politicians seeking election.

When it comes to policy reform, there is thus a twofold challenge. The first is to design reforms that will enhance aggregate welfare, even allowing for the costs that reform may impose on some agents. The second is to devise strategies for securing adoption of such reforms that prevent the opponents of change from blocking reform, but that also address their legitimate concerns about its distributional consequences. Given the technical, economic and political complexity of the issues and interests at stake in many reforms, this seemingly straightforward set of challenges can in reality prove dauntingly complex, particularly in situations characterised by imperfect information, distributional uncertainty and low levels of trust.

A good deal of theoretical and empirical work also points to the significance of two other factors:

- Loss aversion: there is evidence to suggest that agents tend to prefer avoiding losses to acquiring gains and that they will therefore run greater risks to avoid loss than to acquire gains. In most situations, this tends to make agents more risk-averse than a standard expected-utility approach would imply.[3]

- Endowment effects: the "endowment effect" is a shorthand label for the fact that that people often value a good or service more once their right to it has been established. This reinforces their tendency to attach a higher value what they already hold, simply because they already hold it. The result, again, is often a tendency to over-estimate the costs and/or under-estimate the benefits of change relative to the status quo.[4]

...but these problems take on different forms owing to the heterogeneity of institutions

Yet if it is the heterogeneity of agents that underlies the principal obstacles to reform everywhere, it does not follow that one can identify any "one-size-fits-all" formulae for overcoming the obstacles to reform or even identifying the most urgent reform priorities. This is because the heterogeneity of institutions and economic structures across countries ensures that the challenges facing would-be reformers vary widely across both time and space. It is important to acknowledge at the outset that virtually all of the contributions to the OECD MRH project emphasise the need for both reform design and strategies for reform adoption to reflect the specific institutional and cultural context of the country. Even where common problems can be identified in different countries, the specific features of the constitutional order, the political conjuncture, the structure of the policy process and other facets of the context for reform mean that simple, unaltered "transplants" of policies and institutions from one environment to another rarely take root. Some degree of adaptation is usually required. This must be borne in mind when trying to draw lessons from reform experiences across countries.

Nevertheless, the evidence suggests that such cross-country comparisons can be fruitful. First, for all their institutional, political and economic differences, OECD countries face a large number of common challenges, as is clear from the chapters that follow. These include devising policies to promote greener growth, pursuing fiscal

consolidation in the wake of the global crisis, addressing the longer term fiscal and other consequences of population ageing, enhancing quality while controlling costs in fields like health care and education, spurring innovation, and adapting regulatory and other arrangements in the face of technological change in sectors like telecommunications. Moreover, in many of these policy domains, member countries have increasingly adopted common approaches, even if the specific institutions and policies still vary considerably from one jurisdiction to another. For example, the focus of labour-market policies over the last two decades has shifted increasingly from an emphasis on passive income support to activation.[5] Michael Wise's chapter highlights the degree of policy convergence with respect to various aspects of product-market regulation and competition policy (Chapter 2). In other areas, like pensions and public administration reform, policy tends to be highly path dependent,[6] as is clear from the chapters in this volume by Vincenzo Galasso (Chapter 3) and Claire Charbit and Camila Vammalle (Chapter 8).[7] Paul Ekins and Roger Salmons also find considerable evidence of path dependence in their chapter on environmental policy reform (Chapter 5). While governments confront common problems, the solutions adopted are to a great extent dependent on past choices. Yet even in these domains, the sectoral chapters presented here, as well as previous OECD work on the political economy of reform, point to important similarities in reform processes.

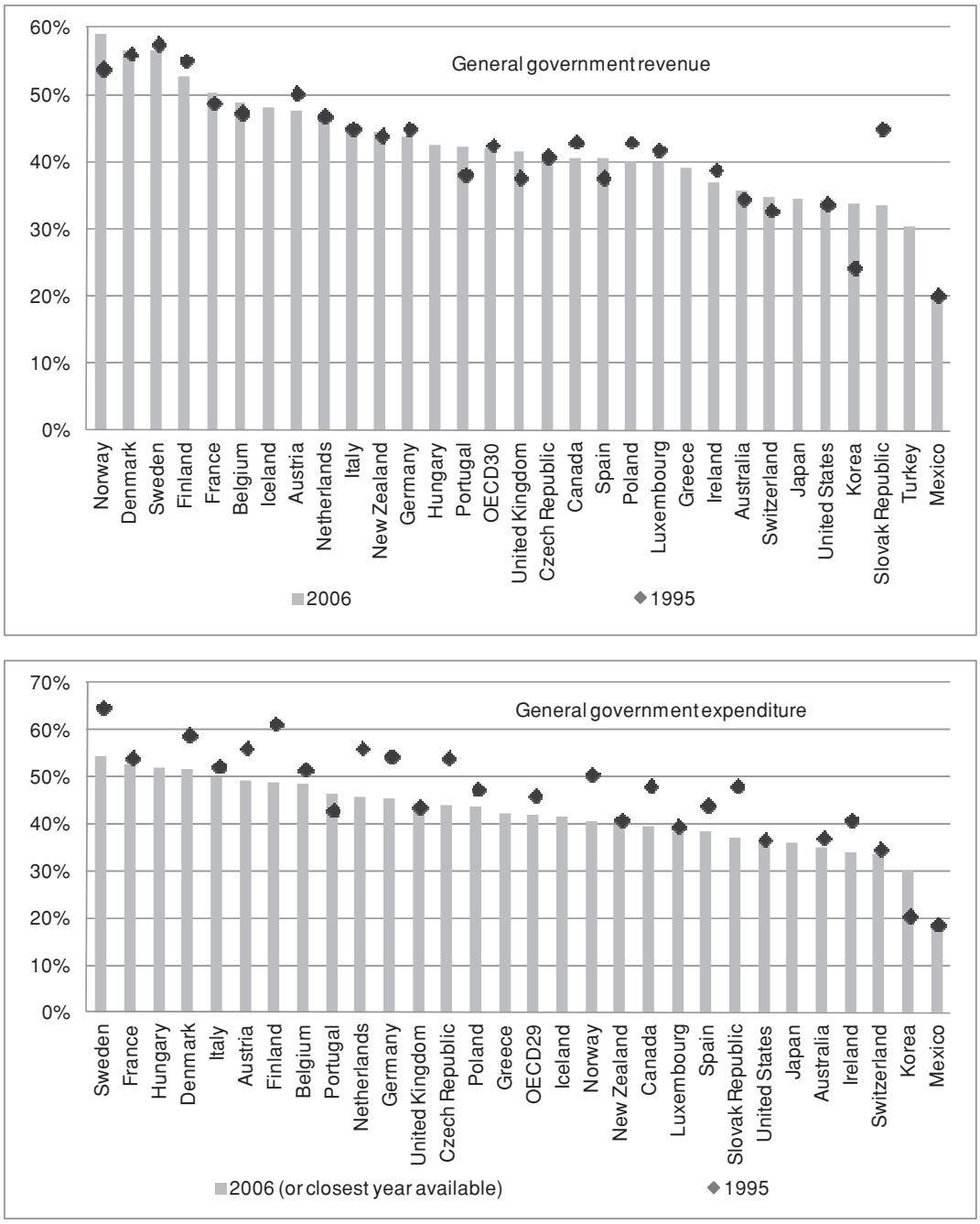
Perhaps most interesting of all is the evidence of a degree of institutional and policy convergence in the OECD area in some domains. To be sure, there is little or no evidence of convergence in constitutional structures or party systems, and there is still considerable diversity in the institutions of OECD welfare states.[8] Contrary to what some theorists of globalisation have predicted, there is little evidence of any convergence in levels of taxation or public expenditure either (Figure 1.1). However, there are clear indications of a certain amount of convergence at the level of "second-order" institutions concerned with economic governance. Faced with common challenges, OECD countries have gradually identified a number of institutions that, with appropriate modifications, appear to support sound macroeconomic and structural policies in a wide variety of settings.

In terms of macroeconomics, the most visible development has been the rise of independent central banks, which are now the rule in developed countries.[9] While one cannot point to such a dramatic convergence in fiscal institutions, Robert Price's chapter draws attention to the relatively rapid diffusion not only of fiscal rules but also of independent bodies charged with monitoring adherence to rules-based fiscal frameworks and, in some cases, with performing some of the technocratic functions associated with budget preparation (Chapter 10). OECD (2009a), moreover, highlights the gradual spread throughout the OECD area of a range of budgetary practices and procedures, including medium-term budgeting, performance-oriented budgeting and more rigorous rules governing budgetary transparency. Michael Wise emphasises the trend towards stronger general competition law regimes and stronger competition authorities, while Gabriella Meloni underscores the growing popularity of independent regulators for network sectors and well institutionalised arrangements for public consultation over policy, as well as practices such as regulatory impact analysis (RIA) (Chapter 9).[10] These and other examples suggest that the scope for cross-country learning and policy/institutional transfer is considerable, despite wide variation in individual country contexts.

One cannot always specify with precision the degree to which institutional change is a cause or consequence of reform. For example, while central bank independence (CBI) does tend to be associated with better inflation performance, many analysts incline to the view that CBI is neither a necessary nor a sufficient cause thereof; both Posen (1993) and Eijffinger and De Haan (1996) suggest that low inflation depends more on the strength of the political coalition supporting price stability, which is the key determinant of both inflation outcomes and the degree of CBI. However, to the extent that institutions represent "frozen preferences",[11] they may help consolidate reforms and make it harder for opponents to reverse them, as several chapters in this volume suggest. For example, Robert Price finds that the reform of budgetary institutions tends to follow the first stages of fiscal consolidation but that, once in place, fiscal rules and independent fiscal bodies

help to maintain discipline. The experiences of OECD countries in fields as diverse as pension reform, product-market regulation and the reform of public administration also point to the potential of dedicated "reform institutions" to help initiate and sustain reforms.

Figure 1.1. **General government revenue and expenditure in OECD countries, 1995 and 2006**
% of GDP



Note: 1995 data is missing for Greece, Hungary, Iceland and Japan. Data are from 1995 and 2004 for Mexico, and 1995 and 2005 for New Zealand.

Source: OECD National Accounts Statistics for all, except Turkey; for Turkey, the Ministry of Finance Revenue Administration.

Managing the process: some general lessons

Although the MRH review of OECD experience does not yield any universal "toolkit" for reformers, or even suggest that such a toolkit exists, it does point to a number of striking regularities in the way reform processes unfold, which suggest that, despite the wide variety of challenges and circumstances they face, policy makers contemplating reforms need to address a certain number of basic questions in the early stages of reform design (Box 1.1).

Box 1.1. **Urgent questions: a reformer's initial checklist**

While neither the MRH work nor the political economy literature in general can yield any universal formulae for reform success, the research undertaken to date and summarised in this section suggests that policy makers should bear in mind the following questions when designing both policy reforms and strategies for their adoption and implementation:

1. Do the authorities have a clear mandate for change?
2. What more can be done to demonstrate the need for change and/or the desirability of the proposed solutions to the public and key stakeholders?
3. How strong is the evidence and analysis underlying the arguments for reform?
4. Are institutions in place that can manage the reform effectively, from design to implementation, or is there a need to create/strengthen such institutions?
5. Does the reform have clearly identifiable "owners", in terms of both politicians and institutions responsible for taking it forward?
6. What is the expected timeframe for design, adoption and implementation?
7. What is to be the strategy for engaging those threatened by reform? Can they be persuaded to support it? To what extent can/should their objections be overridden? Should they be compensated for their anticipated losses – and, if so, how and to what extent?

Among the major themes to emerge from all strands of the MRH analytical work to date are the following.

Elections matter: it pays to have a mandate for change

It is important to have an electoral mandate for reform. This is one of the strongest findings to emerge from the studies that have fed into the present synthesis. Reform "by stealth", via the quiet adoption of a series of seemingly technical changes, can sometimes yield progress, but it has severe limits. Major reforms for which governments have not previously sought public approval tend to succeed only when they generate visible benefits very rapidly, which structural reforms generally do not. Crises may create opportunities for such "reform surprises", as governments are forced to change policies rapidly in response to an emerging situation, but unless the pay-offs are quick, the sustainability of such reforms tends to depend on the government's ability to make the case for reform in terms of longer term goals. It is therefore important that governments undertaking reforms in the wake of the global financial and economic crisis avoid the temptation to treat the crisis as a *force majeure* situation that obviates the need to do the hard work of persuading stakeholders and voters of the need for change. The evidence suggests that an electoral mandate appears to be most important in respect of reforms that are all-encompassing (labour markets, pensions, environment), including those that

affect basic public services (health care, education, public administration). The electoral salience of product-market reforms, by contrast, appears to be lower in most cases.[12]

Effective communication, underpinned by solid research, can help secure such a mandate

The importance of meaningful mandates makes effective communication all the more important. Successful reforms have usually been accompanied by consistent co-ordinated efforts to persuade voters and stakeholders of the need for reform and, in particular, to communicate the costs of non-reform. Where, as is often the case, the costs of the status quo are opportunity costs, the challenge is all the greater, because the cost of opportunities forgone tends to be politically "invisible". Where reforms are more or less all-encompassing (*e.g.* pensions, labour markets), communications efforts need to be directed at the voting public, while in other domains, the key focus may be primarily (though not exclusively) on directly affected stakeholder groups. Clear communication of the long-term objectives of reform is particularly important in a crisis: where reforms are undertaken in response to crises and other exogenous shocks, there is often a lack of clarity about their aims. That said, communication should not be confined to "marketing" the reform: real engagement with stakeholders also involves listening to their concerns, and may well result in some modification of reform proposals. This can improve the quality of policy, as well as prospects for reform adoption.

This points to the need for policy design to be underpinned by solid research and analysis. The MRH review of OECD members' experiences suggests that an evidence-based and analytically sound case for reform serves both to improve the quality of policy and to enhance prospects for reform adoption. If reform advocates can build a broad consensus among experts and the public concerning the merits of reform, they are likely to be in a stronger position when dealing with the reform's opponents. This is particularly important in those instances in which a reform must be negotiated with stakeholders who are suspicious of change. However, the challenges involved in evidence-based policy making vary across policy domains.

Successful reform also requires strong institutions and leadership…

The foregoing challenges, in turn, are more likely to be met where appropriate institutions exist, capable of supporting reform from decision to implementation. The impact of economic analysis, in particular, depends to a significant extent on the source: research presented by an authoritative, non-partisan institution that commands trust across the political spectrum appears to have a far greater impact. Building such institutions can take time, as their effectiveness depends on their reputation, but where they exist, their prior analysis appears to have enhanced the prospects for reform in particular areas. Yet institutions capable of providing expertise and advice are not all that is needed. Effective institutions are often required to guide and monitor implementation. Gabriella Meloni's chapter highlights the need for institutional coherence and co-ordination at all levels of government and for a well articulated and well-designed policy process, while Claire Charbit and Camila Vammalle address the critical issue of improving the quality and efficiency of public administration.

Leadership is critical. Virtually all of the assessments prepared so far in the context of MRH point to the importance of strong leadership – whether by an individual policy maker or an institution charged with carrying out the reform. Much of the work also points to the importance of government cohesion in support of the reform. If the government is not united around a reform proposal, it sends out mixed messages, and opponents are able to exploit its divisions; defeat is usually the result. Cohesion appears to matter more than such factors as the strength or unity of opposition parties or the government's parliamentary strength. That said, the call for strong leadership should not be read as endorsing a top-down approach to reform or suggesting a preference for unilateral action by the executive. While unilateral reforms are sometimes the only way forward and reformers may need both toughness and political cunning when dealing

with opponents, the experiences highlighted by the chapters in this volume suggest that successful leadership is often about winning consent rather than securing compliance. This is particularly the case where those directly affected by a reform will play a role in implementing it.

...and takes time

Partly for these reasons, successful structural reforms take time. The more successful reforms examined in the MRH analyses generally took several years to prepare and adopt, and they often took far longer to implement. By contrast, many of the least successful reform attempts were undertaken in haste, often in response to immediate pressures: when it comes to policy reform, more haste can indeed make for less speed. Reforms of pension, health-care and education systems, in particular, often have relatively long gestation times, involving a considerable amount of careful study and consultation, as well as very long implementation periods. Much the same is true of reforms to public administration. Thus, while crises may provide opportunities to press ahead with reforms, the ability to make good use of such opportunities may depend on the work that has already been done to prepare a reform. It is often said that governments must seize the opportunities created when crises, scandals or other events create an opening for reform. However, to make the most of those opportunities, reformers must be ready even before they arise.

A final cross-cutting lesson, which is hardly surprising in view of the foregoing, is that successful reform often takes several attempts. Many of the biggest reform successes analysed in the secretariat's work followed earlier setbacks, and less successful reform attempts can often be seen in hindsight to have helped set the stage for subsequent, sometimes far-reaching reform initiatives, often by deepening policy makers' understanding of the problems involved.

It pays to engage the opponents of reform and may be necessary to compensate them

To a greater or lesser extent, all the chapters in this volume address the question of how to deal with the opponents of reform. While the nature and intensity of opposition to reform varies across issues and countries, there are some broad themes that appear to emerge in almost every context. First, reform experiences in OECD countries suggest that it pays in most circumstances to engage those who will be most directly affected by reform. Inclusive, consultative policy processes are certainly no guarantee against conflict when sensitive reforms are under consideration, but over time, such an approach seems to pay dividends, not least by creating greater trust among the parties involved, which may make the expected losers from reform more willing to rely on commitments to steps that will mitigate the cost of reform for them. Secondly, it is important to recognise that concessions to potential losers need not compromise the essentials of the reform: they may indeed be coherent with its overall logic, improving the prospects of particular groups that will be affected by the reform without contradicting its overall aims. The individual chapters illustrate the possibilities for such "reform-consistent compensation" in such areas as pensions, labour- and product- markets, taxation and public administration reform. Broader trade-offs may be possible, when complementary reforms in different domains are undertaken in such a way as to allocate both costs and benefits more equitably.

The question of whether, when and how to compensate those who will lose out as a result of reform emerges in virtually all the chapters. The literature on structural reform devotes a great deal of attention to the question of when and how the losers from reform might be compensated, whether by exempting them from the reform, at least for some period, or via some sort of alternative compensation. Failure to compensate may reinforce opposition to reform, but excessive compensation may be costly or may simply blunt the effects of the reform itself.[13] In a repeated game, it may also reinforce opposition to future reforms, as the perceived weakness of the government encourages

agents to push for maximum concessions. The most common compensation strategies involve "grandfathering" rents and long transition periods, both of which are discussed later and in the chapters to follow. Concessions in the form of "side payments", such as adopting policies in other domains that might offset the cost of reform for some groups, are employed less frequently, though examples of such bargains are discussed in a number of chapters.

The extent and nature of compensation for "reform losers" depends on a number of factors

A number of considerations come into play when issues of compensation arise. First, there is often a value judgement to be made about the rents that agents are losing as a result of reform. If these are widely seen as unjustified (arising from, for example, the abuse of market power), there may be a well-founded reluctance to compensate, other than perhaps by phasing the reform in over some period. Where, on the other hand, there is a strong sense that agents did have some entitlement to the benefits they will lose, some compensation may be necessary. Reforms that affect what are considered to be "acquired rights" are likely to be particularly difficult to execute in the absence of compensation. It is not always clear, though, what constitutes an "acquired right". The issue is most straightforward in respect of contribution-based benefits or labour contracts. In other cases, it may depend on how the existing policy regime is organised and conceptualised. This, in turn, reflects not only the specific legal, cultural and institutional norms prevailing in a given country, but also the organisational and other resources of the groups that stand to lose. Other things being equal, the argument for compensation is stronger where subsidies or economic rents are capitalised into the value of assets. This is the so-called "taxi medallion problem" highlighted by Koromzay (2004). Current asset owners in such situations have typically acquired assets or made investments in good faith in an environment in which asset prices already reflected the rents generated by status quo policies (and in some cases, they were encouraged by those policies to do so). The true beneficiaries were those who held the assets when the policy-induced distortions were created.

The case for compensation is also likely to depend to some extent on the options the losers have for mitigating their losses – or even benefiting from reform – in the absence of compensation. This depends in large part on their pre-reform endowments and position. As a rule, either generous compensation or long transition periods are likely to be needed for agents who cannot readily adapt to the measures being implemented. The argument for long phase-in periods in respect of pension reforms, for example, rests largely on the fact that there are strong arguments against imposing substantial changes on current pensioners or older workers, for whom it may be too late to adjust their savings or labour-market behaviour. The owners of capital are, *ceteris paribus*, able to adapt to reform more easily than other agents, except perhaps in cases where reform risks leaving them with stranded investments. They can adjust their portfolios in response to policy changes and thus reap at least some portion of the benefits of a growth-enhancing reform. Indeed, if well functioning financial markets bring forward in time some of the benefits of reform, then the owners of capital may start to reap the benefits of reform even before they begin to pay the price.[14] Wealthier agents are also better able to cope with the costs of non-reform in many situations, having recourse to a wider range of adaptive strategies in response to sub-optimal policies and institutions. This puts them at an advantage in any conflict about how the costs of reform will be allocated. This is likely to matter more where the distributional consequences of reform depend on the specific measures adopted and are relatively easy to anticipate – *e.g.* in connection with labour-market reforms and pension reforms rather than, for example, financial or trade liberalisation.

Sectoral perspectives on making reform happen

This section turns from the most general, cross-cutting issues to some of the more sector-specific conclusions that are suggested by the various contributions to this volume. Its organisation follows the structure of the book as a whole, reflecting a broad – and admittedly imperfect – distinction between the various roles that the state plays in an economy. Generally speaking, the policy domains covered here fall into three groups:

- Fields like competition policy and the regulation of labour and product markets, in which the state's role is primarily that of "referee", regulating the activities of autonomous agents, who choose and pursue their own ends, and resolving disputes between them.
- Areas like education and health care, in which the state is engaged in the direct provision of services to citizens.
- Activities concerned with the functioning of the state itself in its performance of both rule-application (regulatory) and task-fulfilment (service provision) functions. The chapters in this volume by Meloni (on regulatory policy) and Charbit and Vammalle (on public administration reform) are chiefly concerned with these domains.

Of course, these distinctions are somewhat rough and ready, and there is in fact considerable overlap among them. Health-care policy, to take but one example, may concern the direct provision of some services as well as the governance of markets for the provision of others. Pension reform, too, may involve both governance of markets and direct administration of public schemes. Moreover, in many instances, reform itself may involve altering the state's role in a given field, as when a public administration reform results in the outsourcing of services that the state bureaucracy previously provided to itself or when sectors in which goods or services have been provided by state-owned monopolies are opened up and turned into contestable markets with private players. Many pension reforms involve changing the balance between public and private sources of pension income. Finally, when it comes to environmental policy, in particular, the reform agenda may involve policies to address environmental externalities in all of these fields. Nevertheless, these three broad categories are worth bearing in mind, because, as will be seen, they do tend to present somewhat different challenges for reformers.

International pressure and technological change have been key drivers of product-market reforms

The experiences of a number of OECD countries suggest that reforms of product-market regulation can play an important part in governments' response to adverse shocks. Deregulation can speed up the needed reallocation of resources, and, by reducing the cost of doing business, provide a fiscally neutral way of giving some relief to an enterprise sector under pressure. Efficiency-enhancing reforms to network industries and other non-tradable sectors can be particularly attractive at such a time. Nevertheless, simply persuading stakeholders and the public that the overall assessment of costs and benefits favours such reforms can be difficult, largely because the costs of the status quo in respect of product-market reforms are often hidden from the electorate. It is often clear who will pay the price for a reform – which firms are likely to come under pressure and which jobs may be at risk – whereas it may not be at all obvious who is paying for the status quo. It is difficult to identify firms that have never entered the market, sectors that have not developed or the workers whom they would have employed. However, experience suggests that a determined effort to quantify the costs of the status quo and the potential benefits of reform, and to communicate these to stakeholders and the public, can be crucial elements of success.

At the same time, successful product-market reforms typically include transition arrangements designed to ensure that the producer or consumer interests affected do not experience abrupt changes in economic conditions. As noted above, the most difficult problems tend to be those that arise when the rents resulting from anti-competitive regulatory policies have been capitalised into asset prices: current asset owners may not have profited from the old policies, but it is they who will be hurt by reform. Reform may make it impossible for some investors to earn an economic return on investments undertaken in good faith on the basis of the previous policy regime (so-called "asset stranding"). Since employer-employee relationships usually involve an element of relationship-specific investment that is lost in the event of a separation, stranded assets problems can affect labour as well. Where they arise, direct compensation or some other form of transitional assistance may be required if reformers wish to avoid extremely long phase-in periods.

As Michael Wise observes in Chapter 2, market-opening reforms are an area in which the last few decades have seen a significant degree of convergence among OECD countries. The trend towards stronger competition regimes and institutions is widespread, as is the tendency to open up more and more previously protected sectors to competition. This has come about not least because it is a field in which both international competitive pressures and international organisations and agreements have played a very large role in driving policy change, often in conjunction with major crises. In a world of increasingly free trade, both direct competitive pressures and the increasing focus of international trade negotiations on non-tariff barriers tend to put pressure on anti-competitive regulatory regimes. Reform thus typically begins "at the border", with foreign trade liberalisation, and gradually extends into more and more sectors and policies "behind the border", many of which are judged to be trade-related. Wise also observes that some of the sectors in which insider interests have been most successful in resisting market opening are non-tradables, where such external pressures are weak or altogether lacking. The role of technological change in driving policy reform is also important, though somewhat ambiguous. On the one hand, there is little doubt that technological change has been a powerful driver of reform in sectors like electricity and telecoms, in part by turning formerly non-tradable sectors into tradable ones or creating new possibilities for introducing competition in activities previously characterised by a high degree of natural monopoly. The opening of such markets to competition has often, in turn, spurred further innovation. On the other hand, the technical complexities involved in the creation of well functioning markets in sectors like electricity have sometimes created additional obstacles to reform. While the technical problems are real enough, it is also the case that protected insiders can use them to resist reforms that would in fact be quite feasible.[15]

Labour-market reforms have too often targeted "outsiders"

The global crisis that erupted in 2008-09 has highlighted the peculiar challenges posed by labour-market reform in many OECD economies. The 2009 meeting of the OECD's Council at Ministerial Level emphasised the need for re-employment measures and other reforms to counter the tendency for cyclical unemployment to become structural, including more effective and, in some cases, expanded active labour-market policies (ALMPs). However, reform of the "core" of the labour market is likely to be much harder in the near term. The evidence suggests that, although high levels of unemployment tend to increase the pressure for labour-market reform, a sharp rise in unemployment increases the likelihood that any reform will leave regular workers on indefinite contracts (labour-market "insiders") largely untouched. Since the value of employment protection rises with unemployment, regular workers, who tend to be the most organised segment of the labour force, have even greater reason to resist any weakening of employment protection legislation (EPL) during a cyclical downturn. Because EPL tends to impede job destruction as well as job creation, governments may hesitate to relax it in a recession, for fear of even greater job losses. Consequently, labour-market reforms in recessions tend to focus on labour-market "outsiders" – new entrants, those on irregular contracts, the unemployed and others on benefit. While

reforms aimed at activating outsiders can be beneficial, the crisis has underscored, and perhaps even exacerbated, such labour-market "dualism" in many countries, as labour-market outsiders have borne the brunt of the adjustment, while insiders have in some cases secured significant real wage increases.

However, the experience of labour-market reform in OECD countries also seems to suggest that a sharp downturn can often be the right time to initiate a reform: given the lags involved in the policy process, labour-market reforms designed and adopted in the middle of a contraction are often implemented in a recovery, when an improving job market can make implementation easier. In short, the most promising time for reform seems to be immediately after a recession.[16] Moreover, in both labour and product markets, such reforms can facilitate the smooth reallocation of resources towards more dynamic sectors. Advancing such reforms may require significant concessions to organised labour on other issues. Galasso, in Chapter 3, shows that these concessions need not compromise the economic logic of reform: in some cases, it is possible to package reforms in such a way that agents will accept reforms they find threatening if these are bundled with reforms from which they stand to benefit. For example, there is a general tendency for unemployment benefits and employment protection to operate as substitutes in many countries – relatively few OECD countries combine very generous unemployment benefits with high levels of EPL. A reduction in EPL may therefore be combined with increased generosity of unemployment benefits where these are relatively ungenerous; in principle, both reforms might be desirable. Such a trade-off will, of course, depend on whether or not there is fiscal space for such concessions. Galasso also shows that labour markets are not so easily reformed by the sort of gradual, divide-and-rule approach that has often succeeded when reforming public pensions. Whereas pension reform in many countries has advanced by changing one segment of the pension system at a time, the same approach to labour markets has often simply led to deepening segmentation of the market.

Pension reforms

Pension reform appears to be an area in which public communication of reform messages is especially important – and potentially effective. As recently as the mid-1990s, some studies of the political economy of pension reform in the developed world suggested that it could only proceed by "stealth", with governments adopting technical changes with a minimum of publicity in an effort to shore up the financial sustainability of pension systems without ever revealing the far-reaching nature of the changes they were making (see, *e.g.* Pierson, 1994, 1996). In fact, it seems to have become easier in the last 20 years to win public acceptance of the need for – and, perhaps, the inevitability of – the reform of general pension systems, even if the urgency of reform has sometimes been questioned. This reflects in no small measure the impact of public discussion of research on the implications of lower birth rates and longer life expectancies, in particular, for public pension systems.[17] There is also an understanding in many countries that the current crisis has put even greater pressure on the finances of pension systems, making reform even more of a priority. While the distributional issues remain difficult, agreement on the need for reform is now widespread, and much has already been done.

Pension reform experiences in OECD countries highlight the importance of many of the general lessons identified above, including the need for careful study and consultation, the risks associated with excessive haste, and the importance of public communications and clear electoral mandates. It is a domain in which unilateralism appears to be a particularly unpromising strategy: almost all major reforms are preceded by intensive consultation and negotiation, sometimes over very long periods. In addition, successful reform strategies have often involved relatively long transition periods, which effectively exempt large groups from implementation of the reform. Despite the widespread perception in many countries that pension reform proposals represent a threat to retirees and older workers, current pensioners are rarely affected by pension reforms and workers approaching retirement usually experience only minimal change.[18]

In part, this is because trade unions and political parties tend to be oriented towards the interests of older cohorts, but there are also good economic arguments for long transition periods. Sharp swings in pension policy can be costly to contributors making career/savings choices for the long term, and the microeconomic benefits of pension reform depend in part on the clarity and stability of the link between contributions and benefits. The costs of pension reform thus tend to be borne chiefly by younger cohorts. Since it is they who will lose out if the system proves unsustainable over the long term, and since they have longer to adjust their savings behaviour, this tends to be politically acceptable.

Pro-growth tax reform

Although there is now broad agreement on a number of basic principles underlying pro-growth tax reform, implementation of such principles has, to date, been patchy. With public budgets in many OECD countries now under severe strain, however, such principles are more important than ever in guiding tax policy. Pressure for fiscal consolidation will compel many countries to seek new revenues in coming years, and the impact of this process on growth will depend largely on their success in identifying the revenue sources that are least distorting and least damaging to growth. To some extent, the difficulty of pursuing pro-growth tax reforms hitherto has reflected resistance to pro-growth tax reforms on other grounds, such as simplicity, equity or ease of administration. The need to make trade-offs among various goals is one of major challenges confronting any comprehensive tax reform. However, resistance to reform also reflects the fact that, while tax reform is in principle an "all encompassing" reform (the tax system affects everyone), it is relatively easy, and often electorally advantageous, for policy makers to opt for tax policy changes that serve the interests of particular constituencies (often swing voters). The benefits of such measures are effectively targeted – and visible to the beneficiaries – while the costs are spread over all taxpayers and are consequently less visible. A further concern in the present environment is that the growth of budget deficits in many countries will make it difficult to pursue pro-growth tax reforms that result in significant revenue losses in the short term; this makes any uncertainty regarding the impact of reform on taxpayer behaviour all the more important.

Bert Brys's overview of tax reform experiences in the OECD area in Chapter 4 points to a number of ways in which these and other challenges can be addressed:

- The framing of tax reform debates is critical: by considering the tax system as a whole (or even the tax-and-benefit system, when the taxation of labour income is at issue), rather than focusing on isolated elements, policy makers can better communicate the issues and trade-offs involved to the public, as well as address issues like vertical equity, which are best conceived as properties of the entire system rather than of specific taxes. This points to the potential for advancing reforms via broad packages that remove distortions in the system while spreading both benefits and adjustment costs widely; the losers from some measures may be winners from other elements of such a package.

- Since tax reform is likely to be a lengthy and complex process, articulating broad aspirational reform goals can help to clarify the meaning of reform for agents, while also making it easier to resist special interest lobbies. If reforms are to be bundled, such goals can help give "shape" to the package, increasing the likelihood that it will constitute a coherent reform rather than a ragbag of unrelated measures. Potential opponents' fears may also be allayed somewhat if the statement of reform goals includes acceptance of some *ex ante* constraints on reform, such as revenue neutrality.

- There is often a role for independent bodies charged with assessing the likely impact of proposed reforms in terms of such issues as taxpayer behaviour, revenues, vertical and horizontal equity, and ease of administration. Such a body could also provide analyses of the status quo, not least via the provision of

transparent reporting of, *e.g.* the level of tax expenditures. In this connection, Brys notes that even the structure of the policy process – who gets to weigh in on reform proposals and at what stage – can be important.

- Finally, Brys notes that the timing of implementation can be critical. Changes in business taxation, in particular, can have devastating effects on firms if they are not phased in appropriately – sudden changes in the treatment of, *e.g.* debt-financed investment may otherwise push many firms to the brink of insolvency.

Economic and scientific uncertainty can make environmental policy reform particularly difficult

One of the most commonly cited "stylised facts" about the difficulty of structural reform is that the costs tend often to be incurred up front and concentrated on a few agents, while the benefits take longer to materialise and are generally more diffuse.[19] As is clear in Chapter 5 by Paul Ekins and Roger Salmons, this generalisation seems to be particularly true for environmental policy. Many environmental reforms are concerned with addressing the externalities generated by economic activity, and this means, almost by definition, that some actors will be deprived of sometimes substantial income in order to bring environmental benefits to all. Moreover, when it comes to issues like climate change, the full benefits of reform will not be felt for a generation or two. Reform debates are often complicated further by concerns about the impact of reform on competitiveness, its consequences for the less well off, and the problems that arise when the income streams eliminated by a reform have already been capitalised into asset prices – as, for example, when environmentally damaging farm subsidies have been capitalised into land prices.[20] At the extreme, environmental reforms can result in "asset stranding," which occurs when reforms leave companies or individuals stuck with investments that they would never have made if they had anticipated the change in the legal-regulatory regime and from which they cannot hope to earn an economic return in post-reform conditions. Reform may, in essence, render the assets worthless. Compensation of investors may thus be in order, provided they have not yet recovered the cost of the asset and cannot do so via sale or alternative use.

Scientific uncertainty often presents a further challenge, as it implies that the evidence put forward to support the case for reform will often be contested, and those threatened by policy changes will try to generate more "favourable" evidence to introduce into the debate. Debates over the science underlying certain environmental policy reforms are also affected by disagreement concerning such issues as the appropriate techniques for monetising environmental values and the proper limits of cost-benefit analysis. Consequently, the choice of analytical technique is often highly politicised. In many countries, a widespread attitude of mistrust towards government adds to the difficulty, since official claims about the need for reform are likely to meet a sceptical reception by much of the electorate. Finally, environmental reform is often complicated by the devolution of responsibility for issues across different levels of government (*e.g.* water management). It can also be highly path dependent, since past policies and infrastructure investments may dictate to some extent the menu of options available to policy makers.

Recent policy reforms in OECD countries suggest a number of lessons about how to address the particular challenges involved in environmental policy reform. First, as in other domains, engaging stakeholders and the public is crucial. Second, while research alone is no "fix" for politics, there is no substitute for a solid, evidence-based case for reform when dealing with stakeholders and voters. Public acceptance of a degree of scientific consensus does matter. Where, as is often the case, implicit or explicit subsidy regimes contribute to environmental externalities, transparency about the size and allocation of subsidies can help. Third, path dependence implies that the selection of policy instruments depends to some extent on existing institutions and regulatory regimes. Policy makers need to consider, for example, how easily a given legal system can cope with the introduction of instruments like tradable permits. Efforts to ensure

that environmental policy changes are compatible with the broader institutional and regulatory environment are more likely to succeed where governments create institutions or processes that permit a whole-of-government approach to environmental regulation. In many cases, these considerations also point to the need to rely on a mix of policy instruments to address multiple market failures.

Concerns about competitiveness and the distributional consequences of reform are often finessed via partial and/or temporary exemptions from certain provisions, transitional support and long phase-in periods. At times, reform may be facilitated by the adoption of offsetting policies to ensure its tax neutrality, either by recycling the revenues raised by an environmental tax back to firms according to some rule or by cutting other taxes on industry, such as labour taxes. However, care must be taken that such measures are de-linked from the original polluting activity and do not lock resources into activities that should be curtailed or abandoned. Partial exemptions are sometimes used, as well, particularly to give relief to companies facing international competition. However, this can blunt the effectiveness of the reform; such exemptions may also be linked to binding targets for environmental performance, but the evidence suggests that this tends to have a limited effect. In some cases, it may be possible to achieve environmental objectives without radically and suddenly increasing the tax burden on firms: the environmental impact of an emissions tax, for example, will depend on the tax paid on marginal emissions, not the average tax per unit emitted. There may thus be some scope for phasing the tax in or designing it in such a way as to avoid unduly penalising investment decisions made before it was adopted.[21] Finally, if permit trading is to be introduced, it may prove politically necessary – though it is not economically desirable – to issue at least some portion of permits free of charge to major polluters ("grandfathering") (see Chapter 5 for more detail). If this is done, governments should seek to transition gradually towards reliance on auctions.

Reformers in education and health care face a number of common challenges

Chapters 6 and 7, by Gregory Wurzburg and Jeremy Hurst, suggest that governments seeking to reform health-care and education systems are likely to confront a number of common challenges, connected largely with the fact that both involve a great deal of direct service provision by the public sector, though there tends in most countries to be more private provision (even if publicly financed) in health care than in education.

- Both are characterised by an unusually high degree of path dependence. Health-care and education systems are both large and complex, and they have evolved in very specific ways in different national contexts. The question of what is feasible or desirable thus depends to a great extent on the institutions and policies already in place, as well as on the available physical infrastructure and human capital. Past policies also help shape public attitudes concerning what citizens have a right to expect from public health-care and education systems, which are often part of an implicit but nevertheless fundamental "social contract".

- The provider interests in both fields, who tend to be very well organised, generally command greater public trust than do politicians. Voters may be dissatisfied with health-care or education systems, but they tend to trust medical professionals and educators, who therefore have enormous power over the reform process. Some observers argue that they often act as *de facto* "veto players" when it comes to reform in their respective domains. Moreover, because effective implementation requires their co-operation, public sector providers can often undermine or even sabotage the implementation of reforms they oppose, at times turning their opposition *ex ante* into self-fulfilling prophecies *ex post*.

- It can be hard to make the case for reform on grounds of policy outcomes, because there is no consensus about how to assess outcomes in health care and education. This is partly due to the complex mix of goals to be pursued in both fields (equity, efficiency, quality, choice, cost-containment, etc.), but it also reflects the lack of reliable, generally accepted indicators concerning the quality

of health-care and education outcomes and their value. Evidence-based reform is difficult where the evidence base is either lacking or contested. One consequence of this is that isolated facts or bits of data, or the emergence of a single high-profile study, can have a disproportionate impact on policy debates.

- Policy in both fields tends to be characterised by very long lags between conception and implementation. It can take years to design and adopt a reform, and it may be a decade or more before its impact is really felt.[22] This constitutes a potential disincentive for elected politicians contemplating reform, since no government is likely to remain in office long enough to receive credit for the benefits of the reforms it initiates.

- There is much less agreement about what constitutes "best practice" in these two fields. In some policy domains, one can identify a broad consensus on certain essential elements of a sound policy framework, even if there are disagreements about the details of implementation. In health care and education, however, there is no such model of best practice against which to assess individual policy regimes.

There are also more specific challenges in each field. In many countries, policy reform in education is complicated by the difficulty of co-ordinating reform across different levels of government and across multiple regional and local jurisdictions. This can also be a problem in health care, but it is typically less of an issue than in education. Sequencing is also a key issue in many education reforms, since retraining staff is often required. In the case of health care, many of the problems facing would-be reformers arise from the asymmetries of information which exist between patients and providers, and between governments, managers and providers. Health-care professionals and pharmaceuticals producers hold much of the knowledge about the benefits or potential benefits of health care. Insurers, governments and managers tend to be knowledgeable about the costs. Insured patients may be ignorant of both. The political economy of health-care reform is also shaped by the size and concentration of the actual or potential economic rents involved, which ensure the mobilisation of powerful lobbies when those rents are threatened.

Despite the presence of this formidable array of obstacles, many OECD countries have undertaken education and health-care reforms in recent years. Their experiences suggest a number of lessons concerning how governments tackle these challenges.

- Major changes are very rarely imposed on medical professionals or educators: successful reforms tend to be negotiated and to involve sometimes substantial appeasement of the major stakeholders. Health-care reform, in particular, has tended to be expensive in most countries – even if it is expected to help contain costs over time, it often involves expensive concessions in the short term. This suggests that it will be very difficult to reform where the crisis has brought about a marked deterioration in public finances.

- This process of negotiation means that reforms tend to involve extensive study and long preparation times: these are not domains in which "big bang" reforms, such as might be used to open a heavily regulated market, are likely to succeed.

- More and better data and analysis, including international comparisons, are often helpful, though a great deal depends on the level of consensus that exists regarding the value and meaning of such evidence.

- The need to engage the professions being reformed, coupled with the long time horizons involved, also means that reforms in health care and education may benefit from the creation of reform institutions to facilitate consultation and to support reform implementation. The existence of such institutions may also give coherence to a reform process that is likely to involve a large number of mutually reinforcing changes in discrete parts of the system over an extended period. A

well-established and credible reform institution may also help to counterbalance the influence of provider interests in these domains.

To "reform the reformers" it is usually necessary to win their co-operation

As Claire Charbit and Camila Vammalle make clear in Chapter 8, public administration reform raises many of the same challenges, in terms of scope, scale and complexity, as reforms in health care and education, including path dependence, long time lags, co-ordination among different levels of government (especially but not only where reforms are directed at greater decentralisation) and the need to win the support of public sector stakeholders who will be directly affected by reform. It is also a domain in which it can be difficult to make an evidence-based case for change, because of the difficulty of evaluating the quality and efficiency of public services/public administration. In addition, there is rarely much social demand for public administration reform; while citizens are often dissatisfied with public sector inefficiency or the quality of public services, the issue of "internal" changes in public administrations usually tends to be of low political salience, and generating public demand for reform may itself be one of the first challenges that would-be reformers have to tackle. At the same time, however, voters may react strongly and negatively to measures that are perceived to violate a basic consensus about the boundaries and obligations of the state. Privatisation and the outsourcing of functions previously performed by public bureaucracies can be seen as violations of the kind of tacit "social contract" discussed above. Finally, public administration reforms confront policy makers with the problem of "reforming the reformer", since the public administration must, in effect, design and implement its own reform, imposing measures on itself that many officials may dislike.

Many of the lessons that emerge from recent experience with public administration reform pertain directly to the challenges identified above:

- Among the key elements of successful reforms have been efforts to raise citizen awareness of, and support for, reform, often via public debates and consultation strategies, and steps to compensate civil servants, financially or otherwise (*e.g.* via improved working conditions or opportunities for career development). Public understanding and support may be easier to obtain if changes in public administration are accompanied by complementary reforms that are more visible and more popular, such as e-government reforms, which can enhance both citizen voice and the quality of public service delivery.

- Extensive consultation with the officials affected by reform, whether they are elected or not, is also important, since civil servants and local politicians are more likely to accept – and even to take ownership of – a reform if they are clear about its underlying values and goals, and their role within it.[23] Civil servants' support can also be won – or their opposition reduced, at any rate – by complementary reforms that offer them benefits. While direct concessions such as higher pay may sometimes play a role, steps to improve working conditions, increase job satisfaction or invest in public officials' professional development may all be entirely consistent with the goals of reform while also fostering support for it among officials.

- Governments may also reduce uncertainty, and therefore opposition to reform, by accepting a degree of incrementalism, allowing reform to proceed in stages, with adequate provision for feedback and adjustment along the way. However, sustaining such an incremental reform over an extended period requires consistent leadership; public managers' perception of political support for public administration reforms appears to have a direct influence on their implementation (see Yang and Pandey, 2009).

- Given the likelihood of government turnover, this points to the need for independent, permanent organisations for steering reform, especially after the initial stages; otherwise, there is a great risk that incrementalism will give way to

inertia and reforms will stall. Since such institutions need broad authority across the state administration, centres of government often have a key role to play here.

- Charbit and Vammalle also identify a role for international organisations in helping to generate knowledge, citizen awareness and support through the sharing of knowledge and information, policy evaluation and the promotion of co-operation among national administrations. By providing international benchmarks and channelling peer pressure, they can increase incentives for reform.

Progress in all domains can be enhanced by institutionalising better policy processes

Gabriella Meloni's chapter on enabling regulatory reform looks not so much at the substance of policy reform as at the policy process (Chapter 9). Yet the issues addressed in her chapter are crucial to enabling governments to devise and realise effective, efficient reforms in a variety of domains. Here, too, moreover, there are indeed substantive reforms at stake. Their effects are potentially very far-reaching indeed, even if they are, from the perspective of most economic agents, not so immediately visible or relevant. In no small measure, this reflects a gradual evolution in the understanding of regulatory reform in the OECD area: what was once seen as an essentially episodic reform (a one-off set of interventions aimed at deregulation) is now understood as an ongoing process that is increasingly integrated into policy making and that comprises a mixture of deregulation and reregulation.

The chapter identifies a number of features that characterise the institutions and processes associated with producing high-quality regulation. The first is the articulation of a clear and well-structured general policy framework. While this depends greatly on the specific institutions and traditions of any given country, it is critical that the roles and competences of the actors are clearly defined; that the system is structured as to make a "whole-of-government" approach to reform feasible, by taking into account interactions among institutions; and that there is a strong commitment to a regulatory culture that favours information sharing, trust and co-operation, as well as an explicit high-level commitment to the regulatory reform agenda. In exploring the preconditions for achieving these factors and the various institutional forms that may emerge in different countries, Meloni identifies a number of areas where there has been a degree of institutional convergence. These include growing reliance on independent regulators, more institutionalised and explicit procedures for consultation with stakeholders in the course of policy making, the growing popularity of "reform-advocacy" bodies and the spread of regulatory impact analysis, particularly since the mid-1990s. The chapter also explores the kinds of institutions evolved in different countries to address problems of multi-level governance in the field of regulatory reform. The institutional convergence observed, though far from complete, is impressive, and it suggests that OECD countries with widely differing institutions, political systems and legal cultures do reach for similar solutions when faced with similar reform challenges.

This sort of diffusion of institutions and policies is clearly facilitated by co-operation in international forums. Drawing on a large and growing body of research in this field, Meloni argues that international organisations may act more effectively as agents of durable reform when they focus on education, teaching and exchange of national experiences rather than seeking to use "hard" forms of conditionality to impose policy reform from the outside. Hard conditionality can be successful in some domains and in some circumstances, but the evidence suggests that it has been broadly ineffective in most arenas, not least because it is rarely successful in establishing domestic agents' "ownership" of reform processes – and it often results in policy prescriptions that are ill adapted to local conditions.

Fiscal consolidation tends to be easier to sustain if fiscal rules and institutions are strengthened

Robert Price's analysis of the political economy of fiscal consolidation in Chapter 10 comes at a timely moment, as the past couple of years have witnessed a dramatic deterioration in the state of public finances in the OECD area. Drawing on a large body of empirical and theoretical work, including a study of 85 fiscal consolidation episodes in the OECD area over three decades, Price finds convincing evidence that fiscal policy processes in many countries are characterised by deficit bias: fiscal policy tends to be far more counter-cyclical in downturns than in upswings, with the result that many countries have experienced a secular rise in public debt and cyclically adjusted deficits. The chapter analyses the market failures and political economy factors that underlie this bias. Fortunately, the empirical record suggests that there is a direct relationship between the size of the initial deficit and the scale of the ensuing consolidation: in short, countries reform more when they are in deeper fiscal trouble. The most successful are those who base their adjustment largely on structural reductions in public spending. While most consolidations involve a mix of revenue- and expenditure- side measures, a considerable body of research suggests that consolidation has a greater chance of being sustained if based on spending restraint, particularly with respect to government consumption and transfers.[24] A focus on expenditure is more likely to correct the biases that led to the deterioration in the fiscal position in the first place (von Hagen, Hugues Hallett and Strauch, 2002). Policy and long-term interest rates are also more likely to fall when consolidation involves structural spending cuts, which may be why Giudice, Turini and Veld (2004) find that consolidation episodes based on expenditure restraint have generally been associated with better growth performance than those relying chiefly on revenue increases.

In general, significant consolidations do not begin with changes to fiscal institutions. The first steps are typically aimed at immediate savings and they are often rather *ad hoc* in character. However, consolidating governments often come to re-examine rules-based frameworks and institutions later on, in an effort to sustain the gains they have made in fiscal adjustment. Overall, the most effective combination appears to involve both structural budget-balance targets and nominal expenditure ceilings. Debrun *et al.* (2008) find that policy tends to be less pro-cyclical where the rules for setting budget-balance targets and expenditure ceilings explicitly address the macroeconomic stabilisation function of fiscal policy, as well as debt/deficit management. The fiscal frameworks in many successful consolidation episodes built prudent macroeconomic assumptions into the budgetary process. Mechanisms that increase the political costs of breaching the rules can also help a great deal. This implies a need for rules to be simple and transparent, so as to facilitate public and media monitoring, as well as assessment by independent authorities. These considerations point to two advantages of spending caps. First, they can allow individual spending ministers to be held accountable for breaches. Secondly, they are arguably more transparent – and thus easier to explain and to monitor – than all but the simplest unadjusted balanced budget rules (which are likely to be too crude to be desirable).

Such frameworks are only likely to work to the extent that elected politicians "take ownership" of them. Some countries have sought to discipline politicians by adopting constitutionally entrenched fiscal rules, but Ljungman (2008) finds that rules need not be enshrined in law to be effective, provided there is real political commitment to them. In the absence of political support, the legislative status of a rule cannot ensure its effectiveness. Giving the fiscal rule a higher legislative status is thus more likely to be a way for politicians to signal their commitment to fiscal discipline than a real mechanism for binding themselves in future. The crucial challenge is therefore to establish broad and enduring support for a stable, transparent and effective fiscal framework.

As noted above, recent years have witnessed growing interest in "fiscal councils" or other non-partisan agencies that perform at least some of the technocratic functions in the budget process, often in the context of implementing a fiscal rule. These can be devices to signal government commitment, as well as forces for discipline in their own

right. For example, the Fiscal Policy Council in Sweden assesses whether fiscal policy objectives, including long-run sustainability, the budget target, the expenditure ceiling and counter-cyclicality (or at least avoidance of pro-cyclicality) are met. An analysis by the European Commission (European Commission, 2006) found that fiscal performance was better in countries with at least one national institution other than government and parliament providing inputs into the fiscal policy process such as forecasts, analyses or recommendations. Delegation of forecasting responsibilities also seems to have helped correct optimistic biases in the projections underlying public budgets. Debrun and Kumar (2007) likewise find a strong relationship between the *de jure* influence exerted by non-partisan agencies and their impact on fiscal performance, especially where there are formal guarantees of independence. The presence of fiscal councils appears to contribute both to the emergence of fiscal rules and to their effective enforcement.

The challenge of reform after the crisis

Structural policy should form an important part of a strategy for exit from the crisis

The world economy continues to grapple with the aftermath of the deepest and most widespread recession in over half a century. The collapse of world trade and the sharp output contraction recorded in almost all OECD countries, allied to a major slowdown in the major non-OECD economies, are without precedent since the Great Depression. The initial policy response in most countries was largely focussed on fiscal and monetary easing and, in some countries, on the stabilisation of banking systems disrupted by the financial crisis that helped trigger the recession. Given the severity of the downturn, it is hardly surprising that the salience of structural policy receded somewhat. However, OECD governments are now faced with the challenge of sustaining the recovery from the crisis. This will require finding a combination of structural policies that enables them to shore up public finances without choking off growth. Structural reforms can facilitate the pursuit of both goals, by enhancing growth potential on the one hand and, in many cases, reducing the pressure on public budgets on the other.

It is critical to keep long-term goals in view when navigating a course out of the crisis (see OECD, 2009b). While the events of 2008-09 have clearly had an impact on immediate policy priorities, focusing attention on the need for, *inter alia*, better regulation of financial markets, they have done nothing to diminish – and in some cases they have increased – the major reform challenges that governments already faced in a range of domains, from pensions to environmental policy. Moreover, as noted above, most of these reforms will take considerable time to design, adopt and implement; policy makers should be wary of seeking – and should avoid appearing to promise – "shortcuts" to strong growth and fiscal sustainability. Governments will also need to be exceptionally sensitive to the distributional consequences of fiscal and structural policies going forward. While issues of equity are never unimportant, they have taken on a new significance in many countries, owing to the perception that many of the early measures adopted to address the crisis have transferred resources to interests and groups that helped bring it about, particularly the financial sector.

The challenges ahead will be all the greater, because many structural and fiscal emergency measures adopted in 2008-09 in an effort to cushion the immediate impact of the crisis could undermine long-term growth if they are retained over the medium-to-long term. Strategies are needed for unwinding such measures once the recovery is assured. While the increased government presence in the financial sector in many countries is the most obvious example of this problem, an array of extraordinary product- and labour-market interventions will also need to be phased out. If prolonged, they risk delaying needed adjustment and weakening any future recovery. Finally, it is important to note the potential of the current crisis to act as a catalyst for reforms aimed at ensuring that the recovery and future economic growth are consistent with sustainable development.[25]

There is good evidence that crises often act as spurs to reform…

A large body of research on policy reform suggests that crises can create significant reform opportunities, both by demonstrating the unsustainability of the status quo and by disrupting the interest coalitions that have previously resisted reform. Moreover, there are good empirical and theoretical grounds for believing that crises also increase agents' willingness to accept the risks of change. In normal circumstances, when immediate losses do not threaten, the combination of loss aversion and the endowment effects discussed above tends to lead individuals to overestimate the risks and underestimate the benefits of reform. Yet these same factors mean that agents will often take greater risks to check possible losses than they would to realise potential gains of equal size. Faced with a crisis that threatens their existing endowments, therefore, they may become less risk-averse.[26] Different types of crisis tend to be associated with different types of reform: trade and labour-market reforms are most likely to be prompted by sharp falls in growth and income, financial reforms tend to follow bouts of high and especially volatile inflation, and fiscal crises tend to favour tax reforms.[27]

OECD work broadly confirms the importance of this crisis-reform link. However, it also suggests that sound public finances tend to be associated with more reform. Indeed, the link between healthy public finances and structural reform progress is one of the most robust findings to emerge from recent work. Both the case-study work and the econometric results across a wide range of specifications point to this conclusion.[28] While pressure on public finances often constitutes an important motivation to attempt reforms, it can make them harder to adopt and implement. Many reforms involve upfront fiscal costs, while the benefits are realised only later. A severe fiscal squeeze may make it harder to assume these costs, even if the reform is projected to save money in the long run. In addition, a weak fiscal position makes it harder to find resources to provide adequate compensation or transition arrangements for those who will lose from reform. Finally, governments with limited political capital may opt to focus on fiscal consolidation rather than structural reform. This is a particularly relevant concern, given the recent deterioration in many OECD countries' public budgets.

…but the impact of the recent crisis on the politics of reform is hard to foresee at this point

The impact of the present crisis on prospects for reform is thus ambiguous: the crisis may strengthen the case for pursuing some reforms, but the fiscal situation will constrain governments' ability to do so. As and when the nascent recovery becomes self-sustaining, many OECD governments will be under enormous pressure to pursue fiscal consolidation in order to address concerns about long-term fiscal sustainability. Such pressures will constitute a powerful argument in favour of reforms to public pension systems and other entitlements, as well as health care; however, governments will have to show considerable ingenuity in creating the fiscal space needed to bear the short-term costs of such reforms. Reforms will also need to be presented as desirable on long-term, structural grounds and not merely as unavoidable cuts in public expenditure. Experience of past reform attempts in some OECD countries suggests that reforms justified chiefly as responses to fiscal pressure may be difficult to sustain when that pressure eases.[29]

There is one other potentially important respect in which the current crisis may affect the politics of reform differently from previous crises. Public trust in market-oriented policies has been damaged by the widespread perception that the downturn is the product of under-regulation of the financial system and that the response has required active, large-scale direct intervention by governments in markets. In the short term, at least, the crisis may put advocates of market liberalisation in whatever policy domain, on the defensive. In any case, while the crisis has hardly invalidated prior understandings of many reform challenges, in some fields, such as financial regulation, it has called into question many positions that were previously held to be well-established "policy orthodoxy". In many areas, it must be admitted that there is no generally agreed understanding of what constitutes "best practice" policies. This may, however, have the advantage of compelling would-be reformers to make the case for regulatory or other

reforms more rigorously and persuasively, on the basis of careful, context-specific evidence and analysis, rather than relying on an implicit assumption that the case for, *e.g.* opening product markets or relaxing labour-market regulations is self-evident.

Reform-minded governments can take some consolation from another finding to emerge from the secretariat's MRH work: current growth performance has little impact on governments' ability to reform. The econometric results and the case-study evidence alike are consistent with the conclusion that macroeconomic performance is important in determining whether and when reform initiatives are attempted, but it appears to have little, if any, impact on governments' success in adopting and implementing those initiatives that they do undertake. Granted a government is prepared to put forward a reform proposal, its prospects for success do not appear to be strongly linked to the business cycle. If a government is ready and able to press ahead with a reform, there is unlikely to be any reason to wait for a more politically "auspicious" time in the economic cycle.[30] That said, the scale of the challenge facing policy makers may in itself cause governments to postpone some reforms that were being prepared before the crisis: government capacities are limited and are at present focussed, for obvious reasons, on the response to the recession. In addition, the current situation has highlighted some new priorities, as well as reinforcing old ones, so there may well be a need to reshape reform agendas and reconsider specific reform objectives in light of the new situation.

Finally, it is worth noting in this context that, while the current crisis has implications for all the policy domains covered in this volume, there are other sorts of crisis that arise. What constitutes a "crisis" can often depend to some extent on the policy area in question. While labour- and product-market reforms, as well as some trade, tax and social insurance reforms, may be prompted by recessions and financial crises, in other fields a sense of crisis may be provoked not by a macroeconomic shock but by the appearance of new data or information, which exposes problems previously not well understood or changes ideas of what is acceptable. The first Programme for International Student Assessment (PISA) scores, for example, generated a sense of urgency about education reform in some countries. Economic crises can provide an impetus to public administration reform, but they may also prompt organisational innovations that are at odds with the thrust of reform: for example, while many public administration reforms tend towards greater organisational diversity and decentralisation, crises often trigger increased centralisation.

The challenge of reform and the role of the OECD

The OECD can facilitate cross-country policy learning

The experiences reviewed in connection with the MRH project confirm that the case for reform is strengthened by the availability of internationally comparable data and analysis. In a number of policy domains, the OECD is in a strong position to provide these. It can also promote awareness of emerging policy challenges, stimulating evidence collection and knowledge sharing, as well as providing potential tools for reform. The importance of such knowledge sharing is all the more evident in light of the fact that successful reforms often take several attempts. Yet each such attempt may take years, raising the question of how governments can limit the number of "false starts" and accelerate reform progress. The evidence suggests that cross-national studies and international policy dialogue can speed up the process of "policy learning", enabling governments to learn from one another and thus avoid repeating one another's policy errors. OECD work on disability benefit policies since the early 1990s well illustrates the potential of this type of cross-national exchange to make policy reform easier (see Prinz and Tompson, 2009). Such learning is particularly valuable at a time when OECD governments confront a range of global challenges, from ageing to the environment, that may take decades to tackle.

The involvement of national officials and experts in OECD discussions, in turn, helps to create and sustain "communities of practice" at the international level, networks of experts who then exchange ideas and experience, and influence policy debates within their respective countries by framing both policy problems and potential solutions for decision makers (Haas, 1992). As shared understandings of what constitute "best practice" emerge in a given domain, such networks help to diffuse them, bringing about a degree of policy convergence. Often OECD evidence and analysis is mediated via domestic institutions, be they state institutions such as the CPB Netherlands Bureau for Economic Policy Analysis or the Australian Productivity Commission, independent research institutes and think tanks or key responsible experts serving in government. These bodies, in turn, feed their own research and analyses not only into domestic policy debates but also, via formal and informal channels into the work of institutions like the OECD. This means that OECD influence on national policies is often diffuse and difficult to pin down with precision. However, as the research surveyed in the latter part of Gabriella Meloni's chapter suggests, such "soft power" can be very effective over time, not least because it is more likely to lead to local ownership of reform initiatives than the exercise of stronger forms of co-ordination, such as aid conditionality. This, in turn, increases the likelihood that cross-national learning will be adapted to local circumstances when policies are devised. It also adds to the legitimacy of reforms.

Peer review and benchmarking can stimulate reform debates

Peer review of macroeconomic and structural policies has long been at the heart of OECD work, and the crisis has underscored its importance as a mechanism for cross-national learning and policy dialogue. The events of 2008–09 have demonstrated more starkly than ever how fuzzy the line between the domestic and international spheres has become in a globalised world. Now more than ever, we know that our neighbours' policy errors can cost us dearly. Indeed, for some countries, the experience of the crisis was rather like waking up with a severe hangover because the neighbours had gone on a drinking binge: having pursued responsible macroeconomic and structural policies, they found themselves overwhelmed by a crisis not of their own making. This experience has highlighted, among other things, the potential value of peer review of economic policies. If the domestic policies of a state's trading partners can affect it so directly, then they are of more than just academic interest.

While OECD recommendations and data are cited frequently in some national-level policy debates, the evidence suggests that the impact of OECD work is most apparent when countries see their performance or policies in comparative context: benchmarking often signals to electorates or elites that institutions or situations that they may have come to regard as normal may be quite unusual by international standards and that outcomes they may regard as satisfactory are unimpressive when seen in an international context. The impact of PISA scores on education reform debates in many OECD countries provides a vivid illustration of this point. Appropriate benchmarking, where possible, can act as a powerful stimulus to domestic reform debate, but benchmarking exercises should be undertaken with great care, since their value and credibility depend on the quality of the underlying data and analysis. Current OECD work on measuring trade restrictiveness is particularly relevant at present, given the need to resist protectionist pressures arising in response to the crisis.

The OECD can also play a key role in helping countries meet one of the reform challenges implicit in the findings reported earlier: the challenge of sustained incrementalism. One of the striking features of the sectoral analyses prepared under the auspices of MRH is the extent to which reform success in many domains requires commitment to a series of discrete but co-ordinated reforms over periods that are likely to exceed the lifetime of most governments. While "big bangs" may work for trade or competition reforms, they are unlikely to be suitable for most of the reform tasks facing governments in fields like health care, education, environmental protection or public governance. The OECD thus has a role to play in supporting those domestic institutions

that exist to help sustain coherent policy reform over extended periods. Peer reviews of policy can often help in this respect.

As a multi-dimensional organisation, the OECD is also able to bring evidence and experience from different domains together, so as to ensure that discussions of economic, social, environmental and governance issues fertilise one another. At a minimum, this should help ensure policy coherence – policies should not contradict one another. At times, it can do more than that, creating opportunities to identify potential complementarities among reforms, where co-ordinated pursuit of multiple mutually reinforcing reforms may increase the benefits generated by each.[31] This is particularly important with respect to policies aimed at fostering more environmentally friendly growth, which require careful analysis from a wide range of perspectives. The breadth of the OECD's remit also puts it in a good position to contribute to the design of pension and labour-market reforms that are "in sync" with one another, so that benefit and pension reforms designed to enhance labour supply and promote longer careers are accompanied by labour-market policies that address the particular needs of older workers. This multi-dimensionality is a crucial consideration in the current conjuncture, owing to the need to maximise the synergies – and minimise the trade-offs – between policies designed to meet the immediate crisis and those focused on longer term goals. Thus, the OECD's *Going for Growth 2009* outlines a number of fiscal and structural measures that could yield a "double dividend", addressing both the short-term impact of the crisis and the need to enhance long-run growth potential (OECD, 2009c). The Organisation is also working on "green growth" and innovation strategies, bringing together approaches common to all OECD countries. Likewise, ongoing work on regulatory reform in response to the crisis considers the implications of policy change for competition policy and macroeconomic management, as well as financial market development.

Notes

1. This is not the OECD's first foray into the field of political economy. The work presented here builds on previous OECD work on the political economy of reform carried out by the Economics Department (see Duval and Elmeskov, 2005; Høj *et al.*, 2006; and Tompson, 2009). However, the present volume encompasses a much wider range of policy domains.
2. Inequality of endowments alone could create some conflict, of course, but potential solutions are easier to devise where all actors' claims are identical, like those of the shareholders in an enterprise issuing only one class of common stock.
3. For the classic statement, see Tversky and Kahneman (1991).
4. This is about more than preferring "a bird in the hand to two in the bush", because it allows for the discounting the alternatives according to their perceived likelihood. For more on the endowment effect, see Kahneman, Knetsch and Thaler (1990).
5. Initially, this affected mainly "ordinary" unemployed workers, but recent years have seen increasing attention to activation of older workers, the disabled and other groups that may require more support in order to maintain labour-market attachment.
6. Broadly speaking, "path dependence" refers to the extent to which – and the mechanisms by which – the set of decisions one faces in a given situation is limited by past decisions, even though the past circumstances that gave rise to those decisions may no longer be relevant.
7. For more on the path dependence of pension policy, see Tompson (2009).
8. Chapter 3 addresses some of these differences. See also Boeri *et al.* (2006).
9. See Goodman (1991) and Eijffinger and De Haan (1996) for overviews of this trend.
10. In the broad sense of the term, things like fiscal rules and regulatory impact analysis are also, of course, "institutions" (see North, 1990). We distinguish here between institutions (organisations) and practices or policy regimes largely to reflect common usage outside the academic literature.

11. Shepsle (1986) argues that institutions represent the "frozen" preferences of those who created them.

12. Housing markets (whether rental or owner-occupied) are an important exception, since policy changes can have huge implications for large numbers of households. See Tompson (2009).

13. Some object to generous compensation in principle, seeing it as tantamount to buying out rent-seekers when the elimination of rents and the move away from a "rent-seeking society" is the essence of economic reform. For sharply differing perspectives on the desirability of such an approach, see Bates (1994), Williamson and Haggard (1994); Koromzay (2004); and Delpla and Wyplosz (2007).

14. See Buti *et al*. (2008) for evidence that they can.

15. For examples of this, see Tompson (2009), especially Chapters 17 and 18.

16. See the econometric evidence in IMF (2004); OECD (2006); see also the Spanish, German, US and Dutch labour-market reform episodes reviewed in Tompson (2009).

17. Some of the earliest and most influential studies drawing attention to looming pensions problems were produced by the OECD; see van den Noord and Herd (1993); and Roseveare *et al*. (1996).

18. There are exceptions: the 1992 Italian pension reform, some changes to Polish pensions in the early 1990s, and the 1977 and 1983 US Social Security reforms.

19. See IMF (2004) for evidence confirming this view.

20. Current farmers are not the most likely beneficiaries of such subsidies, but they are the ones who will be hurt if the subsidies are eliminated.

21. OECD (2005) describes the attempt to introduce such a tax in France.

22. These lags may be even longer in education than health care.

23. The findings of the MRH review in respect of goal clarity and communication adequacy are supported by other recent research; see Yang and Pandey (2009).

24. For examples, see Alesina and Perotti (1996); Alesina and Ardagna (1998); von Hagen, Hugues Hallett and Strauch (2002); Ahrend, Catte and Price (2006); Guichard *et al*. (2007).

25. This potential was the focus of the "Declaration on Green Growth" adopted by the OECD Council Meeting at Ministerial Level on 25 June 2009.

26. Crises may also induce a switch in equilibrium behaviour: if the payoffs from non-cooperative behaviour deteriorate sufficiently, previously antagonistic agents may opt to co-operate in undertaking a reform.

27. On the link between crisis and reform, see *inter alia*, Williamson (1994); Rodrik (1994), Martin and Scarpetta (1998); Drazen (2000); IMF (2004); and Boeri *et al*. (2006).

28. See Duval and Elmeskov (2005); Høj *et al*. (2006) and Tompson (2009).

29. See Tompson (2009), especially on the Swedish sickness insurance reforms of the early 1990s and the attempt to reform the farmers' social security system in Poland in 2003-05. Williamson and Haggard (1994) report a similar finding in respect of developing countries.

30. There may, however, be economic reasons to hold back on some reforms, while pressing ahead with others, since reform sequencing can be important.

31. Policy coherence is largely seen as a constraint, whereas the notion of policy complementarities highlights the potential to realise positive benefits from co-ordinated reforms. See Braga de Macedo and Oliveira Martins (2008).

Bibliography

Ahrend, Rudiger, Pietro Catte and Robert Price (2006), "Interactions Between Monetary and Fiscal Policy: How Monetary Conditions Affect Fiscal Consolidation", *OECD Economics Department Working Papers*, No. 521, DOI: *http://dx.doi.org/10.1787/414663503428*.

Alesina, A. and S. Ardagna (1998), "Tales of Fiscal Adjustment", *Economic Policy* 13:27, October.

Alesina, A. and R. Perotti (1996), "Fiscal Discipline and the Budget Process", *American Economic Review* 86:2, May.

Bates, R. (1994), "Comments on 'In Search of a Manual for Technopols'", in J. Williamson (ed.), *The Political Economy of Policy Reform*, Institute for International Economics, Washington, DC.

Boeri, T., *et al.* (2006), *Structural Reforms without Prejudices*, Oxford University Press, Oxford.

Braga de Macedo, J. and J. Oliveira Martins (2008), "Growth, Reform Indicators and Policy Complementarities", *Economics of Transition* 16:2, April.

Buti, M., *et al.* (2008), "Defying the 'Juncker Curse': Can Reformist Governments be Re-elected?", *European Economy: Economic Papers No. 324*, May.

Debrun, X. and M.S. Kumar (2007), "Fiscal Rules, Fiscal Councils and All That: Commitment Devices, Signalling Tools or Smokescreens?", *Fiscal Policy: Current Issues and Challenges*, Banca d'Italia, Rome.

Debrun, X., *et al.* (2008), "Tied to the Mast? National Fiscal Rules in the European Union", *Economic Policy* 23:54, April.

Delpla, J. and C. Wyplosz (2007), *La fin des privilèges, payer pour réformer*, Hachette, Paris.

Drazen, A. (2000), *Political Economy in Macroeconomics*, Princeton University Press, Princeton.

Duval, Romain and Jørgen Elmeskov (2005), "The Effects of EMU on Structural Reforms in Labour and Product Markets", *OECD Economics Department Working Papers*, No. 438, DOI: *http://dx.doi.org/10.1787/830757326248*.

Eijffinger, S. and J. de Haan (1996), "The Political Economy of Central-Bank Independence", *Princeton Special Papers in Economics*, No. 19, May.

Elmeskov, J., J. Martin and S. Scarpetta (1998), "Key Lessons for Labour Market Reforms: Evidence from OECD Countries' Experiences", *Swedish Economic Policy Review* 5:2.

European Commission (2006), "Public Finances in EMU 2006", *European Economy*, No. 3, Directorate General for Economic and Financial Affairs, European Commission, Brussels, May-June, *http://ec.europa.eu/economy_finance/publications/publication423_en.pdf*.

Giudice, G, A. Turini and L. Veld (2004), "Non-Keynesian Fiscal Consolidation in the EU? *Ex post* Evidence and *ex ante* Analysis", *CEPR Discussion Papers*, 4388, May.

Goodman, J. (1991), "The Politics of Central Bank Independence", *Comparative Politics* 23:3, April.

Guichard, Stéphanie, *et al.* (2007), "What Promotes Fiscal Consolidation: OECD Country Experiences", *OECD Economics Department Working Papers*, No. 553, DOI: *http://dx.doi.org/10.1787/180833424370*.

Haas, P. (1992), "Introduction: Epistemic Communities and International Policy Coordination", *International Organization* 46:1, winter.

Høj, Jens, *et al.* (2006), "The Political Economy of Structural Reform: Empirical Evidence from OECD Countries", *OECD Economics Department Working Papers*, No. 501, DOI: *http://dx.doi.org/10.1787/881353527404*.

IMF (International Monetary Fund) (2004), "Fostering Structural Reforms in Industrial Countries", Chapter III of *World Economic Outlook: Advancing Structural Reforms*, IMF, Washington, DC.

Kahneman, D., J. Knetsch and R. Thaler (1990), "Experimental Tests of the Endowment Effect and the Coase Theorem", *Journal of Political Economy* 98:6, December.

Koromzay, Val (2004), "Some Reflections on the Political Economy of Reform", comments presented to the international conference on Economic Reforms for Europe: Growth Opportunities in an Enlarged European Union, Bratislava, Slovakia, 18 March, *www.oecd.org/dataoecd/41/59/31506532.pdf*.

Ljungman, G. (2008), "Expenditure Ceiling – A Survey", *IMF Working Paper* 8/282, December, *https://www.imf.org/external/pubs/ft/wp/2008/wp08282.pdf*.

North, D. (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, Cambridge.

OECD (2005), *OECD Economic Surveys: France 2005*, OECD Publishing, DOI: *http://dx.doi.org/10.1787/eco_surveys-fra-2005-en*.

OECD (2006), *OECD Employment Outlook 2006: Boosting Jobs and Incomes*, OECD Publishing, DOI: *http://dx.doi.org/10.1787/empl_outlook-2006-en*.

OECD (2009a), *Government at a Glance 2009*, OECD Publishing, DOI: *http://dx.doi.org/10.1787/9789264075061-en*.

OECD (2009b), "2009 Ministerial Conclusions" adopted at the Council Meeting at Ministerial Level on 25 June 2009)", OECD, Paris, 25 June, *www.oecd.org/dataoecd/15/53/43423249.pdf*.

OECD (2009c), *Economic Policy Reforms 2009: Going for Growth*, OECD Publishing, DOI: *http://dx.doi.org/10.1787/growth-2009-en*.

Pierson, P. (1994), *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment*, Cambridge University Press, Cambridge.

Pierson, P. (1996), "The New Politics of the Welfare State", *World Politics* 48:2, January.

Posen, A. (1993), "Why Central Bank Independence Does Not Cause Low Inflation: There is No Institutional Fix for Politics", in R. O'Brien (ed.), *Finance and the International Economy*, Volume 7, Oxford University Press, Oxford.

Prinz, C. and W. Tompson (2009), "Sickness and Disability Benefit Programmes: What is Driving Policy Convergence?", *International Social Security Review* 62, Special Issue on Policy Learning and Social Protection.

Rodrik, D. (1994), "The Rush to Free Trade in the Developing World: Why So Late? Why Now? Will It Last?", in S. Haggard and S. Webb (eds.), *Voting for Reform: Democracy, Political Liberalization and Economic Adjustment*, Oxford University Press, New York.

Roseveare, Deborah, *et al.* (1996), "Ageing Populations, Pension Systems and Government Budgets: Simulations for 20 OECD Countries", *OECD Economics Department Working Papers*, No. 168, DOI: *http://dx.doi.org/10.1787/463240307711*.

Shepsle, K. (1986), "Institutional Equilibrium and Equilibrium Institutions", in H. Weisberg (ed.), *The Science of Politics*, Agathon, New York.

Tompson, William (2009), *The Political Economy of Reform: Lessons from Pensions, Product Markets and Labour Markets in Ten OECD Countries*, OECD Publishing, DOI: *http://dx.doi.org/10.1787/9789264073111-en*.

Tversky, A. and D. Kahneman (1991), "Loss Aversion in Riskless Choice: A Reference Dependent Model", *Quarterly Journal of Economics* 106, pp. 1039-1061.

van den Noord, Paul and Richard Herd (1993), "Pension Liabilities in the Seven Major Economies", *OECD Economics Department Working Papers*, No. 142, DOI: *http://dx.doi.org/10.1787/083510523416*.

von Hagen, J., A. Hugues Hallett and R. Strauch (2002), "Budgetary Consolidation in EMU", *European Economy – Economic Papers*, No. 148.

Williamson, J. (1994), "In Search of a Manual for Technopols", in J. Williamson (ed.), *The Political Economy of Policy Reform*, Institute for International Economics, Washington, DC.

Williamson, J. and S. Haggard (1994), "The Political Conditions for Economic Reform", in J. Williamson (ed.), *The Political Economy of Policy Reform*, Institute for International Economics, Washington, DC.

Yang, K. and S. Pandey (2009), "How Do Perceived Political Environment and Administrative Reform Affect Employee Commitment?", *Journal of Public Administration Research and Theory* 19:2, April.