

Regulatory Reform in OECD Countries

Good governance and performing markets

April 2002



What is regulatory reform?

Regulatory reform is part and parcel of the Public Governance agenda. It can operate at three levels:

- revising a single regulation;
- rebuilding an entire regulatory framework and its institutions;
- improving processes for designing regulations and managing reform.

Today, regulatory reforms in the OECD area follow the concept of "regulatory quality," based on a proactive role of government in establishing effective, market-oriented regulatory, competition, trade and investment regimes and institutions, as well as high standards of social and environmental protection. Deregulation is a subset of regulatory reform and refers to complete or partial elimination of regulation to improve economic performance.

Box 1. What is a regulation?

Regulation refers to the instruments by which governments place requirements on enterprises, citizens and government itself, including laws, orders, and other rules issued by all levels of government and by bodies to which governments have delegated regulatory powers.

- **Economic regulation** sets the framework for economic agents, enterprises and markets.
- **Social regulation** defines standards for health, safety, and the environment and their delivery mechanisms.
- **Administrative regulation** concerns government formalities and paperwork or so-called "red tape".

What are the benefits of regulatory reform?

Regulatory reform produces substantial economic and social benefits such as:

- Fostering non-inflationary growth.
- Boosting consumer benefits by reducing prices for services and products such as electricity, transport and health care, and by increasing choice and service quality.
- Improving the cost structure of export and upstream sectors for greater competitiveness in regional and global markets.
- Enhancing flexibility and innovation in the supply-side of the economy, thereby reducing national vulnerability to economic shocks.
- Creating new job opportunities, and by doing so reducing fiscal demands on social security.

- Strengthening effective levels of regulatory protection in health and safety, the environment and consumers through flexible and efficient regulatory and non-regulatory instruments.

What are the main challenges?

Regulatory reform can adversely affect vested interests which will be resistant to changes of the status-quo. Regulatory reform also leads typically to a reallocation of resources, both in terms of capital and labour, the costs of which are frequently immediate and quantifiable, while the benefits occur over the medium term and to the economy at large. Mobilising support for regulatory reform is therefore an issue of strategic choice and sequencing. The challenges are greater still in countries where the core rules underpinning functioning markets – such as property rights, judicial institutions, commercial codes and bankruptcy laws – are not in place.

How does the OECD promote regulatory reform?

1) OECD Policy Recommendations

OECD has developed over time a series of policy recommendations and guiding principles to help countries develop and self-assess their capacities for Regulatory Reform. The most important ones include:

- *The 1995 Recommendation of the Council of the OECD on Improving the Quality of Government Regulation*
- The 1997 OECD Report to Ministers, which set up a comprehensive plan for action on Regulatory Reform (see Box 2).
- *The 2000 Recommendation of the Council Concerning Effective Action Against Hard Core Cartels, and*
- *The 2001 Recommendation of the Council Concerning Structural Separation in Regulated Industries.*

Box 2. **OECD action plan on regulatory reform**

1. Adopt at the political level broad programmes of regulatory reform that establish clear objectives and frameworks for implementation.
2. Review regulations systematically to ensure that they continue to meet their intended objectives efficiently and effectively.
3. Ensure that regulations and regulatory processes are transparent, non-discriminatory and efficiently applied.
4. Review and strengthen where necessary the scope, effectiveness and enforcement of competition policy.
5. Reform economic regulations in all sectors to stimulate competition, and eliminate them except where clear evidence demonstrates that they are the best way to serve broad public interests.
6. Eliminate unnecessary regulatory barriers to trade and investment by enhancing implementation of international agreements and strengthening international principles.
7. Identify important linkages with other policy objectives and develop policies to achieve those objectives in ways that support reform.

Source: OECD Report on Regulatory Reform, 1997.

2) **Country reviews**

- **Detailed country reviews of regulatory reform**, based on self-assessment and peer review. By mid-2001, 12 OECD countries had been reviewed under the review programme:

- **Czech Republic**
- **Denmark**
- **Greece**
- **Hungary**
- **Italy**
- **Ireland**
- **Japan**
- **Korea**
- **Mexico**
- **Netherlands**
- **Spain**
- **the United States**

The reviews of four more countries will be released by July 2002:

- **Poland**
- **Canada**
- **The United Kingdom**
- **Turkey**

For each country, these reviews assess:

- the macroeconomic context and overall impact of reform;
- Government capacities for high-quality regulation,
- the consistency with market openness principles;
- the design and implementation of competition policies;
- regulatory reform in selected sectors, such as telecommunications or energy.

3) Thematic discussions

- **Sectoral analyses** have focused on emerging cross-country issues such as
 - Sectoral regulation
 - Regulatory failure and recovery
 - Compliance
- **The international regulation database** (see Box 3) containing internationally comparable information on regulations and market structures in the OECD area.

Box 3. The OECD International Regulation Database

The OECD International Regulation Database is a comprehensive and internationally comparable set of information about the state of regulation and market structures in OECD countries in (or around) 1998. For each member country, it contains over 1100 observations, both quantitative and qualitative. It covers economy-wide regulations concerning product markets and sector-specific regulatory frameworks or market structures in key sectors such as telecommunications, transportation, electricity supply; and retail distribution. The main sources of information are the responses from OECD countries to an ad hoc questionnaire, OECD Secretariat expertise and data published by the OECD and other international organisations. The database can be downloaded from the OECD website: www.oecd.org/puma/regref/.

- **Government capacities** and tools for improving regulatory quality, including work on:
 - Regulatory Policies in OECD Countries: From Intervention to Regulatory Governance
 - Best practices in using regulatory impact analysis;
 - Regulatory compliance and reducing the risk of regulatory failures;
 - Best practices in administrative simplification.

4) Outreach

- **Co-operation with Non Members**, such as the APEC-OECD Co-operative Initiative on Regulatory Reform and work with Russia, South East Europe and China.

Contact Points in the OECD Secretariat

The OECD Horizontal Programme on Regulatory Reform is under the responsibility of Deputy Secretary-General Richard Hecklinger.

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OECD publications on regulatory reform

OECD Reviews of Regulatory Reform:

Regulatory Reform in the Czech Republic (2001)	Regulatory Reform in Japan (1999)
Regulatory Reform in Denmark (2000)	Regulatory Reform in Korea (2000)
Regulatory Reform in Greece (2001)	Regulatory Reform in Mexico (1999)
Regulatory Reform in Hungary (2000)	Regulatory Reform in the Netherlands (1999)
Regulatory Reform in Italy (2001)	Regulatory Reform in Spain (2000)
Regulatory Reform in Ireland (2001)	Regulatory Reform in the United States (1999)

Other publications

Administrative Simplification: Practices and Experiences of Seven OECD Countries (forthcoming)
Regulatory Policies in OECD Countries – From Interventionism to Regulatory Governance (forthcoming)
Businesses' Views on Red Tape: Administrative and Regulatory Burdens on Small and Medium-Sized Enterprises (2001)
Restructuring Public Utilities for Competition (2001)
Trade and Regulatory Reform: Insights from Country Experience (2001)
OECD Journal of Competition Law and Policy
Trust in Government: Ethics Measures in OECD Countries (2000)
No Longer Business as Usual: Fighting Bribery and Corruption (2000)
OECD Principles of Corporate Governance (1999)
The OECD Report on Regulatory Reform: Synthesis (1997)

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