Reform of Product Market Regulation in OECD Countries, 1998-2008

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A reminder: PMR - What is it all about?

- **Basic idea**
  - Turn qualitative data on laws and regulations that inhibit competition into quantitative indicators.

- **Bottom-up approach based on regulatory data**
  - Data derived from a survey of member countries (and external data sets)
  - Policy focused – i.e., not based on opinion surveys or market outcomes

- **Main uses**
  - Benchmarking to allow comparison across countries
  - Diagnostic tool for specific policy advice
  - Empirical analysis of the competition-performance link

- Used in Going for Growth context, country surveys and specific OECD projects, as well as in the PMR project of the World Bank

- Indicators available online for government agencies and academics at [www.oecd.org/eco/PMR](http://www.oecd.org/eco/PMR)
The PMR indicator system

- **The indicators of Product Market Regulation (PMR):**
  - Economy wide
  - Rich coverage of regulatory data, limited time dimension

- **The indicators of Non-Manufacturing Regulation (NMR):**
  - Cover several non-manufacturing sectors:
    - ETCR: several network industries (Energy, Transport, Communication),
    - Retail Trade, Professional Services
  - More limited regulatory coverage, but long time series (ETCR)

- **The indicators of Regulation Impact (RI)**
  - Derived from NMR indicators and Input-Output-Analysis
  - Time series driven by ETCR
  - Used for impact analysis
The “integrated” PMR indicator
on which the presented analysis is based

- **Product market regulation**
  - **State control** (0.33)
    - Public ownership (0.50)
      - Scope of public enterprise (0.33)
      - Direct control over business enterprises (0.33)
      - Gov’t involvement in network sectors (0.33)
    - Involvement in business operations (0.50)
    - Price controls (0.50)
      - Use of command and control regulation (0.50)
  - **Barriers to entrepreneurship** (0.33)
    - Regulatory and administrative opacity (0.33)
    - Licenses and permits system (0.50)
    - Communication and simplification of rules and procedures (0.50)
    - Administrative burdens on start-ups (0.33)
    - Legal barriers to competition (0.33)
    - Barrier to FDI (0.25)
      - Antitrust exemptions (0.25)
    - Barriers to entrepreneurship (0.33)
      - Barriers in network sectors (0.25)
      - Barriers in services (0.25)
      - Barriers to FDI (0.33)
    - Administration burdens on start-ups (0.33)
      - Discriminatory procedures (0.33)
  - **Barriers to trade and investment** (0.33)
    - Explicit barriers to trade and investment (0.50)
    - Tariffs (0.33)
    - Regulatory barriers (1.0)
    - Other barriers (0.50)

- **Legal barriers** (0.25)
  - Admin. burdens (0.33)
    - Admin. burdens for corporations (0.33)
    - Admin. burdens for sole proprietor firms (0.33)
  - Legal barriers (0.25)
    - Barriers in network sectors (0.25)
    - Barriers in services (0.25)
    - Tariffs (0.33)
  - Regulatory barriers (1.0)

- **Administrative burdens** (0.33)
  - Admin. burdens for corporations (0.33)
  - Admin. burdens for sole proprietor firms (0.33)
  - Sector-specific administrative burdens (0.33)
  - Barriers in network sectors (0.25)
  - Barriers in services (0.25)
  - Tariffs (0.33)
  - Discriminatory procedures (0.33)
Product market regulation beginning of 2008 ...

Index scale of 0-6 from least to most restrictive
... the result of substantial reforms since 1998

Index scale of 0-6 from least to most restrictive
But: slowing pace of reform and convergence
Level and change in index points, with 0=least and 6=most restrictive

Panel A. 1998-2003

Panel B. 2003-2008

Correlation coefficient: -0.84

Correlation coefficient: -0.62
Strong reform in certain regulatory areas
Average change in index points, 0=least and 6=most restrictive

-1.4 -1.2 -1.0 -0.8 -0.6 -0.4 -0.2 0.0 0.2
Average change 98-03 Average change 03-08
Barriers to entrepreneurship
Barriers to trade and investment
State control
... driven by reform in different sectors
Average change in index points, 0=least and 6=most restrictive

![Diagram showing average change in index points for different sectors between 1998-2003 and 2003-2008.](image)
Some signs of reform complementarities

Index scale of 0-6 from least to most restrictive

Correlation coefficient: -0.59***
Scope for future reform in state control …

Distance from best practice,
Index scale of 0-6 from least to most restrictive
and barriers to retail trade and prof. services
Distance from best practice,
Index scale of 0-6 from least to most restrictive
The 2008 round of PMR indicator revision

A. Revised questionnaire
   – to better reflect ongoing competition issues.

B. Improved data collection and processing
   – to facilitate future updates,
   – to reduce uncertainty in the data,
   – to facilitate extension to new member countries later on.

C. Integration of existing indicators
   – PMR, NMR, FDI-regulatory restrictiveness index (OECD-DAF)),
   – to make existing indicator more policy-relevant.

D. Revise underlying methodology (in particular weights)
   – Maintaining & enhancing comparability over time & across countries,
   – ensuring robustness of indicator results.
Integrating information on sectoral regulation

Average change in index points, 0=least and 6=most restrictive
Reconsidering the weights

- **Reasons:**
  - Currently based on old data and old indicator structure
    => no longer viable
  - Caveats of PCA: Problematic updating, sensitive to new data (countries & years), sensitive to tree structure.

- **Analysis (JRC):**
  - Sensitivity analysis of the indicator values and related inferences to changes in:
    - weights (move from PCA to Equal Weights), linked with …
    - … indicator and country coverage,
    - normalization
    - aggregation methods (e.g. compensatory vs. non-compensatory).
  - Contribution analysis
    - contribution of individual indicators to the overall country ranking,
    - to identify policy priorities and potential areas for more frequent updates.
Moving from PCA to Equal weights
Average change in index points, 0=least and 6=most restrictive
Outlook – further improvements

- **Extension of the indicator – new generation PMR**
  - To cover evolving regulatory issues:
    - Regulatory quality – sector regulators
    - Governance of state-owned enterprises
    - More elaborate treatment of non-tariff barriers to trade

- **Extension of analysis to other countries**
  - OECD accession countries
  - Enhanced engagement and other non-member countries.

- **Analysis of the regulation-performance link**
  - Cross-section and time series
  - Impact of regulation on outcome variables.
Thank you!

For further information:

www.oecd.org/eco/pmr
System of data collection and processing

- Existing 2003 database
- Electronic questionnaire
- Revised Questionnaire

Database
- Core Database of replies
- External data sources

STATA Modules
- Overall PMR '98, '03, '07
- Sectoral Indicators
  - ETCR: '75-'07 Retail,
  - Prof.Serv: '98, '03, '07

OECD PMR Website

Public Use
The 2003 PMR tree structure

Product market regulation

State control (0.29)

Barriers to entrepreneurship (0.30)

Public ownership (0.56)

Involvement in business operations (0.44)

Regulatory and administrative opacity (0.48)

Administrative burdens on start-ups (0.30)

Other barriers (0.30)

Explicit barriers to trade and investment (0.70)

Scope of public enterprise (0.30)

Price controls (0.45)

Use of command and control regulation (0.55)

Licenses and permits system (0.55)

Communication and simplification of rules and procedures (0.45)

Administrative burdens for corporations (0.36)

Legal barriers (0.30)

Ownership barriers (0.45)

Tariffs (0.31)

Discriminatory procedures (0.24)

Administrative burdens for sole proprietor firms (0.30)

Antitrust exemptions (0.70)

Direct control over business enterprises (0.40)

Administrative burdens for business enterprises (0.45)

Use of command and control regulation (0.55)

Communication and simplification of rules and procedures (0.45)

Administrative burdens for sole proprietor firms (0.30)

Sector-specific administrative burdens (0.34)

Regulatory barriers (1.0)

Barriers to trade and investment (0.41)
The current tree structure of NMR [1]

ETCR

Energy
  - Electricity
    - Entry
    - Public ownership
    - Vertical integration
    - Market structure
  - Gas
    - Entry
    - Public ownership
    - Vertical integration

Transport
  - Airlines
    - Entry
    - Public ownership
  - Rail
    - Entry
    - Public ownership
    - Vertical integration
    - Market structure
  - Road
    - Entry
    - Prices
    - Market structure

Communication
  - Post
    - Entry
    - Public ownership
  - Telecoms
    - Entry
    - Public ownership
    - Market structure
The current tree structure of NMR [2]

Retail distribution
- Entry regulation
  - Registration
  - Licenses and permits
  - Large outlet restrictions
  - Protection of incumbents
- Conduct regulation
  - Shop opening hours
  - Price controls

Professional services
- Entry regulation
  - Licensing
  - Education requirements
  - Quotas and economic needs tests
- Conduct regulation
  - Prices and fees
  - Advertising
  - Form of business
  - Inter-professional cooperation
Reconsidering the weights (JRC)
PMR 2008, computed with PCA based on data for different years
Reconsidering the weights (JRC)

PMR 2003, PCA based on different number of low-level indicators

PCA weights computed from 15 or 18 indicators

PCA 15 indicators
PCA 18 indicators
PCA weights computed from 15 or 18 indicators
A multi-modelling approach (JRC)

Times (in %) in which each country ranks 1st, 2nd, 3rd, …, 27th

| PMR | Median | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 |
|-----|--------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| 2   | 1      | GB |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 1   | 2      | US |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 4   | 5      | IS |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 7   | 5      | ES | 17| 24| 16| 12| 12|   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 5   | 6      | NL | 14| 13| 14| 14| 23| 12|   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 6   | 7      | DN | 12| 14| 10| 10| 11| 10|   |   |    |    |    |    |    |    |    |    |    |    |    |
| 3   | 8      | CA |   | 17| 11|   |   | 12| 13|   |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 12  | 8      | NZ | 12| 14| 21|   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |
| 11  | 10     | AU | 10| 11| 11| 11| 11|   |   |    |    |    |    |    |    |    |    |    |    |
| 9   | 10     | NO | 14|   |   |   |   |   | 19| 24| 27|    |    |    |    |    |    |    |
| 8   | 11     | FI |   | 16|   |   |   | 12| 10|   |    |    |    |    |    |    |    |    |
| 14  | 13     | SW | 13| 11|   |   |   |   |   |    |    |    |    |    |    |    |    |    |
| 13  | 15     | CH | 19| 14| 14| 13| 11|   |   |    |    |    |    |    |    |    |    |
| 19  | 16     | BE | 10| 11| 11| 10| 11|   |   |    |    |    |    |    |    |    |
| 20  | 16     | FR |   | 11|   | 11| 15| 12| 12|   |    |    |    |    |    |    |
| 17  | 16     | HU | 15| 12| 12|   |   |   |   |    |    |    |    |    |    |    |
| 16  | 18     | DE | 11| 15| 11| 11| 11|   |   |    |    |
| 15  | 18     | IT | 14| 18| 14| 13| 11|   |   |    |
| 18  | 20     | AU | 21| 17| 11| 16|   |   |   |    |    |
| 23  | 20     | LU | 12| 20| 12| 17|   |   |   |    |
| 22  | 22     | PT | 12| 15| 24| 31|   |   |   |    |
| 24  | 23     | CZ | 10| 24| 39|   |   |   |   |    |
| 21  | 24     | KO | 11| 30| 22|   |   |   |   |    |
| 25  | 25     | ME | 55| 25|   |   |   |   |   |    |
| 26  | 26     | TR | 13| 50| 15|   |   |   |   |    |
| 27  | 27     | PO | 23| 75|   |   |   |   |   |    |
A new generation PMR from ’08 onwards

- State control
  - Public ownership
  - Involvement in business operations
- Regulatory effectiveness
  - Price controls
  - Use of command and control regulation
  - Licenses and permits system
  - Communication and simplification of rules and procedures
- Administrative burdens on start-ups
- Barriers to competition
  - Legal barriers
    - Antitrust exemptions
  - Sector-specific administrative burdens
- Barriers in network sectors
- Barriers in services
- Barriers to trade
  - Tariffs
  - Barriers to FDI
- Other barriers
  - Differential treatment of foreign suppliers
  - Barriers to trade facilitation

Scope of public enterprise
Direct control over business enterprises
Gov’t involvement in network sectors
Governance of SoE’s