

NEW APPROACHES TO ECONOMIC CHALLENGES

INSTITUTIONS AND GOVERNANCE

Deliverables

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New Approaches to Economic Challenges [C1] Revisiting the social contract: rebuilding trust for sustained economic recovery

THEME OF THE PROJECT

Trust in government has been eroded...

The recent crisis significantly eroded trust in government institutions. This was the case in the majority of OECD countries. Levels of trust declined between 2007 and 2012, with further declines till 2014 in the countries most severely affected by the crisis, such as Slovenia, Spain, Portugal, Greece and Ireland. Countries that weathered the crisis, for instance Germany, Israel and Switzerland, reported higher levels of public trust in government.

...calling for a new understanding of trust, its drivers and the role of public governance

There are four main drivers of trust - culture, institutional settings, economic and social outcomes, and performance of institutions. At the macro-level trust relates to political institutions and the functioning of democracy. At the meso-level, trust relates to policy making, the ability of governments to manage economic and social issues, and to generate positive expectations about future well-being. Finally, at the micro-level, trust refers to the impact of government on people's daily lives through service delivery. This structured perspective offers a lens through which inter-related components of trust can be understood.

RESULTS OF THE WORK STREAM

A new framework and new metrics for understanding trust...

The OECD has developed a comprehensive and policy-focused framework for mapping trust. This helps to deepen understanding of the measures that can be taken to increase confidence in public institutions and actors. In addition, new metrics to identify the determinants of trust have been developed collaboratively

between the Public Governance Committee and the Committee on Statistics and Statistical Policy.

The OECD work has proposed the following framework for analysing the drivers of trust:

- **reliability:** the ability of governments to minimise uncertainty in the economic, social and political environment of their citizens, and to act in a consistent and predictable manner;
- **responsiveness:** the provision of accessible, efficient and citizen-oriented public services that effectively address the needs and expectations of the public;
- **openness and inclusiveness:** a systemic, comprehensive approach to institutionalising a two-way communication with stakeholders, whereby relevant, usable information is provided, and interaction is fostered as a means to improve transparency, accountability and engagement;
- **integrity:** the alignment of government and public institutions with broader principles and standards of conduct that contribute to safeguarding the public interest while preventing corruption.
- **fairness:** in a procedural sense this involves the consistent treatment of citizens and businesses in the policymaking and policy implementation processes.

...are being used to tackle frontier issues in public governance

The trust approach has highlighted the need to explore governments' capacity to address complex or "wicked" challenges, and to address the long-term uncertainty of public policies. This has led to a new vision of the Strategic State, where policy frameworks are built to manage complex policy challenges, including future uncertainty.

New work is being undertaken on the role of centres of government, analysing coordination mechanisms, and discussing how governments can manage the full range of risks through All Hazards approaches and forward-looking engagement. In addition, strategic foresight can be linked to existing capacities for horizon scanning to develop anticipatory government.

NEW APPROACHES

This project was an exploratory exercise which helped to identify new connections in the broader governance agenda and highlight gaps in the data that can help understand them better.

New metrics are needed to develop an indicator-based approach to monitor trust...

A stock taking of metrics has been conducted and a critical analysis has highlighted the limitations of existing measures. Therefore, new metrics need to supplement existing ones, fully engaging the statistical community as well as country experts. The outcomes of this work will be critical to support the development of further policy analysis and conclusions.

...to support countries' efforts to restore trust

Such a data-driven framework should be used to support country-specific reform. This helps to focus on the pressure points for trust in countries and the specific policy dimensions, relating them to identifiable sectors and stages in the policy cycle. Pilot projects have been initiated with a number of countries including Korea.

...and investigate the impact of declining trust on a range of policy outcomes.

The work on trust undertaken in the context of NAEC has generated interest among several OECD policy communities. Further work is required to investigate how insufficient trust constrains policy outcomes across a number of policy domains and to understand which policy levers government can mobilise to do something about it. Such an integrated agenda requires follow-up activities at the sectoral level involving a variety of committees.

A structured approach to trust has stimulated further work on financing democracy and on justice institutions, which will further enhance OECD's broad expertise on the public sector.

PROJECT PAPERS

OECD (2013) "Trust in Government, policy effectiveness and the Governance agenda" Government at a Glance 2013, special policy Chapter. Paris

Baena Olabe P., (2013) "Investing in Trust: Leveraging Institutions for Inclusive Policy Making" GOV/PGC(2013)2.

Baena Olabe P., (2014) "Trust in Government: Towards Actionable Policy Insights" GOV/PGC(2015)17

Bertok J. (2014) "Financing Democracy, Framework for supporting better policies and averting policy capture". www.oecd.org/gov/ethics/financing-democracy-framework-document.pdf

Davies A. (2014) "Centre Stage: Driving Better Policies from the Centre of Government", report presented at the Network of Senior Officials from Centre of Government, Vienna.

Jacobzone S., Skoratko L. (2014) Building a Government for the Future Improving policy performance and managing complex challenges, GOV/PGC(2013)14.

Jacobzone S., (2014) Revisiting the social contract: rebuilding trust for sustained economic recovery, Report presented at NAEC seminar on 4 March 2014.

Lonti S., Mira d'Ercole M. (2014) Measuring Trust in Public Institutions: the Statistical Agenda Ahead. STD/CSSP(2014)6

New Approaches to Economic Challenges [C2] Vulnerability of social institutions: lessons from the recent crisis and historical episodes

THEME OF THE PROJECT

The economic crisis has put pressure on social protection systems...

The recent crisis was the heaviest adverse economic shock since the Great Depression affecting the majority of the OECD countries. It led to significant increases in unemployment and a decline in government revenues intensified pressure on social institutions. The structures of the welfare state in European countries have had to account for increases of unemployment of up to 15%-20% (in Spain and Greece for instance) and cumulative GDP loss relative to potential over the 5 years of the crisis (2008-2013) averaging 10-15% and up to 25% (Ireland).

... across key themes like pensions, health care provisions and unemployment insurance

Particularly hard hit were social security instruments, health provisions and unemployment insurance. These are assessed for the way they were impacted in financial terms, observing the losses they took, and adequacy terms, meaning the scope and ability to cover people in need. Public social spending had to increase to match the increased demands, but not universally across the OECD (exceptions, where the social spending trend of increase decelerated sharply are Korea, Mexico, Portugal, Greece, Hungary and Luxembourg). The severity and length of the crisis, together with the demands placed on social systems present an opportunity to conduct a 'stress test' on their performance and stability.

RESULTS OF THE WORK STREAM

Pension schemes withstood the crisis to varying degrees

The poverty rate of the elderly, after taxes and transfers, fell in most OECD countries over the period 2007 to 2010. This was largely because

of automatic stabiliser effects of defined benefits pensions, as well as specific stimulus measures to counterbalance losses in individual retirement savings. The experience of members of various pension plans was diverse. Members of defined contributions plans were affected negative, in particular those close to retirement. Members of defined benefits schemes fared well, but the financial gap between available resources and future commitments already existing in such scheme has widened. Pay-as-you-go (PAYG) public sector pension schemes have weathered the crisis well, however they face long-term sustainability issues, due to ageing and uncertainties around future productivity trends.

... but the contribution base was eroded

Long periods of unemployment have resulted in lower lifetime earnings for the current working age population. This means that the contribution base of most pensions schemes is lower, but also that the future retirement funds of those with precarious current employment are small.

Healthcare cuts will affect long-term costs ...

Healthcare spending has a usual upward trend in the OECD countries, which continued during the first two years of the crisis. During 2010-11, however, it stagnated for unprecedented 2 years. It declined dramatically in the countries worst hit by the crisis, such as Greece, Iceland and Ireland. The majority of reductions came from cuts in administration costs, medical goods and preventive care. The latter may cause an increase in healthcare costs in the near future. The increase in inequality as a result of the crisis has meant that access to healthcare has become more unequal and low-income households have suffered worst.

Unemployment insurance spending increased

Spending on unemployment insurance increased substantially. It more than doubled for 10 OECD countries in the period 2007 to 2010.

There are substantial differences in the coverage of unemployment insurance schemes across countries. Where spending on unemployment insurance did not rise, considerations must be raised as to the adequacy of such schemes and the contribution to rising inequality.

... especially among the young

Young and old workers were most affected by the downturn in the business cycle. While people older than 65 were protected by pension schemes, young people, aged 18 to 25 were particularly hard hit with a more than 1.5% increase in relative poverty in the OECD average. Youth unemployment also soared, with countries worst hit being Estonia, Greece, Spain, Portugal and Italy.

NEW APPROACHES / POLICY IMPLICATIONS

This project was a stock-taking exercise assessing the performance of social security schemes. The results shed light on the ability of the fiscal apparatus to prop up social security systems in an economic downturn.

The experience of past reforms offers lessons ...

Past episodes of reform of social institutions were reviewed, such as pension systems and their evolution in the US, UK, Sweden and Germany, and healthcare provisions in Finland among others. These provide lessons on the conditions for the success of reforms and their implementation.

... on how to build more sustainable social security systems ...

Successful reforms have been prepared long in advance by independent commissions, which helped build consensus among policy makers and the public, illustrated for instance by the German and Swedish pension reforms in the 2000s. This has allowed for reserve funds to be built up, for the public to anticipate the changes, and ultimately to boost sustainability of social security. In terms of healthcare reforms, hard budget constraints and decentralisation of financing as well as spending (as illustrated by reforms in Finland in the 1990s) helped align health provision incentives and promote sustainability. Unemployment insurance systems with a larger risk pooling mechanisms

have historically provided a better balance between sustainability and adequacy in provision of cover than fragmented systems.

Providing incentives for multiple funding sources (for healthcare and pension contributions), matching social contribution to changing demographic trends (such as ageing), and taking into account unemployment support versus incentives to look for work trade-offs, can support long-term sustainability of such systems.

... which underpin social and economic stability

The social and economic environment is inevitably uncertain and policy makers have the difficult task of striking the right balance between generous provisions in times of crisis and ensuring long term sustainability of social security systems due to their intertemporal nature.

PROJECT PAPERS

- **Fall, F., Pisu, M., Pareliussen J., Bloch, D., (2014)** "Vulnerability of social institutions: lessons from the recent crisis and historical episodes" OECD Economic Department Working Papers, N: 1130, OECD, Paris
- **Fall, F., (2014)** "Vulnerability of Social Institutions", ECO/CPE/WP1(2014)4
- **Fall, F., (2014)**, "Vulnerability of financial institutions Annex 1: Lessons from the recent crisis and historical episodes", ECO/CPE/WP1(2014)4/ANN1
- **Pisu, M., Fall, F., (2014)** "Vulnerability of social institutions Annex 3: Overcoming vulnerabilities of health care systems", ECO/CPE/WP1(2014)4/ANN3
- **Fall, F., (2014)**, "Vulnerability of social institutions Annex 4: Overcoming vulnerabilities of pension systems", ECO/CPE/WP1(2014)4/ANN4
- **Fall, F., (2014)**, "Vulnerability of social institutions Annex 5: A framework for comparing the robustness of PAYG pension schemes", ECO/CPE/WP1(2014)4/ANN5

>> New Approaches to Economic Challenges [C5]

Promoting inclusive growth through better regulation

THEME OF THE PROJECT

Regulatory policy has a role in supporting the inclusive growth agenda...

Since the crisis of 2008 there has been a shift in economic policy thinking that was focused on growth to a more nuanced set of objectives focused on improving wellbeing. Together with public expenditure and the fiscal apparatus, regulation policy is a key lever in ensuring welfare and economic prosperity. The principles and tools of regulatory policy can contribute to embedding from the outset the perspectives of multiple stakeholders in rulemaking to ensure an efficient and equitable reform process

...via cost-benefit analysis tools, such as Regulatory Impact Assessment (RIA)

Empirical evidence, however, suggests that the potential of regulatory policy remains largely untapped. Despite progress on reform since the outset of the crisis, countries still struggle to use regulation in a strategic fashion to promote inclusive growth. A tool, such as the Regulatory Impact Assessment (RIA) can help integrate the issues of inclusive growth into a process of regulatory revision and further development. RIA is a multi-criteria analytical tool that can play a role in revealing and monitoring the trade-offs between economic, social and environmental effects of potential regulatory responses. Furthermore, it can provide the evidence needed to balance various policy objectives and manage related trade-offs.

RESULTS OF THE WORK STREAM

Evidence of countries using RIA to assess and monitor regulation for inclusive growth has been collected from the 2014 OECD Survey of Regulatory Indicators, publicly available RIA guidelines and country-specific assessment exercises.

RIA can support the evaluation of regulatory policy for inclusive growth by assessing the impact on specific social groups...

Many countries include the assessments of regulatory impact on specific social groups, in particular disadvantaged groups. However, the examination of some RIA examples has revealed that in the majority of countries these assessments focus only on macro groups (e.g. government, industry, total population) without analysing the effects on specific population groups.

...on gender equality...

Many countries are integrating the impacts of regulation on gender equality into RIA. However, there is heterogeneity in the countries' practices in doing so. In some cases, the examination of gender equality is enshrined in legislation. In other cases, there is no explicit requirement and gender issues are considered when relevant. In fewer cases, legislation requires gender impact analysis separate from RIA.

...on poverty...

Poverty impacts are rarely assessed in the RIA process. The limited integration of this issue may result from the fact that the poverty impact is already covered by the RIA, through the impact on social groups; or by the fact that this specific issue (impact on poverty) is a key factor only in poorer countries.

...and employment...

Similarly, few countries integrate the impacts of regulation on employment and job creation into RIA. This may be due to methodological constraints in measuring and attributing the impact. It is however quite surprising given the pressure put on policies by rising unemployment and the high level of political interest in fostering job creation.

NEW APPROACHES/ POLICY IMPLICATIONS

Most countries are at an early stage in using their regulatory management tools in a strategic manner, especially to address inclusive growth. While the assessment of distributional consequences of regulatory policy appears to be mainstream, in the majority of cases such exercises remain do not evaluate specific impacts.

RIA may need to be broadened to support the integration of inclusive growth into regulatory policy...

To ensure that the multiple dimensions of inclusive growth are covered in regulatory policy assessment, RIA may need to be complemented with the systematic use of other tools. While other evaluation tools can be used to assess and monitor the regulatory effects on the different domains of inclusive growth, most tend to be outside the regulatory policy domain. Additional assessments can be added to regulatory policy assessment or an integrated approach can be taken, where a cost-benefit analysis is just the first step and then multiple assessment tools kick in during the process. Of course the choice of strategy will depend on needs and resources available.

...with social impact assessment (SIA) and environmental impact assessment (EIA)

An integrated assessment and monitoring approach may need to be complemented in particular with social and environmental assessment tools. Such an approach would theoretically allow for greater consideration of the trade-offs across the various policy objectives and a more coherent approach to policy making. Some academics argue however that more integrated approaches may weaken social and environmental considerations by overloading RIA procedures. However, a full understanding of the pros and cons of alternative strategies is still missing and could be the object of future research.

PROJECT PAPERS

- **Kauffmann, C., Erbacci, A., (2015)** 'Promoting inclusive growth through better regulation: the role of regulatory impact assessment' GOV/RPC(2015)4

» New Approaches to Economic Challenges [C6]

Implications of globalisation for competition policy: the need for international co-operation in merger and cartel enforcement

THEME OF THE PROJECT

Competition law enforcement preserves the integrity of the free market...

Competition law enforcement exists to preserve the integrity of free markets, undistorted by anti-competitive conduct. More vigorous competition has two main benefits: first, it protects consumers from companies that may, at times, seek or use market power to raise prices or reduce outputs. Second, it promotes productivity growth.

...not just in the OECD but globally...

Historically based within OECD countries, competition law has gone global in the last 20 years. There has been a sixfold increase in the number of jurisdictions with competition law enforcement since 1990, from fewer than 20 to about 120 today.

...but this presents challenge for co-ordination between competition authorities

The past decades have witnessed a rapid globalisation of economic activity which has significantly changed the character of the world economy. Globalisation results in large economic benefits but poses challenges for competition authorities, who must respond to anti-competitive conduct and mergers which increasingly have cross-border effects.

RESULTS OF THE WORK STREAM

Competition law cases increasingly have an international dimension...

There is compelling evidence that the international dimension of competition law cases has increased.

- In recent years, more than 90% of fines against cartels by the US authorities have

been international. The number of cartel cases investigated in the European Union involving a participant from outside the EU has increased by more than 450% since 1990.

- Mergers and acquisitions inherently involve cross-border dimensions and multiple competition authorities when merging companies are global operators with a geographical overlap. Mergers and acquisitions with a cross-border dimension have increased about 250%-350% since 1990.

International agreement have forged consensus on the goals of competition law ...

Significant efforts have been made to ensure that jurisdictions adopt common principles and analytical approaches to assessing anti-competitive conduct and mergers. Today, despite the different wordings in national competition statutes, most authorities agree on the goals for competition law, on the principles underpinning a sound competition policy, and on the appropriate tools to investigate and assess business conduct and transactions.

...and effective co-operation between competition authorities has improved...

Co-operation has improved with the increasing number of co-operation agreements between competition authorities. These agreements are typically bilateral, with the most significant exception being the European Union's network for co-operation between competition authorities. A few competition authorities – such as those in the US, EU, Canada, Japan, the Republic of Korea and Australia – co-operate frequently but most other authorities have little co-operating on enforcement cases. Even the closest bilateral arrangements make no provision to recognise the interdependency of decisions, and lack formal mechanisms to avoid inconsistency. Rather, their value is limited to

information exchange.

...but global merger cases present a particularly complex challenge...

Competition authorities can generate harmful externalities on one another's economies if the authorities disagree about the effects of a global merger. Furthermore, a decision to block a merger by a large jurisdiction effectively vetoes it. Therefore, mergers involving the largest global companies will become increasingly difficult, as multiple approvals are required and the merger must satisfy the most cautious of investigating authorities. Administrative costs from multiple parallel investigations are high and delays in closing deals impose a variety of costs on business.

... as do global cartels

Similarly, global cartels might face parallel investigations, with some jurisdictions much better able to prosecute price-fixing behaviour than others. When the cartel has effects in one jurisdiction, but several of the firms involved are headquartered elsewhere, enforcement might be patchy and inconsistent. In some cases, in the absence of co-operation from a foreign jurisdiction, a competition authority will be unable to investigate and prosecute a global cartel.

NEW APPROACHES AND POLICY IMPLICATIONS

The harm from coordination failure in competition law can be substantial...

Co-ordination failure can have a number of perverse effects. In particular,(1) inconsistent international treatment of the same merger could lead to an otherwise harmless and efficient merger being blocked or a merger deemed harmful by certain jurisdictions being permitted; (2) refusal of requests to co-operate can make it difficult for competition authorities to enforce their national laws; (3) duplicative and potentially excessive amounts of information are generated by multiple jurisdictions.

Since 1995, merger deals affected by divergent jurisdictional decisions had a deal value of approximately USD 100 billion. Inability to detect global cartels could account for damages

to consumers that, for some cartels, could exceed USD 100 million. Annual administrative costs from multiple merger filings of a complex transaction can easily exceed several millions USD.

...and the rationale for strengthening co-operation is increasing...

First, international business is more globalised, and there is still considerable scope for further economic integration. Secondly, there are more competition authorities (because there are more jurisdictions with competition laws), so the complexity of co-operation – which we measure by the number of pairs of authorities needing to co-operate – has increased substantially: by 53 times since 1990, for cartel cases, for example. The number of competition cases with an international dimension will continue to grow rapidly, even if the spread of competition laws now levels off as almost all major economies have competition authorities in place.

...hence new approaches to international co-operation in enforcing competition law are needed

Techniques for bilateral co-operation have improved since the mid-1990s, thanks in part to the efforts of the OECD and other international bodies, as well as through the efforts of the authorities themselves. Continuing, and deepening, the existing system of bilateral co-operation is important. However, making it work will be increasingly complex, as business becomes ever more globalised, spanning more and more jurisdictions enforcing competition law. In the face of this challenge, updating or renewing the current co-operation frameworks may be necessary. An important first step in this direction has been taken by revising the OECD Recommendation concerning International Co-operation on Competition Investigations and Proceedings in September 2014.

PROJECT PAPERS

- **OECD (2014)** "New Approaches to Economic Challenges – Implications of globalisation for competition policy: the need for international co-operation in merger and cartel enforcement" DAF/COMP(2014)4/REV1

OECD INITIATIVE ON NEW APPROACHES TO ECONOMIC CHALLENGES

The OECD initiative on “New Approaches to Economic Challenges” (NAEC) is an organisation-wide reflection process on the causes of the crisis and the lessons for policy. It was launched at the 2012 OECD Ministerial Council Meeting (MCM) with the objective to catalyse a process of continuous improvement of the organisation’s analytical frameworks and advice.

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