OECD Report Cites New Regulatory Challenges in Mature and Innovative U.K. Regulatory Environment

Two decades of reform have given Britain considerable experience in regulatory matters and a strong capacity to assure high quality regulation. The U.K. now faces challenging new demands reflecting the maturity of its regulatory system, according to a new OECD report.

*Regulatory Reform in the United Kingdom: Challenges at the Cutting Edge* cites past reforms as having played an important part in Britain's improved economic performance. Strengths of the U.K. economy include a flexible labour market with unemployment among the lowest in the OECD, a world-class financial services sector, and inward and outward investment flows among the highest in the world.

The U.K. regulatory environment is supportive of market openness and global competition. Reforms continue to be pursued in support of public policy goals and private sector needs, including those of small and medium-sized firms. Labour productivity remains a longstanding and deep-seated problem, but the issue and its complexity are recognised by the government, which has identified a five-pronged strategy to improve the functioning of markets by strengthening competition, promoting enterprise and innovation, improving the skills base, encouraging investment and improving public services productivity.

Overall, the report observes, “the U.K. has come a long way and its progress is reflected in a mature and innovative regulatory system. The U.K. is at the forefront of regulatory reform in the OECD, it has already made major improvements and has planned more. Building on what it has already achieved, the U.K. now faces challenges as well as opportunities to confirm regulatory reform as a key driver of economic performance.”

Among strong points in Britain’s present regulatory system, the report notes that:

- Entrepreneurs face a better business and regulatory environment in the U.K. than in most other OECD countries. The Small Business Service (SBS) supports small and medium-sized companies and encourages an environment that fosters enterprise.

- Fiscal policy has been successfully reformed, with a new framework to encourage stability as well as better long-term resource planning. Public Service Agreements (PSAs) are an important new regulatory management tool of this framework, linking departmental expenditure allocations to performance targets.
Positive changes within the 1998 Competition Act have brought the U.K. into line with most other OECD countries. Enforcement powers are being substantially strengthened with the Enterprise Bill – expected to receive Royal Assent shortly – which will include a new monopoly and merger regime with a competition-based test, criminal sanctions for hard-core cartels, and a specialist tribunal.

The U.K.’s pioneering work on regulatory reform continues to help other OECD countries. The U.K. was the first country to start privatising state-owned assets, and around 100 major businesses have been transferred to the private sector, increasing efficiency by the introduction of competition.

Britain’s electricity sector illustrates the role of effective regulation in promoting good performance. Market-based regulatory mechanisms to put in place new generation facilities are working well. Real electricity prices have fallen significantly for both industrial and domestic consumers.

The U.K. has also led the way among OECD countries in liberalising its telecommunications sector, achieving a generally strong, competitive and expanded market. In the financial services sector, the creation of a single regulator should help to ensure continuing U.K. pre-eminence.

Looking ahead, the OECD report cites a number of unprecedented new demands on the U.K. regulatory system, which it says are equally relevant for other OECD countries. These include:

- the growing importance of ex post evaluation of regulation and its contribution to policy goals;
- the need to manage diverse and often conflicting objectives;
- the challenges of managing of standard- or target-based regulation;
- the need for new approaches to consultation in a complex modern regulatory environment;
- the need to design effective central mechanisms driving quality, consistency and further reform;
- and the burdens on government itself of managing a modern regulatory environment.

Commenting on the publication of the OECD report, Lord Macdonald, the UK minister responsible for regulatory reform, said: “We are encouraged by the OECD’s recognition that regulatory reform has helped to create a better business environment than in most other OECD countries. Better regulation in the UK has been helped greatly by the high degree of openness and exchange of ideas between government and business and by the activity of a broad range of NGOs”.

The report on the U.K. is the latest in a series of such reviews of OECD economies. Others have covered the U.S, Japan, Mexico, the Netherlands, Korea, Spain, Hungary, Denmark, Italy, Ireland and Poland. The report reflects the input and views of all 30 OECD Member countries and the European Commission, as well as contributions from the business and labour communities. The report is available to journalists on the OECD’s password-protected website or from the OECD’s Media Relations Division (news.contact@oecd.org). For further information, journalists are invited to contact César Córdova Novión in the OECD’s Public Administration Service (tel. [33] 1 45 24 89 47 or cesar.cordova@oecd.org).