Regulatory Reform

Efficient Markets, Effective Government

OECD

Why regulatory reform?

Regulatory reform reduces barriers to competition and market openness, and fosters market dynamics, while ensuring essential social and environmental welfare. Incorporating practices for consultation, transparency and access to law, regulatory reform also contributes to reduced corruption.

Regulatory reform at the OECD

The OECD initiated its programme on regulatory reform in the mid-1990s to help countries coping with structural adjustment and the challenges of globalisation. With few exceptions, governments had to develop and sustain the policies, tools, and institutions for regulatory reform. What would take the place of "command and control" intervention? How could the accumulated stock of poorly designed or obsolete regulations be streamlined? How could opposition from those with a vested interest in the *status quo* be softened or overcome?

To help answer such questions, the OECD has:

- endorsed and promoted principles and guidelines for regulatory reform, in 1997 and 2005;
- carried out over 24 country peer reviews of regulatory reform;
- developed toolkits and prepared thematic studies to help practitioners; and
- promoted a global policy dialogue on regulatory reform with APEC economies and with Russia, China, and Brazil.

The OECD programme on regulatory reform brings together the perspectives of regulatory quality management, competition policy, and market openness. Three policy communities participate in the OECD discussions, promoting a unique, multi-disciplinary approach.

Involving stakeholders

OECD countries have embedded regulatory reform within the core functions of government. Regulatory reform is not undertaken once and for all. Political leadership at a high level, and support across economic and electoral cycles, are critical for success. But government cannot do the job alone. Because many actors inside and outside government contribute to the drafting of regulations and affect enforcement and compliance, regulatory governance calls for effective consultation and consensus building to create common values, and a broad agreement underpinning reforms. The work of the OECD and its member countries benefits from close participation and support of social partners and business.

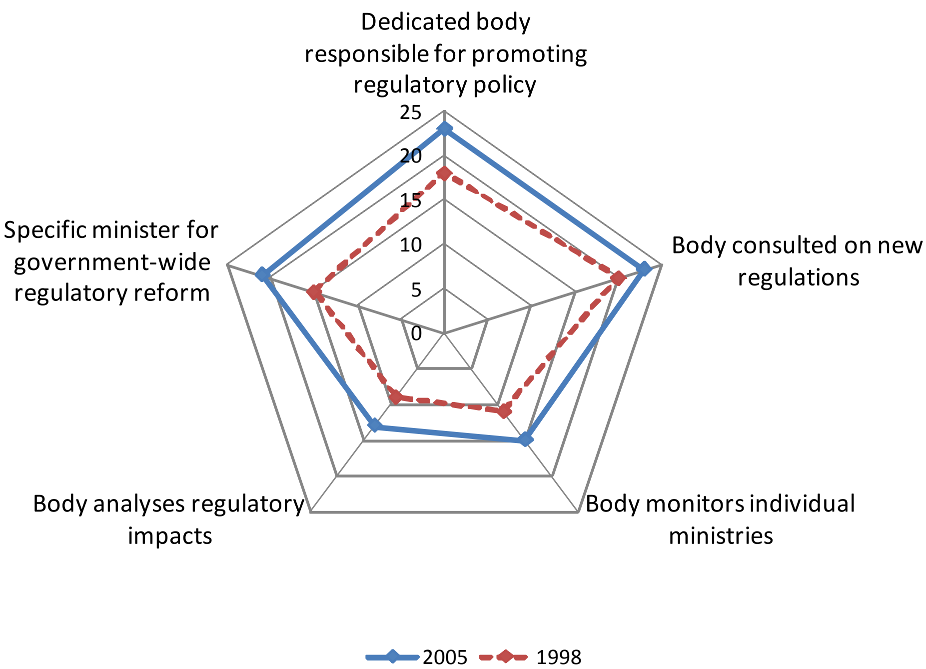
Institutional oversight and steering

It takes a mix of institutions to promote regulatory reform in its various dimensions. The OECD highlights the contributions of different kinds of institutions, including commissions, task forces, and existing bodies for competition advocacy, to design ambitious reform programmes and convey a clear message.

OECD principles and guidelines (www.oecd.org/regreform/principles) underscore the role of political leadership to guide and underpin regulatory reform efforts. Over the years, many countries have made progress towards raising the political profile of their regulatory reform efforts, strengthening the powers of the units in charge of regulatory quality oversight (see Figure 1).

Figure 1. Trends in institutional setting to promote regulatory policy across OECD countries

(Number of countries)



Source: OECD (2007), "Indicators of Regulatory Management Systems", OECD Working Papers on Public Governance, No. 4, Paris.

The results of more than ten years of reform and capacity-building are clearly visible. Countries with a sound regulatory system have more resilient economies, and are better able to recover from shocks in less time. All countries can improve economic performance through regulatory reform, but the most significant gains come to those with the most restrictive regulatory settings and inefficient procedures. Dynamic gains stem from reform: innovation and job creation have resulted from reform in, for example, transport and telecommunications. Reform is particularly important for SMEs which provide a large share of new jobs, and are often the source of technological change.

Promoting regulatory reform through advocacy

The Australian Productivity Commission was established in 1998 as an independent research and advisory body on a range of economic, social, and environmental issues affecting the welfare of Australians. Its key function is to conduct public inquiries at the request of the government into matters which affect Australia's economic performance and community well-being. Other functions include performance monitoring of Australian government agencies and annual reporting on regulation, as well as research to raise awareness of relevant policy issues. The transparent processes and the quality and consistency of the reports produced by the Productivity Commission have contributed to the high international respect for Australia's achievement in terms of microeconomic performance.

The Korean Regulatory Reform Committee was established in 1997 to oversee the regulatory reform process and the introduction of Regulatory Impact Analysis (RIA). It is responsible for: establishing basic policy guidelines and ensuring quality control of RIA; reviewing new and existing regulations; registering and publishing regulations and monitoring ministerial regulatory improvement plans. With the help of strong political leadership, the RRC efforts resulted in reducing the number of regulations by half and revising 1 242 regulations in 1998 and 1999. Currently, the RRC reviews about 1 000 regulations per year and has established RIA as a tool to control regulatory quality and improved regulatory transparency and accountability by removing administrative discretion and enhanced public consultations.

Source: *Implementing Regulatory Reform: Building the Case through Results,* Proceedings of the Meeting of the Group on Regulatory Policy (OECD, 2008).

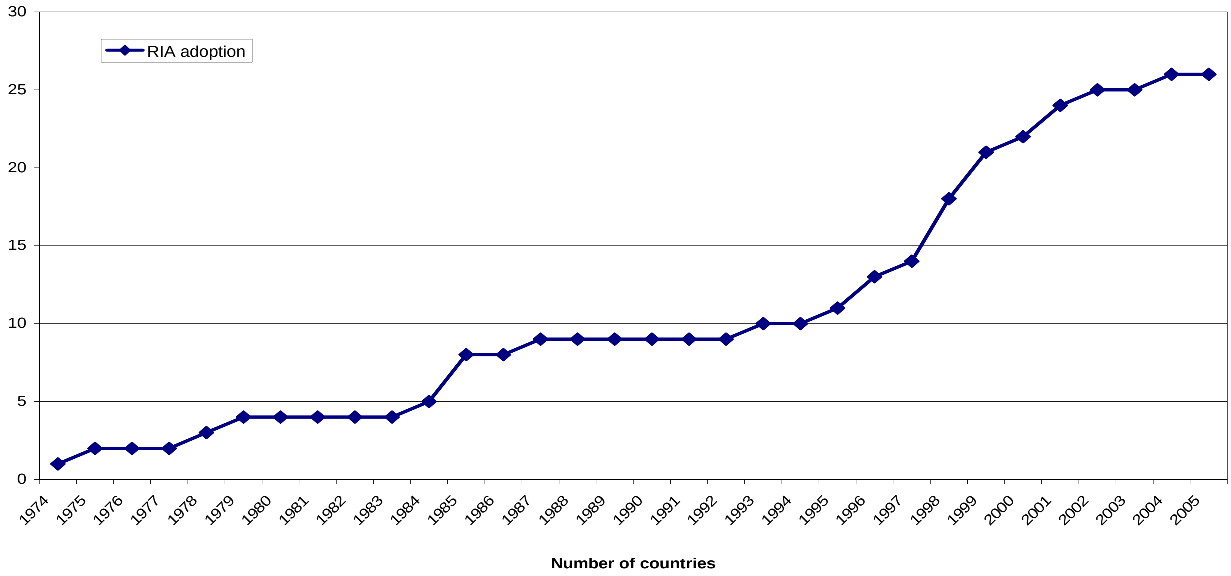
Tools for reform

To secure "fit for purpose" regulations that support policy goals, OECD countries are pushing to cut red tape, and to use regulatory impact analysis (RIA) more effectively in policymaking. Taken together, cutting red tape and RIA help close the regulatory cycle. Simplification reduces regulatory burdens for a few years, but then the process has to be repeated as new regulations accumulate.

Regulatory Impact Analysis (RIA)

Most OECD countries have adopted Regulatory Impact Analysis as a systematic tool to enhance the quality of new regulations (Figure 2). RIA helps governments assess when a regulation is appropriate, and to render it more efficient and effective. The 1995 OECD Checklist for Regulatory Decision-making, which demonstrates the utility of RIA, remains the global point of reference. This tool for evidence-based decision making can be applied when using the OECD Competition Assessment Toolkit, now available in 11 languages (www.oecd.org/competition/toolkit). In addition, the OECD is publishing a report in 2008 on how governments can improve the quality of RIA and the guidance given to practitioners. The OECD has also just published a guide to help decision makers understand the institutional preconditions for a RIA system.

Figure 2. Trends in the adoption of Regulatory Impact Analysis across OECD countries



Source: OECD (2007), "Indicators of Regulatory Management Systems", OECD Working Papers on Public Governance, No. 4, Paris.

Mexico's competitiveness agenda

At times of profound change, regulations can become the obstacle to achieving the economic and social well-being for which they were intended by creating unnecessary restraints to competition. To improve overall competitiveness, a sound regulatory system that remains up to date must tackle the regulatory stock and stimulate healthy competition. To help Mexico implement past OECD recommendations and to reduce the administrative burdens and regulatory stock, the OECD is working alongside Mexican experts and officials, marshalling the international experience of its networks. A similar initiative on competition policy is under way.

Cutting red tape

Unnecessary administrative burdens amount to 2-4% of GDP. Since 2002, when the OECD published its first study on administrative simplification, countries have made great progress. In 2005, the OECD analysed national strategies in this field, both quantitative and qualitative, and will repeat this analysis in 2009, to take account of the many initiatives launched in recent years. Countries are now measuring the economic cost of regulatory burdens, following the approach of the Standard Cost Model pioneered by the Netherlands. The 2007 review of the Netherlands shows what can be done to cut red tape by 25% over three years. The title of the 2008 review of e-government and administrative simplification in Portugal, *Making Life Easy for Citizens and Business*, captures why this effort is so important.

APEC-OECD Co-operative Initiative on Regulatory Reform

Launched in 2000, this initiative to raise awareness of the importance of regulatory reform in the 46 economies that are members of both organisations has produced the APEC-OECD Integrated Checklist on Regulatory Reform (www.oecd.org/dataoecd/41/9/34989455.pdf). The checklist promotes market liberalisation, openness to trade and investment, and reform of public sector institutions in an interconnected way. It is a self-assessment tool covering a whole-of-government approach, as well as regulatory policy, competition, and market openness. Five APEC economies have used the checklist: Australia, Chinese Taipei, Hong Kong China, Korea, and the United States. The results were reported to OECD-APEC Policy Roundtables as part of the work of the APEC Economic Committee. Further information is available on the committee's website (http://www.apec.org/apec/apec_groups/economic_committee.html).

Regulation as a global public good when facing global risks

Regulatory reform is part of the process by which countries engage in the world economy. Each country's regulatory environment affects global trade and investment, and contributes to the rule of law. The OECD framework for regulatory reform can be effectively applied by many non-member countries. The APEC-OECD Checklist for Regulatory Reform is a useful tool that can be broadly used to promote regulatory reform to a larger set of countries. Already, the OECD has undertaken regulatory reform reviews of major countries such as Brazil, China, and Russia. The Brazil review makes a decisive contribution to the government's Growth Acceleration Package, the aim of which is to lift long-term growth prospects, and improve economic regulation in major infrastructure sectors, such as transport, communications, and energy, for the years to come.

With increasing frequency, governments face decisions about what to regulate, and how, in many policy domains – financial, health, environment, security, energy, economic – where uncertainties and the potential costs of policy failure are significant. Governments need to assess and manage risk when developing policy options that include regulations. Consider the example of climate change. Markets for permits, emissions trading, and other instruments will need regulatory frameworks to function. Political pressures for action may generate regulatory proposals for water resources, energy efficiency, land use, power generation, and transport, to name a few. Without proper controls in the regulatory process, compliance costs could undo years of careful reform. The regulatory process, including RIA, can play a key role in achieving policy coherence.

Progress calls for better-informed citizens and a public sector that, serving citizens and business, builds trust in government. This entails:

- broadening regulatory governance to include more actors: subnational authorities, independent agencies, civil society;
- enhancing the evaluation capacity of government and making the best use of the knowledge of experience;
- building the most effective institutions to drive regulatory policy and help create consensus, including oversight and advisory bodies, task forces and advisory committees, and independent regulators.

Regulatory reform enhances the strategic role of the state. During the second decade of regulatory reform, the OECD will continue to help governments achieve sustainable growth and meet their international responsibilities.

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Key publications

Reviews of regulatory reform

- Japan (1999, 2004)
- Netherlands (1999)
- United States (1999)
- Mexico (1999, 2004)
- Korea (2000, 2007)
- Hungary (2000)
- Spain (2000)
- Denmark (2000)
- Italy (2001, 2007)
- Czech Republic (2001)
- Poland (2002)
- Canada (2002)
- United Kingdom (2002)
- Turkey (2002)
- Finland (2003)
- Norway (2003)
- Germany (2004)
- France (2004)
- Russia (2005)
- Switzerland (2006)
- Sweden (2007)
- Brazil (2008)

Thematic studies and syntheses

- *Cutting Red Tape: Comparing Administrative Burdens across Countries* (OECD, 2007).
- *From Interventionism to Regulatory Governance: OECD Reviews of Regulatory Reform – Regulatory Policies in OECD Countries* (OECD, 2002).
- *Building an Institutional Framework for Regulatory Impact Analysis (RIA): Guidance for Policy Makers* (OECD, 2008).
- *Making Life Easy for Citizens and Businesses in Portugal: Administrative Simplification and e-Government* (OECD, 2008).

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