

OECD Workshop on Indicators of Regulatory Management Systems

links between quality
regulation and economic
performance

London 02-04-2009

Mr. Stéphane Jacobzone

Ms. Christiane Arndt

OECD

Regulatory Policy Division

Directorate for Public Governance and Territorial Development



ORGANISATION FOR ECONOMIC
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Introduction

- *Available evidence: link between quality regulation and economic performance*
- *OECD work on Product Market Regulation*
- *Related indicators from World Bank and WEF*
- *Other academic studies*

The analytical work

A set of existing statistical techniques:

- **Factor Analysis** : powerful tool to establish a typology. Reduces overall heterogeneity.
- **Correlation** with other indicators:
 - No value judgement on other indicators
 - Assess the consistency of the approach
 - A first step towards outcomes (link with perception surveys)
 - Entrepreneurship data: was used but difficult to collect in a consistent way.

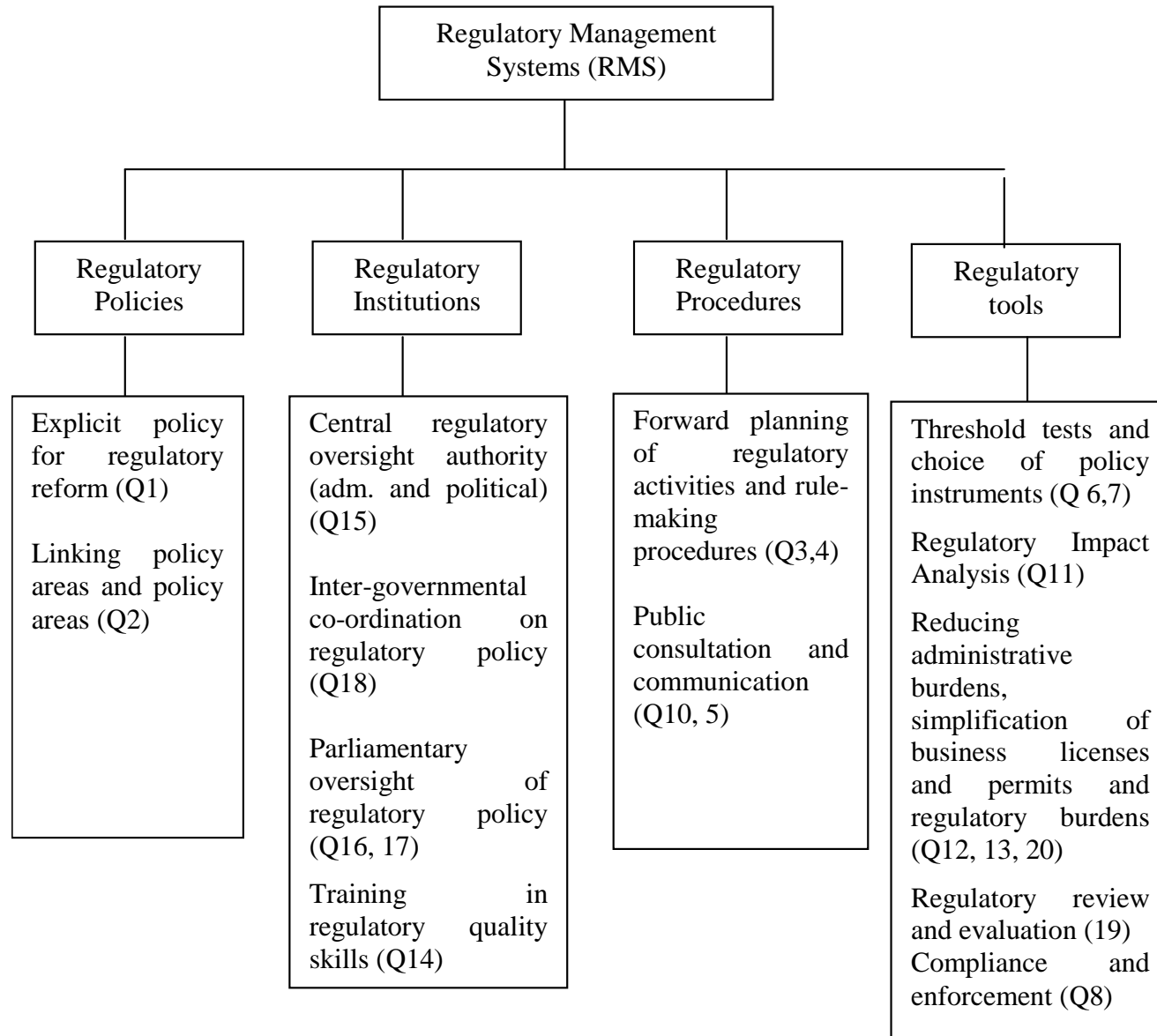
Principal component analysis

- Methodological aspects
 - Used the 16 (2005) -13 (linked) policy area indicators
 - Achieving clarity without compromising data integrity
 - Reduce the dataset to a number of key components that explain most of the variance of the dataset
- Pre-analysis of the correlation among the variables:
- A number of core dimensions for the work
 - Illustrates patterns of countries
 - Allows analysis and relations with outside existing data sets:

Correlation analysis

- RIA extent and process, insitutional; capacity, procedures, alternatives, training, across levels of government, policy coherence
- Licences, burden reduction, evaluation and update

Structure of the policy areas



First axis : mutually supportive conditions

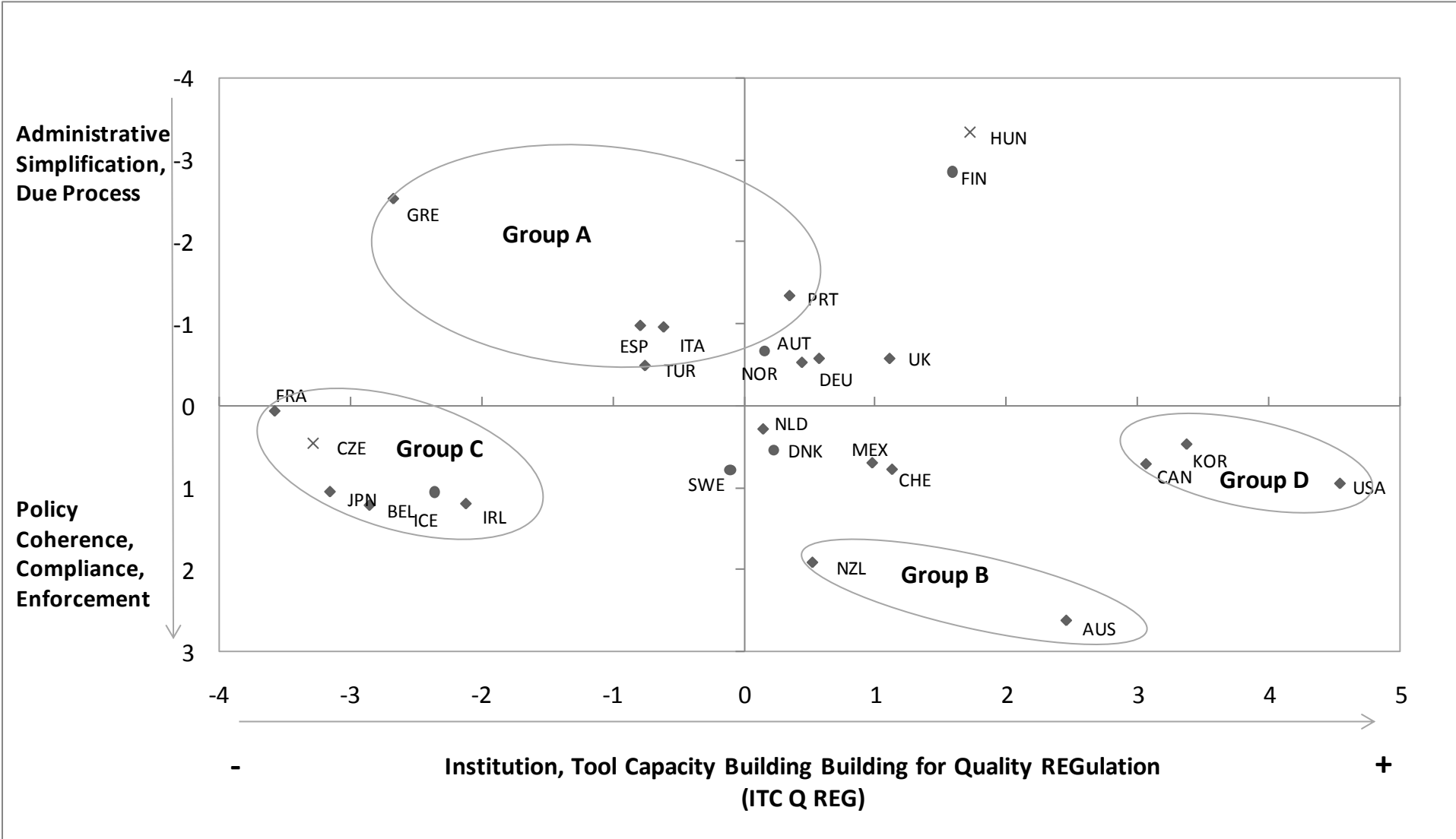
Institution, Tool, Capacity Building

Variable		Contribution	Coordinates
RIA_EXTENT	Assessing the quality of new regulation through RIA (extent of coverage)	11.8	0.84
JUSTIF_ALTER	Provision of justification for regulatory action, search for alternatives	10.1	0.78
LEVEL_GVT	Multi-level coordination mechanisms for regulatory policy	9.2	0.74
RIA_PROCESS	Assessing the quality of new regulation through RIA (RIA process)	8.5	0.72
COMPL_ENFOR	Compliance, enforcement and judiciary	8.4	0.71
TRAINING	Training in regulatory quality skills	8.3	0.7
INSTIT_CAP	Institutional capacity for managing regulatory reform	8.2	0.7
CONSULT	consultation	6.7	0.64
PARLIAM	Parliamentary oversight of regulatory policy	6	0.6
CLAR_PROC	Clarity & due process in rule-making procedures	5.7	0.58
REVIEW_EVAL	Dynamic process of evaluation and update of regulations	5.7	0.58
COMMUNI	Communication of Regulations. (easy access)	5.4	0.57

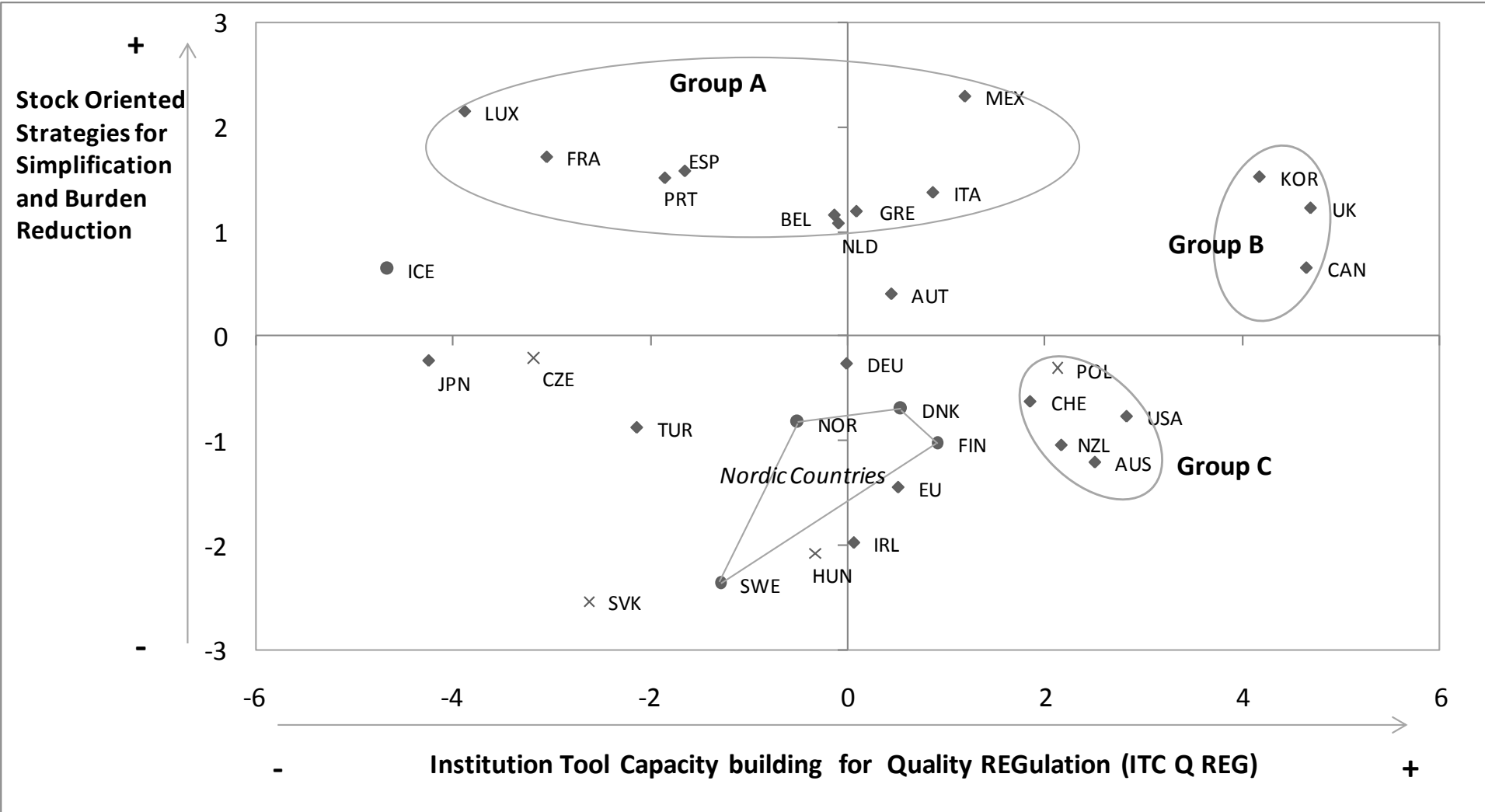
Second axis : Improving the quality of the stock Stock Oriented Strategies, Simplification and Burden Reduction (SOS SBR)

Variable		Contribution	Coordinates
FACIL_ LICEN	Facilitating licenses, permits and administrative requirements	28.5	0.73
COHER	Policy coherence integrating competition and market openness	12.9	-0.49
CLAR_ PROC	Clarity & due process in rule-making procedures	12.6	-0.48
EXPL_ POL	Adoption of explicit policy for regulatory reform.	10.2	0.43
REVIEW_ EVAL	Dynamic process of evaluation and update of regulations	9.9	0.43
REDUC_ BURD	Reducing and controlling administrative and regulatory burdens	9.7	0.42

Situation in 1998



Situation in 2005



Update of the factor analysis

**Next step: critical to reduce heterogeneity, and
assess convergence divergence,**

Different possibilities in terms of indicators subset

Correlation with other variables

Doing Business indicators:

- RMS1, ITQ REG as expected (full and restricted sample)
- Negative correlation with second axis: SOS
- To be interpreted with caution: countries facing difficulties in their business friendliness may give high priority to simplification

Correlation with other variables

Global Competitiveness Index (GCI) of the World Economic Forum: Executive opinion survey.

Perception survey

Correlation with ITQREG and RMS1 (also with sub component on institutions). In 1998 and 2005

In 2005: market efficiency only.

No clear results with second axis (or negative)

Correlation with other variables

World Wide Governance Indicators (WGI)

Abstract composites

No clear results.

OECD PMR REGREF indicators.

In 1998 Correlation with expected sign for
ITCQ REG/RMS1 for both PMR and REGREF

Expected correlations with aggregates for REGREF

In 2005: correlations with REGREF at aggregate level.
Puzzling results with SOS/RMS2: not expected side
(consistent with DB estimates)

Dynamic correlations with OECD Product Market Regulation and REGREF Indicators

In a cross sectional perspective, more intensive efforts in terms of simplification are concomitant with less ease of doing business or more restrictive environment: a problem triggers a response

In a dynamic perspective, more intensive efforts in terms of simplification lead to an improvement in product market regulation (PMR REGREF): thus impacts on the second derivative of economic growth Encouraging signal for simplification policies.

Correlation with other variables

Summary:

Link with business friendliness, or perceived quality of regulatory environment:

ITCQ REG mainly.

To a lesser extent some of the aggregates

Link with variables known to affect economic growth (REGREF): aggregate variables strong link.

Econometric work

- Pr. Steiner, Stanford University, E. Lopez Ponton
- Econometric work:
 - Adapted from existing econometric models
 - Simplified approach due to paucity of data (situation will change with third wave).
- Basic model:

Economic performance = country specific characteristics (fixed effects) + regulatory aspects

Two techniques: fixed effects, random effects (consistency tests econometrics).

Econometric results

- **Effects with aggregate variables:**
 - Simple aggregate (addition)
 - Weighted Aggregate
 - ITCQ REG / RMS 1
 - No results with RMS2 (SOS) (in line with correlation analysis).
- **Positive coefficients (just more significant with interpolated indicators):**
 - 8 to 20 % for regulatory aspects explaining the residual variance
 - 1 to 6% in the random regressions
- **Similar results to be noted for PMR indicators:**
reassuring: 10 % of the variance

Summary

- Improvements in regulatory management quality measured in terms of ITQREG, and aggregates consistent with increase in total employment, GDP for business sector and labour productivity.
- Upper bound estimates, clear effect of regulation at the margin but caution is required to avoid overselling the results
- Consistency and correlation with REGREF reassuring

Conclusions

➤ **Lessons learned:**

- Encouraging signals
- Links between OECD indicators and external indicators
- Relation with business friendliness of the regulatory environment
- Simplification policies linked with improvements over time of the regulatory environment
- Consistent support for better regulation strategies: A better regulatory environment translates into positive economic outcomes: contribution to a growth and competitiveness oriented strategy.

➤ **Analysis to be carried out in the future**

- 2008 data survey facilitates more analysis
- *Needs to proceed in steps*

Questions for discussion

- How to link better regulation to economic performance?
- What indicators are useful for econometric analysis?
- What are the knowledge gaps and how to bridge them?