Reform beyond the Crisis

A large body of research on policy reform suggests that crises can create significant opportunities to reform, both by demonstrating the unsustainability of the status quo and by disrupting the interest coalitions that resisted reform in the past. The analysis conducted as part of the OECD’s project on “Making Reform Happen” (MRH) broadly confirms this link between crisis and reform. This paper discusses how governments can “seize the moment” of the economic crisis to suggest and implement structural reforms. It examines the particular challenges to reform – and possible solutions to those challenges – in several distinct policy areas, namely the labour market, product markets, retirement, education, healthcare, taxes and the environment. It also offers an analysis of how to “reform the reformers”, or how to change the way public administrations do their work.

Although the MRH review of OECD experience in the field of policy reform does not yield any one-size-fits-all “toolkit” for reformers, or even suggest that such a toolkit exists, the analysis shows that reform processes share some common traits. Among the major findings:

- **Sound public finances** are strongly associated with reform progress.
- It is important to have an **electoral mandate** for reform.
- **Effective communication** is essential.
- Policy design must be underpinned by **solid research and analysis**.
- **Appropriate institutions** are needed to make the transition from decision to implementation.
- Successful structural reforms take **time**.
- **Leadership** is critical.
- Successful reform often requires **several attempts**.

The evidence suggests that cross-national studies and international policy dialogue can speed up the process of “policy learning”, enabling governments to learn from one another and thus avoid repeating others’ errors. This is where the OECD is ready and willing to assist, as collecting evidence, providing internationally comparable data and analysis, and sharing knowledge are the Organisation’s core strengths.
What is the link between exit from the crisis and structural reform?

Structural reform in a time of crisis

The world economy continues to grapple with the aftermath of the deepest and most widespread recession in over half a century. The collapse of world trade and the sharp output contraction recorded in almost all OECD countries, allied to a major slowdown in the major non-OECD economies, are without precedent since the Great Depression. The policy response in most countries has largely focused on fiscal and monetary easing and, in some countries, on the stabilisation of banking systems disrupted by the financial crisis that helped trigger the recession. Given the severity of the downturn, it is hardly surprising that the salience of structural policy has receded somewhat. However, it is important that the current focus on the “fire-brigade” tasks of macroeconomic management does not lead to a sustained neglect of structural priorities. Long-term goals must be kept in view when navigating a course out of the current crisis. While the crisis has clearly had an impact on immediate policy priorities, focusing attention on the need for better regulation of financial markets, in particular, it has done nothing to diminish – and in some cases has increased – the major reform challenges that governments already faced prior to the crisis, in a range of domains, from pensions to environmental policy.

Structural policy should thus been seen as part of an overall strategy for exit from the crisis. Efforts to enhance the flexibility of OECD economies are needed not only in order to offset the negative effects of the recession, but also to raise potential output growth over the longer term and to help address the deterioration in public budgets caused by the recession. Moreover, many structural and fiscal emergency measures adopted in 2008-09 in an effort to cushion the immediate impact of the crisis could undermine long-term growth if they are retained over the medium-to-long term. Strategies are needed for unwinding such measures once the recovery is assured. While the increased government presence in the financial sector in many countries is the most obvious example, an array of extraordinary product- and labour-market interventions will also need to be phased out. If prolonged, they risk delaying needed adjustment and weakening any future recovery. Finally, it is important to note the potential of the current crisis to act as a catalyst for reforms aimed at ensuring that the recovery and future economic growth are consistent with sustainable development.

The challenges involved in adopting and implementing these and other structural reforms are tremendous: even well designed reforms may be thwarted if those with a vested interest in the status quo have the power to block them. That is why the OECD has in recent years intensified its work on the “political economy” of reform and increased its support for governments in their reform efforts. This note presents, in a very preliminary form, some of the findings that emerge from on-going OECD work within the context of the OECD’s “Making Reforms Happen” (MRH) project. Its principal aim is to see how an understanding of past reform experiences may be of use to policymakers seeking to design, adopt and implement reforms in the wake of the present crisis.

Will the crisis make reform harder or easier?

Seizing the moment: Crisis as reform opportunity and reform challenge

A large body of research on policy reform suggests that crises can create significant reform opportunities, both by demonstrating the unsustainability of the status quo and by disrupting the interest coalitions that have previously resisted reform. The Secretariat’s work broadly confirms the importance of this crisis-reform link. However, it also suggests that sound public finances tend to be associated with more reform – a particularly relevant concern, given the recent deterioration in many OECD countries’ public budgets. While pressure on public finances often constitutes an important motivation to attempt structural reforms, it can make reforms harder to adopt and implement. Many reforms involve up-front fiscal costs, while the benefits are realised only later. A severe fiscal squeeze may make it harder to assume these costs, even if the reform is projected to save money in the long run. In addition, a weak fiscal position makes it harder to find resources to provide adequate compensation or
transition arrangements for those who will lose from reform. Finally, governments with limited political capital may opt to focus on fiscal consolidation rather than structural reform.

The link between healthy public finances and structural reform progress is one of the most robust findings to emerge from recent work. The impact of the present crisis on prospects for reform is thus ambiguous: the crisis may strengthen the case for pursuing some reforms, but the fiscal situation may constrain governments’ ability to do so. As and when recovery takes hold, many OECD governments will be under enormous pressure to pursue fiscal consolidation in order to address concerns about long-term debt sustainability. Such pressures will constitute a powerful argument in favour of reforms to public pension systems and other entitlements, as well as healthcare; however, governments will have to show considerable ingenuity in creating the fiscal space needed to bear the short-term costs of such reforms. Reforms will also need to be presented as desirable on long-term, structural grounds and not merely as unavoidable cuts in public expenditure. Experience of past reform attempts in OECD countries suggests that reforms justified chiefly as responses to fiscal pressure may be difficult to sustain when that pressure eases.

There is, moreover, one potentially important respect in which the current crisis may affect the politics of reform differently from previous crises. Public trust in market-oriented policies has been damaged by the widespread perception that the downturn is the product of under-regulation of the financial system and that the response has required active, large-scale direct intervention by governments in markets. In the short term, at least, the crisis may put advocates of what are perceived to be “liberal” or “neo-liberal” reforms, in whatever policy domain, on the defensive.

Reform-minded governments can, however, take some consolation from another finding to emerge from the Secretariat’s MRH work: there appears to be only a weak link, if any, between current growth performance and governments’ ability to reform. The econometric results and the case-study evidence alike are consistent with the conclusion that macroeconomic performance, though probably important in determining whether and when reform initiatives are attempted, has limited impact on governments’ success in adopting and implementing those initiatives that they do undertake. Granted a government is prepared to put forward a reform proposal, its prospects for success do not appear to be strongly linked to the business cycle. In short, if a government is ready and able to press ahead with a reform, there is unlikely to be any reason to wait for a more politically “suspicious” time in the economic cycle. There may, however, be economic reasons to hold back on some reforms, while pressing ahead with others, since reform sequencing can be important. Moreover, the scale of the challenge facing policymakers may in itself cause governments to postpone some reforms that were being prepared before the crisis: government capacities are limited – no government can do everything at once – and are at present focused, for obvious reasons, on the response to the recession. In addition, the current situation has highlighted some new priorities, as well as reinforcing old ones, so there may well be a need to reshape reform agendas and reconsider specific reform objectives.

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<td>Although the MRH review of OECD experience does not yield any one-size-fits-all “toolkit“ for reformers, or even suggest that such a toolkit exists, it does point to a number of striking regularities in the way reform processes unfold. Among the major themes to emerge from all strands of the MRH analytical work are the following:</td>
<td>It is important to have an <strong>electoral mandate</strong> for reform. This is one of the strongest findings to emerge from the studies that have fed into the present synthesis. Reform “by stealth”, via the quiet adoption of a series of seemingly technical changes, can sometimes yield some progress, but it has severe limits. Major reforms for which governments have not previously sought public approval tend to succeed only when they generate visible benefits very rapidly, which structural reforms generally do not. Crises may create opportunities for such “reform surprises”, as governments are forced to change</td>
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policies rapidly in response to an emerging situation, but unless the pay-offs are quick, the sustainability of such reforms tends to depend on the government’s ability to make the case for reform in terms of longer-term goals. The evidence suggests that an electoral mandate appears to be most important in respect of reforms that are all-encompassing (labour markets, pensions, environment), including those that affect basic public services (healthcare, education, public administration). The electoral salience of product-market, by contrast, appears to be lower in most cases.

- The importance of meaningful mandates makes effective communication all the more important. Successful reforms have usually been accompanied by consistent co-ordinated efforts to persuade voters and stakeholders of the need for reform and, in particular, to communicate the costs of non-reform. Where, as is often the case, the costs of the status quo consist of opportunities never realised ("opportunity costs"), they tend to be politically invisible, and the challenge is all the greater. Where reforms are more or less all-encompassing, communications efforts need to be directed at the voting public (e.g. pensions, labour markets), while in other domains, the focus may be primarily (though not exclusively) on directly affected stakeholder groups. Clear communication of the long-term objectives of reform is particularly important in a crisis: where reforms are undertaken in response to crises and other shocks, there is often a lack of clarity about their aims.

- This points to the need for policy design to be underpinned by solid research and analysis. OECD members’ experiences suggest that an evidence-based and analytically sound case for reform serves both to improve the quality of policy and to enhance prospects for reform adoption. If reform advocates can build a broad consensus among experts and the public concerning the merits of reform, they are likely to be in a stronger position when dealing with the reform’s opponents. This is particularly important in those instances in which a reform must be negotiated with stakeholders who are suspicious of change. However, the challenges involved in evidence-based policymaking vary across policy domains (see below).

- The foregoing challenges, in turn, are more likely to be met where appropriate institutions exist, capable of supporting reform from decision to implementation. The impact of economic analysis, in particular, depends on its source: research presented by an authoritative, non-partisan institution that commands trust across the political spectrum appears to have a far greater impact. Building such institutions can take time, as their effectiveness depends on their reputation, but where they exist, their prior analysis appears to have enhanced the prospects for reform in particular areas.

- Partly for these reasons, successful structural reforms take time. The more successful reforms examined in the MRH analyses generally took several years to prepare and adopt, and they often took far longer to implement. By contrast, many of the least successful reform attempts were undertaken in haste, often in response to immediate pressures: when it comes to policy reform, more haste can indeed make for less speed. Reforms of pension, healthcare and education systems, in particular, often have relatively long gestation times, involving a considerable amount of careful study and consultation, as well as very long implementation periods. Much the same is true of reforms to public administration. Thus, while crises may provide opportunities to press ahead with reforms, the ability to make good use of such opportunities may depend on the work that has already been done to prepare a reform.

- Leadership is critical. Virtually all of the assessments prepared so far in the context of MRH point to the importance of strong leadership – whether by an individual policymaker or an institution charged with carrying out the reform. Much of the work also points to the importance of government cohesion in support of the reform: if the government is not united around a reform proposal, it will send out mixed messages, and opponents will exploit its divisions; defeat is usually the result. Indeed, cohesion appears to matter more than such factors as the strength of opposition parties or the government’s parliamentary strength.

- A final cross-cutting lesson, which is hardly surprising in view
What sector-specific lessons does OECD experience suggest for reformers?

Sectoral perspectives on making reforms happen

Labour-market reform and the crisis

The current crisis highlights the peculiar challenges posed by labour-market reform in many OECD economies. Re-employment measures and other reforms are needed to counter the tendency for cyclical unemployment to become structural, including more effective and, in some cases, expanded active labour-market policies (ALMPs). However, reform of the “core” of the labour market is likely to be much harder in the near term. The evidence suggests that, although high levels of unemployment tend to increase the pressure for labour-market reform, a sharp rise in unemployment increases the likelihood that any reform will leave regular workers (labour-market “insiders”) largely untouched. Since the value of employment protection rises with unemployment, regular workers, who tend to be the most organised segment of the labour force, have even greater reason to resist any weakening of employment protection legislation (EPL) during a cyclical downturn. Because EPL tends to impede job destruction as well as job creation, governments may hesitate to relax it in a recession, for fear of even greater job losses. Consequently, labour-market reforms in recessions tend to focus on labour-market “outsiders” – new entrants, those on irregular contracts, the unemployed and others on benefit. While reforms aimed at activating outsiders can be beneficial, the crisis has underscored, and perhaps even exacerbated, such labour-market “dualism” in some countries, as labour-market outsiders have borne the brunt of the adjustment, while insiders have in some cases secured real wage increases.

However, the experience of labour-market reform in OECD countries also seems to suggest that a sharp downturn can often be the right time to initiate a reform: given the lags involved in the policy process, labour-market reforms designed and adopted in the middle of a contraction are often implemented in a recovery, when an improving job market can make implementation easier. In short, the most promising time for reform seems to be immediately after a recession. Advancing such reforms may require significant concessions to organised labour on other issues, such as changes to unemployment benefits where these are relatively ungenerous, and this will in turn depend on whether or not there is fiscal space for such concessions.

Reforming product markets in the OECD

The experiences of a number of OECD countries suggest that reforms of product-market regulation can play an important part in governments’ response to the crisis. Deregulation can speed up the needed reallocation of resources, and, by reducing the cost of doing business, provide a fiscally neutral way of giving some relief to an enterprise sector under pressure. Efficiency-enhancing reforms to network industries and other non-tradable sectors can be particularly attractive at such a time. Nevertheless, simply persuading stakeholders and the public that the overall assessment of costs and benefits favours such reforms can be difficult, largely because the costs of the status quo in respect of product-market re-forms are often not apparent and are thus hidden from the electorate: it is often clear who will pay the price for a reform – which firms are likely to come under pressure and which jobs may be at risk –
whereas it may not be at all obvious who is paying for the status quo. It is difficult to identify firms that have never entered the market, sectors that have not developed or the workers whom they would have employed. However, experience suggests that a determined effort to quantify the costs of the status quo and the potential benefits of reform, and to communicate these to stakeholders and the public, can be crucial elements of success.

At the same time, successful product-market reforms typically include transition arrangements designed to ensure that the producer or consumer interests affected do not experience conditionally object. The most difficult problems tend to be those that arise when the rents resulting from anti-competitive regulatory policies have been capitalised into asset prices: current asset owners may not have profited from the old policies, but it is they who will be hurt by reform. Reform may make it impossible for some investors to earn an economic return on investments undertaken in good faith on the basis of the previous policy regime (so-called “asset stranding”). Since employer-employee relationships usually involve an element of relationship-specific investment that is lost in the event of a separation, stranded assets problems can affect labour as well. Where they arise, direct compensation or some other form of transitional assistance may be required if reformers wish to avoid extremely long transition periods.

**Retirement reforms**

Pension reform appears to be an area in which public communication of reform messages is especially important – and potentially effective. As recently as the mid-1990s, some studies of the political economy of pension reform in the OECD area suggested that it could only proceed by “stealth”, with governments adopting technical changes with a minimum of publicity in an effort to shore up the financial sustainability pension systems without ever revealing the far-reaching nature of the changes they were making. In fact, it seems to have become easier in the last 20 years to win public acceptance of the need for – and, perhaps, the inevitability of – the reform of general pension systems, even if the urgency of reform has sometimes been questioned. This reflects in no small measure the impact of public discussion of research on the implications of lower birth rates and longer life expectancies, in particular, for public pension systems. There is also an understanding in many countries that the current crisis has put even greater pressure on the finances of pension systems, making reform even more of a priority. While the distributional issues remain difficult, agreement on the need for reform is now widespread, and much has already been done.

Pension reform experiences in the OECD highlight the importance of many of the general lessons identified above, including the need for careful study and consultation, the risks associated with excessive haste, and the importance of public communications and clear electoral mandates. In addition, successful reform strategies have often involved relatively long transition periods, which effectively exempt large groups from the reform. Current pensioners are rarely much affected by pension reforms and older workers usually experience only minimal change. In part, this is because trade unions and political parties tend to be oriented towards the interests of older cohorts, but there are also good economic arguments for long transition periods. Sharp swings in pension policy can be costly to contributors making career/savings choices for the long term, and the microeconomic benefits of pension reform depend in part on the clarity and stability of the link between contributions and benefits. The costs of pension reform thus tend to be borne chiefly by younger cohorts. Since it is they who will lose out if the system proves unsustainable over the long term, and since they have longer to adjust their savings behaviour, this tends to be politically acceptable.

**Social policy reforms: challenges in education and healthcare**

Governments seeking to reform healthcare and education systems are likely to confront a number of common challenges:

- Both are characterised by an unusually high degree of path dependence healthcare and education systems are both large and complex, and they have evolved in very specific ways in different national contexts. The question of what is feasible or desirable thus depends to a great extent on the
institutions and policies already in place, as well as on the available physical infrastructure and human capital. Past policies also help shape public attitudes concerning what citizens have a right to expect from public healthcare and education systems, which are often part of an implicit but nevertheless fundamental "social contract".

- Public-sector providers in both fields, who tend to be very well organised, generally command greater public trust than do politicians: voters may be dissatisfied with healthcare or education systems, but they tend to trust medical professionals and educators, who therefore have enormous power over the reform process. Some observers argue that they often act as de facto "veto players" when it comes to reform in their respective domains. Moreover, because effective implementation requires their co-operation, public-sector providers can often undermine or even sabotage the implementation of reforms they oppose.

- It can be hard to make the case for reform on grounds of policy outcomes, because there is no consensus about how to assess outcomes in healthcare and education. This is partly due to the complex mix of goals to be pursued in both fields (equity, efficiency, quality, choice, cost-containment, etc.), but it also reflects the lack of reliable, generally accepted indicators concerning the quality of healthcare and education outcomes and their value. Evidence-based reform is difficult where the evidence base is either lacking or contested. One consequence of this is that isolated facts or bits of data, or the emergence of a single high-profile study, can have a disproportionate impact on policy debates.

- Policy in both fields tends to be characterised by very long lags between conception and implementation. It can take years to design and adopt a reform, and it may be a decade or more before its impact is really felt. These lags may be even longer in education than healthcare. This constitutes a potential disincentive for elected politicians contemplating reform, since no government is likely to remain in office long enough to receive credit for the benefits of the reforms it initiates.

There are also more specific challenges in each field. In many countries, policy reform in education is complicated by the difficulty of coordinating reform across different levels of government and across multiple regional and local jurisdictions. Sequencing is also a key issue in many education reforms, since re-training of staff is often required. In the case of healthcare, many of the problems facing would-be reformers arise from the asymmetries of information which exist between patients and providers, and between governments, managers and providers. Healthcare professionals and pharmaceutical producers hold much of the knowledge about the benefits or potential benefits of healthcare. Insurers, governments and managers tend to be knowledgeable about the costs. Insured patients may be ignorant of both. The political economy of healthcare reform is also shaped by the size and concentration of the actual or potential economic rents involved, which ensure the mobilisation of powerful lobbies when those rents are threatened.

Despite the presence of this formidable array of obstacles, many OECD members have undertaken education and healthcare reforms in recent years. Their experiences suggest a number of lessons concerning how governments tackle these challenges. First, major changes are very rarely imposed on medical professionals or educators: successful reforms tend to be negotiated and to involve some appeasement of the major stakeholders. Healthcare reform, in particular, has tended to be expensive in most countries – even if it is expected to help contain costs over time, it often involves expensive concessions in the short term. This suggests that it will be very difficult to reform where the crisis has brought about a marked deterioration in public finances. Secondly, this process of negotiation means that reforms tend to involve extensive study and long preparation times: these are not domains in which "big bang" reforms, such as might be used to open a heavily regulated market, are likely to succeed. More and better data and analysis, including international comparisons, are often helpful, though a great deal depends on the level of consensus that exists regarding the value and meaning of such evidence. The need to engage the professions being reformed, coupled with the long time horizons involved, also means that reforms in healthcare and
education may benefit from the creation of reform institutions to facilitate consultation and to support reform implementation. The existence of such institutions may also give coherence to a reform process that is likely to involve a large number of mutually reinforcing changes in discrete parts of the system over an extended period.

**Public administration: how to “reform the reformers”??**

Public administration reform raises many of the same challenges, in terms of scope, scale and complexity, as reforms in healthcare and education, including path dependence, long time lags, coordination among different levels of government (especially but not only where reforms are directed at greater decentralisation) and the need to win the support of public-sector stakeholders who will be directly affected by reform. It is also a domain in which it can be difficult to make an evidence-based case for change, because of the difficulty of evaluating the quality and efficiency of public services/public administration. In addition, there is rarely much social demand for public administration reform—the issue of “internal” changes in public administrations usually tends to be of low political salience— but voters may react strongly and negatively to measures that are perceived to violate a basic consensus about the boundaries and obligations of the state: privatisation and outsourcing of functions previously performed by public bureaucracies can be seen as violations of the kind of tacit “social contract” discussed above. Finally, public administration reforms also confront policymakers with the problem of “reforming the reformer”, since the public administration must, in effect, design and implement its own reform, imposing measures on itself that many officials may dislike.

Many of the lessons that emerge from recent experience with public administration reform pertain directly to the challenges identified above. Among the key elements of successful reforms have been efforts to raise citizen awareness of, and support for, reform, often via public debates and consultation strategies, and steps to compensate civil servants, financially or otherwise (e.g., via improved working conditions or opportunities for career development). Public understanding and support may be easier to obtain if changes in public administration are accompanied by complementary reforms that are more visible and more popular, such as e-government reforms, which can enhance both citizen voice and the quality of public service delivery. Extensive consultation with the officials affected by reform, whether they are elected or not, is also important, since civil servants and local politicians are more likely to accept—and even to take ownership of—a reform if they are clear about its underlying values and goals, and their role within it. Governments may also reduce uncertainty, and therefore opposition to reform, by accepting a degree of incrementalism, allowing reform to proceed in stages, with adequate provision for feedback and adjustment along the way. However, sustaining such an incremental reform over an extended period requires consistent leadership; public managers’ perception of political support for public administration reforms appears to have a direct influence on their implementation. Given the likelihood of government turnover, this points to the need for independent, permanent organisations for steering reform, especially after the initial stages; otherwise, there is a great risk that incrementalism will give way to inertia and reforms will stall. Since such institutions need broad authority across the state administration, centres of government often have a key role to play here.

**Pro-growth tax reform**

Although there is now broad agreement on a number of basic principles underlying pro-growth tax reform, implementation of such principles has to date been patchy. To some extent, this reflects scepticism about pro-growth tax reforms on other grounds, such as simplicity, equity or ease of administration. The need to make trade-offs among various goals is one of major challenges confronting any comprehensive tax reform. However, resistance to pro-growth reforms also reflects the fact that, while tax reform is in principle an “all-encompassing” reform (the tax system affects everyone), it is relatively easy, and often electorally advantageous, for policymakers to opt for tax policy changes that will serve the interests of particular constituencies (often swing voters). The benefits of such measures are effectively targeted—and visible to
the beneficiaries – while the costs are spread over all taxpayers and are consequently less visible. A further concern in the present environment is that the growth of budget deficits in many countries will make it difficult to pursue pro-growth tax reforms that result in significant revenue losses; this makes any uncertainty regarding the impact of reform on taxpayer behaviour all the more important.

Tax reform experiences in the OECD point to a number of ways in which these and other challenges can be addressed. First, the framing of tax reform debates is critical: by considering the tax system as a whole (or even the tax-and-benefit system), rather than focusing on isolated elements, policymakers can better communicate to the public the issues and trade-offs involved, as well as address issues like vertical equity, which are best conceived as properties of the entire system rather than of specific taxes. Secondly, since tax reform is likely to be a lengthy and complex process, articulating broad aspirational reform goals can help to clarify the meaning of reform for agents, while also making it easier to resist special-interest lobbies. Thirdly, there is often a role for independent bodies charged with assessing the likely impact of proposed reforms in terms of such issues as taxpayer behaviour, revenues, vertical and horizontal equity, and ease of administration. Such a body could also provide analyses of the status quo, not least via the provision of transparent reporting of, e.g., the level of tax expenditures.

**Making environmental policy reforms happen**

One of the most commonly cited “stylised facts” about the difficulty of structural reform is that the costs tend often to be incurred up-front and concentrated on a few agents, while the benefits take longer to materialise and are generally more diffuse. This generalisation seems to be particularly true for environmental policy. Many environmental reforms are concerned with addressing the externalities generated by economic activity, and this means, almost by definition, that some actors will be deprived of sometimes substantial income in order to bring environmental benefits to all. Moreover, when it comes to issues like global warming, the full benefits of reform may not be felt for a generation or two. Reform debates are often complicated further by concerns about the impact of reform on competitiveness, its consequences for the less well off, and the problems that arise when the income streams eliminated by a reform have already been capitalised into asset prices – as, for example, when environmentally damaging farm subsidies have been capitalised into land prices. Current farmers are not the most likely beneficiaries of such subsidies, but it is they who will be hurt if the subsidies are eliminated.

Scientific uncertainty often presents a further challenge, as it ensures that the evidence put forward to support the case for reform will often be contested, and those threatened by policy changes will try to generate more “favourable” evidence to introduce into the debate. Debates over the science underlying certain environmental policy reforms are also affected by disagreements concerning such issues as the appropriate techniques for monetising environmental values and the proper limits of cost-benefit analysis. Consequently, the choice of analytical technique is often highly politised. In many countries, a widespread attitude of mistrust towards government adds to the difficulty, since official claims about the need for reform are likely to meet a sceptical reception by much of the electorate. Finally, environmental reform is often complicated by the devolution of responsibility for issues across different levels of government (e.g. water management). It can also be highly path dependent, since past policies and infrastructure investments may dictate to some extent the menu of options available to policymakers.

Recent policy reforms in OECD members suggest a number of lessons about how to address the particular challenges involved in environmental policy reform. First, as in other domains, engaging stakeholders and the public is crucial. Secondly, while research alone is no substitute for a solid, evidence-based case for reform when dealing with stakeholders and voters. Public acceptance of a degree of scientific consensus does matter. Where, as is often the case, implicit or explicit subsidy regimes contribute to environmental externalities, transparency about the size and allocation of subsidies can help. Thirdly, path dependence implies that the
What role can the OECD play in advancing reforms beyond the crisis?

The challenge of reform and the role of the OECD

The reform experiences reviewed in connection with the MRH project confirm that the case for reform is strengthened by the availability of internationally comparable data and analysis. In a number of policy domains, the OECD is in a strong position to provide these. It can also promote awareness of emerging policy challenges, stimulating evidence collection and knowledge sharing, as well as providing potential tools for reform. The evidence suggests that cross-national studies and international policy dialogue can speed up the process of “policy learning”, enabling governments to learn from one another and thus to avoid repeating one another’s policy errors. Such learning is particularly valuable at a time when OECD governments confront a range of global challenges, from ageing to the environment, that may take decades to tackle.

While OECD recommendations and data are cited frequently in some national-level policy debates, the evidence suggests that the impact of OECD work is most apparent when countries see their performance or policies in comparative context: benchmarking often signals to electorates or elites that institutions or situations that they may have come to regard as normal may be quite unusual by international standards and that outcomes they may regard as satisfactory are unimpressive when seen in an international context. The impact of PISA scores on education reform debates in many OECD countries provides a vivid illustration of this point. Appropriate benchmarking, where possible, can act as a powerful stimulus to domestic reform debate, but benchmarking exercises should be undertaken with great care, since their value and credibility depend on the quality of the underlying data and analysis. Current OECD work on measuring trade restrictiveness is particularly relevant at present, given the need to resist protectionist pressures arising in response to the crisis.

The OECD can also play a key role in helping countries meet one of the reform challenges implicit in the findings reported above: the challenge of sustained incrementalism. One of the striking features of the sectoral analyses prepared under the auspices of MRH is the extent to which reform success in many domains requires commitment to a series of discrete but co-ordinated reforms over periods that are likely to exceed the lifetime of most governments. While “big bangs” may work for trade or competition reforms, they are unlikely to be suitable for most of the reform tasks facing governments in fields like healthcare, education, environmental protection or public governance. The OECD thus has a role to play in supporting those domestic institutions that exist to help sustain coherent policy reform over extended periods. Peer reviews of policy can often help in this respect. Indeed, the current crisis may have underscored more than ever the case for rigorous peer review of economic policies, since it has highlighted the extent to which national-level policy errors and institutional weaknesses can affect the economic performance of others.