STRUCTURAL POLICIES AND

REGULATORY REFORM: THE OECD EXPERIENCE

Remarks by Richard Hecklinger
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Introduction

Over the last two days, we have discussed a broad range of issues related to the subject of structural reform. In my remarks, I would like to offer a few comments on these issues from the perspective of the OECD. I would also like to mention the productive, ongoing cooperation between APEC and OECD on regulatory reform, which is a critical component of structural reform. Given that a number of members of APEC are also members of OECD (and contribute over half of its budget), there should be some consistency in our approaches to structural reform, and, I would hope, an opportunity for the two groups of nations to work more closely together on such issues in the years ahead.

Structural Policies and Growth

The Convention of the OECD calls on the organisation to promote policies designed to achieve the highest sustainable economic growth and employment and a rising standard of living. It was mandated to contribute to sound economic expansion in non-member, as well as member countries.

Much of the work of the OECD, throughout its 43 year history, has been dedicated to promoting structural reform -- from strengthening the skills, productivity and flexibility of labor, to creating diverse and efficient capital markets, to ensuring competitive product and service markets, and to encouraging innovation and use of new technologies. We have pressed for policies to expand trade and investment, to develop tax systems which support economic growth, to protect the environment most efficiently and effectively and to improve education and make it more relevant to today's economies. And over the past decade, we have increased our focus on regulatory reform, so government can more effectively facilitate competitive economic activity and the delivery of high quality, low cost services.

Structural reform requires continual change. The OECD has therefore devoted much attention to how to prepare our economies and societies to make necessary adjustments. This means providing safety nets, but also making labour and capital more flexible, and making it easier for firms to exit as well as enter the economy.

We pursue structural reforms through a process of analysis and assessment. We review national economies as well as issues which cut across national boundaries. In most cases, a team of Secretariat and national experts will carry out an examination of a country's policies with the full co-operation of host government officials. The resulting draft report provides the basis for a peer review in which officials of the examined country discuss the findings with representatives of other nations. We place considerable emphasis on policy recommendations and then on monitoring implementation. As we speak, a high level OECD team is in Japan carrying out the latest of our reviews of the Japanese economy, focusing primarily on structural policies. We heard yesterday about our recent reviews of regulatory policy in Mexico and Japan. We are also cooperating with certain non-OECD countries on economic and other reviews. To give two examples, we are currently working with the government of China on an economic review and with Russia on a review of regulatory policy.

Why is this review process useful? It is often helpful to have a respected outside organisation make recommendations which stimulate discussion within governments and within the media to help build stronger political support for necessary reforms. As many participants in this conference have pointed out, structural reforms are not easy to implement. There are many interests which benefit from the status quo. A grouping of nations, such as APEC or the OECD, can help to lend credibility to those who are pressing for change over the opposition of vested interests.

Structural reform is a long term process. It is never finished. OECD nations are good examples. We have been working at structural reform for decades and have accomplished a great deal, but we still have much to do. Most recently, we have been examining the possible reasons why rates of growth have varied within OECD countries. After years of convergence, we now see a divergence in growth rates. This situation is made more troubling by the fact that many OECD nations are aging rapidly and need higher levels of growth to maintain their standard of living. So we asked a simple question, which can only have a complicated answer: what has driven economic growth in OECD countries?

While there is insufficient time today to go into this question fully today, we have unearthed some useful findings. Macro-economic policies have played a role, but differences are probably more the result of structural policies.

- Among them, labour market policy is key. Growth has been higher in nations that have increased labour force utilisation -- not just from population growth, but through greater participation of older workers, women and lower skilled younger people. A number of nations still provide incentives for people *not* to work. That has to change.

- Programs to upgrade the education and skills of the workforce have important effects on growth. Currently, the working age population of OECD countries has between 10-14 years of education per capita, compared with 7-11 years in 1970. It is estimated that this improvement has increased GDP per capita by 10 - 20%.

- Evidence also shows a strong link between R&D and growth. Business sector R&D has the most direct impact for it can improve productivity as well as products. OECD analysis indicates that relatively small increases in business sector R&D in the 80's and 90's led to significant increases in growth.

- Pro-competitive regulation of product and service markets is also important. Restrictive regulations make it difficult for firms to catch up with the leading companies in their field. Pro-competitive regulation promotes efficiency, innovation, the adoption of new technologies, and growth (this includes of course the reduction of barriers to international trade). OECD nations which have less competitive product and service markets have experienced slower growth.

- A regulatory environment which facilitates firm creation and dissolution, including through bankruptcy, is key to the dynamic creation/dissolution process which is a hallmark of a competitive, innovative, growing economy.

- Finally, sound financial markets are critical. Regulation plays a role here, as we discovered in the crises of 1997 and during the recent series of corporate governance scandals. But we also have to be careful of over-regulation. Financial markets have to be strong, dynamic and innovative. Too much caution will stifle innovation and firm creation and thus hurt employment.

While one of these factors, labour force participation in an aging society, may not apply to many APEC countries—at least not yet—the other factors certainly do. We have done a lot of work on all of these factors in the OECD. So as you move ahead with the APEC program of structural reform, I encourage you to look at the experiences, bad and good, of the OECD countries. They offer 30 useful laboratories, and interestingly, some of the newest members have been able to make some of the more far-reaching reforms -- adopting policies that could be models for other countries around the world.

The cooperation between APEC and OECD on regulatory reform is a good example of how we can work together for our mutual benefit. But before I get to that, let me make a few general comments about regulatory reform.

OECD's work on Regulatory Reform

OECD's dedicated work on regulatory policies and reform goes back more than 10 years. In 1995, OECD Member Countries endorsed the first internationally agreed standard for regulatory reform – the OECD Checklist for regulatory quality. At that time regulatory reform was – at best – considered as a rather peripheral policy. Since then, it has emerged to become an important and well integrated government policy in most OECD countries – although at different levels of sophistication.

The concept of regulatory reform has also changed from one focussed primarily on deregulation and privatisation, to one focussed on development of a broad regulatory policy framework to promote a competitive market economy, while exercising necessary oversight of sensitive sectors (e.g. finance, corporate governance), and meeting essential social and environment goals.

A key factor in promoting regulatory reform has been the trend in most countries to use market—instead of government—mechanisms to deliver public services. Liberalisation and privatisation of former state-owned enterprises and the opening of former monopoly industries to competition requires not just de-regulation, but also the development of new regulatory frameworks designed to enhance performance of such sectors. This process has been driven in large part by the demand from citizens and business for high-quality, low-cost services. A more open global economy allows people to compare their telecommunications, energy and transportation services…as well as education, health and pensions to those available in other countries. The resulting pressure on their governments to do a better job has spurred regulatory reform throughout the OECD and many other countries in the world

APEC/OECD Cooperation in Regulatory Reform

The APEC-OECD Co-operative Initiative on Regulatory Reform was launched in 2000 to provide a forum for exchange of experiences on good regulatory concepts, policies and practices and to facilitate the implementation of similar principles of regulatory reform in their respective member economies.

We hope that the APEC-OECD Initiative on Regulatory Reform will reach a major landmark at the end of 2004, with the completion of an Integrated Checklist for self-assessment on regulatory, competition and market openness policies. The Integrated Checklist will be a flexible, voluntary instrument for a government to assess its reform policy and the tools and institutions supporting it.

This Integrated Checklist will be unique in the field of regulatory policy.

A conference will be held in Thailand on 1-2 November 2004 which will aim to:

- endorse the draft Integrated Checklist;
- recommend the approval by the highest bodies of the two organisations; and
- identify the elements for a potential third phase of the APEC-OECD co-operation.

We were pleased to receive recently a letter from the President of the Pacific Basin Economic Council, noting that PBEC has issued a statement asking leaders of the region to support the APEC-OECD Co-operative Initiative on Regulatory Reform, and in particular to support work on a common agenda for regulatory reform - i.e., the Integrated Checklist - across the Pacific Basin and in OECD Countries.

If approved by APEC and OECD countries, the next phase in the Initiative could focus on the implementation of the checklist, with an emphasis on exchange of experience concerning the lessons of implementation, identifying obstacles and diffusing good practices, and on developing a better understanding of key regulatory tools and procedures. Discussions of the results of self–assessments among APEC and OECD countries could add a very practical dimension to this new phase.

Conclusion

Despite the growing understanding of the benefits of reforms of structural and regulatory policies, reforms can be difficult to agree and implement. As I mentioned earlier, this has much to do with vested interests: losers of reform policies are generally easily identifiable; they are often well organised and are rapidly vocal in defending their interests, while winners are often dispersed throughout the economy, not well-informed about the short and long-term benefits, and their number grows typically only over time. There are also other difficulties, such as the complexities of many reform measures, the lag until results are noticeable, and the still-insufficient empirical underpinning of costs and benefits in some areas.

Because of the need to overcome vested interests, there is no alternative to strong political leadership in implementing reforms. The examples we heard yesterday about the role of the Prime Ministers of Japan and Ireland and the President of Mexico are cases in point. Crises can help—for they often present a unique opportunity to enact far-reaching policy changes. But wouldn't it be nice if we did not have to wait for crises in order to strengthen our structural and regulatory policies.

For some regions, integration can promote structural reform—that has been the case in the EU and, to a lesser extent, through free trade areas such as NAFTA, ASEAN and numerous bilateral FTAs. Short of that, nations have to concentrate on developing the appropriate policy reforms and building the domestic political consensus to implement them. We heard yesterday about the use of special zones to provide laboratories for reform, and we heard about the importance of gaining support from social partners. The competitive pressures and opportunities of the global market place are a strong incentive to make continual progress.

As I mentioned above, an international organisation or process can be very helpful. APEC, supported by the OECD and other organisations, can play a very positive role in helping their members build the momentum for reform