

# **“Where Next for Better Regulatory and Regulatory Reform”**

**Address by Aart de Geus**

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Two years ago, I had the honor to address the first Bertelsmann International Regulatory Reform Conference in Berlin. I am very happy to be with you again, and this time in Stockholm. And the OECD is pleased to be a part of this event. The agenda of this impressive conference reflects very well our own sense of what the important issues are. I am certain that we are all looking forward to the outcome of the conference so that we can all make progress towards better regulation.

In my remarks this morning, I would like to share with you what the OECD is doing to help countries improve their regulatory systems, and hopefully achieve a higher level of welfare for their citizens.

As you may know, OECD counts 30 member states. But we also work very closely with all major emerging economies. OECD is the place where countries come to inform themselves about regulatory policy trends and actions, and the impact of structural reforms on growth. The newly created **Committee on Regulatory Policy** will help the OECD to build a stronger multi-disciplinary approach to regulatory quality.

Regulatory reform and better regulation are at the top of the agenda in all OECD countries. In the current crisis, policymakers concerned about financial markets want regulations to meet quality standards and to be “crisis proof”. The environmental policy community is anxious to get the right mix of regulatory and

economic instruments in the context of the climate change agenda. Businesses know that unnecessary red tape diverts the energy and talent of entrepreneurs away from strategic tasks. Micro-economic reforms depend on how regulation affects competition, investment, market openness and business start-ups

If everybody has an interest in better regulation, then who has responsibility to assess what works well and what doesn't, to measure and compare progress, to develop proposals for improved methods and principles? Can OECD assist this global community, through meetings and sharing of best practice?

To put this in the broadest context, in a world where regulation appears on the front page of major newspapers almost daily, the first order of business is how better regulation can contribute to the economic recovery. I am pleased to note that the OECD is co-organising a session on this theme today. Our work shows that

countries are taking a broader and longer term view, **using the window of recovery to strengthen regulatory reform, targeting growth sectors.** For example, Korea, the Netherlands, Austria, and Italy have all put in place new programmes, in response to the crisis, to ease regulations affecting business operations and investment.

**A key message is to get the level of regulation right, using existing tools.** For example, Canada is bolstering consumer and public confidence through thorough quantification and full publication of its impact assessments. Sweden and Germany have put in place new Regulatory Policy Committees, to better scrutinize public decisions. Australia is looking to strengthen Ministerial engagement in its Regulatory Impact Assessment system to increase its relevance for policy making.

Because short-term pressures can compromise consultation and impact assessment, **evidence-based decision-making needs to be reinforced**, and better integrated into the decision-making process. While all OECD countries support evidence-based decision-making, some have noted that short-term pressures to by-pass impact assessment and consultation have intensified. Even for countries with high standards for impact assessment, the process needs to be better integrated into policy development. Moreover, continued political resolve is required in order not to taint the process as one that diverts resources and delays decisions.

**Improving public and consumer confidence in regulatory systems remains a challenge.** Communicating and increasing awareness of the benefits of better regulation will help boost support for further reforms. Solid analysis can be picked up by the media, helping NGOs, citizens, and business to better understand the benefits that properly designed regulation can bring. The

United Kingdom and the Netherlands, as well as other countries, have spearheaded work to improve the understanding and perception of the benefits of regulation. From this, they have drawn lessons about how benefits might be better delivered and identify promising approaches for improving perceptions of regulation.

Now, I wish to turn to two key aspects of recent OECD work: Cutting Red Tape and Multi-Level Regulatory Governance.

### ***Cutting Red Tape***

Administrative simplification has been central to regulatory reform policies in many countries during the last decade. Its importance is even more obvious now when countries are trying to find new ways to jump-start economic growth. Cutting red tape helps to free up resources that are being spent by businesses on compliance rather than being invested into creating jobs and support economic

recovery. Reducing regulatory burdens support businesses' flexibility and resilience.

At the same time, the assessment of regulatory burdens needs to be balanced against the benefits. Attention needs to be paid to the benefits regulation may bring. **Regulatory costs must be therefore continuously compared to the benefits of regulation and OECD will always insist on that.**

Many European countries have used methods for measurement and quantification of administrative burdens based on the Standard Cost Model pioneered in the Netherlands. Such quantification enables to set the quantitative targets for reduction and to put pressure on all the actors involved to fulfill national goals.

**But quantification also has its limits.** The response of those who should benefit the most from this kind of exercises is sometimes mixed. There is a relatively low correlation between the extent to which a given information obligation is perceived by businesses as irritating and the actual quantified administrative burden. The absolute numbers representing reduction of the burden may look impressive when related to the whole society or the business sector in a given country; however, when expressed in terms of individual company/citizen, they may represent more modest savings.

Governments need to address these issues to show the benefits of the investment. **Active communication with the stakeholders is crucial to show the value of simplification projects.**

Presentation of the achievements in the area of cutting red tape has to be efficient, showing concrete impacts these projects may have on a day-to-day life of individual citizens and businesses.

Qualitative methods have to be employed as a complement to the

quantitative measurement. Perception surveys can play a very useful role to identify the key irritants and measure progress as perceived by stakeholders. This is an important area to which we will devote further work.

The OECD will be finalizing a new report on cutting red tape in 2010, synthesizing current trends and experience of OECD countries and looking into the future.

### ***Multi-level regulatory governance***

Perhaps the next frontier for regulatory management is to focus on regional and local levels, where people start business, and where most of the investment for green growth and in infrastructure will take place. This issue of addressing the multi level dimension of the regulatory framework is paramount to the better regulation agenda. This issue has been addressed in some of our recent

work on Italy, Sweden and Mexico, and is a core aspect of an ongoing review on Australia.

In all countries, **the relationship between levels of governments is characterised by mutual dependence, and the need for cooperation.** For historical and political reasons, as well as issues of sovereignty, roles and responsibilities for outcomes must be shared. These coordination mechanisms are complex: they are vertical (across different levels of government, horizontal (across the same level of government) and networked with private actors outside of government.

The complexity of these relationships creates the potential for gaps that government need to address to operate effectively.

These gaps include: the ***fiscal capacity*** of governments to meet obligations, ***information asymmetries*** between levels of government, gaps in ***administrative accountabilities***, and often a

lack of ***human, or infrastructure resources*** to deliver services, particularly at local level.

This is a major challenge for governments to become more effective in policy design and service delivery to the public across all levels of government. Australia sets a strong example of a country where federal and state governments are engaged in a significant programme of co-ordinated national reform to improve the productivity of their national economy. If other governments can address some of the regulatory gaps and improve their coordination mechanisms, it represents an untapped opportunity for improving productivity and supporting economic development.

**Opportunities arise from the potential to reduce regulatory burdens within and across jurisdictions**, through better designed regulation and fewer administrative burdens.

Improvements in the design and delivery of regulatory services can stimulate competition and entrepreneurship and benefit

consumers, as well as promote trade in goods and services among jurisdictions and create an environment that is attractive to investment.

This implies two broad factors for ensuring regulatory quality in a multilevel context;

- **the development of regulatory management capacity at a sub national level** with a focus on improving the stock and flow of regulation and the facilitation of national markets; and
- **arrangements to promote co-ordination and coherence across levels of government**, the removal of regulatory overlap and the practical application of the principle of subsidiarity.

Regulatory reform always faces political economy issues and obstacles. These become potentially much greater when taken in a multilevel context, with a larger number of actors, stronger local

interest groups and multiple centres of power. **In some cases lower levels of government can be powerful advocates for reform and a source of good practice.**

One of the key messages from our work is that **improvements to multilevel regulatory frameworks are also linked to the reform of relationships between levels of government.** Coordination is critical to improve the capacity of all governments, national and subnational, to implement reforms. It is also linked to national strategies for economic development. Countries that successfully approach reform in this way can expect to reap productivity benefits across the economy.

***Sharing best practice to move forward, from individual cases  
to guidelines and principles***

Through our reviews of regulatory reform, the OECD is an important source of comparative advice on the performance of regulatory management systems. The Regulatory Reform Review is the hallmark brand of the Organisation. With Australia this year, the OECD will have completed reviews of 24 member countries. Brazil, Russia, and last year, China, are the first non-members to ask the OECD to review their regulatory arrangements.

I want to highlight a number of key aspects of the OECD reviews.

- **First is the peer review process itself, which guarantees the integrity of the analysis and emphasizes opportunity for mutual learning and trust.**

- **Second is the impact of the process of the review on the country undergoing assessment. Significant improvements have been made in many countries as a result of an OECD review.**
- **Third, the reviews provide the evidence of experience on which the OECD can build guidelines and principles as an official, political point of reference.**

And so I am pleased to report that the OECD and the European Commission are well advanced in the preparation of a series of reviews of 15 EU member states. Some of you in this room will have participated in this exercise, and so you know how intensive it is. Covering 15 countries in two years is a daunting task. The reviews highlight how much change has taken place, sometimes in just a few years. They also show that when several countries move in the direction of reform, the effects are stronger, and the pace quicker, than when one country acts alone.

As I said at the beginning of my remarks, regulatory reform, and the quest for better regulation, is a very dynamic field where the OECD is fully engaged with a forward looking perspective. It is one thing to project current trends a couple of years into the future and ask ourselves whether we think this is going in the right direction. It is quite another to start from a vision of where we want to be in 2015 or 2020, of what kind of economy and society we want for our citizens, and how they will enjoy the benefits of good government which is accountable, transparent, and when it needs to be, courageous, and then ask how our efforts to improve regulation will help us achieve that vision.