



CASE STUDIES ON REFORM IMPLEMENTATION EXPERIENCE: REGULATORY TRANSFORMATION IN THE UNITED KINGDOM, ITALY AND AUSTRALIA¹

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Summary

0.1 One of the most difficult challenges that governments face is organizing, implementing, and sustaining government-wide, multi-year programs of economic regulatory reform. Understanding the political economy and institutional mechanisms of successful reforms will assist governments in implementing good practices.

0.2 This paper assesses, compares, and draws lessons from processes for carrying out ambitious programs of regulatory reform in three high-income countries: the United Kingdom, Italy and Australia.

0.3 These countries are similar in that they designed regulatory reforms, not as *ad hoc* deregulation programs, but as broad institutional and procedural reforms extending over 5-20 years. Their reforms addressed whole fields of regulation and tried to permanently change how regulators functioned by building sustainable capacities for good regulatory governance into the machinery of the public sector. While the institutions of these countries are relatively highly developed, the lessons learned from their experiences can assist developing countries that are encumbered by costly regulatory legacies and habits from previous development strategies, and are now in the process of building new capacities in public administrations to regulate dynamic and open markets. One of the most positive findings of this study is that enduring reforms to long-standing regulatory practices can be developed successfully in a variety of cultural, legal and institutional settings.

0.4 Specifically, this paper considers:

- The regulatory reform components that were at the core of the ambitious Australian National Competition Policy (NCP) reforms (1994 to the present day). The Australian reforms seek to promote competition in the economy through broad regulatory reviews, regulatory impact analysis, and new institutional forms of cooperation between levels of government. This reform was designed around

1. This report was drafted for Jacobs and Associates Inc by Caroline Varley, Rex Deighton-Smith, and Luigi Carbone, with Scott Jacobs, Managing Director. Responsibility for the facts and conclusions lie wholly with Jacobs and Associates Inc.

the assumption that the greatest costs of regulation are those associated with market distortions, that is, limitations and distortions of competition;

- The coherent regulatory reforms that have been built step by step in the United Kingdom (since they were launched by Prime Minister Thatcher in 1979 to the present). The UK reforms include changes to regulatory governance in the national ministries, reinforced by broader economic policy reforms to reduce the role of the state in the economy;
- The Italian “Bassanini” reforms (1996-2001). The Italian reforms focused on improving the capacity of the government to regulate a market economy, and on reducing the host of administrative procedures through which the public sector intervened in the private sector.

0.5 All these reforms had a broad scope² consistent with the international consensus approach to regulatory reform of the past ten years, that is, improvements to the instruments, processes, and institutions of all forms of regulation through integrated strategies of deregulation, re-regulation, and enhanced capacities for higher-quality regulation that meet social needs consistent with open and competitive markets.

0.6 These reforms did not arise by accident. They all aimed to reverse long-standing trends of poor national economic performance and governance failures. In all three cases, regulatory reform was a channel to respond to growing social dissatisfaction with current economic and government performance. That is, broad reform was correlated with a wide consensus that the *status quo* is unsustainable, but such consensus supported specific reforms only through strong political leadership that was ready to take on structural change. Italy and the United Kingdom in particular used profound political and economic crises to launch their reforms, and the political leadership was farsighted enough to move beyond short-term fixes into regulatory reforms that attacked underlying structural causes.

0.7 Australia shows that it is also possible to start reforms without a critical short-term crisis if there is a widely-held view that the *status quo* is not good enough. Behind the first round of Australia’s reforms of the 1980s was the growing acceptance that the steady economic decline for two decades relative to other OECD countries must be reversed in a sustainable way.

0.8 Sustaining reform over years is another matter altogether because regulatory institutions and incentives are highly resistant to change and easily revert to former habits. The Italian experience shows that reforms launched on the back of a crisis are not all sustainable. The crisis mentality in the United Kingdom passed before the reforms were institutionalized, and it took the United Kingdom many more years of effort to make durable progress. The Australian case shows that nothing speaks louder than results.

² Regulatory reform captures and influences many different elements of policy making: its scope can and should therefore be very broad. The objective of any regulatory reform is to improve the quality of regulation to better meet policy objectives, including, not least, economic objectives. Regulation encompasses any government measure or intervention through rule making that seeks to change the behaviour of individuals, groups or businesses, either by promoting rights and freedoms (which includes deregulation) or by imposing constraints where these are judged necessary (which includes re regulation).

The second round of reforms (the National Competition Policy reforms that are the focus of this study) was accepted due to the visible benefits of an earlier round of reforms.

0.9 The time periods for these case studies were chosen to encompass the phases of deciding to launch the reforms, designing and installing them, producing some results, and sustaining them. In that sense, each case study has a coherent storyline. But reforms on this scale are not neatly contained, particularly since regulatory reform is a permanent feature of modern governance. In Australia and the United Kingdom, these reforms are continuing. The Australian NCP reforms are about to start a new phase, and the United Kingdom reforms continue to seek more effective approaches. Hence, the case study approach requires some simplification of the storyline.

0.10 The limitations of the case study approach should not suggest that regulatory reforms are one-off adventures. To the contrary, the success of reforms seems highly correlated with the length of time that reforms are underway, without any clear endpoint. Sustained implementation and commitment over years seem as important as the initial reform plan, which is logical since these reforms are aimed at highly resistant institutions that have developed over many years. The success of the Australian and United Kingdom reforms across a broad front can be linked to the 20-year length of the reform process in those countries. Yet countries do not have to wait for a decade to see results. Both the United Kingdom and Australia saw the first results in a few years, and the Italian reforms, carried out over only five years rather than a decade, achieved important and lasting results compared with the country's backward starting point. Indeed, Italy achieved more reforms to regulations in those five years than in the previous fifty years, and caught up with the regulatory reform mainstream in Europe.

Results of the reforms

0.11 The impacts of regulatory reforms are more varied than can be captured by a single indicator of cost reductions. They include effects that are dynamic as well as static, diffused as well as concentrated, long-term as well as short-term, direct and indirect. Reforms to government capacities try to influence complex systems that ways that may not be directly linked to outcomes.

0.12 Despite these difficulties, there is consensus that in two of the three countries, the package of reforms aimed at cutting regulatory costs and stimulating market competition is directly linked to positive developments in the economy. Australia and the United Kingdom pursued broader and more sustained economic reforms than did Italy, and both countries show significantly better economic performance in terms of growth and productivity rates. Economic performance in Italy has not improved, on the contrary, GDP per capita growth slowed to 1.3 percent by 2003. This is an indication that the reforms may have been too superficial and short-term in nature to have a lasting effect on economic structures, production costs, and commercial decisions.

0.13 Linking micro reforms to micro performance is easier. Here, improvement is seen in all three countries. Comparative indicators of product market regulation published by the OECD show Australia moving into first place in the OECD, the United Kingdom maintaining its lead on other OECD countries, and Italy moving up five rungs from last place.

Lessons learned from these case studies

0.14 While differences in institutional endowments must be kept in mind, similarities in the dynamics and processes of reform among the three cases suggest useful lessons for other countries. It is encouraging that these case studies have identified no single institutional pre-condition for reform. One of these countries is a decentralized federation, one unitary but with strong regions, and one is highly-centralised but strengthening regional structures. All three are parliamentary systems, but with very different historical and political traditions of parliamentary governance. Italy, for example, has a tradition of weaker and short-lived governments (which partly explains why regulatory reform was less sustainable), compared to the other two. The three countries are distinguished by civil law and common law (indeed, Italy invented one and the United Kingdom invented the other). Two of these countries are in a regional grouping (the European Union) that is driving some kinds of regulatory reform, but the third is not. These case studies support the conclusion that the factors needed for successful reform can be carried out by very different political and legal institutions.

0.15 The Australian reforms have been the most successful. Their success seems to be due to a convergence of factors that are familiar to reformers in developed and developing countries alike:

- a clear, comprehensive and well-designed reform plan, flexible enough to evolve over time as opportunities for further reform were created;
- high levels of political leadership and bipartisan political support that were built on establishment of a durable consensus;
- adoption of bold and explicit targets that could be monitored;
- relatively early results that created new allies for reform;
- strong and supportive institutions in the bureaucracy; and
- monitoring and evaluation processes built in from the start.

0.16 A successful reform does not necessarily include all of these elements. They are, however, consistent with other studies of successful reform, and these factors might be expected to contribute to the probability of success. The design of a reform program might focus on as many of these areas as possible.

0.17 Other lessons for successful reform are suggested by the cross-country comparisons in this case study:

The political economy of launching reform

- Regulatory reform should be based on a clear set of market principles that redefine the role of the government in private sector development. Regulatory reform is more likely to be coherent and sustained if it is integrated into the wider government program of structural economic reforms. This suggests that a social commitment to market-led growth is needed to sustain reforms over time. That is, the country should exhibit a growing liberal consensus.³

³ To use a phrase from Drake. See Drake, P. W. (1998), "The International Causes of Democratization, 1974-1990", in: P. W. Drake; M. D. McCubbins (eds.), *The Origins of Liberty; Political and Economic Liberalization in the Modern World*, Princeton University Press, Princeton, N.J., 70-91.

- High-level political leadership and (if possible) bipartisan political support should be built from a crisis or from damaging economic decline, and locked in through formal agreements. Reform cannot be carried for sustained periods on the back of a single champion. Reform cannot be launched by technocrats, although reformers must be built into the machinery of government to keep reform on course.

Designing and implementing reform

- A clear, comprehensive and well-designed reform plan should start the process, and should have room and a process for evolving over time.
- Implementation requires explicit allocation of commitments and responsibilities within the public administration. This must be accompanied by introduction of new incentives, institutions, and skills into the public administration, rather than trying to reform it from the outside through mandates and directives.

Sustaining reform

- Reformers should prepare for the long haul, as reform on a scale needed to achieve major results is a multi-year, dynamic and ongoing process.
- In all three countries, sustaining reform, even over 5 years, required building momentum that was not easily dissipated and dependent on the energies of champion. This was done in Australia and the United Kingdom, and to a less extent in Italy, by:
 - developing supporting institutions within the administration and in civil society to sustain reform even when political will became unfocussed. Each country invested heavily in building up a supportive bureaucracy with help and direction from central ministries.
 - opening up the reform process to the participation and oversight of stakeholders who supported reform. Building durable consensus required spreading ownership of reform across stakeholders. These cases illustrate how important it is that government communicates the purpose and the achievements of reform to citizens and business. This should be done on an ongoing basis, not just when reforms are launched. This may seem obvious but it is not easy to build consensus and to communicate when government ministries are accustomed to working behind closed doors;
 - producing visible results and pro-actively expanding the program to progressively create more allies for reform. Expanding the supply of reform expands the demand for reform, as Say's Law might have predicted.
- Bold reforms and early results are desirable, so that they can be used to promote consensus for further reform.

- Monitoring and evaluation keeps costs and benefits in perspective, keeps players on track and sustains coherence. Publicizing results helps sustain reform momentum.

CASE STUDIES ON REFORM IMPLEMENTATION EXPERIENCE: REGULATORY TRANSFORMATION IN THE UNITED KINGDOM, ITALY AND AUSTRALIA

1. Managing a broad economic reform program over several years – even over several governments -- is one of the most difficult tasks of governments. This case study examines the strategies of three high-income countries that carried out ambitious regulatory reform programs affecting hundreds or thousands of regulations and administrative formalities across the whole of government.

2. Even in developed countries, the scope of the reforms in these three countries was unusual in that each country aimed to reform, not only rules, but the administrative capacities, incentives, and cultures of regulation that had built up over decades. They wanted the regulatory practices of the government to “catch up” with the needs of more dynamic, competitive, and open market economies. This required each of these governments to challenge incentives and habits that were deeply entrenched in both the public and private sectors.

3. The combination of the wider context and specific reform approaches in these countries enabled them to carry out multi-year, economy-wide regulatory reform programs that were fairly coherent (in broad strategy if not always in detail):

- Australia: Taking unprecedented joint action, the Heads of Government of Australia's Federal, State and Territory Governments adopted in February 1994 a National Competition Policy (NCP), in essence a massive regulatory reform program based on competition principles. The purpose of NCP was to “...accelerate and broaden progress on microeconomic reform to support higher rates of economic and employment growth on a sustainable basis”. The NCP, initially envisaged as a six-year program but still continuing after a decade, represents a long-term policy commitment. It builds on an existing process of microeconomic reform that had been gathering pace since the early 1980s as a result of anxiety over Australia's long-term decline in relative economic performance. An important feature of the NCP is that it was designed as an integrated strategy that would apply consistent competition principles across an extremely wide range of regulations, policy areas, and levels of government. It aimed to embed a presumption in all regulatory processes that competition will not be restricted without good cause and that a single and open market exists for goods and services across Australia.
- United Kingdom: Regulatory reform in the United Kingdom has, since the early 1980s, been a key part of the economic structural reforms carried out by successive governments. In parallel with reforms to the macro management of the economy, these microeconomic reforms were intended to strengthen competition, innovation, and public service performance.
- Italy: Starting later than many countries, Italy devoted the 1990s to “catching up” with the leading OECD countries in economic and governance reforms. The scope, speed and consistency of structural reforms by multiple governments

were remarkable.⁴ Regulatory reform was only one of many changes in Italy in the 1990s, but it was essential. Following the macroeconomic stabilization program of the early 1990s, regulatory reform was designed to attack many of the underlying structural problems in the economy and the public administration.

1. CONTEXT OF REFORMS

1.1. The broad context

4. Although the United Kingdom, Italy, and Australia shared broad reform goals and success factors, the political, legal and cultural traditions of the three countries are different in ways that might be relevant to the specific design of their reform processes:

- The United Kingdom is a unitary state, Italy is a regional state (it combines elements of the unitary and federal models), and Australia is a federal state. Australia's reforms had the added complication of working across constitutional boundaries that required wholly new institutions to be set up, while Italy had to work with over 8,000 municipalities to address administrative burdens.
- Australia and the United Kingdom are characterized by a common law legal system and an essentially two party political system, while Italy has a codified civil law system and a multiparty political system ruled by coalition governments. The weakness of Italy's coalition governments probably undermined sustainability, but there is no obvious impact on reforms of the common law/civil law distinction.
- The civil services in the United Kingdom and Australia are essentially non political while Italy's political and administrative spheres have traditionally overlapped. This probably contributed further to the lack of sustainability in Italy.
- Corruption appears to be less of an issue in the United Kingdom and Australia (respectively 11th and 8th out of 133 countries in the 2003 Transparency International Corruption Perceptions Index) than for Italy (35th). There are no clear implications of these differences for reform.

5. An important shared feature of all three is a high degree of integration with the world economy, though the United Kingdom and Australia share many other features apart from the important fact that one is a unitary and the other a federal state.

6. As this suggests, none of the three countries reformed in isolation. External forces were significant influences. The "demonstration effect" was important in strengthening reformers. Deregulation in the United States – and the perceived advantages it brought in competing -- was influential in sustaining the United Kingdom and Australian drives to develop more competitive market economies. The OECD was influential in all three countries in producing cross-country benchmarks, and speeding up the learning curve about good practices in other countries. The development of the European Union (EU) and the growing volume of EU Single Market legislation were drivers of reform in Italy and the United Kingdom:

⁴ OECD (2001) Regulatory Reform in Italy, Paris.

- The United Kingdom strongly supported the task of building the Single Market, which brought with it a raft of EU harmonization laws as well as open trade within the region. In turn, reforms inside the United Kingdom were helped by an active EU Commission legislating for the removal of barriers to the free movement of services, goods and people. European reforms to competition regimes helped to persuade the United Kingdom, which had dragged its feet for decades, to modernise competition legislation because the UK law was increasingly incompatible with the EU law.
- An important factor behind reform in Italy was the need to meet the economic conditions for entry into the Eurozone. Other EU initiatives, such as the high-level Mandelkern report on better regulation, were often used as a push for new reforms.

7. These social values, policy-making processes, market development, and institutions have powerful influences on the design of reform. An understanding of these starting points can help in developing an effective reform design that takes account of a country's heritage and so runs less risk of being derailed. But such starting points do not define results. Results are determined largely by reform strategies, as suggested by these case studies and the cross-country work of organizations such as the OECD. This paper shows many features of successful reforms that can be translated across a wide range of country contexts and starting points.

Box 1: Are there preconditions for launching regulatory reform?

Economic crises converging with radical political change triggered the reform processes in the United Kingdom and Italy. In Australia, reform was encouraged by a fear of relative economic decline and the visible benefits of an earlier round of reforms on the economy. These experiences suggest that at least one of the following factors may be necessary to support the launching of regulatory reform:

- **Perception of economic crisis or serious economic decline:** A national consciousness of economic drift and decline can be channelled by capable politicians into support for deep reform. Economic crisis was a crucial trigger in the launch of the United Kingdom and Italy reforms. Australia did not face such a deep crisis, but its economic decline over a period of two decades was severe. Between 1960 and 1992, it drifted down from the third richest OECD country to the 15th. The United Kingdom also faced economic decline relative to many of its Continental European neighbours in the decades leading up to the financial crisis of the late 1970s.
- **External pressures:** Reform that relies solely for its impetus from within a country would seem not to be enough. External support or even pressure or threats can help to swing the balance in favour of action. Italy needed to put its economic house in order to qualify for entry into the Eurozone. It was helpful to the United Kingdom that the United States had started to engage in major deregulation from the 1970s that were showing positive results, as it faced hostile European attitudes to regulatory and structural change. The United Kingdom later found common ground with the EU Commission for the development of the Single European market. Australia, a small (in population) and isolated country geographically, was deeply

conscious of the importance of not being bypassed by global economic trends and of the competitiveness threats posed by globalization.⁵

- **Political will:** Without strong political will, reform will be difficult to launch. The election of Prime Minister Thatcher in 1979 gave the United Kingdom a political leader with strong personal determination to reverse the country's economic decline. Reform in Italy was similarly supported by strong leadership from the center of government and the Prime Minister. In Australia Prime Minister Paul Keating, a former finance minister, was personally committed to the adoption of the NCP.
- **A rolling succession of reforms:** Past success sows the seeds for the launch of further reform, but the opportunities for this must be proactively seized. Australia is the clearest example. The NCP reforms were encouraged by the visible benefits for the economy of an earlier round of reforms, but it took considerable effort to negotiate and reach agreement on this reform before it could be launched, despite general agreement on doing more. A similar process can be observed in the United Kingdom which has experienced a rolling succession of reforms, each one of which sows the seeds for further efforts, which nonetheless still have to be negotiated and set up. The point can also be applied to Italy, in the sense that (relative) failure of some reform targets has compromised the speed if not the eventual implementation of further reforms in those areas.

2. CASE STUDIES OF THREE COUNTRIES

8. This section presents the detailed examination of reforms in each of the three countries. Sections 3 and 4 return to a cross-country synthesis, conclusions and lessons learned.

2.1 Regulatory reform in Australia

2.1.1 Specific context for reform

9. Australia's economy declined through the 1960s and 1970s relative to other developed countries. Lagging GDP and productivity growth rates led to a relative drop in per capita GDP. A substantial federal reform program of micro and macro economic reforms was launched in the early 1980s to counter the decline. It included major initiatives such as floating the Australian currency, deregulation of the financial system, tariff reduction, and labor market reforms. Corporatization, privatization and market opening took place at the level of the states. These reforms show that much of the Australian population had accepted that painful reforms were essential to reaching the country's development goals.

10. The success of this first round of reforms was evident by the time the National Competition Policy (NCP) was negotiated. Productivity and growth rates were rising to the upper end of the OECD scale. Unemployment was in steady decline and inflation had been largely overcome. At the same time, there was a widely shared view that the

⁵ Membership of pro reform regional economic organizations seems to encourage countries to set out -- and to stay on -- a reform pathway.

gains from this first round of reforms would be jeopardized if reform was not “completed” by addressing key areas that had escaped attention. Past successes had made it easier for reform-minded politicians to move ahead with a broadening regulatory agenda.

Box 2: Timetable and context for regulatory reforms in Australia	
1993	“Hilmer Report” published, proposing adoption of a comprehensive program of pro-competitive reform
1995	All Federal, State and Territory Governments sign the three-part National Competition Policy Agreements, binding all parties to adopt a program based on the Hilmer prescriptions.
1995	National Competition Council created to oversee and report on reform progress. State Governments establish Competition Policy Units as center-of-government co-ordination/reporting bodies.
1996 (June)	Legislative review program finalized, identifying all legislation to be subjected to review and reform under the agreements.
1997	First progress report on implementation completed by NCC. (Subsequent progress reports completed in 1999, 2001, 2002, 2003, 2004.)
1999	Productivity Commission review of impacts on regional and rural areas concludes that NCP has, to date, delivered net benefits to all but one region of Australia.
1999	Senate report “Competition Policy: Friend or Foe?” published.
2000	Modest changes to aspects of NCP in response to Senate report, including initial deadline for completion of legislative reform program extended to 2002, and some changes to interpretation of the “public interest test” underlying legislative reviews agreed by participating governments.
2002	Deadline for completion of legislative review program again extended to 2004.
2004	Productivity Commission report provides a detailed assessment of NCP’s impact to date and recommends the adoption of a “second wave” of reform activity.

2.1.2 Australian reforms focused on removing regulatory constraints to competition across the whole of the economy

11. The National Competition Policy (NCP) reform (begun in 1994 and continuing to the present) was a broad-based reform aimed at strengthening competition throughout the domestic economy by changing the regulatory and monopoly roles of the federal and state governments. It was predicated on the assumption that the greatest costs of regulation are those associated with market distortions, that is, limitations and distortions of competition. Its purpose was “to accelerate and broaden progress on microeconomic reform to support higher rates of economic and employment growth on a sustainable basis”. It was envisaged as a long-term policy reform and is still ongoing a decade after its launch.

12. In the NCP, regulatory and competition reforms were integrated into a package of microeconomic policies. The Policy set out four main areas of reform and precisely defined the processes to be followed to achieve each one. These reforms and processes

were made national through formal agreements between the federal government and each state government.⁶

1. Regulatory restrictions on competition to be reviewed and eliminated: The centerpiece of the NCP was the “guiding legislative principle” that laws should not restrict competition unless there was a net public benefit from the restriction that could not be achieved in some other, less restrictive, way. This principle launched a national reform process in which governments identified all regulations that contained significant restrictions on competition, developed schedules for review, and reformed the laws and regulations where necessary. Cost/benefit analysis was mandatory to justify continuing any restrictions on competition. Guidelines emphasized the need for transparency in the regulatory reviews, which appears to have made an important contribution to their quality. The process also looked forward, covering all new legislation, and requiring an automatic further review of laws within 10 years.
2. Utilities and other public monopolies to be reviewed, and rules regarding access to essential facilities to be developed and implemented: The program set in motion a systematic assessment of opportunities to create competitive markets - though privatization was not required. Most utility monopolies were publicly owned at the start of the NCP process, and many were subsequently privatised. Following pro-competitive reforms, rules for access to essential facilities were subject to scrutiny and approval by the competition authority.
3. Competitive neutrality to be established to ensure fair competition between government business enterprises and private competitors: These reforms were meant to ensure that government businesses pay tax equivalents, that they are required to provide a market return on public capital, and that their prices reflect the full costs of production.
4. Monopolistic conduct: The state governments were to adopt laws mirroring the main federal competition law on prohibitions of monopolistic conduct.

13. The process of developing the NCP agenda was initiated by the federal government. Paul Keating, Prime Minister at the time, was personally committed to the adoption of the reforms and played a major role in securing agreement for them. A key report, the 1993 Hilmer Review, provided a detailed blueprint for the reform policy within a comprehensive report showing the nature and scope of the regulatory problem. Enthusiastic support from some State Premiers assisted in demonstrating broader support for the program within the political structure.

14. The Australian reforms were based on a sophisticated design and process. As noted, the 1993 Hilmer Review laid out a blueprint for implementing the policy. A sophisticated federal bureaucracy and the efforts that were put into negotiating agreements among the nine governments were also important.

⁶ For convenience these jurisdictions- comprised of six states and two self governing territories- will be referred to as state governments or states, depending on the context.

15. Strengthening the institutional architecture was an important feature of the reform process. Some relevant institutions, such as the Council of Australian Governments and the competition authority (the ACCC), already existed and had substantial track records. But a new institution, specifically tailored with powers and responsibilities to support implementation of the NCP, was also needed. The National Competition Council (NCC) was set up under the auspices of the federal government. It is made up of five commissioners with business backgrounds, supported by a small civil service secretariat. Its main role is to monitor and report on states' progress in implementing their NCP obligations, based on the submission of annual progress reports by the latter. It also works with the competition authority, the Australian Competition and Consumer Commission (ACCC) on improving regulatory safeguards on access to essential facilities in infrastructure.

16. Each state government created a Competition Policy Unit (CPU), generally within the finance department, responsible for the coordination of review and reform activity, and for reporting to the NCC. Competitive Neutrality Units have also been set up to deal with complaints regarding competitive neutrality. The establishment of the NCC as a new and dedicated body was positive for reform as this helped to allay fears of potential bias. Conversely, the relationship with the respected ACCC was a helpful factor in countering concerns that the NCC lacked a track record.

17. Although reform ultimately attracted widespread support, the NCP was initially promoted by the federal government, against state level reluctance that stemmed partly from concerns that the reforms would cede policy authority to the federal government, and that they were thus "asymmetric". The federal government would reap benefits via increased tax revenues from a more efficient economy, and the states would have the most challenging reform tasks. This opposition was defused by including provisions in the NCP agreements for the federal government to make "competition payments" to the states (contingent on the successful completion of reform obligations). These payments, also known as the "reform dividend", were also used at the political level to provide clear evidence of the prospective benefits of reform to state taxpayers.

Box 3: Financial incentives for regulatory reform

Under the NCP, the Australian federal government made "competition payments" to the states if they completed their regulatory reforms. The maximum amount of the competition payments for each State/Territory in each year was set in advance in the initial agreements. Payment of the maximum amount depended on the Federal Treasurer's (i.e. the finance minister) judgement that adequate progress had been made by the State in implementing its reform commitments. The Treasurer received advice from the National Competition Council in the form of progress reports on reform. In some cases, the payment was reduced due to non-compliance with reform recommendations.

18. But the compensation system had flaws and may be difficult to repeat in the second stage. First, state governments were under-funded by the federal government, and there is a view that the payments are used to expand federal policy influence over state responsibilities. Second, states know from experience that they may face a trade-off between loss of payments and loss of political support for implementing unpopular reforms. Third, tax reform since the first NCP agreement has undermined the rationale for compensating the states for reform, as the federal government no longer receives a

disproportionate benefit. It is not clear, however, what substitute incentive could be applied.

19. Aside from giving the states financial incentives for regulatory reform, a frequent criticism of the Australian reform has been that the government has been too reluctant to use fiscal and other tools to compensate economic losers. Large groups of losers have emerged after different reforms. A regular criticism of the NCP, for example, is that it has benefited urban dwellers at the expense of the regions and rural areas. In most cases, little was done to compensate them. This reflects the widespread nature of the reform program, with the expectation that all groups in society would be “winners” and “losers” from broad reforms. From the perspective of national economic policy, compensation for specific losses is seen as mostly unnecessary.

20. Critics of this view argue that a more active approach to compensating losers could have significantly increased support for the NCP, and enhanced equity outcomes. However, this argument is not borne out by the evidence. An enquiry by the Productivity Commission concluded that all but one regional area had benefited from the NCP. It found that the NCP was wrongly blamed for other negative rural developments such as the decline in agricultural prices and recommended that there should be better communication of the benefits of NCP, increased transparency in reform processes, and enhanced community and stakeholder participation in the reviews.

21. The converse argument is also heard: in some cases compensation or adjustment assistance arrangements for specific sectors were so generous that all of the anticipated consumer benefits have been expropriated over a substantial period. Reformers have argued that this practice risks undermining support for reform, since consumers will, in such cases, see no gains at all.

22. These arguments show why monitoring of results is so important. A sustained commitment to measuring and reporting on impacts was built into the Australian reforms as part of the long-term strategy to build and maintain support for the reform program, and to promote its dynamic evolution.

23. The NCP reforms have been subjected to a range of *ex ante* and *ex post* evaluations. Monitoring and evaluation -- at strategic and disaggregated levels -- were based on specific deadlines for meeting predetermined targets and often rigorous quantification of costs and benefits. Mechanisms for progress reporting were included in the initial NCP agreements. A baseline *ex ante* evaluation was carried out by the Industry Commission (now the Productivity Commission) -- a statutory body that is the main source of independent advice on micro economic and regulatory policy to the federal government -- to promote the case for reform. It estimated that the full implementation of the NCP would add around 5.5% to annual GDP (with most of the gain coming from the reforms to be implemented by state governments).⁷ This was a key input into the negotiations on the size of the “competition payments”.

⁷ As noted earlier under “economic impacts”, there is widespread agreement among international observers such as the OECD and IMF that the NCP has in fact made a very significant contribution to Australia’s GDP growth rate. The *ex ante* assessment of 5.5% addition to GDP was a calculation of the “one off” likely impact on GDP of selected NCP reforms that were able to be quantified.

24. As the NCP continues, each state government must provide an annual progress report to the NCC. An annual summary report provided to the federal government gives an overall assessment of progress and recommendations about the “competition payment”. The NCC annual progress reports are sources of information about achievements and weak spots.

25. The commitment to quantitative measurement of the impact of reform is reflected in a recent request by the Government to the Productivity Commission to undertake a review of the NCP. The Commission will report on (1) the impacts of NCP on significant economic indicators such as growth and productivity (2) significant distributional impacts, including on rural and regional Australia; (3) the contribution of NCP to achieving other policy goals. The review will also identify opportunities for further economic gains from removing impediments to efficiency and enhancing competition, which may give rise to a further legislative and review program.

2.1.3 Success factors from Australia

26. The Australian NCP is among the most well-planned and executed regulatory reform program of its scope in the world. While most governments are unlikely to have the same level of organizational and political skills, and sustained social support, for such a broad program, some of the lessons learned in Australia, both positive and negative, may be of wider relevance.

- **Setting a long term, dynamic course for reform helped maintain momentum.** The long term nature of deep reform was understood at the outset. The NCP is now 10 years old and looks set to continue for a second stage. The reform is now integrated into the machinery of policy-making through the regular reviews of existing legislation and of new legislation. Regular reviews can also provide a “second chance” to secure reforms that did not make it the first time round.
- **Sustained political consensus for reform was underpinned by bipartisan agreements.** There was bipartisan political support both for the 1980s program of microeconomic reform and the development of the NCP agreements in the 1990s, seen as the next step in the reform process. The reforms were, in essence, proofed against subsequent changes of government. The political consensus also meant that the public received consistent messages about the benefits of reform, which enhanced the credibility of the reform process in the eyes of citizens.
- **Building on previous reforms developed reform momentum.** Success breeds success. The successful reforms of the 1980s led to the launch of the NCP. Though the NCP reforms are incomplete, there is a strong perception of success, underscored by the fact that the policy continues to be actively pursued some ten years after the original agreements were signed, and despite changes of government in all jurisdictions since then.
- **Financial incentives were used to bring state government stakeholders on board.** These incentives were important in the early phase of reform, convincing at least some states to become parties to the NCP. The threat that payments might be withheld if targets were not met (even if it was not often used) did have a persuasive effect on states to implement reform recommendations in key areas.

In some cases, strong positions initially taken against reform were modified only after payments were withheld.

- **A supportive bureaucracy was led by central ministries, and dedicated new institutions were set up to support the reform.** A supportive administration, especially at the level of the central agencies, was a significant factor in reform success. The active engagement and support of the finance ministry was important. The establishment of a dedicated entity, (the NCC) to monitor and report on reform, with State and Territory Governments having some say over key appointments, generated reassurance that reform was being objectively assessed. It also ensured a high level of consistency and transparency in reporting. The NCC was not directly associated with any pre-existing player in the bureaucracy, and the appointment of councillors with a business background also counted in its favor.
- **Clearly articulated principles and a consistent, comprehensive approach provided accountability.** The NCP agreements contained a clear guiding principle for the promotion of competition. This **provided** an agreed benchmark for all subsequent review and reform efforts. Also, review and reform efforts were assessed by a single body which helped to ensure that a consistent approach to reform issues was adopted.
- **Clearly defined commitments and responsibilities adopted at appropriate levels helped spread reform across stakeholders.** The roles of the major players were clearly established from the outset, as were the milestones along the reform path. State governments took responsibility for their own review activities, which helped with their commitment to implementing review recommendations.
- **Systematic, transparent monitoring and evaluation of reforms, including quantified costs and benefits, enhanced transparency and supported allies of reform.** Monitoring helped to sustain reform momentum at all stages of the process. The recent reviews, for example, highlight the incomplete nature of the reforms to date, which implies that substantial additional benefits can be achieved through further reform effort, and also point to the long term nature of reform and the need for a sustained commitment to reform. Annual reporting has enhanced transparency, and maintains pressure for reform by highlighting benefits achieved as well areas of concern.

2.1.4 Negative lessons from Australia

- **Inadequate understanding and poor communication at the levels of state governments and major stakeholders slowed reform.** Despite the generally transparent nature of the NCP reform process, a clear understanding of its implications did not always percolate down to state governments, which led to some reform blockages. Stakeholder opposition was also, in some cases, a result of a lack of appreciation at the outset of the implications of some elements of the program. Communicating the fact that the reform would yield public benefits and was not just “competition for competition’s sake” was inadequate, especially in the early stages.

- **Reform fatigue and backlash were not anticipated nor well-handled when they arose.** These reforms were long term. But “reform fatigue” and even backlash arose at various points. These were not always recognized early enough nor dealt with appropriately.
- **Mixed incentives and lack of reform pressures on the federal government fragmented reform efforts.** It is increasingly clear that the federal government lags in its reform performance relative to most state governments. This is widely considered to be a consequence of the lack of financial incentives/disincentives operating on the federal government.
- **Sustaining the financial “carrot” for state governments to continue reform was difficult, while dealing with the losers slowed reforms.** The competition payments from federal to state governments were a significant factor in sustaining support for reform. However, the Federal government is increasingly unwilling to continue with this process, raising questions over the ability to sustain a second round of reforms. Dealing with losers has also proved awkward, despite the implementation of substantial assistance measures. The problem is that some of these measures undermined reform by delaying the delivery of benefits from reform for consumers and other broad groups.
- **It has been difficult to ensure that review activity is clearly focused on the rules that matter most.** The legislative review program involved the review of some 1,800 pieces of legislation, which were self-selected by the various governments. The review process revealed that different governments applied the same tests in different ways. One explanation is that the state governments used the reform process to follow their own agendas, which were not necessarily the goal of national market development.

2.2 Regulatory reform in the United Kingdom

2.2.1 Specific context for reform

27. The impetus for reform in the United Kingdom was its longstanding decline in relative economic performance (leaving aside a few bright spots such as London’s pre-eminence as an international financial center) and a crisis generated by an unsustainable public deficit (9.6% of GDP in 1975) which triggered a humiliating IMF intervention. From 1960 to 1980, economic growth lagged other G7 countries, averaging only 2.3% compared with 4.6% in France, 4.4% in Italy, 3.5% in the US and 7.7% in Japan. Productivity growth rates were also relatively low. Unemployment was high.

28. The 1979 elections brought the Conservative party to power under the leadership of Margaret Thatcher, a Prime Minister with strong personal determination to reverse the UK’s economic decline, and an ideological aversion to state economic controls. This started a reform process that has been more or less continuous to the present day, surviving a change of political party in 1997 when the Labour party came to power under Tony Blair. This situation looks similar to Australia: the UK reforms were also based on recognition of the failures of the pre-existing development model, which generated broad social movement toward a more liberal consensus about the role of the state and the market.

Box 4: Timetable and context for regulatory reforms in the United Kingdom	
Late 1970s	Financial crisis which triggered IMF intervention
1979	Conservative party comes to power under Prime Minister Margaret Thatcher
Early 1980s	Development of the EU Single Market program, to which UK contributed heavily
1985	First development of principles of good regulation
1988	Next Steps initiative, which moved public service delivery functions out of ministries into agencies, the first of several initiatives to strengthen public service delivery and efficiency
Mid-1980s to mid-1990s	Privatization and liberalization of key infrastructure and other sectors (British Telecom privatised 1984, telecoms opened to competition 1991)
Late 1980s to 1992	EU Single Market program (end date for first wave 1992) to which UK made a significant contribution
Early 1990s	Further initiatives to improve the quality of public services (Charter Mark, Service First, Citizens Charter)
1997	Labour Party comes to power under Prime Minister Tony Blair
1999	White Paper "Modernising Government". Establishment of a regulatory quality unit as part of the Cabinet Office at the center of government, developed from original Department of Trade and Industry ministry deregulation unit. Establishment of Regulatory Reform Ministers in each ministry.
2000	Competition Act updates competition legislation and brings it into line with EU competition legislation
2000	Establishment of Small Business Service (evolution from earlier structures, with greater powers)
2001	Regulatory Reform Act to speed up amendment of burdensome legislation
2003	Enterprise Act completes process of modernising competition legislation

2.2.2 The combination of macroeconomic, regulatory, competition, and public governance reforms built the foundations for sustained market growth.

29. The UK reforms span a period of more than 20 years. Unlike Italy and Australia, no clearly bounded reform strategy or strategies mark this period, but rather a continuum of linked efforts to improve the macro and micro management of the economy, strengthen public governance, and improve the regulatory environment. The initial broad and undefined strategy that drove reform was based on a belief in the merits of the free market and in the monetarist theories of Milton Friedman. It was given practical effect through a series of evolving reform targets, starting with privatization and leading quickly to more efficient delivery of public services and promotion of regulatory quality, among others. Unlike the more structured Australian approach, the UK approach can be characterized as opportunist and evolutionary.

30. The key features of the UK regulatory reform initiatives were:

- Privatization, market opening and independent sectoral regulation: The classic privatization and deregulation efforts were intended to reduce the role of the state in the economy and develop a competitive market in sectors previously characterized by monopolies. These efforts were quickly accompanied by an ambitious re-regulation program, in which a bevy of new sectoral regulators were set up at arm's length from government to regulate the prices of privatized utilities and to prevent abuses by the incumbents.

- Improving capacities for quality regulation: Reforms of the utility sectors broadened into economy-wide reforms to reduce over-all regulatory costs. To accomplish this, the emphasis shifted from deregulation to better regulation, as recommended by the OECD. These reforms were aimed at improving government capacities to produce efficient and effective regulations and at reducing administrative burdens on citizens and businesses. Incremental efforts since 1985 to develop principles of good regulation gathered speed in the late 1990s. The institutional aspects of regulatory reform were integrated into public sector reform with publication of a 1999 landmark White Paper “Modernizing Government,” which marked a new drive to remove unnecessary regulation. The White Paper reinforced the requirement for departments to implement Regulatory Impact Analysis (RIA) for policies that impose new regulatory burdens. A comprehensive guide to RIA followed in 2000. The 2001 Regulatory Reform Act provided the government with a streamlined approach for the amendment of burdensome legislation.
- Promotion of small firms and reduction of burdens on business: Regulatory reforms to improve the enabling environment for businesses, especially SMEs, became politically popular. The importance of promoting SMEs grew as traditional industries contracted and jobs were lost. A new impetus was given with the establishment of the Small Business Service (SBS) in 2000, which has an important role in Regulatory Impact Analysis (RIA).
- Improving the delivery of public services: Starting with the 1988 “Next Steps” initiative, public service delivery functions were moved out of ministries and into specialized agencies with performance targets and delegated management responsibilities. This was followed by quality enhancement initiatives (“Charter Mark”, “Citizens Charter” and “Service First”). A dedicated reform team was established at the center of government in 1999. Recent initiatives focus on reducing the administrative burdens on “frontline” staff (in schools, hospitals, the police etc).

31. Political leadership from the Prime Minister (Margaret Thatcher), a determined individual, was a critical factor in the launch of a reform process that marked a radical break with the post war political consensus on social and economic policy. At the time, the changes were little short of revolutionary. Her successor, John Major, achieved relatively little beyond maintaining reform momentum. The next big reform push came with a change of government and political party: Labour’s first term of office saw further significant reforms. Although external events distracted from reform during Labour’s second term of office, this was compensated in part by established pro-reform institutional structures. Nevertheless the Prime Minister, Tony Blair, remains committed to “modernizing government”, and his personal backing is an important factor in the success of key initiatives such as the Better Regulation Task Force.

32. Although the party in power in the UK system can usually implement legislation without too many problems, Parliamentary time was a bottleneck to the scale of the reform that was in train. The Regulatory Reform Act (2001) was devised as an answer to this: a fast track approach which gives ministers the powers to repeal and amend by secondary legislation provisions in primary legislation which impose a burden.

33. These reforms were characterized by intense and rapid institution building, that is, the progressive build-up of bodies to support the reform process. Reform was carried out across a broad front and had many “champions”: a dedicated unit at the center of government responsible for overseeing regulatory quality; a number of task forces and other partnerships with focused responsibilities for promoting reform; and the emergence of the National Audit Office (NAO) as an influential champion of reform.

34. Today, the Regulatory Impact Unit in the Cabinet Office (scrutiny and advice), the Better Regulation Task Force (advocacy) and the Panel for Regulatory Accountability (accountability and awareness at the political center of government) provide strong driving forces from the center for regulatory quality and reform. In each key regulatory department, a Minister has been given responsibility for regulatory reform. A system of satellite units, the Departmental Regulatory Impact Units, is established in each government department to carry out the day-to-day work of coordinating regulatory activities and advising regulators. The Small Business Service (SBS) provides a voice for small firms within government because of its strong institutionalized position in the regulatory process. Over time some of these institutions have developed the legal authority and bureaucratic strength to push reform ahead even when political commitment wavers.

35. These institutions grew organically from both new and old. For example, today's Regulatory Impact Unit at the center of government is new but has been through a process of evolution from its beginnings as the deregulation unit in an outlying ministry. The National Audit Office has, over time, found a new role as a “challenger” of rules that appear not to be meeting their purpose, a role that evolved naturally from its statutory and independent role as auditor of government affairs. Business -- a natural ally of reform -- participates in influential new entities such as the Better Regulation Task Force. The distinctive UK political culture enabled this evolutionary process, so the lesson of organic development cannot be drawn too far for other countries. The approach has also come at a price: a relatively slow and complex reform process, and increased regulatory costs.

36. On the negative side, the complexity of the institutional architecture raises the costs of coordination, while overlap between new and old initiatives and structures raises regulatory costs for businesses.

37. Changing the culture of the civil service has been among the most difficult challenges of this process. Margaret Thatcher brought in political advisers to fight the conservative tendencies of the career civil service and promote change. Performance related pay and civil service contracts were later rolled out, and some posts were opened to the private sector. Today, although the principles of regulatory quality management are permeating into policy making, further efforts are needed. The process of culture change is slowed by the fact that regulatory quality management is resource intensive, and ministries face budget pressures.

38. Building up advocates for reform was an important feature of the reform process in the United Kingdom. This effort accelerated over time. Special *ad hoc* committees and task forces were set up to spread ownership of reform and communicate its importance and benefits. Business, a natural ally of many reforms, was especially solicited. A good example is the 1997 Better Regulation Task Force. Its members from a variety of backgrounds (business large and small, citizen and consumer groups, unions, and those

responsible for enforcement) were appointed by the Prime Minister with a challenge and watchdog function to advise on government action and ensure that reform stays on course. Consumers have also been increasingly included.

39. There was no overall evaluation or review by government of the impact of regulatory reform, which can be explained partly because reform in the United Kingdom covers so many targets and issues and has never been brought together as one initiative. Unlike Australia, no specific procedures were built in at a strategic level. Disaggregated *ad hoc* monitoring and reliance on outsiders filled in the gap. Evaluation tends to be left to outsiders such as international agencies (OECD) or academics.

40. That said, individual players in the UK system (notably ministries, regulators, the RIU, BRTF and NAO) carried out reviews in particular areas, and the institutional architecture has developed an evaluation capacity, albeit dispersed and disaggregated. *Ad hoc* evaluations of regulatory quality tools such as RIA and consultation have led to adjustments and improvements in the light of experience (learning by doing). RIU annual reports set out the results of reforms in specific sectors covered by its work program. The central unit monitors progress against a published Regulatory Reform Action Plan that sets out the reforms that are envisaged and comments on past achievements. The RIU also reviews areas of burden reduction, and monitors implementation based on predefined expected outcomes. Overall, UK evaluation may be characterized as a piecemeal approach, with no central strategy and no “big picture”.

2.2.3 Success factors from the United Kingdom

41. The UK reforms – evolutionary, opportunistic, without a grand strategy -- look more familiar to most countries than do the highly organized Australian reforms. Such reforms might be easier to launch, although, like Australia, they require pro-active political and institutional management to take advantage of successes to sustain the program. The lessons that can be drawn from the United Kingdom include:

- **Strong top-level political leadership overcame hostility to reforms.** This was especially important in the early stages to “break through”. The progress of reform can be charted by the strength of political leadership -- strong under the early years of Thatcher, weak under Major, strong again in the early Blair years. Political leadership was important because of a general cultural hostility to the development of systematic approaches across government.
- **A pro-reform international environment eased the task of making controversial reforms.** Converging views within the EU about market freedom, privatization, structural reforms, as well as (later) EU impetus for changes to competition policy, provided arguments and allies for change. This was assisted by benchmarking reforms with the United States, a front runner in market liberalization.
- **Development of a cross-party consensus sustained change.** Reform impetus lasted beyond the economic crisis that first propelled it, as well as through the ups and downs of subsequent economic performance. It was difficult to unwind the deep seated changes implemented by Margaret Thatcher, and the momentum was such that it was easier to keep moving forward than to reverse reforms. The initial reforms had tackled some of the most difficult political issues

and successor governments could pocket this advantage. This contrasts with the Italian experience, discussed below.

- **An effective and professional bureaucracy and the engagement of central ministries underpinned the reform process, while development of a web of pro-reform institutions sustained reform momentum.** Though its strength varied, political direction was never lost or reversed even through successive political cycles. When political momentum faltered, the institutions in the bureaucracy took over and ensured that the reform process continued. A broadly effective civil service and relatively un-corrupt administrative/political system, led by an engaged finance ministry, helped produce results.
- **Stakeholders developed a sense of ownership in the reforms due to participative arrangements.** Business and consumers were progressively made part of the process instead of opposing it, or debating whether it should take place at all.
- **Reforms across a broad front improved the chances that the overall process was successful.** An emphasis on some issues and a failure to address others would not have achieved the same positive results. Regulatory reform would have had much less effect if the UK had not taken time to address two big issues as part of the reform "package": (1) fiscal and macro-management reforms, including central bank independence, that provided economic stability for micro reforms such as regulatory reforms to work more effectively; (2) competition policy overhaul that ensured that more gains of reform were passed through to consumers.

2.2.4 Negative lessons from the United Kingdom

- **The *ad hoc* approach increased reform costs and slowed the emergence of visible results.** The lack of an overarching strategy slowed parts of the reform and the emergence of results. The accumulation of new initiatives, big and small, was often difficult to digest and coordinate for stakeholders, including the government itself, and contributed to reform fatigue. Changes were often made to policies that had yet to fully run their course, complicating business decisions and making it hard to administer and evaluate the measures. The policy environment was more unstable than necessary, despite a positive general direction.
- **A lack of systematic evaluation of the aggregate picture weakened coherence and sequencing of reforms.** Evaluation tended to be *ad hoc* and to miss the big picture. Some aspects of the UK's regulatory regime complicate the task of evaluation -- multiple objectives, incremental changes, different structures.
- **Failure to address some important parallel reforms at an early stage delayed reform results.** The economy took some time to stabilize before settling into a stable growth path, partly because important fiscal and other reforms were not in place. The early privatization program tended to transfer monopoly structures from the public to the private sector without significant changes in the competitive environment, which complicated the regulatory oversight task. Competition policy reform is only very recent.

- **Burdens on government were high and not predicted nor managed.** The proliferation of institutions and initiatives without clear central management and strategy put a strain on government itself and inflated regulatory costs.

2.3 Regulatory reform in Italy

2.3.1 Specific context for reform

42. In Italy, the reform process was triggered by a spiralling public deficit converging with radical political change. This led to a fundamental reappraisal of economic, political and institutional structures and policies that laid the foundation for reforms that challenged 50 years of entrenched economic and administrative interests. The 1992 *Mani Pulite* corruption scandal redrew the political landscape and broke up half a century of moderate, conservative-minded, and relatively corrupt government. A new change-minded government emerged in 1996, strengthened by bipartisan political support for change.

43. The political crisis went hand in hand with economic crisis. A crippling public deficit (9.2% of GDP in 1994) combined with a high and rising public debt (which rose from 57.7% of GDP in 1980 to 125% by 1994) was attributed to a disastrous and costly state administrative apparatus characterized by bureaucracy, interventionism, inefficiency and centralism. The administration had been accreting layers for well over a century, and partial reforms had not met with any success. Reform was also triggered by the rise of a movement to promote decentralization through federalism (the Northern League). The chaotic state of the administration was a rallying point for the general public in its support of reform.

Box 5: Timetable and context for regulatory reforms in Italy		
Late 1980s and early 1990s		Combined and growing political, economic and administrative crises (no reforms to the administration since 1865). Crisis of the main political parties. Growing public debt problems, monetary instability, high inflation, worsening unemployment. Rise of federalist movement "Lega Nord"
1988		Law "400". First reform of the "Center of Government". "De-legislation mechanism introduced (whereby a primary law can empower a Government decree to review or repeal matters previously regulated by a law)
1990		Law "241". The first "Administrative Procedure Law" setting out adjudication procedures based on the principles of effectiveness, transparency and efficiency, using a number of tools- timelines, accountability, participation, transparency, right of access, etc
1990		Law "287". The first Competition law which established modern antitrust regulation and created an independent competition authority. Followed in 1995 by the establishment of sectoral authorities for communication and energy
1992		Currency crisis, "Mani Pulite" corruption scandal
1993-2000		Macro economic stabilization program. Wide range of devolution and decentralization measures including political reforms for direct local elections, and development of local financial autonomy (fiscal federalism)
1997		First steps on e-government with full legal value granted to electronic contracts and digital signatures
1998-2001		Development of a range of regulatory quality initiatives- Regulatory Impact Analysis on an experimental basis (where it has stayed), consultation

	procedures, central unit for better regulation, rolling simplification program based on annual simplification laws, central register for bureaucratic formalities, eGovernment action plan
2001	Constitutional reform and transfer of general legislative powers to regional assemblies (keeping a limited set of powers for the central Parliament)
2001	A new political majority takes power. Bassanini's responsibilities are split among four ministries. Reversal or dilution of some reforms, including dismantling of the consultation body and of RIA experiments.

2.3.2 Reforms focused on the role of the state, government structures and regulatory tools.

44. The Bassanini reforms (1996-2001) focused on public governance and regulatory reform, and came to be known as “reinventing government” because of their broad sweep and radical approach. The key objectives were to change the central/local balance of power, and replace “statism” with pro-competitive policies to position Italy to succeed in a more open European market. The OECD exercised influence on the Italian reforms by providing a framework for regulatory reform, peer pressure, and specific tools for the reforms.

45. Turning the Italian state with its long-standing socialist traditions, and habits of ownership and intervention, around was a multi-faceted challenge. The reforms were intertwined and not always mutually supportive. Decentralization, for example, complicated regulatory reform by vastly increasing the number of actors involved in regulatory roles. Privatization put more stress on the utility regulators and competition authority. The main areas of reform in the Italian program were:

- Privatization and liberalization: Reforms attempted to refocus government on its core missions in the main infrastructure sectors (electric power, gas supply and distribution, telecommunications, railways, postal and telegraph services) and banking, local transport and the retail sectors.
- Cutting red tape and improving regulatory quality: Reforms to meet the demands of citizens and businesses to cut red tape and costs included new approaches to administrative simplification such as self certification and one-stop shops to streamline licensing. These reforms developed into a broader policy to promote regulatory quality, including regulatory impact analysis, under the OECD guidelines.
- Devolution and decentralization, combined with reorganization of central government: Reforms transformed the centrally based institutional architecture to a regional system by devolving tasks, responsibilities and the necessary resources to regional and local levels, and setting up elected regional assemblies. Parallel reforms to strengthen the policy and regulatory functions of the central state included strengthening and improving central structures, rationalizing ministries, and giving them greater freedom to choose their own organizational models.
- Civil service reform: Reforms to promote greater efficiency and professionalism of the civil service involved removing the civil service from public law and putting

it on a contractual basis. The aim was also to distance the administration from politics.

- E-government policies: Reforms were adopted to promote electronic means of managing administrative and other documents and procedures such as procurement, tax returns, and land registration.

46. The Italian experience in creating new reform institutions was in many respects the opposite of the Australian experience, without the organic strength of the UK approach. No single and powerful new institution emerged, and the finance ministry did not have a strong part in the reform process. Instead, the process relied on political support and the dedication of a minister (Franco Bassanini). This carried the program for years, but proved not to be enough to sustain reform momentum when the government changed. However, the Australian and UK experiences suggest that there needs to be an underlying consensus on the importance of moving to market-led development strategy. As this did not exist in Italy, it is likely that any new institution would have found it hard to make an impact.

47. A single minister -- the Cabinet Minister for Public Administration (Bassanini) -- was invested with full powers and responsibilities for the coordination of all the "reinventing government" policies. These powers were delegated directly from the Prime Minister. To assist, a Central Unit was established in 1999 to promote and monitor regulatory reform: the Regulatory Simplification Unit (*Nucleo per la Semplificazione delle Norme e delle procedure*), composed of 25 professionals with expertise in law, economics, political science, impact analysis, European affairs, and linguistics. Attached to the Prime Minister's Office, the Nucleo's main role was to prepare delegislation decrees and consolidated texts. It also provided support to ministries in making regulatory improvements, and provided opinions to the Cabinet on the quality of regulatory impact analyses and legal drafting assessments.

48. The Prime Minister played a key role at strategic decision points, and there was a steady commitment to radical reform by three successive center-left Prime Ministers. But when leadership changed, after 2001, reform momentum was also lost. After 2001, the reform powers were split among four ministers, leading to a progressive failure of coordination which slowed and even reversed implementation. Over-reliance on a champion made the program vulnerable to political change.

49. The Italian parliament agreed at the outset to vest the government with powerful tools to implement the reforms. In 1997 the first "Bassanini Act" gave the government powers to adopt a wide range of legislative decrees (primary laws) within the framework of general principles. Four further Bassanini Acts (1997-2000) allowed the government to substitute primary laws with "delegislation" decrees, in effect turning laws into lower-level instruments that were easier to reform. The "delegislation" technique was a clever method of bypassing the parliamentary bottleneck to reform. The decrees could be adopted only by obtaining a prior view from two new State committees (a Parliamentary reform committee and a State committee for regional and local authorities).

50. A systematic approach to engaging different elements of society (citizens, unions, businesses, consumers, central and local administration) and promoting reform ownership was deployed in Italy. Partnership arrangements were set up with the local authorities to seek a balance between strong central leadership to sustain common

goals, and autonomy for the local level to implement local solutions. Similar steps were taken to engage relevant stakeholders on other parts of the reform plan. For example an *ad hoc* consultation body (dismantled in 2001) was established for the administrative simplification program, which brought together representatives of ministries, independent regulators, social partners, and regional and local authorities. Citizens and businesses were wooed by meeting their demands to cut red tape with new simplification measures. These measures played a key role in the successful early implementation of the reforms. They not only helped to build a consensus for change, but the direct involvement of stakeholders who would be at the receiving end of new regulation helped to identify the most effective practical approaches.

51. The Italian approach to consultation is noteworthy. Public consultation on laws and subordinate regulations is not mandatory in Italy, and hence consultation is carried out informally and at the discretion of each ministry. Italy put considerable effort into opening up rule making procedures in the period included in this case study. A key measure was the establishment in 1999 of a permanent consultative body as the main national vehicle for public consultation on simplification and regulatory review. This body had representatives from the ministries, social partners and regional and local governments (it was dismantled in 2001).

52. But consensus for change in Italy was short lived. Ministerial and bureaucratic resistance to further reform and reversion to the *status quo* took hold after 2001. Some of the social partners had a radical change of position. For example the main Italian business association which had fully supported the reforms became very critical (alleging that the reforms were too abstract and had not brought any real changes). It seems that the reforms did not go deep enough over five years to instil confidence in the process.

53. Resistance from other stakeholders appears to have been bubbling below the surface, although held in check by the reactions to the economic and political crises several years earlier, and resurfaced in 2001. Although there are many reasons for this, perhaps steps could have been taken to anticipate and counter it.

54. In the Italian reform process, there was little place for monitoring and evaluation by the government, which further weakened sustainability. There was a general absence of government-led monitoring or evaluation mechanisms, still less any cost-benefit analysis. A detailed external evaluation was, however, carried out by the OECD in 2001, and published after peer review by other OECD countries. This report found that:

*Italy continues to move faster than many countries in addressing the substantial reform agenda that is still outstanding. Regulatory reform was only one of many changes in Italy in the 1990s, but it was an essential one...regulatory reform helped attack many of the underlying structural problems in the economy and the public administration. Although it is still early, Italy is beginning to see concrete benefits of regulatory reform, as well as adjustment costs.*⁸

2.3.3 Success factors from Italy

⁸ OECD (2001) Regulatory Reform in Italy, Paris.

55. The Italian success factors need to be assessed against the background of what happened in 2001. The reform plan was generally sound and the right approach was often taken in the early stages. But the implementation strategy taken was too narrow, with insufficient investment in reform institutions, and the reform process did not last. The following sets out what was initially successful:

- **A comprehensive and well designed reform plan persuaded skeptics to support the program.** The reforms were radical enough to be a persuasive answer to the problems, rather than a piecemeal approach. Within this context:
 - **A focus on clearly defining the core mission of the state.** Doing less but doing it better, was a very helpful goal.
 - **Making devolution and decentralization a part of the reform.** The principle was right, even if execution was poorly handled.
 - **An emphasis, not only on cutting red tape, but on improving the broader dimensions of regulatory quality.** Cutting red tape and reducing costs was a key ingredient of the reform plan because of the direct relevance to citizens and business, who were important stakeholders. But this short-term goal was backed up by the deployment of an array of tools, strategies and structures (self certification, one stop shops, codification, RIA, eGovernment, and a central unit), to promote regulatory quality over the medium-term. Regulatory reform that increases transparency and accountability and simplifies administration is a very effective weapon against corruption.
 - **Reforms to strengthen the civil service.** The principle of employment contracts (including linking salaries to performance) was right, as it promoted effectiveness, accountability, and flexibility. So was the principle of separating politicians from the civil service, the former to set policies and strategic directions and the latter to manage these.
 - **Including e-government as part of the reform plan** was a good strategy because ICT can produce dramatic service quality improvements.
- **Political support and government support for the reform were maintained at the highest levels.** The Prime Minister was backed by strong leadership from a minister vested with strong powers and the authority to put the reform plan into action. This got reform off to a fast start. The problem for sustainability was that political support did not expand beyond these core supporters.
- **A top-down, bottom-up dual approach to implementation started the reforms well.** Strong central leadership was complemented by implementation mechanisms that engaged stakeholders and promoted ownership of the reform, and strengthened accountability for results.
- **Consensus building was aimed at relevant stakeholders.** It helped that the unions represented both public and private sector workers, i.e. potential reform beneficiaries as well as losers.

2.3.4 Negative lessons from Italy

56. The reform momentum was lost after five years. Why did this happen? The main reason is that many of the key factors that ensured initial success disappeared, without sufficient reaction by the reformers in changing their approaches:

- **Central political leadership disappeared, together with cross-party support, and the departure of the main reform architect.** This was the moment at which reform momentum was lost and some reforms were reversed. The main reason was that reform was overly personalized around a champion, and political change occurred before reform ownership could take root among other leaders. As momentum slowed, resources became inadequate and the reform could no longer tackle vested interests. The lesson is that regulatory reform is not a “one shot” policy but must be sustained against reversal with adequate resources and credible political commitment. It must be managed and cascaded across all levels and structures of government.
- **Local resistance to reform was greater than expected.** Liberalization, privatization and outsourcing met greater resistance from local oligopolies than from national monopolies.
- **Crisis created only a fragile and short lived consensus.** Consensus for radical change proved relatively short lived and fragile. The UK and Australian examples suggest that consensus among key stakeholders is necessary to complete major reforms and anchor them firmly. This takes a long time, and requires solid mechanisms and institutions to build and sustain consensus.
- **Implementation weaknesses in civil service reform reduced capacities and accountability for reform.** The reforms to the civil service were not supported by the government that took power in 2001. The relationship between civil servants and politicians became increasingly blurred, and there was a failure to introduce effective mechanisms to measure performance and results.
- **Slow results were due to a general failure of implementation.** The reform plan was successful in setting up a new legal framework and made good headway in some other respects, but these achievements were not consolidated institutionally. As a result, implementation ran into great difficulty. Concrete and lasting results can only come through effective implementation that produce the visible results needed to sustain allies of reform. Effective implementation needs clear, specific and measurable objectives to track progress, and to avoid the criticism that reform is too general and abstract. An effective regulatory quality management system should also be in place to spread best practices, including evaluation mechanisms to track progress.

¹¹Although micro reforms can take a very broad shape and reach, as in the Australian NCP reforms, they are still micro reforms in the sense that they are reforms aimed at changing the behaviour of firms and consumers, rather than reforms aimed directly at aggregate targets such as unemployment or GDP.

3. IMPACT OF REFORMS

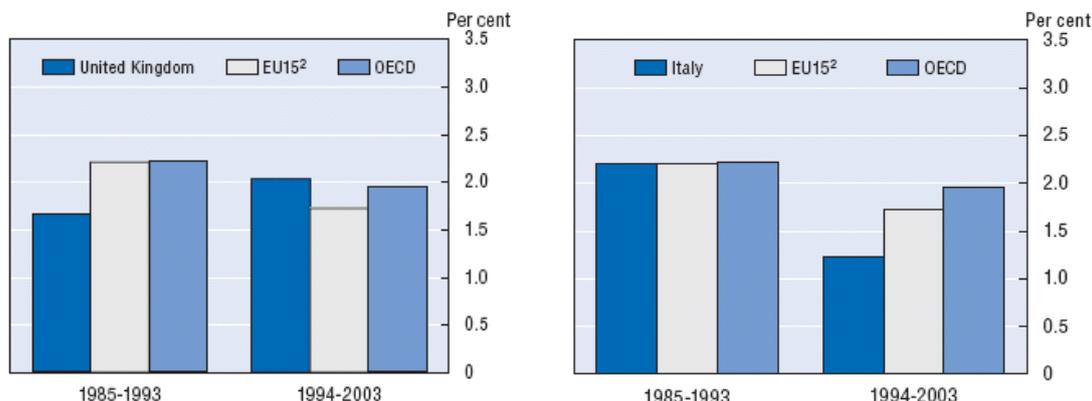
3.1 General economic performance

57. While it is difficult to draw direct connections between micro reforms¹¹ and macro outcomes, there is consensus that in two of the three countries, the package of reforms aimed at cutting regulatory costs and stimulating market competition is directly linked to positive developments in the economy. Australia and the United Kingdom pursued broader and more sustained economic reforms than did Italy, and the results show the difference.

- Australian economic performance in the decade since the adoption of the NCP has grown progressively stronger, with continuous growth since 1991, and growth and productivity rates among the highest in the OECD. These rates, as well as being substantially higher than in the 1960s and 1970s, improved even further on the rates already achieved under the first wave of reforms. International observers such as the IMF and OECD have consistently linked the strength and resilience of the Australian economy to the adoption of wide-ranging structural reform programs, of which the NCP reforms are the centerpiece. A recent report by the Australian Productivity Commission on the NCP confirms this picture, noting among other achievements that there have been 13 years of uninterrupted output growth, that the unemployment rate is currently at a 23 year low, and that productivity rates in the first five year cycle to 1998/99 were the highest for at least 40 years.¹²
- UK economic performance has improved significantly. As Figure 1 shows, over the last decade the United Kingdom has reversed its comparative performance and achieved a rate of growth above, rather than below, the European average. The GDP per capita gap with the major continental European countries has closed. The unemployment rate since the late 1980s has been consistently well below that of the euro area and the public deficit is also relatively low. Large parts of the reform agenda -- notably structural reforms and improving the business environment for SMEs - have made a significant contribution to performance. An important weakness is a continuing gap in productivity growth rates compared with major OECD competitors, so more needs to be done.
- Economic performance in Italy has not improved, on the contrary, as Figure 1 shows. GDP per capita growth slowed to 1.3 percent by 2003. This is an indication that the regulatory reform and "reinventing government" reforms -- which did reduce the cost of public employment in Italy from 12.6% of GDP (1990) to 10.5% of GDP (2001) -- may have been too superficial and short-term in nature to have a lasting effect on economic structures, production costs, and commercial decisions.

Figure 1: GDP Growth in the UK and Italy, compared to benchmarks

¹² Productivity Commission (2004) *Review of National Competition Policy Reforms: Discussion Draft*. [Note: Final Report will be tabled in Parliament during Autumn 2005 sittings].



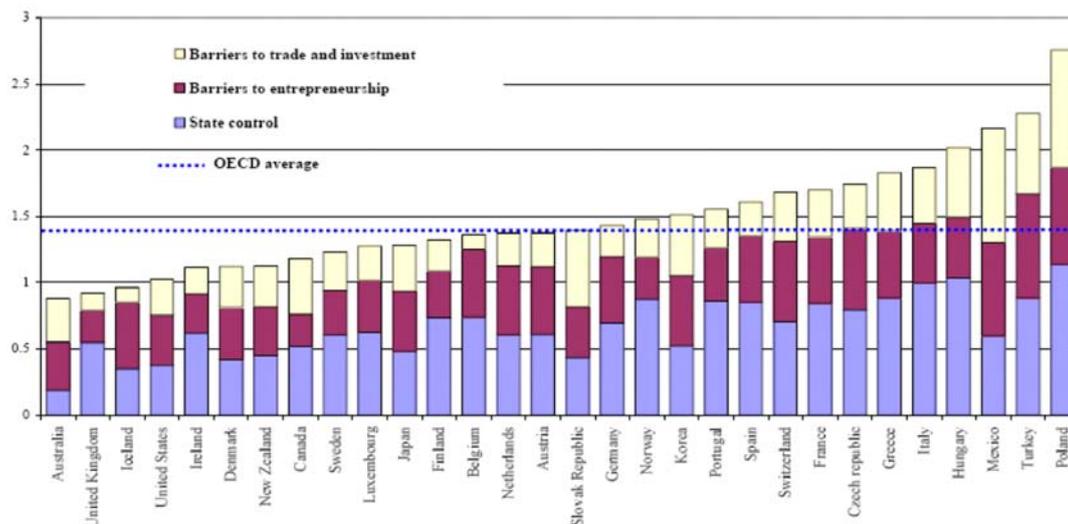
Source: OECD, 2005

3.2 Specific impacts

58. Linking micro reforms to micro performance is easier. Here, improvement is seen in all three countries. In 1997, the first year that the OECD issued comparative indicators of product market regulation, the United Kingdom was first, and Australia was third. Italy was dead last among OECD countries, that is, was the most regulated economy. By 2003, the picture had changed slightly, as Figure 2 shows. Australia had moved into first place among OECD countries, due in large part to the extraordinary breadth and sustained implementation of its regulatory reforms. The United Kingdom had moved to second, maintaining its relative position among other OECD countries, who were also carrying out regulatory reforms in the period.

59. Italy had moved up four rungs from last to fifth from last, showing some relative improvement. The Italian reforms succeeded in promoting significant developments. The most successful were in the financial sector, administrative simplification and the privatization programs. Framework laws that altered the institutional landscape were adopted. But implementation of the original plan ran into difficulties after a change in government from left to right. The Italian experience is different from the other two countries because many reforms lasted only until a change in government. In 2001, when the political scene changed, bipartisan support for reform disappeared, central leadership crumbled, and reform momentum was lost.

Figure 2: Comparative benchmarks in product market regulation, 2003



Note: 2003 values. The scale of indicators is 0-6 from least to most restrictive.

60. Cutting red tape and reducing direct costs on businesses: This indicator is where the most progress was seen at the firm level.

- In Italy, an administrative simplification program codified existing regulations, created a central register of formalities, and promoted self-certification. Launched in 1997-1998, the “self-certification” reform allowed citizens and business to substitute certificates with declarations written by themselves, affirming under their personal responsibility the facts that the Administration would previously have certified. These reforms replaced over 95% of certificates with self certification, and the number of certificates issued by the government fell from 70 million in 1996 to 25 million in 2001¹³. Annual savings by citizens from self certification were estimated at 527 million euros in 1998, 544 million euros in 1999, and 1,128 million euros in 2000. Businesses also reaped important benefits from one stop shops (which streamlined procedures and authorizations) and other simplification measures, including a reduction in processing times from 22 to 10 weeks, and administrative cost reductions of 3,500-7,700 euros for corporations and 500-1,150 euros for individual businesses.
- Comparative studies of market regulation generally show the UK framework to be among the least restrictive in the OECD, which probably can be linked to the impact of regulatory reforms and a steady stream of initiatives to identify and remove burdens. It is, for example, relatively easy to set up a new business in the United Kingdom. However, there is little hard evidence of the trends over the time period covered by this case study, which is partly due to the lack of UK efforts to monitor and track reform outcomes. The aggregate impact of reform initiatives is unclear and red tape still seems an issue for businesses. Issues with

¹³ This reform took time to take root, but once the public realised that the administration could no longer deliver certificates in the traditional way, it took off.

the wider business environment and legal framework need attention, including the reform of outdated bankruptcy and company laws.

- The NCP focussed on barriers to competition and entry, which should have had an effect on reducing red tape, although this result is not documented. Reforms running in parallel with NCP included the implementation of unique business identification numbers (the Australian Business Number or ABN) which reduced paper burdens significantly. Tax reforms such as the introduction of the Business Activity Statement have substantially streamlined the lodgement of tax returns by combining various requirements in a single process.

61. Removing regulatory barriers to competition: Again, much progress has been seen at this level.

- In Australia, the NCC's 2003 annual progress report notes that 70% of the 1,800 pieces of legislation identified for review have been reviewed and reformed or repealed where required. This leaves 30% not yet addressed, despite an original deadline of July 2000 and a revised deadline of July 2002. Worse, among the 810 pieces of legislation identified as priority areas for reform, only around 56% have been fully reformed. Areas where reform is lagging include the taxi industry, which has yet to see substantial reform despite numerous recommendations for the removal of tight supply restrictions. More progress is seen in achieving competitive neutrality, which has been implemented in virtually all large government business enterprises at all levels of government. There are no data on how this has affected market share or profits of state-owned enterprises, but a recent Productivity Commission report recommends continuation of the policy. Implementation of competitive neutrality has been uncontroversial and has coincided with increased contracting out of services. Legislative reforms (notably on expansion in the scope of competition law to unincorporated enterprises) have eliminated anti-competitive arrangements that were previously incorporated into legislation affecting the practice professions in areas such as legal practice and various health related disciplines.
- The United Kingdom was (like many other European countries in the post-war period) a mixed economy characterized by State owned enterprises managed by the industry and finance ministries. Nearly all of these are now in the private sector where they are run as commercial enterprises.
- The Bassinini reforms did not directly address regulatory barriers to competition, but worked in parallel with a wide range of initiatives to privatize, liberalize, and reinforce market principles throughout the economy that were launched in Italy during 1997-2001. Market opening reforms also benefited from Italy's involvement in international and EU co-operation.

62. Capacities for quality regulation. Two of three countries have made substantial progress in converging with international norms of good regulatory processes.

- The United Kingdom is widely considered to be among a leader in OECD countries in the development and application of a robust and explicit regulatory policy and quality tools. Ministerial systems have been reviewed and updated (through adoption of consultation and RIA procedures, for example). A study of

RIA concludes that it has contributed to better policy making and has reduced business costs. But there are weaknesses. The extensive informality of the UK regulatory system has given rise to increased use of “soft law” which avoids regulatory management systems, consultation fatigue is a problem, and RIA is not rigorously applied in all or even most cases.

- Some elements of the Bassanini strategy have had durable effects on regulatory quality processes, but less than was expected due to a reversal in policy in 2001. In 1999 and 2000, annual simplification laws and Prime Ministerial decrees on public consultation and regulatory impact analysis introduced, for the first time in Italy’s history, a framework for regulatory quality, based on OECD principles. Review of the quality of new laws and regulations through regulatory impact analysis (RIA) and Legal Technical Analysis (ATN) never took hold. RIA was introduced in 2000 only on an experimental basis and never became effective. Both the Nucleo and the new public consultation procedures were dismantled after 2001 – without establishing any effective alternative mechanism – and related initiatives have foundered.
- Regulatory impact analysis has been a part of regulatory processes in Australia for many years, and the NCP process strengthened the attention on empirical assessment of the impacts of regulations. The NCP process established a permanent process of reviews of all legislation at intervals of no more than 10 years, using the same public benefit criteria. Other improvements to regulatory quality were adopted, including a new Legislative Instruments Act at the Federal level in 2003 and new Principles and Guidelines including a range of regulatory quality disciplines to apply to the development of all nationally uniform legislation under federal-state co-operative agreements.

4. CROSS-COUNTRY ASSESSMENT OF THE REFORM PROCESS AND INSTITUTIONAL DESIGN

63. The three case studies suggest that several institutional and design factors are important in developing and sustaining reform momentum. These are discussed below. All of these factors do not have to be highly developed for reform to succeed. They should be viewed as a checklist of pro-reform instruments or elements that different countries should seek to strengthen as far as possible given their specific context.

64. For example, there is a weakness in one area, it may be compensated by strengthening another area. For example a stable political context based on cross party consensus may be unattainable in many developing (as well as developed) countries. This implies more focused attention on building pro-reform coalitions among a broad range of stakeholders that can survive the ups and downs of political enthusiasm and discord. If there cannot be a stable cross-party consensus, working to develop institutions and the bureaucracy to become long lasting reform “champions” and to disseminate their reform culture to other stakeholders is another means to develop and sustain reform momentum.

4.1 Government leadership

65. In all three cases, strong top level leadership from the center coincided with a strong reform momentum. The degree of bipartisan political support for reform was a critical determinant of success in all three countries.

- In the United Kingdom, a cross party consensus on managing the economy emerged. Labour Prime Minister Tony Blair pursued broadly the same line of reforms as the Conservatives, building on the first wave, filling important gaps, applying lessons learnt, and taking reform into new areas such as public services.
- In Italy, bipartisan political support drove reform and when this failed, the reforms started to fail.
- In Australia, the NCP largely continues to enjoy a broad bipartisan political consensus in favour of the need for further market driven reforms.

4.2 Government reform strategy

66. Explicit and transparent strategies drove the Italian and Australian reforms forward. Italy started with a comprehensive reform strategy, a clear central message to “reinvent government”, and all the elements necessary for this were made part of the reform plan. This helped to rally a widespread -- albeit fragile and short lived -- consensus for radical change across the economy, politics and society. A piecemeal approach would not have been effective in the Italian context -- it had been tried and failed in the past. The Australian NCP was based on a comprehensive framework for reform based on explicit objectives and mutually agreed obligations under the banner of competition. The NCP was formally adopted by heads of government from the eight jurisdictions that make up the Australian federation, plus the federal government.

67. By contrast there was no single strategy in the UK reforms, which evolved organically in line with the UK’s policy culture and traditions. The UK’s policy culture is marked by a lack of formality, flexibility and cooperation, and informal decision making coexists with a respect for the rule of law. The UK reform process was not driven by any articulated strategy. This *ad hoc* approach continues to drive reform. The UK reform process has been successful, but the lack of an overall strategy may have cost it in terms of delayed outcomes, extra burdens and a confusion of different and overlapping plans that constantly risk reform fatigue.

Box 6: The role of the reform plan

The OECD has recommended that countries launching reforms “adopt at the political level broad programs of regulatory reform that establish clear objectives and frameworks for implementation.”¹⁴ The OECD explains that regulatory reform should be guided by coherent and transparent policy frameworks that establish concrete objectives and the path for reaching them, and that enjoy sustained political commitment. Such programs will both enhance the credibility of reform, and reduce the costs of reform by signalling to the wide range of potentially affected interests what is to come.

The three countries were very different in how they handled advance planning for reforms and the need for continuing evolution of the reform plans:

¹⁴ OECD (1997) OECD Report on Regulatory Reform, Paris.

In Australia, the NCP reforms changed little over time. The deadline for completion of the legislative reviews was extended, the test for assessing compliance was reworded (but not substantively changed) and the basis for assessing financial penalties was made less rigorous. These were responses to disquiet with some of the results of the review/reform process at a range of levels. Other responses were two inquiries conducted by parliaments. The Senate inquiry had the effect of allowing the doubters to say their piece and then effectively rebutting the major criticisms. What was initially seen in some quarters as a way to put brakes on a misguided reform thus came to help cement the reform in place over the longer term.

In Italy, an evolutionary element to the reforms was clearly foreseen. After each delegated law there was always a year or so to adopt corrective decrees. Also, fine tuning reforms were carried out through secondary regulation, usually developed through an *ad hoc* consultation process. The one stop shop reform was subject to a corrective decree in this way. This use of consultation to promote evolutionary reform was also used in the evolution and refinement of simplification tools.

In the United Kingdom, reform was evolutionary but not in the deliberate Italian way. No evolutionary processes were formally built in, but rather the administrative and political culture encouraged a constant process of adjustment. Nor was there a specific reform plan as with Italy and Australia. The lack of an explicit reform plan in the United Kingdom had a cost: delays, extra burdens and a confusion of different plans which risk reform fatigue.

4.3 Institutional development

68. Supportive and reform minded institutions are the backbone of any lasting and effective reform process. All three case studies, in different ways, illustrate the point that new and existing institutions of importance to the reform process (notably central ministries such as the finance ministry) need to adapt so that they can take part.

69. The good practice seems to be development of institutional structures that become reform champions. Strengthening the institutional architecture was an important feature of the reform process in Australia. A new institution, specifically tailored to support implementation of the NCP and with relevant powers and responsibilities, was established. Institution-building was especially marked in the United Kingdom where a dense web of pro-reform institutions plays a major role in sustaining reform. Institution building occurred to a much lesser extent in Italy, and the ones that were built were dependent on a single minister.

70. The practical issue of interest to other countries is how this institutional evolution can be encouraged to take place. Underlying governance traditions will largely determine what is feasible but important general lessons can be drawn. The Australian experience suggests four key success factors:

- Getting consensus that a new institution is needed. Setting up the National Competition Council did not happen overnight. It involved intensive consensus building among the stakeholders (primarily the federal government and the states) interwoven with the discussions to achieve consensus on the underlying National Competition Policy agreement
- Ensuring a clear delineation of responsibilities between different agencies (new and existing)

- Ensuring that agencies have the right expertise, adequate resources, and sufficient powers and independence (linked to accountability mechanisms)
- Proactive support from the finance ministry

4.4 Strengthening the civil service

71. The civil service can either support, passively tolerate or resist reforms. The civil service may feel directly threatened by reforms especially if one of the aims is to improve public sector efficiency. This may lead to resistance and demotivation, undermining the reform process unless steps are taken to anticipate and defuse these problems. Public service reform to increase efficiency often hits resistance because it targets forms of “rent” -- most blatantly, the rent linked to the ability of civil servants to convert administrative power into personal income via corruption, but also other less obvious forms of rent such as job security and the ability to exercise bureaucratic power. The reforms that are needed will vary with a country’s starting point and existing bureaucratic structures and culture.

72. These case studies suggest that, if the civil service is to support reform, it should be motivated through changes in incentives and skills. Civil service reform was an essential part of the Italian reform plan. The administration was recognised from the outset to be a major target of reform, which aimed at making it more efficient, accountable for results, professional and distant from politics. Reform of the civil service also played an important role in the UK reform process, using a variety of approaches to develop commitment to promoting reform and its outcomes, including performance related pay and civil service contracts as well as opening certain posts to the private sector. The finance ministries in the UK and Australia were critical in lending weight to these reforms. In Italy, the absence of high profile financial ministry involvement in reform may have been a factor in the failure to implant lasting changes.

4.5 Legal process

73. Costs of reform for the legal process, due for example to limited parliamentary capacity to handle reform legislation, can be high. Speeding up the legal process was an important factor in Italy and the UK. Both countries reinforced government powers to push through legal reforms. For example, the delegation mechanism and the delegation of legislative powers from the Parliament to the Government in Italy allowed the Parliament to concentrate on high-level and institutional legislation, and the Government to deal with more technical regulatory details. The result was a reorientation of roles of the Legislative and the Executive, and improvements in efficiency, flexibility and speed.

4.6 Management of stakeholders

74. Consensus building and spreading “ownership” was a key success factor in all three countries. In Italy, a systematic approach to engaging different elements of society (citizens, unions, business, consumers, central and local administration) and promoting reform ownership was deployed. In Australia, opposition was defused by including provisions in the NCP agreements for the federal government to make “competition payments” to the states (contingent on the successful completion of reform obligations), which were also used to show the prospective benefits of reform to state taxpayers. Building up advocates for reform was an important feature of the reform process in the

United Kingdom. *Ad hoc* committees and task forces, often with the support of business (a natural reform ally), were set up to spread ownership of reform and communicate its benefits. The Italian one-stop shop didn't work properly when it was introduced, but after a consultation process, a "corrective decree" amended the mechanism and made the reform more effective and supported by the business sector.

75. The importance of effective communication, consultation and transparency is also clear from these case studies. Margaret Thatcher sent clear, simple messages to the general public such as "rolling back the frontiers of the state". She made it clear that the program was broad and strategic - nothing less than a reshaping of the British economy - and she tapped into a broad based popular sentiment that "things have to change". The particular reforms that affected particular groups met with relatively less resistance because they were seen as part of an overall strategy affecting much wider groups. Later, under less intense political leadership, mechanisms for reform advocacy, consultation and communication were developed. But the growing weight of consultation led to "consultation fatigue."

76. In Australia, despite the generally transparent nature of the NCP reform process, a clear understanding of its implications did not always percolate down to state governments or to sectors or the wider community, which led to some later reform blockages. Communicating the fact that the reform would yield public benefits and was not just "competition for competition's sake" was inadequate, especially in the early stages.

Box 7: The roots of resistance to reform

Why is there resistance to reform? Economic reform may be defined as policy change directed at improving the static or dynamic efficiency of resource allocation in the economy. In essence, this involves taking away rents that have built up in the economic system, or to remove or modify acquired rights. Real and effective reform, as opposed to redistribution, involves reducing rents in the economy as a whole. In the long run, overall economic performance improves and everyone benefits. But beneficiaries from rent reduction are less sharply aware of the benefits, which tend to be dynamic and long term, than the losers of their losses. For example a stronger competition policy creates new market opportunities, but it is not clear *ex ante* who exactly will benefit from this. Also, the rent reductions from reform may hit those who were not the original rent beneficiaries as well as the latter.

As reform is often justified on the basis that there are more winners than losers, and that the overall benefit of reform, at least theoretically, allows losers to be compensated, there are often demands from losers to be compensated. This of course ignores the time it takes for reform benefits to flow through and the underlying- rent reduction – nature of the exercise. But the failure to undertake substantial and visible action to compensate perceived losers from reform may undermine reform and even provoke a reform backlash.

4.7 Resource issues

77. Resource issues in the broadest sense need careful management if reform is to be sustained, and to keep reform costs under control. Some reforms such as devolution and decentralization need careful resource management to ensure that powers are matched with appropriate financial responsibilities. Securing adequate technical and financial resources for the specifics of the reform process (such as staffing agencies)

does not appear to have been an issue in any of the three countries, except perhaps Italy where regulatory quality management has suffered from a lack of resources. The availability of resources for reform might be a sharp difference between these three countries and developing countries, where reformers are often starved for resources to carry out their tasks.

78. That said, the cost of reform is not trivial. In the United Kingdom, it became clear over time that reform was taking its toll in the form of sharply rising burdens and costs within government from the diverse reform machinery that emerged. A range of measures is now in action to contain this burden, including reviews by the central unit and ministerial spending reviews. The state governments in Australia have argued that the annual progress reports required of them are resource intensive, resources which are hard to justify by comparison with the perceived benefits.

4.8 Monitoring and evaluation of reform impacts

79. Monitoring and evaluation helps to ensure that reform is progressing according to agreed plans, and provides support for the implementation phase of reform. *Ex ante* evaluation of expected costs and benefits can help to promote the case for reform – or point the way to changes in the initial reform plan. *Ex post* evaluation can help to make the case for further reform. Evaluation is also a means of keeping stakeholders in touch with reform and sustaining support.

80. The three countries present a contrasting picture on evaluation. It is in line with expectations that the country with the most investment in monitoring and evaluation – Australia – made the most progress, while the country with the least -- Italy – was unable to sustain reform. This is probably less due to the empirical information provided by monitoring and more to the incentives, oversight, and accountability that monitoring represents.

81. It is not possible to reach firm conclusions about best practices in monitoring from these case studies, but good practices in these countries include:

- The public nature of monitoring and reporting contributes to its effectiveness. In Australia, all monitoring results were reported publicly, which increased attention to the reforms.
- Communication of the results of monitoring is essential to build the understanding that there are significant gains from reform.
- Spreading monitoring among groups increases its credibility. In Australia, reporting on results was done both by a micro-reform oriented institution (the Productivity Commission), and from a more "generalist" perspective (such as a Senate committee report). The combination helped ensure that all perspectives were addressed.

5. LESSONS OF REFORM

5.1 Factors of success and failure

82. A summary of the lessons learned from these three countries is included in Table 1 below:

Table 1: Summary of factors of success and failure

Success Factors	Negative Lessons
<p>Italy</p> <ul style="list-style-type: none"> • A comprehensive and well designed reform plan persuaded sceptics to support the program. The reform plan included: <ul style="list-style-type: none"> ○ A clear focus on the core mission of the state to support the privatization strategy. ○ Making devolution and decentralization a part of the reform. ○ An emphasis on cutting red tape, improving regulatory quality. ○ Reforms to strengthen the civil service. ○ Including e-government as part of the reform plan. • Political support and government support for the reform were maintained at the highest levels. • Consensus building was aimed at relevant stakeholders. • A top-down, bottom-up dual approach to implementation started the reforms off well. 	<p>Italy</p> <p>The reform momentum was lost after five years. Why did this happen? The main reason is that many of the key factors that ensured initial success disappeared, without sufficient reaction by the reformers in changing their approaches:</p> <ul style="list-style-type: none"> • Central political leadership disappeared, as did cross party support, and the departure of the main reform architect, without any succession plan or preparation. • Local resistance to reform was greater than expected. • Crisis created only a fragile and short lived consensus. • Ineffective civil service reform reduced capacities and accountability for reform. • Slow results were due to a general failure of implementation. <p>Some reforms need a long time to come to maturity and to start yielding real and visible benefits which can then be evaluated. Devolution¹⁵ of central government powers to the local level is in this category, and has run into political and technical problems which are likely to delay benefits further. E-government changes are also incomplete.</p>
<p>Australia</p> <ul style="list-style-type: none"> • Setting a long term, dynamic course for reform helped maintain momentum. • Financial incentives were used to bring state government stakeholders on board. • Building on previous reforms developed reform momentum. • Sustained political consensus for reform was underpinned by formal agreements on reform. • A supportive bureaucracy led by central ministries. 	<p>Australia</p> <ul style="list-style-type: none"> • Inadequate understanding of the implications of reform agreements and poor communication with the public slowed reform. • Reform fatigue and backlash were not anticipated nor well-handled when they arose. • Mixed incentives and lack of reform pressures on the federal government fragmented reform efforts. • Sustaining the financial “carrot” for state governments to continue reform is difficult,

¹⁵ Devolution is a much stronger and deeper reform than decentralization. Devolution involves the transfer of policy powers, competencies and responsibilities from central government to the local level (with or without accompanying budget provisions). Decentralization means the transfer of administrative tasks to the local level, the policies underpinning these tasks remaining the sole prerogative of central government.

<ul style="list-style-type: none"> Clearly articulated principles and a consistent, comprehensive approach provided accountability. Clearly defined commitments and responsibilities adopted at appropriate levels helped spread reform across stakeholders. Dedicated new institutions were set up to support the reform. Systematic and transparent monitoring and evaluation of reform progress, including quantification of costs and benefits, enhanced transparency and supported constituencies of reform. 	<p>while dealing with the losers has slowed reforms.</p> <ul style="list-style-type: none"> It has been difficult to ensure that review activity is clearly focused on the rules that matter most.
<p>United Kingdom</p> <ul style="list-style-type: none"> Strong top-level political leadership overcame hostility to reforms. A pro-reform international environment eased the task of making controversial reforms. Development of a cross party consensus sustained change. A broadly effective and professional bureaucracy and the engagement of central ministries helped to ensure the efficiency of the reform process. Stakeholders developed a sense of ownership in the reforms due to the participative arrangements. Reforms across a broad front ensured that the overall process was successful. Development of a web of pro-reform institutions sustained reform momentum. 	<p>United Kingdom</p> <ul style="list-style-type: none"> The <i>ad hoc</i> approach proved to be relatively weak in ensuring timely reform results and in combating reform fatigue. A lack of systematic evaluation of the aggregate picture weakened coherence and sequencing of some specific reforms Failure to address some important reforms at an early stage delayed reform results. Burdens on government were high and not predicted nor managed.

5.2 Lessons for other countries

83. Context, opportunities, external shocks and evolving environments will always frame the reform design and reform implementations. Many of the lessons discussed above can only be interpreted through the political, administrative and cultural arrangements of that country. However, several lessons may have wider application

1. A clear and well-designed reform plan should start the process, although it should have room for evolution over time.

84. A reform plan provides a focus and rallying point for reform, and helps reform progress to be monitored and evaluated. The comprehensiveness of the plan needs to be based on a careful appraisal of interlinked issues that need to be addressed. A piecemeal approach risks losing time and reducing reform impacts. At the same time,

the plan needs to be manageable, and corrected over time. A piecemeal approach is possible, as the UK shows, but the general probability of success may be lower because of the higher risk of derailment and the effects of poor sequencing.

2. High-level political leadership and as much bipartisan political support as possible should be built on the back of a crisis, and locked in through formal agreements and new institutions.

85. These are extremely helpful, if not necessary conditions for a process that needs to overcome likely resistance from numerous parts of the economy and society. Bipartisan support may arise out of a varied set of situations. Response to a crisis is the obvious one, but Australia shows that the experience of a previous successful reform can promote it too, and both Australia and the UK show that the existence of reform “champions” in the institutional landscape (notably finance ministries) can be powerful forces for persuading newly elected governments to persevere with the goals set by their predecessors.

86. The device of signing formal and public agreements, among as wide a group of stakeholders as possible, may also help to lock reform into a path which transcends political changes. In the Australian case, specific reform commitments had deadlines attached and fiscal consequences, and the inter-governmental nature of the agreements meant that the reforms became bi-partisan from the outset.

3. Bold reforms and early results are desirable, if they are possible.

87. The stronger the initial reform targets, the more successful their implementation at an early stage of the process, the more likely that reform will acquire its own positive momentum. Success breeds success. To persuade stakeholders to stay with the reform process requires showing them concrete achievements. Perhaps even more important, deep changes at an early stage may ensure lasting political consensus for continued reform. Deep rent reducing reforms are not popular, so are unlikely to be reversed by successor governments, as the hard work has already been done.

4. Building durable consensus requires spreading ownership of reform across stakeholders.

88. Spreading ownership of reform across as large a number of stakeholders as possible ensures that reform “champions” emerge who will outlast the demise of any particular individual. Business and consumers are effective targets. In these three countries, Australia is the best example, because of the investment into ensuring that everyone became part of the process.

5. Developing supportive institutions sustains reform even as political will becomes unfocussed.

89. Institutions which are preferably new, well-positioned in government (or in relation to government) and adequately resourced, are necessary to move the practical reform agenda forward. Just as important, they can become powerful reform advocates and the “glue” that binds the process and continues even when political will weakens.

6. Ensuring a supportive bureaucracy with help from central ministries, by encouraging culture change and the development of relevant skills.

90. Where necessary, steps need to be taken to ensure that the civil service is equipped for the task of implementing reform, which may mean that reform has to start with the bureaucracy. The bureaucracy need to “buy in” to reform. Centrally placed structures and the support of finance ministries can be very helpful in this process.

7. Effective and ongoing communication at all levels.

91. This also implies continuous and clear communication of reform’s purpose and progress, including to the general public, but also to key participants in the reform process. Citizens’ engagement on a regular basis should not be neglected. The general public may be more likely to turn against reforms if it is ill-informed, and consultation and debate can also help to strengthen the substance of the reforms. Among specific techniques that could be deployed, the Australian use of a Parliamentary enquiry into the reforms generated considerable press coverage and caught the public’s attention. Carefully designed consultation mechanisms can ensure that key stakeholders such as business stay on board. Preparing and training civil servants for their role in reform- which is also a powerful form of communication of reform purpose- can also be anticipated as part of the reform process.

8. Reformers should prepare for the long haul.

92. Effective and durable reform is a dynamic, long term process. It is not a single, static, program. This point cannot be overemphasised. Reform can be expected to span more than one political cycle, probably several. Gains from reform tend to dissipate over time with economic and social changes, and there can be constant pressure from losers to reverse or undermine achievements. Reform programs must be reviewed and updated to ensure that they continue to address key needs and deliver ongoing pay offs for the economy and society. The current review of the Australian NCP is an excellent example of this process at work. Reform mechanisms, institutions and processes must be sufficiently robust to withstand the long haul. Devices that lock in the process, such as public agreements which include clear benchmarks for progress, can help here. As the UK shows, credible, well structured pro reform institutional capacities with adequate resources need to be developed. The Italian experience, by contrast, shows the difficulties that can be faced if effective institutions and processes have not been rooted in the reform landscape.

9. Implementation requires allocation of commitments and responsibilities at appropriate levels, and recruitment of like-minded experts.

93. The best reform plan can come to nothing- or near enough- if sufficient attention and resources are not devoted to its implementation. Making sure that commitments and responsibilities are clearly allocated at the appropriate levels helps key players in their task. But this alone is not enough. The players must have sufficient muscle to be able to deliver on their responsibilities. This can mean setting up new bodies that are not tied up with specific interests. In both the United Kingdom and Australia, the “recruitment” of high profile business people to help with reform advocacy as well as to support implementation has been helpful.

10. *Monitoring and evaluation keeps players on track, and publicizing results helps to sustain reform momentum.*

94. This, in essence, means effective monitoring and evaluation, both of specific reform targets and of the aggregate picture. This should include measurable objectives and outcomes, backed up by incentives to meet the targets. Evaluation helps to keep players on track, and publicizing results helps to sustain reform momentum at large. The core aim is to demonstrate the objective benefits of reform to all stakeholders and so disarm the critics. But evaluation is generally a neglected part of the policy cycle for all governments. Major reform programs are especially vulnerable in the face of this neglect, as they need to survive the long haul at the same time as their justification is under constant and usually hostile question. Evaluation also creates effective feedback loops which allow reform programs to be modified and improved over time.

Annex

Interviews and references

Italy

Interviews

The author of the Italian case study interviewed a number of officials and others: two former advisers of Minister Bassanini, two officials of the current government with relevant responsibilities, a local regional government minister, a key Cofindustria official responsible for business simplification, a key external expert on the drafting of the reform, and a key critic of the reform.¹⁶

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¹⁷ The author of the Australian case study acted as consultant to the National Competition Council from 2000 to 2002.

¹⁸ Submissions to the enquiry into the NCP, conducted by the Productivity Commission, were also consulted. The enquiry's draft report was published during the course of the study, and the latter broadly reflects the report's main messages.

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