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REGULATORY TRANSFORMATION IN AUSTRALIA, ITALY, AND THE UNITED KINGDOM

CASE STUDIES ON REFORM IMPLEMENTATION EXPERIENCE

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EXECUTIVE SUMMARY

One of the greatest challenges for governments is organizing, implementing, and sustaining government-wide, multiyear regulatory reforms. Such efforts are more likely to achieve intended outcomes if governments understand the institutional and political economy mechanisms of successful reforms elsewhere. This paper assesses, compares, and draws lessons from ambitious regulatory reform programs in three high-income countries: Australia, Italy, and the United Kingdom.

These countries took similar approaches to regulatory reforms, designing them not as ad hoc deregulation programs but as broad institutional and procedural reforms extending 5–25 years (with some still ongoing). Their reforms addressed entire fields of regulation and sought to permanently change how regulators functioned by building sustainable capacities for good regulatory governance into the public sector. Although institutions in these countries are highly developed, the lessons from their experiences can help developing countries encumbered by costly regulatory legacies that are now building new capacities to regulate open, dynamic markets. One of this paper's most positive findings is that enduring reforms of longstanding regulatory practices can be developed in a variety of legal, institutional, and cultural settings.

Specifically, this paper considers:

- The components of regulatory reform at the core of Australia's ambitious National Competition Policy (introduced in 1994 and still under way). The Australian reforms seek to promote competition in the economy through broad regulatory reviews, regulatory impact analysis, and new forms of institutional cooperation between levels of government. Reforms have been based on the assumption that the highest costs of regulation are due to market distortions—that is, limits on and distortions of competition.

- Italy's Bassanini reforms (1996–2001), which focused on improving the government's capacity to regulate a market economy and on reducing the host of administrative procedures through which the public sector intervened in the private sector.

- The coherent regulatory reforms built step by step in the United Kingdom (launched in 1979 and still under way). The U.K. reforms include changes to regulatory governance in national ministries, reinforced by broader economic policy reforms to reduce the state's role in the economy.

All these reforms had a broad scope consistent with the international consensus on regulatory reform that has emerged over the past 10 years. They sought to improve 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, competitive markets.

These reforms did not arise by accident. They all aimed to reverse persistent trends of poor economic performance and governance failures. In all three countries, regulatory reform was a way of responding to growing social dissatisfaction with economic and government performance. Broad reform was correlated with broad consensus that the status quo was unsustainable, but specific reforms still required strong political leadership ready to make structural changes.

Italy and the United Kingdom used political and economic crises to launch their reforms, and had political leaders farsighted enough to move beyond short-term fixes into regulatory reforms that attacked underlying structural causes. Australia shows that it is possible to start reforms without a short-term crisis if there is a widely held view that the status quo is insufficient. The first round of Australian reforms, in the 1980s, was driven by growing acceptance that the country's two-decade economic decline relative to other OECD countries had to be reversed.

Sustaining reform over the long term is a separate challenge, caused by the fact that regulatory institutions and incentives are highly resistant to change and easily revert to former habits. Italy's experience shows that not all reforms launched on the back of a crisis are sustainable. The crisis mentality in the United Kingdom passed before reforms were institutionalized, and it took many more years of effort to make enduring progress. Australia shows that nothing speaks louder than results. Its second round of reforms—the National Competition Policy reforms that are the focus of this study—was accepted due to the clear benefits of the first.

The periods covered by these case studies were chosen to encompass the various phases of reforms: deciding to launch them, designing and implementing them, producing results, and sustaining them. In that sense each case study has a coherent storyline. But reforms on this scale cannot be neatly contained, particularly since regulatory reform is a permanent feature of modern governance. In Australia and the United Kingdom reforms are ongoing. Australia's National Competition Policy reforms are about to enter a new phase, while the United Kingdom's reforms continue to seek more effective approaches. Hence, the case study approach requires some simplification of the storyline.

The limitations of the case study approach should not suggest that regulatory reforms are one-off adventures. On the contrary, the success of reforms seems closely correlated with the amount of time that they are under way, without any clear endpoint. Sustained implementation and commitment seem as important as the initial reform plan—which is logical, since regulatory reforms are aimed at highly resistant institutions that have developed over many years. The broad success of the Australian and U.K. reforms can be linked to the more than 20-year length of the reform process, although countries do not necessarily have to wait even a decade to see results. Australia and the United Kingdom saw results within a few years, and Italy's reforms—conducted over just 5 years—achieved important and lasting benefits. Indeed, Italy reformed more regulations in those 5 years than in the previous 50, and in doing so caught up with the regulatory reform mainstream elsewhere in Western Europe.

Results of the Reforms

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 and static, diffused and concentrated, short-term and long-term, direct and indirect. Reforms of government capacities try to influence complex systems in ways that may not be directly linked to outcomes.

Still, it is clear that reforms aimed at cutting regulatory costs and stimulating market competition have been directly linked to positive economic developments in Australia and the United Kingdom. Both countries pursued broader, more sustained economic reforms than did Italy, and both have shown much better growth and productivity performance. By contrast, in Italy per capita GDP growth slowed to 1.3 percent in 2003. This slowdown suggests that its reforms were too superficial and short-term to have a lasting effect on economic structures, production costs, and commercial decisions.

It is easier to link microeconomic reforms to microeconomic performance. Here, all three countries have seen improvements from reforms. Indicators of product market regulation show Australia moving to first place among OECD members, the United Kingdom maintaining a strong lead, and Italy moving up five rungs from last place.

Lessons from the Case Studies

Similarities in reform dynamics and processes among the three case studies suggest useful lessons for other countries—even those with weaker institutional endowments. One encouraging point is that the studies identify no single institutional precondition for reform. Australia is a decentralized federation, Italy is highly centralized but has strengthening regional structures, and the United Kingdom is unitary but has strong regions. All three are parliamentary systems, but with very different historical and political traditions of governance. Italy, for example, has a tradition of weaker, shorter-lived governments (which partly explains why regulatory reform was less sustainable). All three countries are distinguished by civil law and common law (indeed, Italy invented civil law and the United Kingdom invented common law). Italy and the United Kingdom are members of a regional group (the European Union) that is driving some types of regulatory reform, while Australia is not. Thus, successful reform can be conducted by quite different political and legal institutions.

Australia's reforms have been the most successful. Their success seems to be due to a convergence of factors familiar to reformers in both developed and developing countries:

- A clear, comprehensive, well-designed reform plan, flexible enough to evolve as opportunities emerged for further reform.
- Strong political leadership and bipartisan support, built on a durable consensus.
- Adoption of bold, explicit targets that could be monitored.
- Relatively quick results that created new supporters of reform.
- Strong, supportive institutions in the bureaucracy.
- Monitoring and evaluation processes built in from the start.

Successful reform does not necessarily include all these elements. But they are consistent with other studies of successful reform and likely contribute to the probability of success. Ideally, a reform program would be designed to focus on as many of these areas as possible. Other lessons for reform suggested by the cross-country analysis in this paper are discussed below.

The Political Economy of Launching Reform

- Regulatory reform should be based on clear market principles that redefine the government's role in private sector development. Regulatory reform is more likely to be coherent and sustained if it is integrated with a wider program of structural economic reforms. This suggests that a social commitment to market-led growth is needed to sustain reforms.

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

Designing and Implementing Reform

- The process should be driven by a clear, comprehensive, well-designed reform plan, and have room to evolve over time.

- Implementation requires explicit allocation of commitments and responsibilities in the public administration. This must be done by introducing new incentives, institutions, and skills, rather than trying to reform the administration from the outside through mandates and directives.

Sustaining Reform

- Reformers should prepare for the long haul, as reform on the scale needed to achieve major results takes many years and is a dynamic, ongoing process.

- In all three countries, sustaining reform (even over five years) required building momentum that was not easily dissipated or dependent on the energies of a champion. This was done in three ways in Australia and the United Kingdom, and to a lesser extent in Italy. First, supporting institutions were developed in the public administration and civil society to sustain reform even when political will waned. Each country invested heavily in building a supportive bureaucracy with help and direction from central ministries.

  Second, the reform process was opened to participation and oversight by stakeholders. Building durable consensus requires spreading ownership of reform. These case studies show how important it is for governments to communicate the purpose and achievements of reform to citizens and businesses. Publicizing results helps sustain momentum and should be done continuously—not just when reforms are launched. Though this may seem obvious, it is not easy to build consensus and communicate when ministries are used to working behind closed doors.

  Third, the reform programs produced visible early results, creating reform allies and allowing them to expand. When implemented effectively, increasing the supply of reform increases the demand for it.

- Monitoring and evaluation keep costs and benefits in perspective, keep players on track, and sustain coherence.

1. INTRODUCTION

Managing broad economic and regulatory reforms over several years—even over several administrations—is one of the most difficult tasks facing governments. This paper examines the strategies used by Australia, Italy, and the United Kingdom, three high-income countries that have implemented ambitious regulatory reforms affecting hundreds or thousands of regulations and administrative formalities across the entire government.

The scope of these reforms was unusual even for developed countries, as each country aimed to reform not only rules but also administrative capacities, incentives, and cultures of regulation that had built up over decades. The reforms sought to change regulatory practices to meet the needs of more dynamic, competitive, and open market economies. Pursuing this goal required each government to challenge behaviors and procedures that were deeply entrenched in both the public and private sectors.

The combination of the broad context and specific reform approaches in these countries enabled them to implement multiyear, economy-wide regulatory reform programs that were fairly coherent (in general strategy if not always in detail):

- Taking unprecedented joint action, in 1994 the heads of Australia's federal, state, and territory governments adopted the National Competition Policy—essentially a massive regulatory reform program based on competition principles. This policy sought to accelerate and broaden microeconomic reforms to support higher, sustainable economic and employment growth. The policy, initially envisaged as a six-year program but still in place more than a decade later, represents a long-term commitment. It builds on microeconomic reform that had been gathering pace since the early 1980s due to anxiety over Australia's long-term decline in economic performance relative to other OECD members. Importantly, the National Competition Policy 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 open market exists for goods and services across Australia.

- Starting later than many countries, Italy devoted the 1990s to catching up with leading OECD countries in terms of economic and governance reforms. The scope, speed, and consistency of structural reforms implemented by multiple administrations were remarkable (OECD 2001). Regulatory reform was just 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 underlying structural problems in the economy and public administration.

- Since the late 1970s, regulatory reform has been a key part of economic structural reforms implemented by successive administrations in the United Kingdom. In parallel with reforms of macroeconomic management, these microeconomic reforms were intended to strengthen competition, innovation, and public sector performance.

2. CONTEXT OF REFORMS

Although Australia, Italy, and the United Kingdom shared broad reform goals and success factors, the differing political, legal and cultural traditions of the three countries influenced the designs of their reform processes:

- Australia is a federal state, the United Kingdom is a unitary state, and Italy is a regional state (combining elements of the federal and unitary models). Australia's reforms faced the added challenge of working across constitutional boundaries that required entirely new institutions, while Italy had to work with more than 8,000 municipalities to address administrative burdens.

- Australia and the United Kingdom have common law legal systems and essentially two-party political systems, while Italy has a codified civil law system and a multiparty political system ruled by coalition governments. The weakness of Italy's coalition governments has probably undermined sustainability, but the distinction between common law and civil law systems has had no obvious impact on reforms.

- The civil services in Australia and the United Kingdom are essentially nonpolitical, while Italy's political and administrative spheres have traditionally overlapped. This probably also contributed to the lack of reform sustainability in Italy.

- Corruption appears to be less of an issue for Australia and the United Kingdom (8th and 11th, respectively, of 133 countries in Transparency International's 2003 Corruption Perceptions Index) than for Italy (35th). These differences have no clear implications for reform.

All three countries are highly integrated with the world economy, so none reformed in isolation: external forces were significant influences. Indeed, a demonstration effect was important in strengthening reforms. Deregulation in the United States—and its perceived benefits for competition—helped sustain the Australian and U.K. drives to develop more competitive market economies. In addition, the OECD was influential in all three countries, providing international benchmarks and expediting learning on good practices.

In Italy and the United Kingdom the development of the European Union and the growing volume of EU single market legislation also drove reform:

- An important factor behind reform in Italy was the need to meet economic conditions to join the Eurozone. Other EU initiatives, such as the high-level Mandelkern report on better regulation, were often used to push for new reforms.

- The United Kingdom strongly supported the development of the single market, which required adopting a raft of EU harmonization laws and open trade in the region. U.K. reforms were helped by an active European Commission legislating for the removal of barriers to the free movement of goods, services, and people. EU reforms to competition regimes also helped persuade the United Kingdom—which had been dragging its feet for decades—to modernize competition legislation in line with EU law.

All of the above policymaking processes and market developments and institutions strongly influenced the design of reforms. Understanding these starting points can help in developing effective reforms that take into account a country's heritage and so run less risk of being derailed (Box 1). These starting points do not define results, which are largely determined by reform strategies—as suggested by these case studies and the cross-country work of organizations such as the OECD. Still, this paper identifies 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 Regulatory Reform?

At least one of the following factors may be needed to support the launch of regulatory reform:

- *Perception of economic crisis or serious economic decline.* Capable politicians can channel national awareness of economic drift and decline into support for deep reform. Economic crisis was a crucial trigger in the launch of the Italian and U.K. reforms. Australia did not face a deep crisis, but its economic decline was severe: between 1960 and 1992 it fell from being the 3rd to the 15th richest OECD country.
- *External pressures.* Reform that for its impetus relies solely on support from within the country does not seem sufficient. External support or even pressure or threats can help swing the balance in favor of action. Italy had to put its economic house in order to qualify to join the Eurozone. In the face of hostile European attitudes to regulatory and structural change, it helped the United Kingdom that in the 1970s the United States had initiated major deregulation that was showing positive results. The United Kingdom later found common ground with the European Commission on the development of the single European market. Australia, a small (in population) and geographically isolated country, was deeply aware of the importance of not being bypassed by global economic trends and of the competitiveness threats posed by globalization.
- *Political will.* Reform is hard to launch without strong political will. The election of Prime Minister Margaret Thatcher in 1979 gave the United Kingdom a political leader determined to reverse the country's economic decline. Similarly, reform in Italy was supported by strong leadership from the center of government and successive prime ministers. In Australia Prime Minister Paul Keating, a former finance minister, was committed to adopting the National Competition Policy.
- *A rolling series of reforms.* Past success helps launch further reform, but such opportunities must be proactively seized. Australia is the clearest example. The National Competition Policy reforms were encouraged by the visible economic benefits of an earlier round of reforms, but it still took considerable effort to reach agreement before the reforms could be launched. A similar process can be seen in the United Kingdom, which has experienced a rolling succession of reforms—each of which sows the seeds for further efforts, which nonetheless have to be negotiated. This point can also be applied to Italy, in the sense that the failure to reach some reform targets has compromised the speed if not the implementation of further reforms in those areas.

3. REGULATORY REFORM IN THREE COUNTRIES

This section presents detailed examinations of reforms in the three countries.

Australia

Compared with other OECD countries, Australia's economy declined through the 1960s and 1970s, with lagging GDP and productivity growth causing a relative drop in per capita GDP. To counter the decline, substantial microeconomic and macroeconomic reforms were launched in the early 1980s. The program included initiatives such as floating the Australian dollar, deregulating the financial system, reducing tariffs, and reforming the labor market. Corporatization, privatization, and market opening occurred at the state level. These reforms showed that many Australians had accepted that painful reforms were essential to achieving the country's development goals.

The success of this first round of reforms was evident by the time the National Competition Policy was negotiated in the 1990s. Productivity and growth rates were rising to the upper end of the OECD range. Unemployment was in steady decline. And inflation had largely been overcome. At the same time, there was a widely shared view that the gains from the first round of reforms would be jeopardized if reform did not address key areas that had escaped attention. Past successes made it easier for reform-minded politicians to broaden the regulatory agenda (Table 1).

Reforms Focused on Removing Regulatory Constraints to Competition across the Entire Economy

The reforms associated with the National Competition Policy (introduced in 1994 and still under way) are aimed at strengthening competition throughout the economy by changing the regulatory and monopoly roles of the federal and state governments. The reforms are predicated on the assumption that the highest costs of regulation are those associated with market distortions—that is, limitations and distortions of competition. The National Competition Policy is intended to accelerate and expand microeconomic reforms to support higher, sustainable economic and employment growth.

TABLE 1

Timetable and Context for Regulatory Reforms in Australia

Year	Development
1994	The National Competition Policy: Report by the Independent Committee of Enquiry, proposes a comprehensive program of pro-competitive reforms.
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 coordination and reporting bodies at the center of government.
1996	Legislative review program finalized, identifying all legislation to be subject to review and reform.
1997	First progress report on implementation completed by the National Competition Council. (Subsequent progress reports completed in 1999, 2001, 2002, 2003, 2004.)
1999	Productivity Commission review of impacts on regional and rural areas concludes that the National Competition Policy has delivered net benefits to all but one region of Australia.
2000	Modest changes made to the National Competition Policy, including extending initial deadline for completion of the legislative reform program to 2002 and making changes to interpretation of the "public interest test" underlying legislative reviews agreed by participating governments.
2002	Deadline for completion of legislative review program extended again, to 2004.
2004	Productivity Commission report provides a detailed assessment of the National Competition Policy's impacts and recommends a second wave of reforms.

The National Competition Policy combines regulatory and competition reforms in a package of microeconomic policies. It sets out four main reform areas and precisely defines the processes for achieving them. These reforms and processes were developed nationally through formal agreements between the federal and each state government:[1]

- *Regulatory restrictions on competition to be reviewed and eliminated.* The National Competition Policy is guided by the principle that laws should not restrict competition unless there is a net public benefit from the restriction that could not be achieved some other, less restrictive, way. This principle launched a national reform process in which governments identified regulations that significantly restricted competition, developed schedules for their review, and reformed or eliminated them if needed. Cost-benefit analysis is required to justify keeping any constraint on competition. Guidelines emphasize the need for transparency in the regulatory reviews, which appears to have contributed to their quality. The process also looks to the future, covering all new legislation and requiring an automatic further review of laws within 10 years.
- *Utilities and other public monopolies to be reviewed, and rules on access to essential facilities developed and implemented.* The program set in motion a systematic assessment of opportunities to create competitive markets. Most utility monopolies were publicly owned when the National Competition Policy process began, and many were subsequently privatized. After pro-competitive reforms were introduced, rules for access to essential facilities were subject to scrutiny and approval

1 For simplicity, Australia's main jurisdictions—comprised of six states and two self-governing territories—are collectively referred to as states or state governments throughout this paper.

by the competition authority (the Australian Competition and Consumer Commission).

- *Competitive neutrality to be established to ensure fair competition between government enterprises and private competitors.* These reforms were meant to ensure that government businesses pay equivalent taxes and provide a market return on public capital, and that their prices reflect the full costs of production.

- *Monopolistic conduct to be eliminated.* State governments were to adopt laws mirroring the main federal competition law prohibiting monopolistic conduct.

The federal government initiated the development of the National Competition Policy agenda. Prime Minister Paul Keating was committed to adopting the reforms and played a major role in securing agreement on them. The 1993 Hilmer report provided a detailed blueprint for reform policy in a comprehensive review showing the nature and scope of the regulatory problem. Enthusiastic support from some state premiers helped demonstrate broader support for the program within the political structure.

Australia's reforms were based on a sophisticated design and process. A strong federal bureaucracy and the efforts put into negotiating agreements among the nine governments (one federal and eight state) were also important.

Strengthening the institutional architecture was an important part of the reforms. Some relevant institutions, such as the Council of Australian Governments and the competition authority, already existed and had long track records But a new institution was needed, with powers and responsibilities tailored to supporting implementation of the National Competition Policy. So, the federal government created the National Competition Council, which is made up of five commissioners with business backgrounds and supported by a small civil service secretariat. The council's main role is to monitor and report on states' progress in implementing their obligations under the National Competition Policy, based on the submission of annual reports. The council also works with the competition authority to improve regulatory safeguards for access to essential infrastructure facilities.

Each state government created a competition policy unit, generally in its finance department, to coordinate review and reform activity and to report to the National Competition Council. In addition, competitive neutrality units were set up to deal with complaints on competitive neutrality. The establishment of the National Competition Council as a dedicated body helped allay fears of bias in reform. A relationship with the respected competition authority helped ease concerns that the council lacked a track record.

Although reforms ultimately attracted widespread support, the National Competition Policy was initially promoted by the federal government in the face of state reluctance stemming partly from concern that the reforms would cede policy authority to the federal government and thus be asymmetric. The concern was that the federal government would reap the benefits of higher tax revenues from a more efficient economy, while states would have the most challenging reform tasks. This opposition was defused by including provisions for the federal government to make "competition payments" to states, contingent on successful completion of reform obligations. These payments, also known as reform dividends, were also used to provide evidence to state taxpayers of the prospective benefits of reform.

But the compensation system had flaws and may be difficult to repeat. First, the federal government underfunded state governments, and some analysts fear that competition payments could be used to expand federal influence over state policy responsibilities. Second, states have learned that they may face a tradeoff between loss of competition payments and loss of political support for implementing unpopular reforms. Third, tax reform since the first National Competition Policy agreement has undermined the rationale for compensating states for reform, as the federal government no longer receives a disproportionate benefit. But it is not clear what other incentive could be used.

Another frequent criticism of Australia's reform has been that the government has been too reluctant to use fiscal and other tools to compensate economic losers from various reforms. For example, a common criticism of the National Competition Policy is that it has benefited urban dwellers at the expense of other citizens, and that little was done to compensate the latter. This reflects the widespread nature of the reform program, and its expectation that all groups in society will win or lose from broad reforms. From the perspective of national economic policy, compensation for specific losses is mostly considered unnecessary.

Critics of this view argue that a more active approach to compensating losers could have significantly increased support for the National Competition Policy and enhanced equity. But this argument is not borne out by the evidence. An inquiry by the Productivity Commission concluded that all but one regional area had benefited from the policy. It found that the policy was wrongly blamed for some negative rural developments (such as a decline in agricultural prices) and recommended that there be better communication of the policy's benefits, increased transparency in reform processes, and enhanced community and stakeholder participation in the reviews.

The converse argument is also heard: in some cases compensation or adjustment assistance for specific sectors was so generous that all the anticipated consumer benefits of reforms were ultimately expropriated. Reformers have argued that this approach risks undermining support for reforms since consumers will see no gains in such cases.

These arguments point to the importance of monitoring results. A sustained commitment to measuring and reporting impacts was built into Australia's reforms as part of the long-term strategy to build and maintain support for the reform program, and to promote its dynamic evolution.

The National Competition Policy 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 preset targets and often rigorous quantification of costs and benefits. Mechanisms for reporting progress were included in the initial agreements. A baseline ex ante evaluation was conducted by the Industry Commission (now the Productivity Commission)—a statutory body that is the federal government's main source of independent advice on microeconomic and regulatory policy—to make the case for reform. It estimated that full implementation of the National Competition Policy would add about 5.5 percentage points to annual GDP, with most of the gain coming from the reforms to be implemented by state governments.[2] This was a key input in negotiations on the size of competition payments.

As noted, each state government must provide the National Competition Council with an annual progress report on implementation of the National Competition Policy. The council provides the federal government with a summary report of progress and provides recommendations about competition payments. The council's annual reports are critical sources of information on achievements and weak spots.

The federal government's commitment to quantitative measurement of the impact of reform is reflected in a recent request to the Productivity Commission to review the National Competition Policy. The commission will report on the policy's impacts on major economic indicators (such as

2 There is widespread agreement among international observers (such as the OECD and International Monetary Fund) that the National Competition Policy has made a significant contribution to Australia's GDP growth rate. The ex ante assessment of a 5.5 percent addition to GDP was a calculation of the likely one-time impact on GDP of selected reforms that were able to be quantified.

growth and productivity), distributional impacts, and contributions to 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 review program.

Success Factors

For its scope, Australia's National Competition Policy is perhaps the world's most effectively planned and executed regulatory reform program. Although most governments are unlikely to have the same levels of organization, political skills, and sustained social support for such a broad program, some lessons from Australia—positive and negative—may be of wider relevance.

- *Setting a dynamic, long-term course for reform helped maintain momentum.* The long-term nature of deep reform was understood from the outset. The National Competition Policy is more than a decade old and looks set to continue for a second stage. Reform has been integrated with the machinery of policymaking through regular reviews of existing and new legislation. Regular reviews can also provide a second chance to secure reforms that did not make it the first time.

- *Sustained political consensus for reform was underpinned by bipartisan agreements.* There was bipartisan political support for both the 1980s microeconomic reforms and the 1990s National Competition Policy agreements, seen as the next step in the reform process. The reforms were essentially protected against subsequent changes in government. In addition, political consensus meant that the public received consistent messages about the benefits of reform, which enhanced its credibility.

- *Building on previous reforms created momentum.* Success breeds success. The successful reforms of the 1980s led to the National Competition Policy. Though reforms under the policy are incomplete, there is a strong perception of success—underscored by the fact that the policy continues to be pursued, despite changes in government in all jurisdictions.

- *Financial incentives were used to bring state governments on board.* These incentives were important in the early phase of reform, convincing at least some states to become parties to the National Competition Policy. The threat that payments might be withheld if targets were not met (even if it was not used often) persuaded states to implement recommended reforms in key areas. In some cases, strong positions against reform were modified only after payments were withheld.

- *A supportive bureaucracy was led by central ministries, and dedicated institutions were created to support reforms.* A supportive administration, especially among central agencies, was a significant factor for reform success. The active engagement of the finance ministry was especially important. The establishment of a dedicated entity to monitor and report on reform (the National Competition Council), with state governments having some say in key appointments, provided assurance that reform was being assessed objectively. It also ensured consistency and transparency in reporting. The National Competition Council was not directly associated with any preexisting players in the bureaucracy; the appointment of commissioners with business backgrounds also counted in its favor.

- *Clearly articulated principles and a consistent, comprehensive approach provided accountability.* The National Competition Policy agreements contain a clear guiding principle of promoting competition, providing an agreed benchmark for all subsequent reviews and reforms. In addition, reviews and reforms were assessed by a single body, helping ensure a consistent approach to reform issues.

- *Clearly defined commitments and responsibilities, adopted at appropriate levels, helped* *spread reform across stakeholders.* The roles of the main players were clear from the start, as were reform milestones. State governments took responsibility for their reviews, which helped secure 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 sustain reform momentum at all stages of the process. Recent reviews, for example, highlight the incomplete nature of reforms to date, which implies that substantial additional benefits can be achieved through further reforms. Reviews also point to the long-term nature of reform and the need for a sustained commitment to it. Annual reporting has enhanced transparency and maintains pressure for reform by highlighting benefits achieved as well as areas of concern.

Shortcomings

Reform was slowed by poor understanding and communication among state governments and major stakeholders. Despite the generally transparent nature of the National Competition Policy reform process, clear understanding of its implications did not always reach state governments, which led to some reform blockages. In some cases stakeholder opposition was also due to lack of appreciation for the implications of parts of the program. Especially in the early stages, inadequate efforts were made to communicate the fact that reform would yield public benefits and was not just competition for competition's sake.

- *Reform fatigue and backlash were not always anticipated, recognized early enough, or dealt with appropriately.*
- *Mixed incentives and lack of reform pressures in the federal government fragmented reform efforts.* The federal government's reform performance lags that of most state governments, mainly due to a lack of financial incentives.
- *Sustaining the financial carrot for state governments to continue reforms was difficult, while dealing with losers slowed reforms.* Competition payments from the federal to state governments were crucial in sustaining support for reform. But the federal government is increasingly unwilling to make such payments, raising questions about its ability to sustain a second round of reforms. Dealing with losers has also been difficult, despite substantial assistance measures. Some of these measures undermined reform by delaying its benefits for consumers and other groups.
- *It has been difficult to focus review activity on the rules that matter most.* The legislative review program involved some 1,800 pieces of legislation selected by various governments. The review revealed that different governments applied the same tests in different ways. One explanation is that state governments used the reform process to follow their own agendas, which were not necessarily aligned with national market development goals.

Italy

In Italy reform was triggered by a spiraling public deficit and radical political change (Table 2). These developments led to a fundamental appraisal of economic, political, and institutional structures and policies that laid the foundation for reforms challenging 50 years of entrenched economic and administrative interests. The 1992 Mani Pulite corruption scandal redrew the political landscape and ended half a century of moderate, relatively corrupt government. A new, reform-minded government emerged in 1996, strengthened by cross-party support for change.

The political and economic crises went hand in hand. A crippling public deficit (9.2 percent of GDP in 1994) and high and rising public debt (which jumped from 58 percent of GDP in 1980 to 125 percent in 1994) were attributed to a costly public administration apparatus characterized by

TABLE 2

Timetable and Context for Regulatory Reforms in Italy

Year	Development
Late 1980s and early 1990s	Growing political, economic, and administrative crises undermined the main political parties. Economic problems included rising public debt, monetary instability, high inflation, and worsening unemployment.
1988	First reform of the center of government. "De-legislation" mechanism introduced in which a primary law can empower a government decree to review or repeal matters previously regulated by a law.
1990	First Administrative Procedure Law enacted, setting out adjudication procedures based on principles of effectiveness, transparency, and efficiency, using a number of tools and timelines for accountability, participation, transparency, right of access, and the like.
1990	First Competition Law enacted, establishing modern antitrust regulation and creating an independent competition authority. Followed in 1995 by the establishment of sector authorities for energy and communications.
1992	Emergence of currency crisis and Mani Pulite corruption scandal.
1993–2000	Macroeconomic stabilization program implemented with a 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 taken to e-government, with full legal value granted to electronic contracts and digital signatures.
1998–2001	Development of a range of regulatory quality initiatives, including 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, and e-government action plan.
2001	Constitutional reform introduced and general legislative powers transferred to regional assemblies (keeping a limited set of powers for central Parliament). Later, though, a new political party took power and some reforms were reversed or diluted—including experiments with regulatory impact analysis.

bureaucracy, interventionism, inefficiency, and centralism. The administration had been accreting layers for well over a century, and partial reforms had not had any success. Reform was also triggered by the rise of a movement (the Northern League) to promote decentralization through federalism. The chaotic state of the administration was a rallying point for the general public in its support of reform.

Reforms Focused on the Role of the State, Government Structures, and Regulatory Tools

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 goals were to change the central and local balance of power, and replace statism with procompetitive policies to position Italy to succeed in a more open European market. The OECD influenced Italy by providing a framework, peer pressure, and tools for regulatory reforms.

Turning around the Italian state—with its longstanding socialist traditions and habits of ownership and intervention—was a multifaceted challenge. Reforms were intertwined and not always mutually supportive. Decentralization, for example, complicated regulatory reforms by vastly increasing the number of actors playing regulatory roles. Privatization put more stress on utility regulators and the competition authority. The main areas of reform were:

- *Privatization and liberalization.* Reforms tried to refocus government on its core missions in the main infrastructure (electricity, natural gas supply and distribution, telecommunications, railways, postal and telegraph services), banking, and retail sectors.

- *Cutting red tape and improving regulatory quality.* Reforms made in response to 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 through regulatory impact analysis, following OECD guidelines.

- *Introducing devolution and decentralization, and reorganizing the central government.* Reforms transformed the centrally based institutional architecture to a regional system by devolving tasks, responsibilities, and 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 central structures, rationalizing ministries, and giving both more freedom to choose their organizational models.

- *Reforming the civil service.* Reforms to increase the efficiency and professionalism of the civil service involved removing it from public law and putting workers under contracts, with the aim of distancing the administration from politics.

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

The Italian experience in creating new reform institutions was in many ways the opposite of the Australian experience, and lacked the organic strength of the U.K. approach. No single, powerful new institution emerged, nor did the finance ministry play a strong role in reform. Instead, the process relied on political support and the dedication of Franco Bassanini, the minister for public administration. This carried the program for years, but proved insufficient to sustain reform momentum when the party leading the government changed. The Australian and U.K. experiences suggest that there needs to be underlying consensus on the importance of moving to a market-led development strategy. Because such consensus did not exist in Italy, any new institution likely would have found it hard to make an impact.

Prime Minister Romano Prodi gave Bassanini full powers and responsibilities for coordinating the reinventing government policies. To assist, in 1999 a central unit was created to promote and monitor regulatory reform: the Regulatory Simplification Unit, 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 unit's main role was to prepare de-legislation decrees and consolidated texts. It also supported ministries in making regulatory improvements and provided opinions to the Cabinet on the quality of regulatory impact analyses and legal drafting assessments.

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 (Prodi, Massimo D'Alema, and Giuliano Amato). But when leadership changed in 2001 with the election of Silvio Berlusconi, reform momentum was lost because reform powers were split among four ministers—leading to a failure in coordination that slowed and even reversed implementation. Excessive reliance on a single reform champion made the program vulnerable to political change.

From the outset, the Italian Parliament agreed to vest the government with powerful tools to implement reforms. In 1997, the first "Bassanini Act" gave the government the power to adopt a wide range of legislative decrees (primary laws).

Four additional Bassanini Acts (1997–2000) allowed the government to substitute de-legislation decrees for primary laws, effectively turning laws into lower-level instruments that were easier to reform. De-legislation was a clever way of bypassing parliamentary bottlenecks to reform. The decrees could be adopted only by obtaining approval from two new committees—a parliamentary reform committee and a state committee for regional and local authorities.

Italy used a systematic approach to engage different elements of society (citizens, unions, businesses, consumers, the central and local administrations) and promote reform ownership. Partnerships were forged with local authorities to seek a balance between strong central leadership to sustain common goals and local autonomy to implement solutions. Similar steps were taken to involve stakeholders in other parts of the reform plan. For example, a consultation body (dissolved in 2001) was established for the administrative simplification and regulatory review program, bringing 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. These efforts played a key role in the successful early implementation of reforms. They built consensus for change, encouraged direct involvement by stakeholders who would be affected by new regulation, and helped identify the most effective approaches.

But consensus for change was short-lived. In 2001 ministerial and bureaucratic resistance to further reform took hold, leading to reversion to the status quo. Some social partners changed their positions radically. For example, the main Italian business association—which had previously supported reform—became highly critical, alleging that reforms were too abstract and had not achieved any real changes.

Similarly, resistance from other stakeholders appears to have been bubbling below the surface (though held in check by the economic and political crises of several years earlier), and reemerged in 2001. Apparently the five years of reforms did not go deep enough to instill confidence in the process. Although there are many reasons for this, it is possible that steps could have been taken to anticipate and counter it.

Italy's reform process involved little monitoring and evaluation by the government, further weakening its sustainability. There was even less cost-benefit analysis. Still, a 2001 OECD evaluation 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.

Success Factors

The success factors for Italy's reforms need to be assessed against the background of the backslide in 2001. Although the reform plan was generally sound and the right approach was often taken in the early stages, the implementation strategy was too narrow, with insufficient investment in reform institutions. Thus reforms proved unsustainable. Initial successes included:

- *A comprehensive, well-designed reform plan persuaded skeptics to support the program.* Reforms were radical enough to solve the problems, as opposed to a piecemeal approach. First, there was a focus on clearly defining the state's core mission. A helpful goal was for the state to do less but do it better. Second, the reforms included devolution and decentralization. Though their execution was handled poorly, the principle was right. Third, emphasis was placed not only on cutting red tape, but also on improving broader dimensions of regulatory quality. Cutting red tape and regulatory costs was crucial because of its direct relevance to citizens and business. Moreover, this short-term goal was supported by an array of tools, strategies, and structures (self-certification, one-stop shops, regulatory impact analysis, e-government, a central unit for regulatory reform) to promote regulatory quality over the medium term. Regulatory reform that increases transparency and accountability and simplifies administration is a powerful weapon against corruption. Fourth, reforms were made to strengthen the civil service. Introducing employment contracts and linking salaries to performance were good ideas, as they promoted effectiveness, accountability, and flexibility. So was separating politicians from the civil service, with politicians setting policies and strategic directions and the civil service managing them. Finally, including e-government in the reform plan was a good strategy because it can dramatically improve service quality.

- *Political and government support were maintained at the highest levels.* Prime Minister Prodi was backed by effective leadership from Minister Bassanini, who was vested with strong powers and the authority to put the reform plan into action—getting reform off to a fast start. The problem for sustainability was that political support did not expand beyond core supporters.

- *A dual top-down, bottom-up approach to implementation started reforms well.* Strong central leadership was complemented by implementation mechanisms that engaged stakeholders and promoted ownership of reform, and increased accountability for results.

- *Efforts to build consensus were aimed at relevant stakeholders.* It helped that unions represented both the public and private sector workers—that is, potential reform beneficiaries as well as losers.

Shortcomings

Although reform momentum started strong, it was lost after just five years. The main reason is that many of the factors that ensured initial success disappeared, and reformers failed to adapt to a changing situation:

- *When the main architect of reform left office, central political leadership and cross-party support disappeared.* As a result reform momentum was lost and some reforms were reversed. Reform was overly personalized around a single champion (Bassanini), and political change occurred before reform ownership could take root among other leaders. As momentum slowed, resources became inadequate and reforms could no longer tackle vested interests. The lesson is that regulatory reform is not a one-shot policy, and must be sustained against reversal with adequate resources and political commitment. It also must be managed and shared across all levels and structures of government.

- *Local resistance was greater than expected.* Liberalization, privatization, and outsourcing met more resistance from local oligopolies than from national monopolies.

- *Crisis created only a brief, fragile consensus for radical change.* The Australian and U.K. experiences suggest that consensus among key stakeholders is needed to complete and anchor major reforms. Building and sustaining consensus takes a long time and requires solid mechanisms and institutions.

- *Implementation weaknesses in civil service reform reduced reform capacity and accountability.* Reforms to the civil service were not supported by the Berlusconi administration, which took power in 2001. The relationship between civil servants and politicians became increasingly blurred, and there was a failure to measure performance and results.

- *Slow results were due to a general failure of implementation.* The reform plan created a new legal framework and made headway in other areas, but these achievements were not consolidated institutionally. As a result, implementation ran into great difficulty. Concrete, lasting results can be achieved only through effective implementation that produces the visible results needed to sustain allies of reform. Implementation requires clear, specific, measurable objectives to track progress and avoid criticism that reform is too general and abstract. In addition, a regulatory quality management system should be in place to spread best practices—including evaluation mechanisms to track progress.

The United Kingdom

In the United Kingdom, the primary impetus for reform was the country's longstanding decline in relative economic performance and a crisis generated by an unsustainable public deficit (9.6 percent of GDP in 1975), which triggered a humiliating intervention by the International Monetary Fund (Table 3). Between 1960 and 1980 economic growth lagged that of other G-7 countries, averaging just 2.3 percent a year compared with 4.6 percent in France, 4.4 percent in Italy, 7.7 percent in Japan, and 3.5 percent in the United States.

TABLE 3

Timetable and Context for Regulatory Reforms in the United Kingdom

Year	Development
Late 1970s	Financial crisis that triggered International Monetary Fund intervention.
1979	Conservative party comes to power under Prime Minister Margaret Thatcher.
Early 1980s	Development of EU single market program, to which the United Kingdom contributed heavily.
1985	First development of principles of good regulation.
1988	Next Steps initiative, which moved public service delivery functions from ministries to agencies.
Mid-1980s to mid-1990s	Privatization and liberalization of key infrastructure and other sectors.
Late 1980s to 1992	Implementation of first wave of EU single market program.
Early 1990s	Further initiatives to improve the delivery and efficiency of public services.
1997	Labour Party comes to power under Prime Minister Tony Blair.
1999	Regulatory quality unit created in the Cabinet Office at the center of government, developed from Department of Trade and Industry ministry deregulation unit. Regulatory reform ministers established in each ministry.
2000	Competition Act updates competition legislation and brings it in line with EU competition legislation. Small Business Service established (evolution from earlier structures, with greater powers).
2001	Regulatory Reform Act introduced to expedite amendment of burdensome legislation.
2003	Enterprise Act completes process of modernizing competition legislation.

Productivity growth was also relatively low, and unemployment high.

The 1979 elections brought the Conservative party to power under the leadership of Margaret Thatcher, a prime minister with a personal determination to reverse the United Kingdom's economic decline and an ideological aversion to state economic controls. This started a reform process that has essentially been ongoing ever since, surviving a change of political party in 1997 when the Labour party came to power under Tony Blair. As in Australia, the U.K. reforms were based on recognition of the failures of the existing development model, which generated broad social movement toward more liberal consensus on the roles of the state and the market.

Macroeconomic, Regulatory, Competition, and Public Governance Reforms Laid the Foundations for Sustained Market Growth

The U.K. reforms have spanned more than 20 years. Unlike in Australia and Italy, no clear reform strategy marked this period. Rather, linked efforts were made to improve macroeconomic and microeconomic management, strengthen public governance, and improve the regulatory environment. The broad initial strategy that drove reform was based on a belief in the merits of free markets and the monetarist theories of Milton Friedman. The strategy 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 U.K. approach was opportunist and evolutionary.

The key features of U.K. regulatory reform initiatives were:

- *Privatization, market opening, and independent sectoral regulation.* Classic privatization and deregulation efforts were intended to reduce the state's role in the economy and develop competitive markets 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 prevent abuses by incumbents.

- *Improving capacities for quality regulation.* Reforms of utilities broadened into economy-wide reforms aimed at reducing overall regulatory costs. To accomplish this, the emphasis shifted from deregulation to better regulation, as recommended by the OECD. Reforms aimed at improving government capacities to produce efficient, effective regulations and at reducing administrative burdens on citizens and businesses. Incremental efforts to develop principles of good regulation that began in 1985 gathered speed in the late 1990s. Institutional aspects of regulatory reform were integrated with public sector reform with the 1999 publication of a landmark white paper, "Modernizing Government," which marked a new drive to remove unnecessary regulation. The paper reinforced the requirement for departments to implement regulatory impact analysis for policies that impose new regulatory burdens. A comprehensive guide to such analysis followed in 2000. The 2001 Regulatory Reform Act provided the government with a streamlined approach for amending burdensome legislation.

- *Promotion of small firms and reduction of burdens on business.* Regulatory reforms to improve the enabling environment for businesses, especially small and medium-size enterprises, became politically popular. The importance of promoting such enterprises grew as traditional industries contracted and jobs were lost. A new impetus was given with the establishment of the Small Business Service in 2000, which plays an important role in regulatory impact analysis.

- *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). In 1999, a dedicated reform team was established at the center of government. Recent initiatives have focused on reducing administrative burdens on "frontline" staff (in schools, hospitals, the police force, and so on).

Political leadership from Prime Minister Thatcher was critical in the launch of a reform process that marked a radical break with the post–World War II political consensus on social and economic policy. At the time the changes were little short of revolutionary. Thatcher's successor, John Major, achieved relatively little beyond maintaining reform momentum. The next big reform push came with a change in government and political party: the Labour party's first term in office saw further significant reforms. Although external events distracted from reform during Labour's second term, this was partly compensated by established pro-reform institutional structures. Still, Prime Minister Tony Blair remained committed to modernizing government, and his backing was important to the success of key initiatives such as the Better Regulation Task Force.

Although the party in power in the U.K. system can usually implement legislation without many problems, Parliament became a bottleneck to the scale of planned reforms. The 2001 Regulatory Reform Act was devised to resolve this, creating a fast-track approach that gives ministers the power to repeal and amend with secondary legislation provisions in primary legislation that impose burdens.

U.K. reforms were characterized by intense institution building, with a rapid buildup of bodies to support reform. 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, taskforces and other partnerships with focused responsibilities for promoting reform, and the emergence of the National Audit Office as an influential advocate of reform.

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) provide driving forces from the center of government for regulatory quality and reform. A minister has been given responsibility for reform in each key regulatory department. A system of satellite units, departmental regulatory impact units, has been established in each government department to coordinate regulatory activities and advise regulators. The Small Business Service, with its strong institutionalized position in the regulatory process, provides a voice for small firms within government. Over time some of these institutions have developed the legal authority and bureaucratic strength to advance reform even when political commitment wavers.

These institutions grew organically from both new and old. For example, the Regulatory Impact Unit at the center of government is new, but has been evolving 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 achieving their goals, a role that developed 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 U.K. political culture has enabled these developments, so other countries cannot draw too heavily on the lesson of organic development. This approach has also come at a price: a relatively slow and complex reform process, and increased regulatory costs. 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.

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 introduced, and some posts opened to the private sector. Today, although the principles of regulatory quality management are permeating into policymaking, further efforts are needed. Change is slowed by the fact that regulatory quality management is resource intensive, and ministries face budget pressures.

The buildup of advocates for reform was an important feature of the U.K. reform process, and this effort accelerated over time. Ad hoc committees and taskforces were created 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 come from a variety of backgrounds (business large and small, citizen and consumer groups, unions, and those responsible for enforcement) and were appointed by the prime minister to advise on government action and ensure that reform stays on course.

The government has not made an overall evaluation of the impact of regulatory reform, which can be partly explained by the fact that reform in the United Kingdom covers so many targets and issues and has never been brought together as one initiative. Unlike in Australia, no specific procedures were built in at a strategic level. Disaggregated monitoring and reliance on outsiders filled the gap. Evaluation tends to be left to outsiders such as international agencies or academics.

That said, individual players in the U.K. system—notably ministries, regulators, the Regulatory Impact Unit, Better Regulation Task Force, and National Audit Office—have reviewed certain areas, and the institutional architecture has developed an evaluation capacity, albeit dispersed and disaggregated. Evaluations of regulatory tools such as regulatory impact analysis and consultation have led to adjustments and improvements. The Regulatory Impact Unit's annual reports indicate the results of reforms in sectors covered by its work program, monitoring progress against a published Regulatory Reform Action Plan. The unit also reviews areas of reduced burdens and monitors reform implementation based on expected outcomes. Overall, U.K. reform evaluation is piecemeal, with no central strategy and no "big picture."

Success Factors

The U.K. reforms—evolutionary, opportunistic, without a grand strategy—look more familiar to most countries than do Australia's highly organized reforms. Although the first type of reforms might be easier to launch, as in Australia they require active political and institutional management to exploit successes and sustain the program. Lessons from the United Kingdom include:

- *Strong political leadership overcame hostility to reforms.* The progress of reform can be charted by the strength of political leadership—strong under the early Thatcher years, 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 European Union about free markets, privatization, structural reforms, and (later) EU impetus for changes to competition policy provided arguments and allies for change. This process was aided by benchmarking reforms with the United States, a leader in market liberalization.

- *Development of a cross-party consensus sustained change.* Impetus for reform 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 Prime Minister Thatcher, and the momentum was such that it was easier to keep advancing than to reverse reforms. Initial reforms had tackled some of the most difficult political issues, and successor governments could pocket this advantage. This contrasts with Italy's experience, discussed below.

- *Having an effective, professional bureaucracy and engaging central ministries underpinned the reform process, while developing a web of pro-reform institutions sustained momentum.* Though the strength of political direction varied, it was never lost or reversed, even through successive political cycles. When political momentum faltered, bureaucratic institutions took over and ensured that reform continued. An effective civil service and relatively uncorrupt administrative and political system, led by an engaged finance ministry, helped produce results.

- *Stakeholders developed a sense of ownership of reforms due to participatory arrangements.* Businesses and consumers were progressively made part of the reform process—instead of opposing it, or debating whether it should occur at all.

- *Broad reforms improved the chances of success for the overall process.* Emphasizing certain issues and failing to address others would not have achieved the same positive results. Regulatory reform would have had much less effect if the United Kingdom had not addressed two big issues: fiscal and macroeconomic management reforms (including central bank independence) that provided economic stability for microeconomic reforms (such as regulatory reforms) to work better; and competition policy overhaul, which ensured that more reform gains were passed on to consumers.

Shortcomings

- *An ad hoc approach increased reform costs and slowed visible results.* The lack of an overarching strategy slowed parts of the U.K. 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—and contributed to reform fatigue. Changes were often made to policies that had not yet run their course, complicating business decisions and making it hard to administer and evaluate the measures. And the policy environment was excessively unstable, despite a positive general direction.

- *Lack of systematic evaluation of the big picture weakened reform coherence and sequencing.* Certain aspects of the U.K. regulatory regime complicated evaluation, including multiple objectives, incremental changes, and different structures.

- *Failure to address some important parallel reforms at an early stage delayed results.* The economy took 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, complicating regulatory oversight. Reform of competition policy is only a recent development.

- *Burdens on government were high and not predicted or managed.* A proliferation of institutions and initiatives without clear central management and strategy put a strain on the government and inflated regulatory costs.

4. IMPACT OF REFORMS

It is difficult to draw direct connections between microeconomic reforms and macroeconomic outcomes.[3] Still, it appears that in two of the three countries studied, reforms aimed at cutting regulatory costs and stimulating market competition were directly linked to positive economic developments. Australia and the United Kingdom pursued broader, more sustained economic reforms than did Italy—and the results reflect the difference.

- Australia's economic performance since the adoption of the National Competition Policy has been increasingly strong, with continuous growth and growth and productivity rates among the highest in the OECD. These rates, in addition to being substantially higher than in the 1960s and 1970s, also improved on the rates achieved in the first wave of reforms. International observers such as the International Monetary Fund and OECD have consistently linked the strength and resilience of the Australian economy to the adoption of wide-ranging structural reforms, of which the National Competition Policy reforms are the centerpiece. A 2004 report by the Australian Productivity Commission confirms this picture, noting among other achievements 13 years of uninterrupted output growth, unemployment at a 23-year low, and productivity rates in the mid- and late 1990s at their highest in at least 40 years.

- U.K. economic performance has improved significantly, particularly since the mid-1990s, and the gap in per capita GDP with major Western European countries has closed. Since the late 1980s unemployment has been well below that of the Eurozone and the public deficit has been relatively low. Many reforms—notably structural reforms and improvements to the business environment for small and medium-size enterprises—have contributed significantly to these achievements. Still, an important weakness remains: a continuing gap in

3 Although microeconomic reforms can have a very broad shape and reach—as in Australia—they are still microeconomic reforms in the sense that they are aimed at changing the behavior of firms and consumers, rather than at aggregate targets such as unemployment or GDP.

productivity growth relative to major OECD competitors. Thus, more reform is needed.

- Economic performance in Italy, by contrast, has not improved, with per capita GDP growth slowing to 1.3 percent in 2003. This suggests that regulatory and "reinventing government" reforms were too superficial and short term to have lasting effects on economic structures, production costs, and commercial decisions.

It is easier to establish links between microeconomic reforms and microeconomic performance. Here all three countries have seen improvement. In 1997, the first year that the OECD issued comparative indicators of product market regulation, the United Kingdom was ranked first and Australia third. Italy was last, the most overregulated OECD country. By 2003 the picture had changed slightly (Figure 1). Australia had moved into first place, largely due 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, which were also implementing regulatory reforms.

Italy had moved up four places, from last to fifth from last. Italian reforms were most successful at privatization, administrative simplification, and in the financial sector. In addition, framework laws were adopted that changed the institutional landscape. But Italy's experience differs from those of Australia and the United Kingdom primarily because many reforms lasted only until the 2001 change in government—when bipartisan support for reform disappeared, central leadership crumbled, and reform momentum was lost.

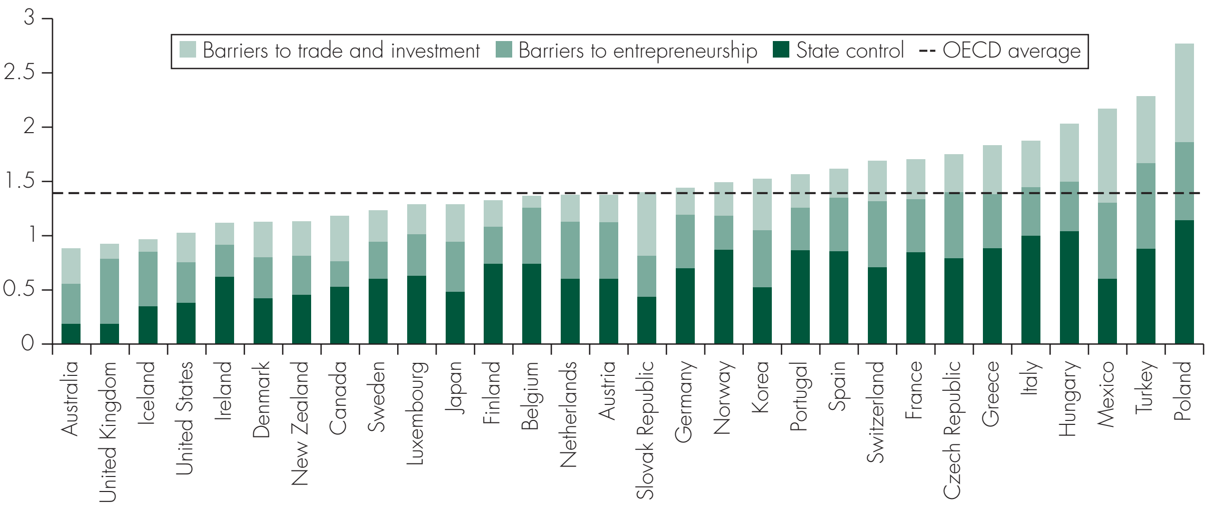
Cutting Red Tape and Business Costs

Reforms in this area have had the greatest impacts on businesses.

- Australia's National Competition Policy focused on barriers to competition and entry, which should have reduced red tape, though

FIGURE 1

Comparative Benchmarks of Product Market Regulation in OECD Countries, 2003



Source: Paul Conway, Véronique Janod, Giuseppe Nicoletti, 2005. "Product Market Regulation in OECD Countries: 1998 to 2003."

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

this result has not been documented. Parallel reforms included implementation of unique business identification numbers, which significantly reduced paperwork burdens. Tax reforms such as the introduction of the Business Activity Statement have streamlined the filing of tax returns by combining various requirements in a single process.

- Italy's administrative simplification program codified existing regulations, created a central register of bureaucratic formalities, and promoted self-certification. Launched in 1997, the self-certification reform allowed citizens and businesses to replace government certificates with self-written declarations affirming facts that the government previously would have certified. This reform replaced more than 95 percent of certificates. Self-certification saved citizens an estimated 1.1 billion euros in 2000. Similarly, businesses reaped significant benefits from one-stop shops (which streamlined procedures and authorizations) and other simplification measures, including reductions in processing times from 22 to 10 weeks and in administrative costs of 3,500–7,700 euros for corporations and 500–1,150 euros for smaller businesses.

- As noted, the United Kingdom has the least restrictive framework for market regulation in the OECD, which is probably due to regulatory reforms and a steady stream of initiatives to identify and remove burdens. For example, it is relatively easy to set up a new business in the United Kingdom. But there is little hard evidence on trends over the period covered by this study, partly for lack of U.K. efforts to monitor reform outcomes. The aggregate impact of reforms is unclear, and red tape remains an issue for businesses. The wider business environment and legal framework need attention, including reform of outdated bankruptcy and company laws.

Removing Regulatory Barriers to Competition

This area has also seen a lot of progress.

- In Australia, the National Competition Council's 2003 progress report found that 70 percent of the 1,800 pieces of legislation identified for review had been reviewed and reformed or, if needed, repealed. That left 30 percent not yet addressed, despite an original deadline of July 2000 and a revised deadline of July 2002. Even worse, only 56 percent of the 810 pieces of legislation identified as priorities had been fully reformed. More progress was made in achieving competitive neutrality, which was implemented in virtually all large government businesses at all levels of government. No data are available on how this has affected market shares or profits of state-owned enterprises, but a report by the Productivity Commission (2004) recommended continuing the policy. Implementation of competitive neutrality has been uncontroversial and has coincided with increased contracting of services. Legislative reforms—notably to expand the scope of competition law to unincorporated enterprises—have eliminated anticompetitive arrangements in legislation affecting legal and various health-related professions.

- Italy's Bassanini reforms did not directly address regulatory barriers to competition, but worked in parallel with a wide range of initiatives for privatization, liberalization, and reinforcement of market principles launched in 1997–2001. Market opening reforms also benefited from Italy's cooperation with EU and other foreign partners.

- Like many European countries after World War II, before reforms the United Kingdom had a mixed economy dominated by state enterprises managed by the ministries of industry and finance. Nearly all of these firms are now in the private sector, where they are run as commercial enterprises.

Increasing Capacity for Quality Regulation

Australia and the United Kingdom have made substantial progress in converging with international norms of good regulatory processes; Italy less:

- Regulatory impact analysis has been part of regulatory processes in Australia for many years, and the National Competition Policy process increased attention to empirical assessment of the impact of regulations. the process established a requirement to review all legislation at least every 10 years, using the same public benefit criteria. Other improvements to regulatory quality included a federal Legislative Instruments Act (2003) and new principles and guidelines for a range of regulatory quality disciplines, to be applied to the development of all nationally uniform legislation under cooperative agreements between the federal and state governments.

- Some elements of the Bassanini strategy have had enduring effects on regulatory quality processes, but less than 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 a framework for regulatory quality, based on OECD principles. But review of the quality of new laws and regulations through regulatory impact analysis and legal technical analysis never took hold. Regulatory impact analysis was introduced in 2000 on an experimental basis and never became effective. Both the Regulatory Simplification Unit and the new public consultation procedures were dismantled in 2001—without establishing effective alternatives—and related initiatives have foundered.

- The United Kingdom is widely considered a leader among OECD countries in the development and application of robust, explicit regulatory policy and quality tools. Ministerial systems have been reviewed and updated (for example, through adoption of procedures for consultation and regulatory impact analysis). Recent studies conclude that it has improved policymaking and reduced business costs. But weaknesses remain. The extensive informality of the U.K. regulatory system has increased the use of "soft law" that avoids regulatory management systems, consultation fatigue is a problem, and regulatory impact analysis is not rigorously applied in all or even most cases.

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

The analyses of Australia, Italy, and the United Kingdom suggest that the institutional and design factors discussed below are crucial in developing and sustaining reform momentum. Not all of these factors need to be highly developed for reform to succeed. Instead, they should be considered a checklist of pro-reform elements that countries should seek to strengthen as much as possible.

A weakness in one area may be compensated by strengthening another. For example, a stable political context based on cross-party consensus may be unattainable in many developing (and developed) countries. This implies a need to pay more attention to building reform coalitions among a broad range of stakeholders that can survive the ups and downs of political enthusiasm and discord. If it is not possible to achieve stable cross-party consensus, reform momentum can be fostered and sustained by developing institutions and bureaucracies to become long-lasting reform champions and disseminating their reform culture to other stakeholders.

Government Leadership and Strategy

In all three countries strong central leadership coincided with strong reform momentum. In addition, widespread political support was a critical determinant of reform success. In Australia, the National Competition Policy continues to enjoy broad bipartisan support for further market-driven reforms. In Italy, cross-party support drove reforms—and when it failed, reforms started to fail. Finally, the United Kingdom achieved cross-party consensus on managing the economy. Labour party Prime Minister Tony Blair broadly pursued the same reforms as had the Conservative party, building on the first wave, filling important gaps, applying lessons, and expanding reform to areas such as public services.

Explicit, transparent strategies advanced the Italian and Australian reforms (Box 2). Italy started with a comprehensive strategy and a clear central message to reinvent government, and all the elements needed to do so were made part of the reform plan. This helped rally a strong—albeit fragile and short-lived—consensus on

BOX 2

The Role of Reform Plans

The OECD recommends that countries launching regulatory reforms adopt broad programs that set clear goals and frameworks for implementation, are guided by coherent, transparent policy frameworks, and enjoy sustained political commitment. Such programs enhance the credibility of reform and reduce its costs by signaling what is to come to the wide range of stakeholders. The three countries studied here took very different approaches to advance planning for reforms and the need for continuing evolution of their reform plans.

Australia's National Competition Policy reforms changed little over time. The deadline for completing legislative reviews was extended, the test for assessing compliance slightly reworded, and the basis for assessing financial penalties made less rigorous. These were responses to discomfort with some results of the review and reform process at various levels. Other responses included two parliamentary inquiries. A Senate inquiry allowed doubters to say their piece, then rebutted their main criticisms. Thus, what was initially seen by some as a way to slow misguided reform came to help cement it over the long 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. In addition, reforms were fine-tune through secondary regulation, usually developed through ad hoc consultations. Consultations were also used to develop and refine administrative simplification tools.

U.K. reform was evolutionary, but not in the deliberate Italian way. No evolutionary processes were formally created; rather, the administrative and political culture encouraged constant adjustment. Nor was there a specific reform plan as in Australia and Italy. The lack of an explicit plan created delays, extra burdens, and confusion, risking reform fatigue.

Source: OECD 1997.

radical change across the economy, politics, and society. A piecemeal approach would not have been effective in Italy; it had been tried and failed. Australia's National Competition Policy reforms were also based on a comprehensive framework with explicit goals and mutually agreed obligations under the banner of competition, and were formally adopted by the country's federal and state governments.

There was no single strategy for the U.K. reforms, which evolved organically in line with the country's policy culture and traditions. The policy culture is flexible and cooperative, and informal decisionmaking coexists with respect for the rule of law. Thus, the U.K. reform process was not driven by an articulated strategy, an approach that continues. Although this process has been successful, the lack of an overall strategy may have resulted in delayed outcomes, extra burdens, and different, overlapping plans that constantly risk reform fatigue.

Institutional Arrangements

Supportive, reform-minded institutions are the backbone of lasting and effective reform. The three countries studied show, in different ways, that new and existing institutions important to reforms (notably central ministries such as the finance ministry) need to adapt to participate effectively.

It seems good practice to develop institutional structures that become reform champions. Strengthening the institutional architecture was an important part of Australia's reform. A new institution was created, tailored to support implementation of the National Competition Policy and with relevant powers and responsibilities.

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 was much less stringent in Italy, with reform largely dependent on a single minister.

How can institutional evolution be encouraged? Underlying governance traditions will largely determine what is feasible, but general lessons can be drawn. Australia's experience suggests four key factors for success:

- Reaching consensus that a new institution is needed. The National Competition Council was not created overnight. It required intensive consensus building among stakeholders (primarily the federal and state governments), interwoven with discussions to agree on the underlying National Competition Policy.

- Clearly delineating responsibilities among new and existing agencies.

- Ensuring that agencies have sufficient expertise, resources, powers, and independence (linked to accountability mechanisms).

- Securing active support from the finance ministry.

Changes in the Civil Service

The civil service can support, tolerate, or resist reforms, and may feel threatened by them—especially if one of the goals is to increase public sector efficiency. That may lead to resistance and lack of motivation, undermining reforms unless these problems are anticipated and defused. Public service reform to bolster efficiency often encounters resistance because it targets rent seeking—most blatantly, rents linked to the ability of civil servants to convert administrative power into personal income through corruption, but also other less obvious rents such as job security and the ability to exercise bureaucratic power. Needed reforms will vary with a country's starting point and bureaucratic structures and culture.

The countries studied suggest that, if the civil service is to support reform, it should be motivated by changes in incentives and skills. Civil service reform was an essential part of Italy's reform plan. From the outset, the administration was a major target of reform, which aimed at making it more efficient, accountable for results, professional, and distant from politics. Civil service reform was also important in the United Kingdom, using a variety of approaches to develop commitment to promoting reform and its outcomes—including performance-related pay, civil service contracts, and opening of certain posts to the private sector. Finance ministries in Australia and the United Kingdom were critical in lending weight to such reforms. In Italy, the absence of high-profile involvement in reform by the finance ministry may have contributed to the failure to implant lasting changes.

Legal Reform

Costs of legal reform can be high—due, for example, to limited parliamentary capacity to handle reform legislation. Expediting legal reform was important in Italy and the United Kingdom. Both countries reinforced government powers to push it through. In Italy, the de-legislation mechanism and delegation of legislative powers from Parliament to the government allowed Parliament to focus on high-level and institutional legislation, and the government to deal with more technical regulatory details. The results were a reorientation of roles of the legislative and executive branches, and improvements in speed, efficiency, and flexibility.

Management and Involvement of Stakeholders

Building consensus and spreading ownership were key success factors in all three countries. Australia defused opposition by making provisions for the

BOX 3

The Roots of Resistance to Reform

Why is there resistance to reform? Economic reforms are policy changes aimed at improving the static or dynamic efficiency of resource allocation in the economy. In essence, that involves taking away rents that have built up in the economic system, or removing or modifying acquired rights. Real, 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 the beneficiaries of reduced rents are less aware of the benefits, which tend to be dynamic and long term, than are the losers. For example, stronger competition policy creates new market opportunities, but it is not clear ex ante who will benefit from them. Moreover, rent reductions from reform may hit both those who were beneficiaries of rents and those who were not.

Because reform is often justified on the basis that there are more winners than losers, and that the overall benefits of reform—at least theoretically—allow losers to be compensated, losers often make demands for rapid compensation. Such demands ignore the time it takes for reform benefits to flow through and the underlying rent reduction nature of the exercise. Still, a failure to undertake substantial, visible action to compensate losers from reform may undermine the process and even provoke a backlash.

federal government to make competition payments to states (contingent on the completion of reform obligations); these payments were also used to show the prospective benefits of reform to state taxpayers. Italy took a systematic approach to engaging different parts of society (citizens, unions, business, consumers, the central and local administrations) and promoting reform ownership. Italy's one-stop shops didn't work properly when introduced, but after a consultation process a corrective decree amended the mechanism, made the reform more effective, and won the support of businesses. Creating advocates for reform was also important in the United Kingdom. Ad hoc committees and task forces, often supported by businesses (natural allies of reform), were created to spread ownership of reform and communicate its benefits.

The importance of effective communication, consultation, and transparency is clear from these case studies. U.K. Prime Minister Thatcher sent clear, simple messages to the public about, for example, the need to "roll 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 tapped into popular sentiment that things had to change. Specific reforms affecting specific groups met with less resistance because they were seen as part of an overall strategy affecting much larger groups (Box 3). Later, under less intense political leadership, mechanisms were developed for reform advocacy, consultation, and communication. But the growing weight of consultation led to consultation fatigue.

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

Resource Issues

Resource issues require careful management if reform is to be sustained and reform costs contained. 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 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.

The cost of reform is not trivial. Australia's state governments have argued that the annual progress reports required of them are resource intensive—resources that are hard to justify relative to the perceived benefits. In the United Kingdom, it became clear that reform was imposing sharply rising burdens and costs within government due to the diverse reform machinery that emerged. A range of measures is now in place to ease this burden, including reviews by the central unit and reviews of ministerial spending.

Monitoring and Evaluation of Reform Impacts

Monitoring and evaluation support reform implementation and help ensure that reform is progressing according to agreed plans. Ex ante evaluation of expected costs and benefits can support arguments for reform—or point to needed changes in the initial plan. Ex post evaluation can help make the case for further reform. Evaluation is also a way of keeping stakeholders in touch with reform and sustaining support.

The three countries studied present a contrasting picture on evaluation. This is in line with expectations that Australia, which made the greatest investment in monitoring and evaluation, has made the most progress. By contrast, Italy made the least investment and was unable to sustain reform. This is probably due less to the empirical information provided by monitoring and more to the incentives, oversight, and accountability that monitoring represents.

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 their effectiveness. In Australia all monitoring results were reported publicly, which increased attention to reforms.
- Communicating the results of monitoring is essential to building understanding that there are significant gains from reform.
- Spreading monitoring among groups increases its credibility. In Australia reporting was done both by an institution oriented to microeconomic reform (the Productivity Commission) and from a more generalist perspective (such as Senate committee reports). This combination helped ensure that all perspectives were addressed.

6. LESSONS OF REFORM

These three countries' experiences offer important lessons for other countries. Reform design and implementation are always framed by context, opportunities, external shocks, and evolving environments. Many of the success factors and shortcomings described in Table 4 can be interpreted only through the political, administrative, and cultural arrangements of each country. But several lessons, discussed below, may have wider application.

- *Reform should start with a clear, well-designed plan—though that plan should be allowed to evolve over time.*

A reform plan provides a focus and rallying point, and helps with monitoring and evaluation. The comprehensiveness of the plan should be based on careful appraisal of various interlinked issues. A piecemeal approach risks losing time and reducing reform impacts. At the same time, the plan needs to be manageable, and corrected over time. Although a piecemeal approach is possible, as the United Kingdom shows, the probability of success may be lower because of the higher risk of derailment and the effects of poor sequencing.

- *Efforts should be made to foster high-level political leadership and as much cross-party political support as possible—locked in through formal agreements and new institutions.*

Political leadership and cross-party support are extremely helpful, if not essential, conditions for a process that needs to overcome likely resistance from numerous economic and social stakeholders. Cross-party support can emerge from various situations. Response to a crisis is the most obvious, but Australia shows that successful previous reform can promote it too, and Australia and the United Kingdom show that having reform champions in the institutional landscape (notably finance ministries) can be powerful in persuading new administrations to continue pursuing goals set by their predecessors.

Signing formal and public agreements with as many stakeholders as possible may also help lock

TABLE 4

Success Factors and Shortcomings of Reform in Australia, Italy, and the United Kingdom

Success Factors

Australia

- Setting a long-term, dynamic course for reform helped maintain momentum.
- Financial incentives helped generate support from state government stakeholders.
- Building on previous reforms developed reform momentum.
- Sustained political consensus for reform was underpinned by formal agreements.
- A supportive bureaucracy was led by central ministries.
- Clearly articulated principles and a consistent, comprehensive approach provided accountability.
- Clearly defined, appropriate commitments and responsibilities helped spread reform across stakeholders.
- Dedicated new institutions were created to support reform.
- Systematic, transparent monitoring and evaluation of reform progress—including quantification of costs and benefits—enhanced transparency and supported reform constituencies.

Italy

- A comprehensive, well-designed plan persuaded skeptics to support reform. The plan included:
  - A clear focus on the state's core mission of supporting privatization.
  - Devolution and decentralization.
  - An emphasis on cutting red tape and improving regulatory quality.
  - Civil service reform.
  - E-government initiatives.
- Political and government support for reform was maintained at the highest levels.
- Consensus building was aimed at relevant stakeholders.
- A dual top-down, bottom-up approach to implementation provided a good start to the reforms.

United Kingdom

- Strong top-level political leadership overcame hostility to reforms.
- A pro-reform international environment made controversial reforms easier.
- Cross-party consensus sustained change.
- An effective, professional bureaucracy and central ministries helped ensure the efficiency of reform.
- Stakeholders developed a sense of ownership on reforms due to participatory arrangements.
- Broad reforms ensured that the overall process was successful.
- Development of a web of pro-reform institutions sustained reform momentum.

Shortcomings

Australia

- Reform was slowed by inadequate understanding of the implications of reform agreements and poor communication with the public.
- Reform fatigue and backlash were not anticipated or handled well.
- Mixed incentives and lack of reform pressure on the federal government fragmented reform efforts.
- Sustaining the financial carrot for state governments to continue reform is difficult, and dealing with losers has slowed reforms.
- It has been difficult to ensure that reviews focus on the rules that matter most.

Italy

- Reform momentum was lost after five years. The main reason is that many of the key factors that ensured initial success disappeared, and reformers did not adequately change their approaches.
- Central political leadership and cross-party support disappeared, and the main reform architect left office without any succession plan.
- Local resistance to reform was greater than expected:
  - Crisis created only a fragile, short-lived consensus.
  - Ineffective civil service reform reduced reform capacity and accountability.
  - A general failure of implementation led to slow results.
- Some reforms need a long time to mature and start yielding real, visible benefits that can then be evaluated. This includes devolution of central powers to the local level, which has run into political and technical problems that are likely to further delay benefits. E-government changes are also incomplete.

United Kingdom

- The ad hoc approach used was relatively weak in ensuring timely results and combating reform fatigue.
- Lack of systematic evaluation of the big picture weakened coherence and sequencing of some reforms.
- Failure to address some important reforms at an early stage delayed results.
- Burdens on government were high and not predicted or managed.

in reform that transcends political changes. In Australia reform commitments had deadlines and fiscal consequences, and the intergovernmental nature of the agreements meant that reforms had cross-party support from the outset.

- *Bold reforms and early results are desirable—if they are possible.*

The stronger are initial reform targets and the more successful their early implementation, the more likely it is that reform will acquire momentum. Success breeds success. Concrete achievements are required to persuade stakeholders to stick with reform. Perhaps even more important, deep changes at an early stage may ensure lasting political consensus for reform. Deep cuts in rents are not popular but are unlikely to be reversed by successor governments, because the hard work has already been done.

- *Building durable consensus requires spreading ownership of reform across stakeholders.*

Spreading ownership of reform ensures that champions emerge who will outlast any particular individual. Businesses and consumers are effective targets. Among the three countries studied, Australia is the best example of this because of its commitment to ensuring that all stakeholders became part of the reform process.

- *Developing supportive institutions sustains reform even if political will becomes unfocused.*

Advancing the reform agenda requires institutions that are preferably new, well-positioned in government (or relative to government), and adequately resourced. Just as important, such institutions can become powerful reform advocates and ensure that the process continues even if political will weakens.

- *A supportive bureaucracy should be developed—with help from central ministries—by encouraging culture change and fostering relevant skills.*

If necessary, steps should be taken to ensure that the civil service is equipped to implement reform, which may mean that reform has to start with the bureaucracy. The bureaucracy needs to buy in to reform. Centrally placed structures and support from finance ministries can be very helpful in this process.

- *Communication should be effective and ongoing at all levels.*

Reform's purpose and progress should be clearly and continuously communicated to the general public and to key participants in the process. A poorly informed public may turn against reforms, while consultation and debate can help strengthen them. Techniques include Australia's use of a parliamentary inquiry into reforms, which generated considerable press coverage and caught the public's attention. Carefully designed consultation mechanisms can ensure that key stakeholders, such as businesses, stay on board. Preparing and training civil servants for their role in reform should be part of the reform process, and helps communicate reform goals.

- *Reformers should prepare for the long haul.*

Effective and enduring reform is a dynamic, long-term process—not a single, static program. This point cannot be overemphasized. Reform can be expected to span more than one political cycle, probably several. Gains from reform tend to dissipate 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 payoffs for the economy and society.

Recent reviews of Australia's National Competition Policy are an excellent example of this process. Reform mechanisms, institutions, and processes must be sufficiently robust to withstand the long haul. Devices that lock in the process, such as public agreements that include clear benchmarks for progress, can help. As the United Kingdom shows, there is a need to develop credible, well-structured, pro-reform institutional capacities with adequate resources. Italy, by contrast, shows the difficulties that can arise if effective institutions and processes have not been rooted in the reform landscape.

- *Implementation requires allocating commitments and responsibilities at appropriate levels, and recruiting like-minded experts.*

The best reform plan can come to nothing—or close enough—if sufficient attention and resources are not devoted to its implementation. Ensuring that commitments and responsibilities are clearly allocated to appropriate levels helps key players. But that is not enough. The players must have enough muscle to be able to deliver on their responsibilities. This can mean setting up new bodies not tied to specific interests. Australia and the United Kingdom show the benefits of recruiting high-profile businesspeople to help with reform advocacy and implementation support.

- *Monitoring and evaluation keep players on track, and publicizing results helps sustain reform momentum.*

Effective monitoring and evaluation are needed both of specific reform targets and the big picture. This should include measurable objectives and outcomes, backed by incentives to achieve them. Evaluation helps keep players on track, and publicizing results helps sustain reform momentum. The core aim is to demonstrate the benefits of reform to all stakeholders and so disarm critics. But evaluation is generally neglected by governments. Major reforms are especially vulnerable to such neglect, as they need to survive the long haul while being under constant, usually hostile question. Evaluation also creates effective feedback loops, which allow reforms to be modified and improved over time.

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