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Making Reform Happen

Structural Priorities in Times of Crisis

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Summary

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

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

- **Sound public finances** are strongly associated with reform progress.
- It is important to have an **electoral mandate** for reform.
- **Effective communication** is essential.
- Policy design must be underpinned by **solid research and analysis**.
- **Appropriate institutions** are needed to make the transition from decision to implementation.
- Successful structural reforms take **time**.
- **Leadership** is critical.
- Successful reform often requires **several attempts**.
- It usually pays to **engage opponents of reform** rather than simply trying to override their opposition.
- The question of **whether, when and how to compensate** the losers from reform requires careful consideration.

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



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What is the link between exit from the crisis and structural reform?

Exploring effective ways to realise reforms

Over the last few decades, OECD countries have implemented policy reforms in a wide range of domains, with a view to enhancing living standards by raising labour utilisation and productivity, increasing the resilience of the economy to shocks and improving welfare by addressing social concerns such as equity and environmental quality. Despite a broad consensus on the need for reforms in many fields, their depth, scope and timing have differed considerably across both countries and issue areas. Indeed, the reform process has often stalled or been thrown into reverse. The political and technical challenges involved in actually realising reforms are enormous. In an effort to help governments meet these challenges, the OECD has since 2007 undertaken a substantial and growing body of analytical work under the aegis of the horizontal project “Making Reform Happen” (MRH), which seeks to better understand both the obstacles to reform that governments face in different domains and the most effective ways of overcoming them.


This work has taken on a new urgency in the wake of the global financial and economic crisis, since OECD governments now face the challenge of trying to restore public finances to health without undermining a recovery that in many areas may remain weak for some time. It is also important that the focus on immediate fiscal challenges does not lead to a sustained neglect of structural priorities. Governments will need to keep long-term goals in view when navigating a course for recovery. This will require a careful mix of fiscal policies and growth-enhancing structural reforms. This challenge will be all the greater because, in some domains, the crisis has called into question positions that were previously held to be well-established “policy orthodoxy”. To be sure, the events of the last two years have not invalidated prior understandings of many reform challenges; indeed, the crisis has served to strengthen the case for many reforms. In areas like financial regulation, however, it must be admitted that there is considerable uncertainty about what constitutes “best practice” policies, and governments will need to balance boldness with caution when embracing potential reform solutions.

This note presents some of the findings that have so far emerged from ongoing work within the context of MRH. The discussion that follows examines the particular challenges to reform and explores possible ways to meet those challenges in nine different fields of public policy. It draws on a series of studies of reform experiences prepared under the aegis of the OECD directorates active in the areas covered. They reflect the experiences of the OECD and its member countries, with reference to both OECD-wide trends and specific cases, in the belief that a better understanding of past successes and failures should enhance prospects for better design and implementation of future reforms.

How do country-specific factors affect policy learning?

Common challenges and diverse contexts

While OECD governments currently face a large number of common reform challenges, the MRH analyses do not point to any “one-size-fits-all” formulae for overcoming the obstacles to reform, or even identifying the most urgent reform priorities. The challenges facing would-be reformers vary widely across both time and space. It is difficult to over-emphasise the need for both policy design and strategies for reform adoption to reflect the specific institutional and cultural context of the country. Even where common problems can be



identified in different countries, the specific features of the constitutional order, the political conjuncture, the policy process and other facets of the context for reform mean that simple, unaltered “transplants” of policies and institutions from one environment to another rarely take root. Some degree of adaptation is usually required. Moreover, differences in demographic and economic performance may point to somewhat different solutions when it comes to issues like pension reform – the content of reform, as well as the context, varies.


Nevertheless, the evidence suggests that cross-country comparisons can be fruitful. First, for all their institutional, political and economic differences, OECD countries confront a large number of common challenges, ranging from population ageing to the challenge of “green growth”. Moreover, in many policy domains, member countries have increasingly adopted common approaches, even if the specific institutions and policies still vary considerably from one jurisdiction to another. There is also evidence of a degree of institutional and policy convergence in the OECD area in some domains. Faced with common challenges, OECD countries have gradually identified a number of institutions that, with appropriate local modifications, appear to support sound macroeconomic and structural policies in a wide variety of settings. These include independent central banks; fiscal rules and, increasingly, independent fiscal institutions; stronger general competition law regimes and stronger competition authorities; independent regulators; well institutionalised arrangements for public consultation over policy; and practices such as regulatory impact analysis (RIA). This suggests that the scope for cross-country learning and policy/institutional transfer is considerable, despite wide variation in individual country contexts.

Are there cross-cutting lessons to be learned about how to advance reforms?

Managing the process: some general lessons

Although the MRH review of OECD experience does not yield any universal “toolkit” for reformers, or even suggest that such a toolkit exists, it does point to a number of striking regularities in the way reform processes unfold. Among the major themes to emerge from all strands of the MRH analytical work are the following:

- It is important to have an **electoral mandate** for reform. This is one of the strongest findings to emerge from the studies that have fed into the MRH work. The evidence suggests that an electoral mandate appears to be most important in respect of reforms that are all encompassing (labour markets, pensions, environment), including those that affect basic public services (health care, education, public administration). It is not enough to win an election or command a parliamentary majority: it also matters a great deal if the government has made the case for reform to the voters ahead of an election.
- The importance of meaningful mandates makes **effective communication** all the more important. Successful reforms have usually been accompanied by consistent co-ordinated efforts to persuade voters and stakeholders of the need for reform and, in particular, to communicate the costs of non-reform. Where, as is often the case, the costs of the *status quo* are opportunity costs, the challenge is all the greater, because the cost of opportunities forgone tends to be politically “invisible”. Clear communication of the long-term objectives of reform is particularly important in a crisis: where reforms are undertaken in response to exogenous shocks, there is often a lack of clarity about their aims. Yet communication should not be confined to “marketing”: real



engagement with stakeholders also involves listening to their concerns, and may well result in some modification of reform proposals. This can improve the quality of those proposals, as well as prospects for their adoption.

- This points to the need for policy design to be underpinned by **solid research and analysis**. The MRH review of OECD experiences suggests that an evidence-based and analytically sound case for reform serves both to improve the quality of policy and to enhance prospects for reform adoption. If reform advocates can build a broad consensus on the merits of a reform, they will be in a stronger position when dealing with its opponents. However, the challenges involved in evidence-based policy making vary across policy domains.
- The foregoing challenges, in turn, are more likely to be met where **appropriate institutions** exist, capable of supporting reform from decision to implementation. The impact of economic analysis, in particular, depends to a significant extent on the source: research presented by an authoritative, impartial institution that commands trust across the political spectrum appears to have a far greater impact. Yet institutions capable of providing expertise and advice are not all that is needed. Effective institutions are often required to guide and monitor implementation.
- **Leadership** is critical. Virtually all of the assessments prepared in the context of MRH point to the importance of strong leadership – whether by an individual policy maker or an institution charged with carrying out the reform. Much of the work also points to the importance of government cohesion in support of reform: if the government is not united around a reform proposal, it will send out mixed messages, and opponents will exploit its divisions; defeat is usually the result. That said, the call for strong leadership should not be read as endorsing a top-down approach to reform or a preference for unilateral action by the executive. While unilateral reforms are sometimes the only way forward and reformers may need both toughness and political cunning, OECD experience suggests that successful leadership is often about winning consent rather than securing compliance.
- Partly for these reasons, successful structural reforms take **time**. The more successful reforms examined in the MRH analyses generally took several years to prepare and adopt, and they often took far longer to implement. By contrast, many of the least successful reform attempts were undertaken in haste, often in response to immediate pressures: when it comes to policy reform, more haste can indeed make for less speed. Thus, while crises may provide “windows of opportunity” to press ahead with reforms, the ability to make good use of such opportunities may depend on the work that has already been done to prepare a reform.
- Successful reforms often take **several attempts**. Many of the biggest reform successes analysed in the secretariat’s work followed earlier setbacks, and less successful reform attempts can often be seen in hindsight to have helped set the stage for subsequent, sometimes far-reaching, reform initiatives, often by deepening policy makers’ understanding of the problems involved.

To a greater or lesser extent, all the MRH studies address the question of **how to deal with the opponents** of reform. While the nature and intensity of opposition to reform varies, some broad themes appear to emerge in almost every context.

- **It pays to engage** those who will be most directly affected by reform. Inclusive, consultative policy processes are no guarantee against conflict, but they seem to pay dividends over time, not least by allowing greater trust among the parties involved.
- **Concessions to potential losers** need not compromise the essentials of the reform: it is often possible to improve the prospects of particular groups that will be affected by a reform without contradicting its overall aims.
- The question of **whether, when and how to compensate** those who will lose out as a result of reform emerges in virtually all the studies. Failure to compensate may reinforce opposition to reform, but excessive compensation may be costly or may simply blunt the effects of the reform. The most common compensation strategies involve “grandfathering” rents and long transition periods. Concessions in the form of “side payments”, such as policies in other domains that might offset the cost of reform for some groups, are employed less frequently.

What sector-specific lessons does OECD experience suggest for reformers?

Reforming product markets in the OECD

Sectoral perspectives on making reforms happen

Market-opening reforms are an area in which the last few decades have seen a significant degree of convergence among OECD countries. The trend towards stronger competition regimes and institutions is widespread, as is the tendency to open up previously protected sectors to competition. This has come about not least because it is a field in which both international competitive pressures and international organisations and agreements have played a very large role in driving policy change, often in conjunction with major crises. Technological change has also been a powerful driver of reform in sectors like electricity and telecoms, in part by turning formerly non-tradable sectors into tradable ones or creating new possibilities for introducing competition in activities previously characterised by a high degree of natural monopoly. The opening of such markets to competition has often, in turn, spurred further innovation.

The experiences of a number of OECD countries, like Australia in the early 1990s, suggest that reforms of product-market regulation can play an important part in governments’ response to adverse shocks. Deregulation can speed up the needed reallocation of resources, and, by reducing the cost of doing business, provide a fiscally neutral way of giving some relief to an enterprise sector under pressure. Nevertheless, persuading stakeholders and the public that the overall assessment of costs and benefits favours such reforms can be difficult, largely because the costs of the *status quo* are often hidden. It is often clear who will pay the price for a reform – which firms are likely to come under pressure and which jobs may be at risk – whereas it may not be at all obvious who is paying for the *status quo*. It is difficult to identify firms that have never entered the market or sectors that have not developed, let alone the workers whom those firms and sectors would have employed. A determined effort to quantify and communicate the costs of the *status quo* and the potential benefits of reform can be crucial elements of success.

At the same time, successful product-market reforms typically include transition arrangements designed to ensure that the producer or consumer interests affected do not experience abrupt changes in economic conditions. The most difficult problems tend to arise when the rents resulting from anti-competitive regulatory policies have been capitalised into asset prices: current asset owners may not have profited from the old policies, but they will be hurt by reform. Direct



Labour-market reform and the crisis

compensation or other forms of transitional assistance may be needed in such cases, if reformers wish to avoid very long phase-in periods.

The global crisis has highlighted the peculiar challenges posed by **labour-market reform** in many OECD countries. The 2009 meeting of the OECD's Council at Ministerial Level emphasised the need for re-employment measures and other reforms to counter the tendency for cyclical unemployment to become structural. However, reform of the "core" of the labour market is likely to be much harder in the near term. The evidence suggests that, although high levels of unemployment tend to increase the pressure for labour-market reform, a sharp rise in unemployment increases the likelihood that any reform will leave regular workers on indefinite contracts (labour-market "insiders") largely untouched. Since the value of employment protection rises with unemployment, regular workers have even greater reason to resist any weakening of employment protection legislation (EPL) during a downturn, and governments may hesitate to relax it for fear of even greater job losses. Consequently, labour-market reforms in recessions tend to focus on labour-market "outsiders" – new entrants, those on irregular contracts, the unemployed and others on benefit.

While such reforms can be beneficial, they may also contribute to increasing labour-market "dualism". However, the experience of labour-market reform in OECD countries also seems to suggest that, given the lags involved in the policy process, labour-market reforms designed and adopted in the middle of a contraction are often implemented in a recovery, when an improving job market can make implementation easier. In short, the most promising time for reform seems to be immediately after a recession.

Making the case for pension reform

Pension reform appears to be an area in which public communication of reform messages is especially important – and potentially effective. It seems to have become easier in the last 20 years to win public acceptance of the need for – and, perhaps, the inevitability of – the reform of general pension systems, even if the urgency of reform has sometimes been questioned. This reflects in large measure the impact of public discussion of the implications of lower birth rates and longer life expectancy, in particular, for public pension systems. There is also an understanding that the current crisis has put even greater pressure on the finances of pension systems, making reform even more of a priority.

While the distributional issues remain difficult, agreement on the *need* for reform is now widespread, and much has already been done. Pension reform experiences in OECD countries highlight the importance of many of the general lessons identified above, including the need for careful study and consultation, the risks associated with excessive haste, and the importance of public communications and clear electoral mandates. In addition, successful reform strategies have often involved relatively long transition periods, which effectively exempt large groups from implementation of the reform. This tends to ensure that the elderly, whose interests are often at the centre of pension reform debates, are affected little, if at all, by policy change, while younger cohorts sometimes shoulder virtually all of the costs.

Making pro-growth tax reform happen

The basic principles underlying **pro-growth tax reform** are arguably more important now than ever before. Pressure for fiscal consolidation will compel many countries to seek new revenues in coming years, either through base-broadening or rate increases, and the impact of this process on the recovery will depend largely on their success in identifying the revenue sources that are least distorting and least



damaging to growth. To some extent, the difficulty of pursuing pro-growth tax reform reflects such concerns as simplicity, equity, ease of administration and potential transition costs. However, resistance to reform also reflects the fact that, while tax reform is in principle “all encompassing” (the tax system affects everyone), it is relatively easy, and often electorally advantageous, for policy makers to opt for tax policy changes that favour particular constituencies. The benefits of such measures are effectively targeted – and visible to the beneficiaries – while the costs are spread over all taxpayers and are consequently less visible. A further concern in the present environment is that large budget deficits in many countries make it difficult to pursue reforms that risk significant revenue losses in the short term; this makes any uncertainty regarding the impact of reform on taxpayer behaviour all the more important.

The framing of tax reform debates is critical: by considering the tax system as a whole (or even the tax-and-benefit system, when the taxation of labour income is at issue), rather than focusing on isolated elements, policy makers can better communicate the issues involved, as well as address issues of efficiency and equity. This points to the potential for advancing reforms via broad packages that remove distortions in the system while spreading both benefits and adjustment costs widely. Since tax reform is likely to be a lengthy and complex process, articulating broad aspirational reform goals can help to clarify the meaning of reform for agents, while also making it easier to resist special interest lobbies. There is often a role for independent bodies charged with assessing the likely impact of proposed reforms in terms of such issues as taxpayer behaviour, revenues, equity and ease of administration; the role of the tax administration, in particular, is often critical. Finally, the timing of implementation can be critical. Changes in business taxation, in particular, can have devastating effects on firms if they are not phased in appropriately; similar problems can also arise in conjunction with changes to recurrent taxes on immovable property or the tax treatment of home ownership.

Advancing environmental policy reform

One of the most commonly cited “stylised facts” about the difficulty of structural reform is that the costs tend often to be upfront and concentrated on a few agents, while the benefits take longer to materialise and are generally more diffuse. This seems to be particularly true for **environmental policy reform**. Most environmental reforms deprive some actors of income in order to bring environmental benefits to all – as, for example, when policies to counter greenhouse gas emissions impose new costs on industrial enterprises. Moreover, the benefits of such measures are often felt only after a long period. Reform debates are often complicated further by concerns about the impact of reform on competitiveness, its distributional consequences and the problems that arise when the income streams eliminated by a reform have already been capitalised into asset prices. Scientific uncertainty often presents a further challenge, as the evidence put forward to support the case for reform will often be contested by some. There is also disagreement about issues like the appropriate techniques for monetising environmental values and the limits of cost-benefit analysis. Thus, the choice of analytical technique is often highly politicised.

Recent reforms in OECD members suggest a number of lessons about advancing environmental policy reform. First, as in other domains, engaging stakeholders and the public is crucial. Second, while research alone is no “fix” for politics, there is no substitute for a solid, evidence-based case for reform when dealing with stakeholders and voters. Third, path dependence implies that the selection of policy



instruments depends to some extent on existing institutions and regulatory regimes. Fourth, concerns about competitiveness and the distributional consequences of reform are often finessed via partial and/or temporary exemptions from certain provisions, transitional support and long phase-in periods. However, care must be taken that such measures are delinked from the original polluting activity and do not lock resources into activities that should be curtailed. Finally, if permit trading is to be introduced, it may be politically necessary – though not economically desirable – to issue at least some permits free of charge to major polluters (“grandfathering”). If this is done, governments should transition gradually towards full reliance on auctions.

Social policy reforms: challenges in education and healthcare

Governments seeking to **reform healthcare and education systems** are likely to confront a number of common challenges, connected largely with the fact that both involve a great deal of direct service provision by the public sector:

- Health-care and education systems are highly path dependent. They are large and complex, and they have evolved in very specific ways in different national contexts. The question of what is feasible or desirable thus depends to a great extent on past choices.
- The provider interests in both fields tend to be very well organised and generally command greater public trust than do politicians. They therefore have enormous power over the reform process, particularly because effective implementation often requires their co-operation.
- There is no consensus about how to assess outcomes in health care and education. This is partly due to the complex mix of goals to be pursued in both fields, but it also reflects the lack of reliable, generally accepted indicators of the quality of outcomes and their value. Evidence-based reform is difficult where the evidence is either lacking or contested. That is why work by national or international organisations to generate reliable, credible evidence on policy outcomes can be very valuable in clarifying the terms of debate; the OECD’s “PISA” scores for education are a classic example of this type of work.
- Policy in both fields tends to be characterised by very long time lags between conception and implementation. No government is likely to remain in office long enough to receive credit for the benefits of the reforms it initiates.
- There is little agreement about what constitutes “best practice” in these two fields. In some policy domains, one can identify a broad consensus on certain essential elements of a sound policy framework. In health care and education, however, there is no such model of best practice against which to assess individual policy regimes.

Despite the presence of this formidable array of obstacles, many OECD members have undertaken education and health-care reforms in recent years. Their experiences suggest a number of lessons concerning how governments tackle these challenges:

- Major changes are very rarely imposed on medical professionals or educators: successful reforms tend to involve sometimes substantial concessions to them. Healthcare reform, in particular, tends to be expensive – even if it is expected to help contain costs over time, it often involves expensive concessions in the short term.



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

- This process of negotiation means that reforms tend to involve extensive study and long preparation times: these are not domains in which “big bang” reforms are likely to succeed.
- More and better data and analysis, including international comparisons, often help, though a great deal depends on consensus regarding the value and meaning of such evidence.

Public administration reform raises many of the same challenges, in terms of scope, scale and complexity, as reforms in health care and education, including path dependence, long time lags, co-ordination among different levels of government and the need to win the support of public sector stakeholders who will be directly affected by reform. It is also a domain in which it can be difficult to make an evidence-based case for change, because of the difficulty of evaluating the quality and efficiency of public services/public administration. In addition, there is rarely much social demand for public administration reform; while citizens are often dissatisfied with public-sector inefficiency or the quality of public services, the issue of “internal” changes in public administrations usually tends to be of low political salience; generating public demand for reform may itself be one of the first challenges that would-be reformers have to tackle. Finally, public administration reforms confront policy makers with the problem of “reforming the reformer”, since the public administration must, in effect, design and implement its own reform, imposing measures on itself that many officials may dislike.

Many of the lessons that emerge from recent experience with public administration reform pertain directly to the challenges identified earlier:

- Efforts to raise citizen awareness of, and support for, reform are critical. Public understanding and support may be easier to obtain if changes in public administration are accompanied by more visible complementary reforms, such as e-government initiatives, which can enhance both citizen voice and the quality of public service delivery.
- Extensive consultation with the officials affected by reform is also important. Civil servants’ support can be won – or their opposition softened – by complementary reforms that offer them benefits. While higher pay may play a role, steps to improve working conditions, increase job satisfaction or invest in officials’ professional development may all be entirely consistent with the goals of reform while also fostering support for it among officials.
- An incremental approach, with provision for feedback and adjustment along the way, may reduce uncertainty and thus opposition. However, sustaining an incremental reform over an extended period requires consistent leadership. Given the likelihood of government turnover, this points to the need for independent, permanent organisations for steering reform.
- International organisations can play an important role through the sharing of knowledge and information, policy evaluation and the promotion of co-operation among national administrations. By providing international benchmarks and channelling peer pressure, they can increase incentives for reform.

Crafting regulatory reform

A number of features characterise the institutions and processes associated with **producing high-quality regulation**. The first is the articulation of a clear and well structured general policy framework. It is critical that the system is structured as to make a “whole-of-



government” approach to reform feasible and that there is a strong commitment to a regulatory culture that favours information sharing, trust and co-operation, as well as an explicit high-level commitment to regulatory reform. As noted above, this is a field where there has been a degree of institutional convergence among OECD countries, suggesting that countries with widely differing institutions, political systems and legal cultures do indeed reach for similar solutions when faced with similar reform challenges. This sort of diffusion of institutions and policies is clearly facilitated by co-operation in international forums.

Fiscal consolidation

A systematic comparison of OECD experiences of **fiscal consolidation** since the 1970s yields a number of lessons that are likely to be relevant to policy makers seeking to reverse the dramatic deterioration in the state of public finances in the OECD area since 2007. Applying these lessons in current conditions, though, will probably require a degree of adaptation. First, while most consolidations involve a mix of revenue- and expenditure-side measures, a considerable body of research suggests that consolidation has a greater chance of being sustained if based on spending restraint, particularly with respect to government consumption and transfers. Secondly, consolidation episodes based on expenditure restraint are generally associated with better growth performance than those relying chiefly on revenue increases. In general, significant consolidations do not begin with changes to fiscal institutions. The first steps are typically aimed at immediate savings and they are often rather *ad hoc*. However, governments often come to re-examine rules-based frameworks and institutions later on, in an effort to sustain the gains they have made. The Swedish experience during the 1990s illustrates this path particularly well, though it is hardly unique.


Overall, the most effective combination appears to involve both structural budget-balance targets and nominal expenditure ceilings. Mechanisms that increase the political costs of breaching the rules can also help a great deal. Such frameworks are only likely to work, however, to the extent that elected politicians “take ownership” of them. Recent years have also witnessed growing interest in “fiscal councils” or other non-partisan agencies that perform at least some of the technocratic functions in the budget process, often in the context of implementing a fiscal rule. The evidence suggests that such bodies can and do play a role in bringing about better fiscal outcomes.

Will the crisis make reform harder or easier?

The challenge of reform after the crisis

The world economy continues to grapple with the aftermath of the deepest and most widespread recession in over half a century. OECD governments are now faced with the challenge of **sustaining the recovery** from the crisis. This will require finding a policy mix that enables them to shore up public finances without choking off growth. Structural reforms can facilitate the pursuit of both goals, by enhancing growth potential on the one hand and, in many cases, reducing the pressure on public budgets on the other. The challenges ahead will be all the greater, because many structural and fiscal emergency measures adopted in 2008-09 in an effort to cushion the immediate impact of the crisis could undermine long-term growth if they are retained over the medium-to-long term. Finally, it is important to note the potential of the current crisis to act as a catalyst for reforms aimed at ensuring that the recovery and future economic growth are consistent with sustainable development.

A large body of research on policy reform suggests that crises can create significant **reform opportunities**. OECD work broadly confirms



this crisis-reform link. However, it also suggests that sound public finances tend to be associated with more reform. Indeed, the link between healthy public finances and structural reform progress is one of the most robust findings to emerge from recent research. The impact of the present crisis is thus ambiguous: the crisis may strengthen the incentives to pursue some reforms, but the fiscal situation will constrain governments' ability to do so. They will have to show considerable ingenuity in creating the fiscal space needed to bear the short-term costs of change, even where the budgetary and growth effects over the longer run should aid fiscal consolidation. Reforms will also need to be presented as desirable on long-term, structural grounds and not merely as unavoidable cuts in public expenditure. Past experience suggests that reforms justified chiefly as responses to fiscal pressure may be difficult to sustain when that pressure eases.

What role can the OECD play in advancing reforms beyond the crisis?

Advancing structural reform: the role of the OECD

The MRH studies confirm that the case for reform is strengthened by the availability of **internationally comparable data and analysis**. In a number of areas, the OECD is in a strong position to provide these. The impact of OECD work is often most apparent when countries see their performance or policies in comparative context: benchmarking often signals to electorates or elites that institutions or situations that outcomes they may regard as satisfactory are unimpressive when seen in a comparative context. The importance of such knowledge sharing is all the more evident in light of the fact that successful reforms often take several attempts. Cross-national studies and international policy dialogue can speed up the process of “policy learning”, enabling governments to learn from one another and thus to avoid repeating one another’s policy errors.

The OECD can also play a key role in helping countries meet the challenge of **sustained incrementalism**. Reform success in many domains requires commitment to a series of discrete but co-ordinated reforms over periods likely to exceed the lifetime of most governments. The OECD can support those domestic institutions that exist to help sustain coherent policy reform over extended periods.

Finally, as a multi-dimensional organisation, the OECD is also able to bring evidence and experience from different domains together, so as to ensure that discussions of economic, social, environmental and governance issues fertilise one another. At a minimum, this should help ensure **policy coherence** – policies should not contradict one another. At times, it can do more than that, creating opportunities to identify potential complementarities among reforms, where co-ordinated pursuit of multiple mutually reinforcing reforms may increase the benefits generated by each. This multi-dimensionality is a crucial consideration in the current conjuncture, owing to the need to maximise the synergies – and minimise the trade-offs – between policies designed to meet the immediate crisis and those focused on longer term goals.



For more information

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For further reading

The findings summarised above are based on the studies included in OECD, *Making Reform Happen: Lessons from OECD Countries* (2010).

See also:

[*The Political Economy of Reform: Lessons from Pensions, Product Markets and Labour Markets in Ten OECD Countries* \(2009\)](#)

[*Achieving Better Value for Money in Health Care* \(2009\)](#)

[*The Economics of Climate Change Mitigation: Policies and Options for Global Action beyond 2012* \(2009\)](#)

[*Economic Policy Reforms 2010: Going for Growth* \(2010\)](#)

[*Regulatory Reform for Recovery: Lessons from Implementation during Crises* \(2010\)](#)

Health System Priorities When Money Is Tight (Forthcoming, 2010)

Reforming Fiscal Relations across Levels of Government (Forthcoming, 2010)

Ten Years of Regulatory Reform: Lessons for a New Regulatory Policy Agenda (Forthcoming, 2010)

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