

Institutions for enhancing economic policy performance

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- Behind-the-border reforms are critical to growth
 - ➔ Economic integration is not an end in itself, but an outcome of domestic reforms that increase the general contestability of markets
 - allowing foreign competitors to enter
 - allowing domestic new entrants to enter
 - allowing all comers to enter, not just selected ones
- Reforms need to safeguard competition, *not* particular competitors

The role of institutions

- Domestic reform is not easy, because different players are involved
 - incumbent producers
 - potential foreign entrants
 - potential new domestic entrants
 - consumers
 - using and supplying industries
 - governments
- To get better growth outcomes, we need to understand
 - what constitutes better policies, and institutions to implement them
 - what stops better policies and institutions being adopted
- Two roles for institutions
 - ➔ Need institutions to implement better economic policy – the static problem
 - ➔ Also need institutions to support the policy-making process – the dynamic problem

The static problem

- Need to identify economic policy alternatives
 - Current policy - eg Department of Post and Telegraph
 - Optimal policy - eg full competition in all but 'last mile'
 - Better policy - eg licensing one or two new entrants
- Need to identify institutions to implement the policies
 - Current institutions – eg Dept of Post and Telegraph
 - Optimal institutions – eg independent regulator to oversee access regime for 'last mile'
 - Better institutions – eg regulator with limited discretionary power to set licence conditions when governance weak
- Answers may depend on level of development

The dynamic problem

- Asks the key question:
How do we get from current policies to optimal or better policies?
- Raises three subsidiary questions:
 - What stops better policies being adopted?
 - How does (or should) the policy development process work?
 - What institutions could lead to better policy-making *processes*?

What stops better policies being adopted?

1. Governments do not know what is best (or better) practice
 - They need help in undertaking policy reviews to identify better options
 - Governments could share experience about better practice
2. Governments know what is better practice, but face political resistance from vested interests
 - They need policy review institutions to help marshal countervailing interests
 - Governments could share experience about managing vested interests

What stops better policies being adopted?

3. Governments do not want better practice, because they are benefiting from the rents created by bad policy

→ They will try to ensure that government-sponsored review institutions are sidelined

→ There is still a role for private/independent review institutions to marshal countervailing interests

→ Two roles for policy reviews

- Identifying better practice
- Managing vested interests (which may include government)

Policy reviews can help identify better policy options, by setting out

- The problem
- The desired objectives
- All the options (regulatory and non-regulatory)
- An assessment of the impact (costs and benefits) of each option on
 - consumers
 - business
 - government
 - the community as a whole
- A consultation statement – who consulted and what their views are
- A recommended option
- A strategy to implement

How could this feed into the policy making process?



How can policy reviews help manage vested interests?

- Set the agenda
 - Policy reform won't happen if nobody talks about it
- Set the parameters of the debate
- Raise the level of the debate
 - Raise level of sophistication
 - Depoliticise
- 'Name and shame' the recipients of special deals
- Help marshal countervailing interests
 - Build a coalition for reform
- Help show what reform combinations can lead to a true 'Pareto improvement'
 - Build a grand coalition for reform

Policy reviews can also help with policy coordination

- Review institutions can consult among government departments as well as producer interests
- Need a responsible Minister to take the lead
- Minister may need the help of a coordinating agency to lead the decision-making process and ensure that decisions are honoured
- Independent reviews can strengthen the hand of coordinating agencies (or Minister) in the decision-making and implementation phases

What institutional qualities are required to carry out policy reviews?

- Independence
 - Not bound by government policy
 - No stake in the status quo
- Economy-wide view
 - Not bound by producer interests
 - Also consider the interests of upstream suppliers and downstream users ...
 - ... and consumers
- Transparent processes
 - Consult, and make public the views of all participants
 - So special pleading exposed
 - Make report and recommendations public
 - So balancing of interests made clear

Which institutions could carry out policy reviews?

- Each economy inherits a unique set of institutions and policy making processes, reflecting its own history
- Answer may vary from economy to economy
- If the key problem is identifying policy options, then policy reviews are a technical solution
 - Key consideration is analytical capacity and economy-wide view
- If the key problem is managing vested interests, then policy reviews are a *strategy* rather than a technical solution
 - Key consideration is transparency, independence, and credibility in the face of attack from vested interests
 - Credibility also depends on analytical capacity
- Government-sponsored or independent think-tank?

Regional examples

- Council on Economic and Fiscal Policy in Japan
- Taskforce approach in Vietnam
- Productivity Commission in Australia
- National Economic and Development Authority in the Philippines
- BAPPENAS in Indonesia?

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