

Success in structural reform and how to get there – Introduction to the institutional determinants of growth

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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, need to understand
 - what constitutes better policies → need institutions to implement them
 - how to get there → also need institutions to support the policy-making *process*

The dynamic problem

- 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 – policy reviews as a *technical solution*
 - Managing vested interests (which may include government) – policy reviews as a *strategy*

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

- 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
- Review institutions can consult among government departments as well as producer interests, thus helping coordination
- Ex ante and ex post reviews can strengthen the hand of coordinating agencies (or Minister) in the decision-making and implementation phases
 - provide arguments for reform
 - provide threat of exposure for non-performance

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

Regional examples

- Actual institutions vary, reflecting unique history of each economy
- Council on Economic and Fiscal Policy in Japan
 - transparency, economy-wide view, longevity(?)
- Taskforce approach in Vietnam
 - independence, economy-wide view, commitment(?)
- Productivity Commission in Australia
 - independence (via tenure), transparency, economy-wide view
- National Economic and Development Authority in the Philippines, BAPPENAS in Indonesia
 - potential to convert old-fashioned planning institutions into new role of undertaking rolling ex ante and ex post policy reviews???

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