How Do We Compare?

New Zealand Public Policy Directions in an International Context

Phil Barry

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LIST OF ABBREVIATIONS

ANC	African National Congress
EU	European Union
EPL	Employment protection legislation
GDP	Gross Domestic Product
NHS	National Health Service (Britain)
OECD	Organisation for Economic Cooperation and Development
PSE	Producer subsidy equivalent
SOE	State-owned Enterprise
WTO	World Trade Organisation

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Even if you're on the right track,
you'll get run over if you just sit there.
Will Rogers

1

INTRODUCTION

At different stages from the late 1970s onwards, Organisation for Economic Cooperation and Development (OECD) countries, without exception, moved in the direction of market-oriented policies of economic reform. That is, they shifted from using public policy instruments, such as regulation or public ownership of enterprise, to a greater reliance on market mechanisms and incentives to increase economic welfare. Similarly, traditional public interest goals, such as universal and equitable access to services and safety and environmental concerns, were increasingly met within a competitive framework.

New Zealand was a relative latecomer in implementing economic reforms, with two major periods of reform from 1984 to 1987 and again in the early 1990s. Subsequently, however, the pace of economic reform in New Zealand slackened. Under the National and then centre-right coalition governments, market liberalisation slowed substantially, privatisation was erratic and reforms of social polices were put on the back burner. The centre-left government in office in New Zealand since 1999 has gone further: economic reform has not just stalled but has been reversed in several important areas.[1]

This report examines the direction of economic policies in other OECD countries since the early 1990s and asks whether they have experienced a similar slowdown in the pace (or a reversal in the direction) of economic reform. This question is particularly relevant as the majority of governments in OECD countries since the early 1990s have been centre-left governments. Many of these governments, for example the administrations of Clinton (United States), Blair (United Kingdom), Schröder (Germany) and Jospin (France), criticised the market orientation of their predecessors and in their rhetoric espoused a 'third way' to economic policy. By examining the recent record of public policy reform in OECD countries, and by focusing in particular on centre-left governments, we can examine whether there has been a widespread shift in the direction of public policies or whether, in fact, governments have continued with market-oriented reforms.

This report begins with an overview of the direction of public policies in OECD countries since the early 1990s. Six main areas of public policy are then examined:

- fiscal policy
- market liberalisation

[1] The OECD, in its November 2000 *Economic Survey of New Zealand*, noted (p 9) that "some recent policy developments do not appear helpful [in improving economic performance], for example: boosting the top marginal income tax rate; lowering the obligation of some benefit recipients to seek work; introducing income-related rents for public housing; stopping the privatisation process; re-nationalising accident insurance; and ending unilateral tariff reductions while introducing an export credit scheme".

- privatisation
- welfare reform
- education policy
- health policy.

This review necessarily concentrates on broad trends and major developments. It aims to be representative but not comprehensive. Where possible, quantitative indicators of the direction of policy are used.

2

OVERVIEW

A review of public policy reforms in OECD countries in the 1990s indicates that the great majority of, if not all, OECD members have continued down the road of market-oriented reforms. While progress has been incremental and there have been some backward steps, the overall direction of policy towards greater economic freedom and reliance on market mechanisms is clear.

Key features of economic policy in the OECD in the 1990s have been:

- the consolidation of public finances and the reduction in government spending as a percentage of the total economy. The improvement in public finances permitted tax rates to be cut in a large number of countries towards the end of the decade;
- the liberalisation of significant product markets and of labour markets (most notably across continental Europe), but increasing economy-wide regulations in such areas as the environment and occupational health and safety;
- a pick-up in the pace of privatisation; and
- gradual steps to reform welfare systems, most significantly in the United States, some provinces of Canada, Sweden and Germany.

The record of reform in the health and education sectors, however, has been mixed, with little in the way of common direction across OECD countries. Another important area from New Zealand's perspective where limited progress has been made internationally is in reducing agricultural protectionism.

The general trend of continuing market-oriented reforms has been common to governments across the traditional political spectrum. Of the 29 OECD countries, 16 had centre-left or left-wing governments at the end of 2000 (refer Annex 1). The centre-left governments have not only been active reformers but have often been amongst the boldest.[2]

The trend of market-oriented reform has not been limited to the OECD countries but goes well beyond. For example:

- in Chile, Ricardo Lagos, the first socialist president since the late Salvador Allende was ousted in a 1973 coup, has continued the market-oriented reforms that helped revitalise Chile's economy. "Lagos is close to the third way of Blair and Clinton", says Professor Ricardo Israel, a political scientist at the University of Chile. "(With him) as

[2] As Henderson (1996) notes, "there is nothing incongruous in this … The true hero of the story is not conservatism but economic liberalism", *Economic Reform: New Zealand in an International Perspective,* p 7.

President you will probably see more privatisation than you did under the previous two Christian Democrat parties";[3]

- South Africa is moving away from the socialist ideology once espoused by the African National Congress (ANC). The president, Thabo Mbeki, is liberalising the economy slowly, moving to reduce foreign exchange controls, privatise state assets, and reduce government regulation of the labour market; and
- China is privatising or restructuring some of its state-owned enterprises (SOEs) and relaxing restrictions on foreign investment, while Russia has enacted a flat 13 percent income tax rate in place of the previously highly complex and distortionary tax system.

This review, however, is mainly focused on OECD countries. We now examine in turn the direction of public policy in each of the six main policy areas noted above.

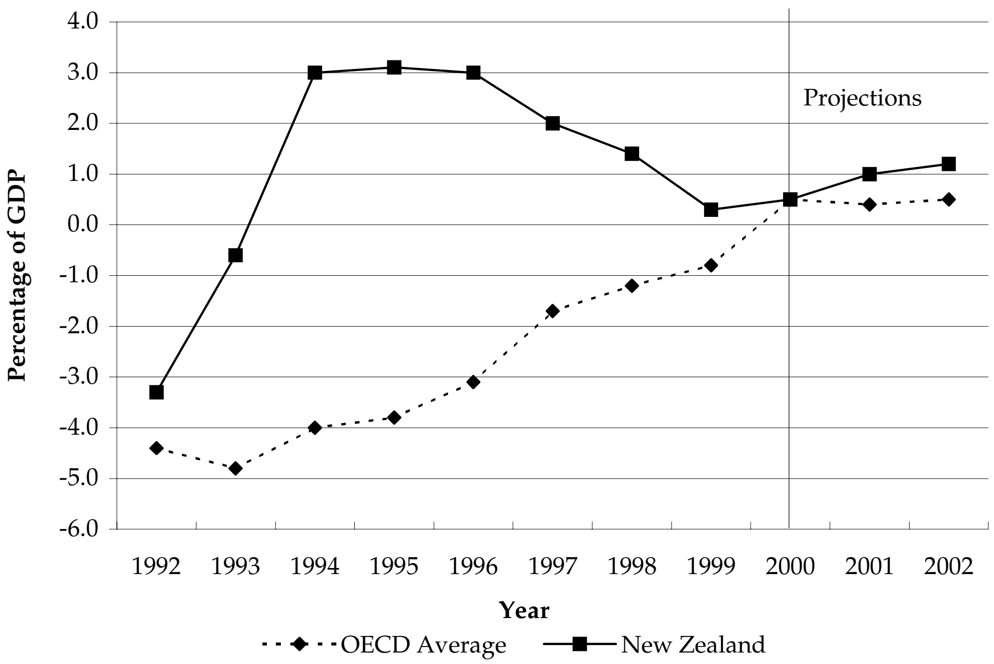
[3] 'Chile opts for the third way', *Australian Financial Review*, 2 February, 2000. Assets identified for sale by the Chilean government include the post office, national mint, ports and water and sewerage utilities.

3

FISCAL POLICY

OECD countries have made significant progress over the last decade in improving their fiscal positions. In 2000, the general government financial balance for the OECD area as a whole is expected to be in surplus for the first time in over a decade (see Figure 1 below).

Figure 1: OECD Government Financial Balance – Percentage of GDP



Source: OECD Economic Outlook, No 68. Year 2000 figures are estimates.

The progress made in selected major OECD countries in restoring their structural fiscal positions since the early 1990s is highlighted in Table 1 below.

The main exception to the general picture of improving fiscal positions in OECD countries is Japan, which has recorded deficits averaging 4.1 percent of Gross Domestic Product (GDP) since 1993. Japan is expected to run a deficit of 6 percent of GDP in 2000. Faced with a sustained period of sluggish economic performance, Japan sought to stimulate economic growth through fiscal expansion. To date, the policy has had, at best, a limited effect on growth but has contributed to an increasing structural fiscal problem.

Table 1: Government structural balances for selected OECD countries – Percentage of GDP

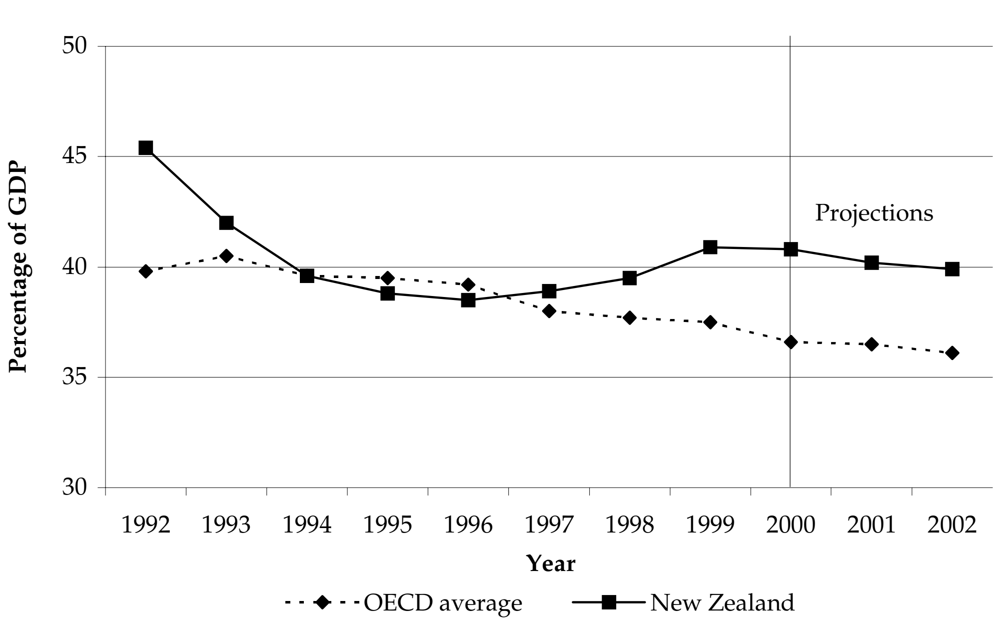
	1992	*2000*
Australia	-4.6	0.6
Canada	-6.6	2.1
France	-4.2	-1.6
Italy	-9.3	-0.6
Japan	1.2	-5.2
United Kingdom	-4.2	2.4
United States	-5.3	1.7

Source: *OECD Economic Outlook*, No 68. Year 2000 figures are estimates.

Government expenditure

Government expenditure (as a percentage of GDP) has been falling steadily in the OECD region as a whole since 1993 (see Figure 2 below).

Figure 2: OECD Government Expenditure – Percentage of GDP



Source: *OECD Economic Outlook*, No 68. Year 2000 figures are estimates.

The decline in government expenditure (as a percentage of GDP) over the period has been particularly marked in Finland (13 percentage points), Canada (12), Ireland (9) and Sweden (9).

The only OECD countries where government expenditure (as a percentage of GDP) has been rising in the last three years are the Czech Republic, Japan, Korea, New Zealand and Portugal.

Tax structure

Government revenues have risen by around 2.4 percentage points of GDP since 1992 in the OECD region, accounting for almost half of the improvement in the fiscal balance.

Behind this aggregate picture are changes in the structure of taxation. Business tax has risen from 8 percent to almost 10 percent of total revenue over the last five years (on a cyclically adjusted basis), while specific consumption taxes, such as excises and import duties, have fallen.

With improved fiscal positions, many countries have recently implemented or announced significant reductions in tax rates, with a view to improving incentive structures in the economy. Notable are:

- the reductions in personal income tax rates in general (Australia, Canada, Finland, France, Germany, Greece, Ireland, Netherlands, Spain and Sweden) and/or reductions targeted at low-income earners (Austria, Germany, Ireland, Italy, the Netherlands, Portugal and the United Kingdom); and
- the reductions in corporate tax rates in Australia, Canada, Denmark, Germany, Greece, Ireland, Italy and Portugal.

Tax reductions were a key element in the policy programmes advanced by Democratic and Republican presidential candidates in the United States in 2000.

Germany's tax reforms, adopted by its parliament in July 2000, are amongst the boldest. Over the next five years, Germany's top rate of personal income tax is to be cut from 53 percent to 42 percent, while the corporate tax rate will be cut from 40 percent to 25 percent. Companies will also be able to sell their stakes in other firms free of capital gains tax.

In August 2000, France announced FF120 billion (NZ$40 billion) of tax cuts over three years. The government plans to eliminate the 10 percent corporate tax surcharge and reduce the company tax rate to 33 percent for big firms and 15 percent for small and medium-sized firms. Personal income tax rates are being cut at all levels, but by more for low earners to encourage such people to work.

Centre-left governments have been leading the way in cutting tax rates, with 11 of the 15 governments noted above that are cutting tax rates being centre-left governments.

In contrast, the New Zealand government raised the top personal income tax rate to 39 percent from 1 April 2000. New Zealand is one of the few OECD countries, if not the only one, to implement such an increase in recent years.

4

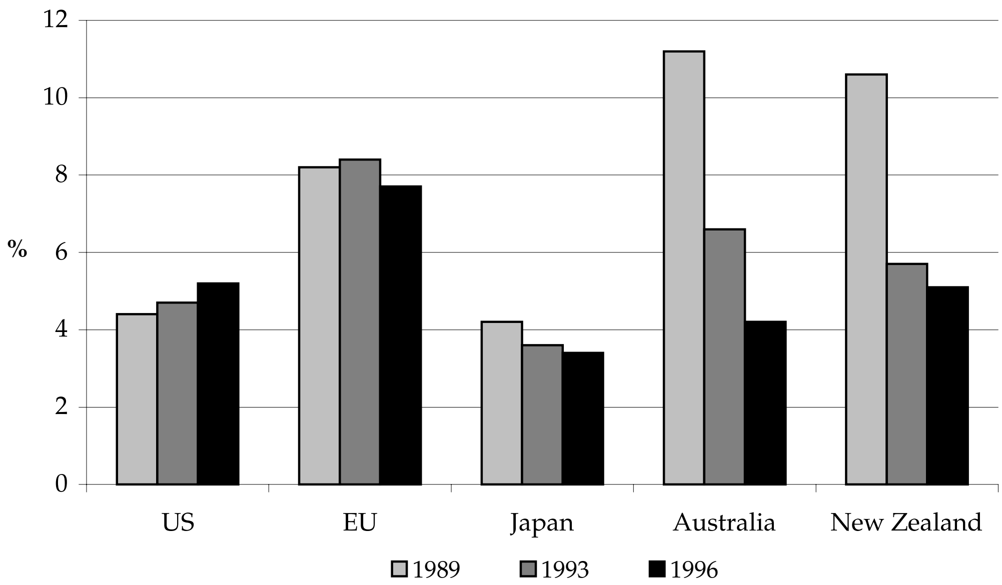
LIBERALISATION OF MARKETS

This section reviews the progress made in OECD countries in liberalising international trade and their domestic product and labour markets.

Trade liberalisation

Tariff levels on industrial goods fell considerably in most OECD countries from the end of World War II until the late 1980s. Since then, average tariff levels have been broadly constant in the major OECD regions and have fallen significantly in Australia and New Zealand (refer Figure 3 below).

Figure 3: Average Tariff Rates (Percentage)



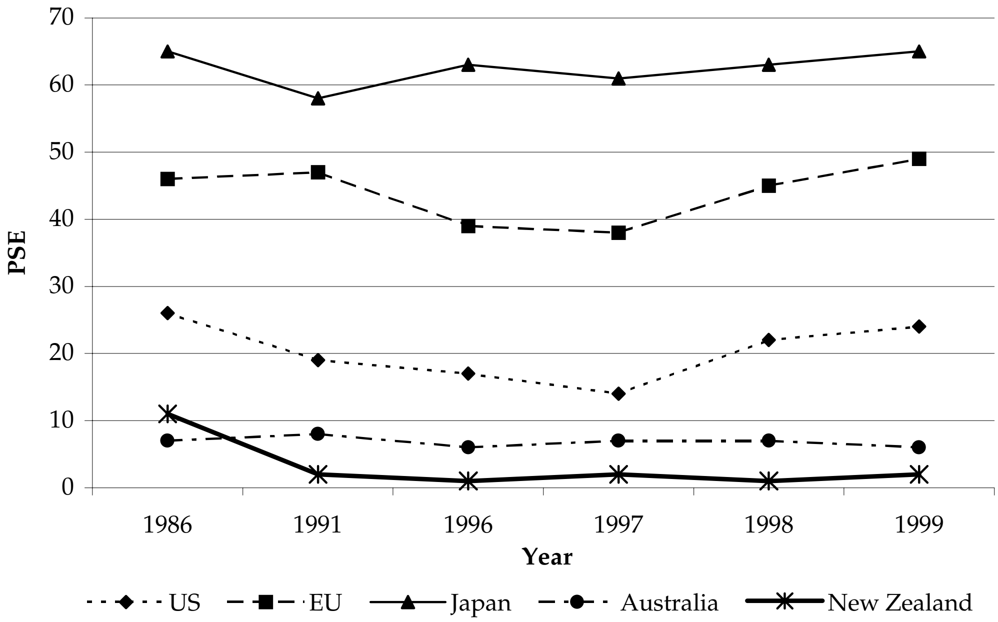
Source: Coppel and Durand, 1999. The average tariff is total customs duty expressed as a percentage of the value of imports.

As Figure 3 illustrates, average tariff levels in New Zealand and Australia were well above the rates in most of the OECD in the late 1980s. Subsequently, average tariffs in New Zealand and Australia fell below the average for the United States and European Union (EU) but remain above the average for Japan.

Non-tariff barriers to trade in the OECD region were used less frequently up until 1996 (the latest year for which data are available),[4] but the number of notifications of technical barriers to trade increased sharply in the late 1990s.[5] Further, it appears that many OECD governments, the United States and EU in particular, have been dragging their feet in carrying out their Uruguay Round commitments.

In the agricultural sector, barriers to trade and government support measures remain pervasive in most OECD countries. Agricultural support (as measured by producer subsidy equivalents (PSE)) has risen in recent years in Japan, the EU and the United States (see Figure 4 below).

Figure 4: Agricultural Support



Source: *Agricultural Policies in OECD Countries*, OECD, 2000. The PSE is expressed as a percentage of the value of output.

Overall, with the notable exception of agriculture, there has generally been a gradual reduction in trade barriers. However, the outlook is clouded given the lack of leadership in progressing world trade liberalisation, the growth in the influence of anti-globalisation 'non-governmental organisations' and the protectionist sentiment that was allowed to disrupt the Seattle World Trade Organisation (WTO) summit in 1999. The New Zealand government decided in 2000 that remaining tariffs, which were being phased out, would be frozen at existing levels until at least 1 July 2005.

4 Measures of the frequency of use, however, do not reveal the severity of the restrictions imposed.

5 Coppel and Durand (1999), 'Trends in Market Openness', *OECD Economics Department Working Papers*, No 221.

Domestic product markets

The OECD has recently conducted an extensive review of the extent and effects of liberalisation and privatisation in product markets in member countries.[6]

Seven industries were examined and simple composite indicators constructed of the extent of liberalisation and privatisation across OECD countries over the period 1975 to 1998.[7]

Several dimensions of regulation and market or industry structure were considered: barriers to entry into the competitive segments of the industries; the extent of public ownership; the degree of market competition in telecommunications and railways; and the degree of vertical integration in electricity.

All seven industries were found to have become more open over the period.[8] The movement was greatest in telecommunications, where barriers to entry have been virtually eliminated and public ownership reduced substantially. Entry liberalisation and privatisation were much less pronounced in railways and electricity supply. In the electricity sector, however, the organisation of the industry has changed somewhat because several countries have vertically unbundled their electricity utilities by separating out generation, distribution and energy trading components.[9]

Liberalisation was found to have had clear positive effects on economic performance. The OECD concludes that "the available empirical evidence strongly supports the view that liberalisation has been beneficial for efficiency and consumer welfare in reforming countries".[10]

In respect of electricity deregulation, Germany has probably gone furthest and fastest. While the catalyst for change was an EU directive, the German government has created what has been described as "one of the most liberal power markets in the world".[11] Germany achieved "overnight" the leap in power-supply competition that took almost a decade in the United Kingdom. Further, Germany has no sector-specific 'power' regulator. Following deregulation, wholesale power prices have halved, with discounts of up to 60 percent for industrial users.

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6 Refer to Nicoletti, Scarpetti and Boylaud (2000), 'Summary Indicators of Product Market Regulation with an Extension to Employment Protection Legislation', *OECD Economics Department Working Papers*, No 226, for an overview.

7 The seven industries examined were electricity, railways, fixed telephony, mobile telephony, air passenger travel, road freight and retail distribution.

8 Composite indices of the level of liberalisation and privatisation in each industry are provided in Annex 2. A fall in the level of the bar in the graphs in Annex 2 indicates a more liberal environment.

9 Regulatory reform in the electricity supply industry is analysed by Steiner (2000).

10 Gonenc, Maher and Nicoletti, 'The Implementation and the Effects of Regulatory Reform: Past Experience and Current Issues', *OECD Economics Department Working Papers*, No 251, p 6.

11 *The Economist*, 13 November, 1999.

Not all regulatory changes have been successful, however. A notable example of a flawed regulatory package is the electricity market in California, where widespread blackouts occurred in early 2001. While portrayed by some US authorities as 'deregulation', a more apt description of the regulatory changes introduced since 1994 is 're-regulation'. Electricity utilities in California were barred from raising rates and prevented from entering long-term contracts or adopting hedging strategies that could have helped stabilise electricity prices, and investment in new plants was so difficult that none has, in fact, been constructed in California in the past decade. As a representative of the California Energy Commission remarked, "what we have in California is not a market failure, what we have is regulatory failure".[12] So far, at least, the other 23 states in the United States that have embarked on deregulation of their electricity markets have avoided California's costly mistakes.

There have been backward steps in regulatory design in some other areas. Henderson (1999) emphasises the importance of increasing regulatory intervention in such fields as the environment and occupational health and safety. As the OECD notes, while economic regulation (such as price and entry controls) of particular sectors has been declining, "social and administrative regulations … are expanding rapidly in OECD countries".[13]

Further, little progress has been made in OECD countries in reducing subsidies to specific sectors, with Germany in fact slowing down the pace of reduction in subsidies to the coal sector and increasing subsidies in east Germany.

Labour markets

Labour markets in major OECD countries have been heavily regulated during most of the post-war period. The principal exceptions are the United States (which has maintained relatively flexible labour markets throughout), the United Kingdom (which has progressively liberalised since 1980), the Netherlands (which embarked on a comprehensive reform programme in the mid 1980s) and New Zealand (which deregulated public sector labour markets in 1987 and private sector markets in 1991).

Continental European labour markets have typically been regarded as rigid and highly regulated. While this perception has been correct for most of the post-war period, in recent years there has been a notable shift as the predominantly centre-left governments across Europe have quietly loosened the rules. In particular:

- restrictions on part-time work and short-term contracts have been relaxed, encouraging firms to hire more workers, free of the usual strict job-protection rules and high social security contributions that deterred firms from hiring in the past;
- the extent of 'employment protection legislation' (EPL) has been reduced in many countries. Annex 3 provides an OECD graph summarising trends in the restrictiveness of EPL between 1990 and 1998. Eleven of the 21 countries are found to have relaxed

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12 *The Economist*, 10 February, 2000.

13 OECD (1997b), *Report on Regulatory Reform: Synthesis*, p 7.

their EPL while only one (France) has tightened the legislation. The relaxation has been especially significant for temporary contracts. In the case of regular contracts, however, only Spain and Portugal have relaxed their (particularly restrictive) legislation. With the passage of the Employment Relations Act 2000, New Zealand's employment protection legislation has become more strict;

- several countries have taken steps to liberalise working hours, with Spain taking a significant step by eliminating the *Ordenanzas laborales* that controlled working time. France, however, moved in the opposite direction by passing a law to reduce the normal working week to 35 hours, (although there have been offsetting moves towards greater flexibility);
- moves towards decentralising wage bargaining have occurred in Australia, Austria, Iceland, Italy, Mexico and Spain, with no OECD country moving in the opposite direction. Only limited action, however, has been taken to increase relative wage flexibility;
- minimum wages (as a percent of average wages) have fallen in virtually all countries that have minimum wage regimes, with the exceptions of France, Luxembourg and, more recently, New Zealand and Poland. The United Kingdom and Ireland have recently introduced legislation setting a statutory minimum wage; and
- a few countries (Australia, Austria, Germany, Finland, Spain and Switzerland) have taken action to introduce more competition in professional services (for example, lawyers, and architects) and craft sectors.

Overall, while considerable progress has been made in liberalising labour markets in continental Europe and other OECD countries, the action has been gradual and fragmented. Labour markets in continental Europe remain less flexible and efficient than in the United States. Further, and perhaps as a consequence, labour force participation rates are much lower. Only 60 percent of the working-age population in the European area have jobs, compared with 75 percent in the United States.

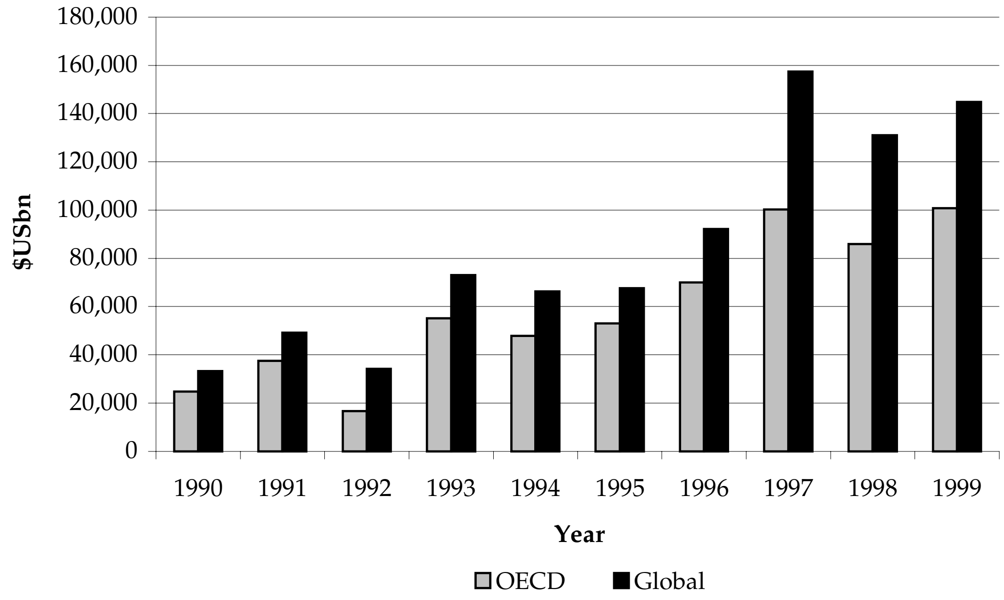
The New Zealand government's recent actions to increase regulation of the labour market (and restore a state monopoly accident insurance scheme) run counter to these trends.

5

PRIVATISATION

The pace of privatisation has picked up significantly around the world over the last decade. Between 1990 and 1999, annual global proceeds from privatisation grew more than fourfold (see Figure 5 below).

Figure 5: Global Proceeds from Privatisation



Sources: OECD and World Bank.

Privatisation is now being pursued by governments of all political persuasions around the world.

To highlight a few examples from the centre-left OECD governments:

- in France Jospin's privatisation programme has generated more proceeds than during any other government's since the early 1980s;
- in Germany the pace of privatisation has picked up under the Social Democrats: Deutsche Post has recently been listed on the stock exchange, further holdings of Deutsche Telekom are being sold off with the eventual aim of disposing of it entirely, the government printing offices are being sold and the state-owned railways services are next in line;

- the Blair government in the United Kingdom is reported to be planning to give up government holdings of 12 'golden' shares in companies that were established when gas and electricity utilities were privatised by previous Conservative governments. The London Underground is being partially privatised and the operation of Brixton prison is to be contracted out. Further, the air traffic control system is being partially privatised,[14] most of the government's defence research laboratories are to be sold and the British Broadcasting Corporation (BBC) is planning to sell up to 49 percent of its commercial arm, BBC Worldwide, and the beeb.com internet service;
- the Labour government in Norway has recently announced its decision to sell up to 25 percent of Statoil, the state-owned oil company;
- the Chrétien government in Canada undertook the highly successful privatisation of the Canadian National Railway; and
- in New South Wales, the Labor government, while generally against privatisation, is proposing to sell Freightcorp, the state rail freight carrier and its shares (20 percent) in National Rail Corp, the interstate operator. It is also having two under-Sydney toll tunnels built with private sector finance.[15]

Across non-OECD countries, privatisation has been widespread in South America, Asia, the Middle East and to some extent Africa. Even the communist government in China is rapidly restructuring and privatising large numbers of its state-owned enterprises.

In New Zealand, privatisation was erratic from the mid 1990s and has been formally halted since 1999, despite the central government still owning major businesses in many sectors, including electricity, television, housing and postal services, and local councils having shareholdings in enterprises such as ports, airports, electricity utilities, forests and commercial property.

The major factors contributing to the exceptional growth in privatisation around the world include:

- the overwhelming evidence that privatisation has generally led to improved company and economic performance. Annex 4 provides a summary of the formal studies now done on the issue;
- the fiscal pressures facing governments, in particular in the Euro area in the lead-up to monetary integration;
- the need of many countries to attract new investment; and
- the ongoing liberalisation and globalisation of product and financial markets.

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14 "More than a dozen countries – including Canada, Britain, Australia and Germany – have either fully or partially privatised air-traffic services", *Time*, 22 January, 2001, p 37.

15 '$1bn privatisation plan tolls for Sydney', *Australian Financial Review*, 22 November, 2000.

While privatisation has delivered significant economic gains, it has not always been executed in the most efficient manner. For example, a recent report by Confindustria, Italy's federation of industrialists, notes that while the Italian government has raised an impressive US$93 billion in asset sales since 1993, only around one-third of the assets were removed from state control. Most notably, the huge electricity and utilities conglomerate, Enel, was partially privatised in 1999 but the state retained 68 percent ownership and the electricity market has only been partly liberalised, enabling the state-controlled and protected giant to expand into other spheres, including telecommunications and water supply.[16]

The pace of privatisation worldwide shows no signs of slowing down, with 18 sales exceeding 500 million Euro scheduled for 2000/01 in the OECD region (see Annex 5).

16 *The Economist*, 14 October, 2000.

6
WELFARE REFORM

Gradual steps have been taken to reform welfare systems around the OECD as governments have sought to find a balance between providing for those in need and encouraging people to become independent. In some countries, fiscal realities have forced change as governments have struggled with the pressures of high and persistent unemployment.

In recent years the United States has provided the lead, with President Clinton seeking to "end welfare as we know it". The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 reversed radically the position of the Democrats on welfare: initially the Democratic Party strongly opposed requiring women on welfare to take jobs. Later, the Clinton administration championed the move "from welfare to workfare" and policies that "give a hand-up rather than a hand-out".

Chancellor Schröder, in Germany, has also enacted wide-ranging measures: pensions, unemployment benefits and other welfare payments are being frozen in real terms, no longer rising with average wages as in the past. Echoing Clinton, Schröder's policy documents talk of "transforming the safety net of welfare entitlement into a springboard of personal responsibility".[17]

More generally, European governments have made some moves to tighten access to social insurance programmes, reduce benefit levels and cut the duration of benefits. At the same time, some payments have been increased and social (non-health) expenditure as a proportion of GDP is still rising in most countries.

A number of governments have reformed unemployment benefits so as to provide greater incentives for the unemployed to get back into work. These have taken the form of cuts in benefit rates, limitations on indexation adjustments, removal of earnings-related elements or some change in the maximum duration of benefit receipt. Denmark has cut to three months from 18 the period an unemployed person can receive benefits before entering a training programme or accepting a job referral. The Netherlands passed a law that cuts all benefits if a jobless person refuses a job referral or participation in a training programme. The United Kingdom is using a combination of lower taxes for low-paying jobs and mandatory measures, such as periodic interviews for single parents. In Sweden a law that went into effect in February 2001 incrementally reduces an unemployed person's benefits each time they refuse a job, eliminating the benefit entirely after the third refusal.[18] The most significant progress has been made in Canada and Germany.

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17 'Rebirth of a salesman', *The Economist*, 8 July, 2000.

18 'Sweden toughens welfare policy as labor pool starts to run dry', *Wall Street Journal*, 28 March, 2001.

The OECD reports that the only member country that has not taken some steps to address the impact of unemployment and related benefits over the last five years was Spain, and that country had made a number of important reforms previously.

There have been significant changes in social assistance benefits. Federal legislation in the United States now generally limits the use by states of federal resources to finance benefits for lone parents to a maximum of five years in their lifetime and provides financial incentives for states to reduce their welfare rolls. The number of people on welfare fell by 55 percent between January 1996 and June 2000. Around one-third of the decline in welfare has been attributed to the welfare reforms.[19]

In some provinces in Canada there have been large reductions in social assistance levels (over 20 percent in Ontario, for example). Going in the other direction, countries in southern Europe, where government-funded social assistance has historically been patchy, have moved towards more general nationwide coverage.

Many OECD countries have changed their public safety net for retired people over the last decade or so. The measures taken include increases in the age at which people can receive pensions, reductions in the generosity of benefits (at least over time) and the promotion of private retirement arrangements.[20]

European governments, for example, are moving gradually towards systems in which workers will rely more on privately invested funds for their retirement rather than state pensions. This entails a combination of encouraging employer-sponsored pensions, tax breaks for voluntary individual savings and diversion of some payroll taxes to private funds.

In the area of housing assistance there has been some expansion of housing allowances as well as greater means-testing of benefits to target the benefits to lower-income households.

From 1991, there were some reductions to welfare benefits in New Zealand and tightening of eligibility conditions. However, since 1999, welfare benefit conditions have been made more lenient, New Zealand Superannuation benefits have been increased (and retained on a universal basis) and state housing assistance has been made more generous.

Looking across the broad range of social policy, a survey by the OECD concludes that "governments have been active in reducing eligibility for programmes (with the exception of health and long-term programmes which have generally extended coverage), reducing

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19 United States Department of Health and Human Services, 'Welfare Reform: Implementation of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996', HHS Fact Sheet, United States Department of Health and Human Services, Washington, 2001.

20 Kalish and Aman, (1998), 'Retirement Income Systems: The Reform Process Across OECD Countries', *OECD Ageing Working Papers, AWP 3.4*, pp 23–30.

payments to a lesser extent and improving administrative practices in order to limit programme expenditure and enhance the economic independence of individuals".[21]

The study concludes, however, that the reform process has generally been "fairly modest" in terms of increasing self-reliance and providing long-term solutions to problems of poverty alleviation.

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21 'Social and Health Policies in OECD Countries: A Survey of Current Programmes and Recent Developments' by David W Kalish, Tetsuya Aman and Libbie A Buchele, *Labour Market and Social Policy Occasional Papers*, No 33, OECD, 1998, p 5.

7

EDUCATION

Primary and secondary education systems were reformed in many OECD countries over the first half of the 1990s. Curriculum reforms were carried out in several member countries: those with decentralised systems (for example, United States, United Kingdom) attempted to establish core curricula for all schools and those countries with centralised systems (for example, France, Mexico, Norway) gave local authorities more responsibility in developing specific curricula within a common core framework. National tests for students at key stages of the basic education process were introduced in several countries.[22]

At the upper secondary level, reforms were aimed at improving the quality and relevance of vocational and technical education and training. A major policy objective in most countries was the strengthening of cooperation between schools and enterprises in order to provide young people with opportunities for purposeful combinations of work and learning.[23]

At the tertiary level, reforms in some OECD countries (United States, United Kingdom, Australia and the Netherlands) provided for greater contributions from students and/ or easier access to loans. However, the private contribution to tertiary education continues to vary widely across OECD countries: from negligible in countries like Denmark and Greece to more than 50 percent in the United States, Korea and Japan.

In the United Kingdom, the Blair government has introduced fees for tertiary students and has recently defended the rights of parents to choose between private and public primary and secondary schools, to the anger of some teacher unions.

Despite some setbacks in recent referenda in the United States, there seems to be a strong momentum behind the 'choice' movement in the education sector. According to the *New York Times*, around 25 state legislatures are considering bills that would create some type of government-funded school voucher system (involving state support for children enrolled in non-government schools) and five public voucher programmes are now operating – in Milwaukee, Cleveland, Florida, Minnesota and Arizona.[24] Sweden implemented a similar scheme several years ago and the Netherlands and Ireland have long supported non-government schools on a comparable basis to government schools.

Other innovations in the United States and United Kingdom that have increased parental choice at the primary and secondary school level include the use of tax credits, charter

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22 Refer to *Implementing the Jobs Strategy*, OECD, 1997 for an overview.

23 *Education Policy Analysis*, OECD, 1998.

24 'Parents lead way as states debate school vouchers', *New York Times*, 31 January, 2000.

schools, for-profit educational enterprises and contract management of public schools by private firms.

In New Zealand the recent moves by the government to reintroduce school zoning and abolish the targeted individual entitlement (TIE) scheme that funded places for children from low-income families at independent schools have reduced parental choice, and the abolition of bulk funding of teacher salaries ended what was effectively a partial voucher scheme for state schools.

8

HEALTH

Most OECD countries have extended health care coverage while taking measures to contain the share of GDP accounted for by public expenditure on the health sector. Such measures have included alternative payment systems for hospitals, limiting the costs associated with new technologies and pharmaceuticals, shifting care to outpatient services and community care, introducing greater accountability in health care financing arrangements, and increasing co-payments by individuals. Many OECD countries have also introduced increased competition among health insurance funds and health service providers.

These measures appear to have had some success: after growing through the 1980s, the ratio of health care expenditure to GDP stabilised in most OECD countries in the 1990s without any clear negative impact on health outcomes.

Market-oriented initiatives were introduced in some countries. For example:

- the Labour government in Britain has maintained the internal market in health and, if anything, has extended the split between purchasers and providers of health services. Further, the government's 'private finance initiative' is being extended from private financing and consideration is being given to allowing private delivery of publicly funded services. The secretary for health has recently signed a 'concordat' (entitled 'For the Benefit of Patients') with the private health sector that commits the National Health Service (NHS) to work with the private sector in reducing waiting lists and providing intensive care and rehabilitation and preventive services for the elderly; [25]
- in Sweden, Stockholm's Greater Council – the regional governing council – has been progressively liberalising the health sector. Services that have been traditionally provided by the public sector are being contracted out to private operators and five of the eight emergency hospitals are being turned into commercially viable companies. One of the largest hospitals, the St George, has recently been sold to a private company; and
- in Germany, the private sector is taking a greater role in providing health services and the number of state-owned hospitals is declining.[26] Costs are being rationalised through the introduction of global health care budgets.

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25 'NHS could hire private management', *Financial Times*, 1 November, 2000. The concordat is seen as leading towards private management of NHS hospitals and potentially the private sector providing complete hospital services for the NHS.

26 'Germany expects more hospital privatisation', Annette Tuffs, *British Medical Journal*, 15 April, 2000.

In New Zealand, on the other hand, the separation of purchasers and providers that was implemented in the early 1990s has been reversed by the Labour/Alliance government. The new government has also reverted to local elections for a proportion of the appointments to the District Health Boards in a partial return to the pre-1993 arrangements.

With the moderation in growth in health care costs in OECD countries in recent years, countries have shifted their attention towards means of improving the quality of care and achieving better health outcomes. Measures taken vary and include:

- special quality commission and quality assurance agencies are developing standards for health care;
- financial incentives are being introduced for improved quality;
- greater attention is being devoted to improving the coordination of services and measuring health outcomes; and
- in the public health field, many countries have developed national strategies focused on common areas such as communicable disease and alcohol and drug prevention.

9

CONCLUSIONS

OECD ministers reached a consensus in the late 1970s on key policies to promote economic and social well-being. At the heart of these were maintaining price stability and prudent fiscal policies and opening markets to increased competition. These policies have been broadly pursued by most OECD countries and have underpinned one of the longest economic expansions ever experienced.

Throughout the 1990s, the general direction of public policy reform in OECD countries has been to build on and enhance the market orientation of public policies.

In most OECD countries, fiscal balance has been restored, government expenditure has fallen as a proportion of GDP, and the pace of privatisation has picked up. Major domestic product markets like electricity, telecommunications and transport have been deregulated, but economy-wide regulation in such areas as the environment and occupational safety has increased. Labour markets have been liberalised, albeit in a slow and piecemeal manner, and welfare mechanisms have been reformed in some OECD countries to reduce dependency on the state.

In health and education, systems differ widely across the OECD. In health, government dominated systems seem to be under pressure and there have been some moves towards greater private sector involvement. In education, school choice policies appear to have gained ground and higher private contributions to tertiary education appear to have become established across OECD countries. It is nevertheless difficult to detect any strong general directions to policies in the health and education sectors over the last decade.

The general move towards more market-oriented policies has occurred regardless of the political orientation of governments in the OECD. In many respects, centre-left governments (for example in France, Germany, the United Kingdom and the United States) have been amongst the most active reformers.

The reasons why countries have continued to move generally towards less intervention in the private sector and towards a greater focus on core government roles are diverse and, to some extent, specific to each country. An important general reason for less intervention has probably been the growing interest in the performance of the US economy, with its sustained economic growth, low inflationary pressures and fast increases in labour productivity. A complementary factor has been increasing dissatisfaction with the labour market outcomes in continental Europe and the poor growth and fiscal outcomes in Japan and East Asia that can be traced, to a considerable extent, to structural policy impediments, including poor regulatory policies.

New Zealand's record of economic reform during the 1990s has been mixed. After the structural reforms of the 1980s that were followed by deregulation of the labour market and fiscal consolidation in the early 1990s – and that ushered in a period of strong economic and employment growth – there has been no consistent programme of economic reform. Government expenditure (as a percentage of GDP) rose from the mid 1990s, privatisation and microeconomic liberalisation have been erratic, and there has been considerable regulatory creep. As in many other OECD countries, little in the way of competitive pressures have been introduced into the sheltered health, education and welfare systems.

More recently, the Labour-Alliance coalition has embarked on a general policy direction that is contrary to that observed in most, if not all, other OECD countries over the last two decades. Top income tax rates have been raised, privatisation has been halted, the labour market has been partially re-regulated, the health and education sectors have been brought under more political and centralised control, and welfare, housing and pension policies have been made more generous.

While it is possible to find in most, if not all, OECD countries examples of policy reversal or increased intervention in specific sectors, such a change in the overall direction of public policies is not typical of other OECD countries. Indeed there is little evidence that the pace of economic reforms has slowed in OECD countries in the past decade. This contrasts with the loss of momentum of reform efforts, and more recently the change in direction of public policies, in New Zealand.

ANNEX I
OECD GOVERNMENTS
(AS AT END 2000)

Country	*Government*	*Nature*	*Date formed*	*President/ Prime Minister*
Australia	Liberal (Lib) National	Centre-right	3 October, 1998	PM: John Howard, Lib
Austria	Freedom Party People's Party (P)	Right/Centre-right	3 October, 1999	President: T Klestil, P
Belgium	Flemish Liberals and Democrats (FLD) Christian Peoples Socialists	Centre/Centre-left	13 June, 1999	PM: Guy Verhofstadt, FLD
Canada	Liberals (Lib)	Centre-left	27 November, 2000	PM: Jean Chrétien, Lib
Czech Republic	Social Democrats (SD)	Centre-left	19 June, 1998	President: Václav Havel
Denmark	Social Democrats (SD) Social Liberals	Centre-left	11 March, 1998	PM: Poul Nyrup Rasmussen, SD
Finland	Social Democrats (SD) National Rally	Centre-left	21 March, 1999	PM: Paavo Lipponen, SD
France	Socialists (S) Communists The Greens	Centre-left/left	25 May and 1 June, 1997	President: Jacques Chirac RPR PM: Lionel Jospin, S
Germany	Social Democrats (SD) Alliance 90/The Greens	Centre-left	27 September, 1998	Chancellor: Gerhard Schröder, SD
Greece	Pan-Hellenic Socialist Movement (PHSM)	Centre-left	9 April, 2000	PM: Kostantinos Simitis, PHSM
Hungary	Young Democrats (YD) Independent Party Democratic Forum	Centre-right	10 May, 1998	Minister-President: Viktor Orban, YD
Iceland	Independence Party (I) Progressive Party	Centre-right	8 May, 1999	PM: Davið Oddsson, I
Ireland	Fianna Fáil (FF) Progressive Democrats	Centre-right	6 June, 1997	PM: Bertie Ahern, FF
Italy	Democrats of the Left and seven other parties	Centre-left/left	21 April, 1996	President: Carlo Ciampi
Japan	Liberal-Democrats (LD) Clean Government Conservative Party	Centre-right	25 June, 2000	PM: Yoshiro Mori, LD
Korea	Democratic Party United Liberal Dems (ULD)	Centre-left	13 April, 2000	PM: Lee Han Dong, ULD

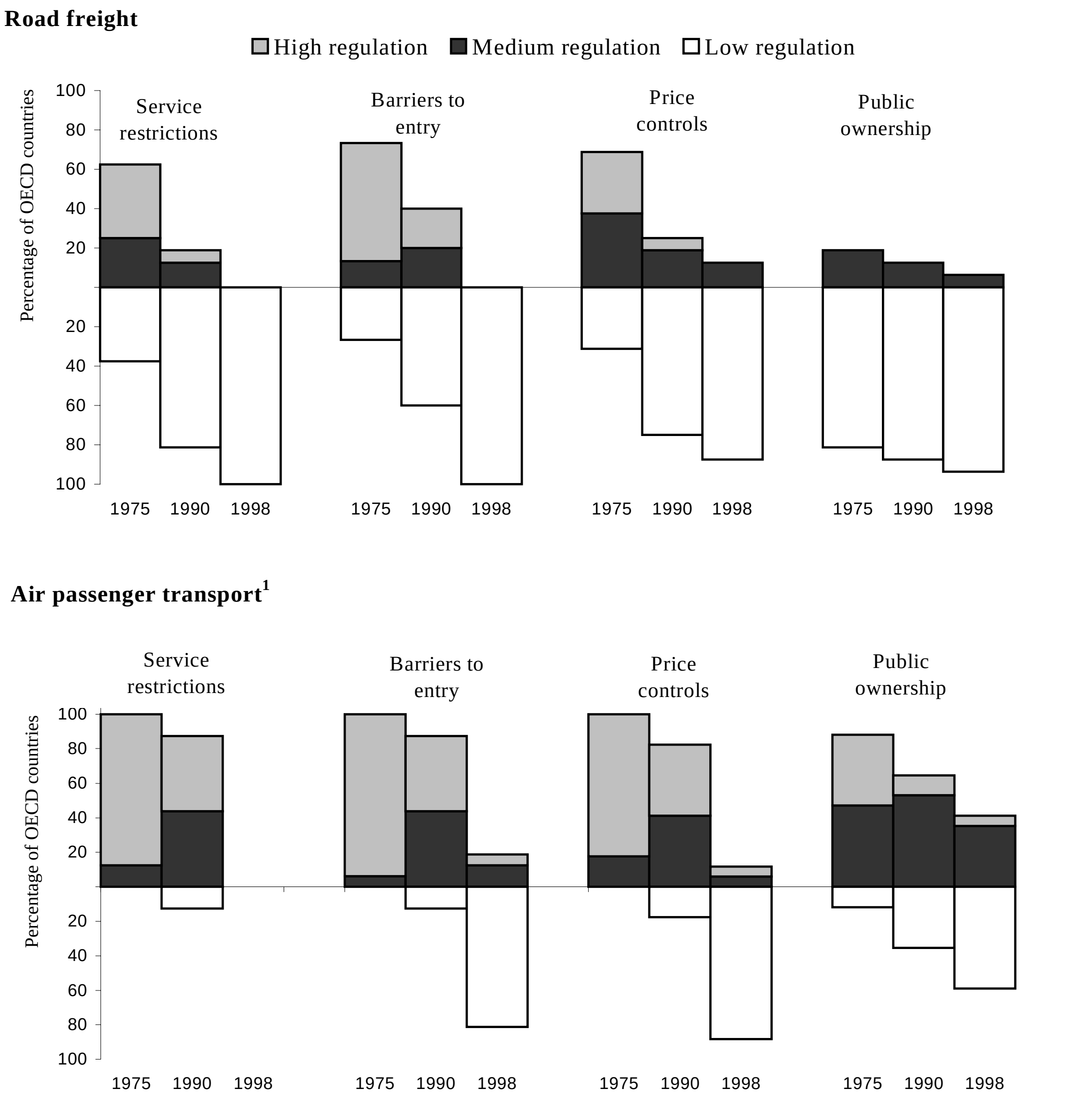
continued

Country	*Government*	*Nature*	*Date formed*	*President/ Prime Minister*
Luxembourg	Christian Social (CS) People's Party Democrats	Centre-right	13 June, 1999	PM Jean-Claude Juncker, CS
Mexico	National Action (NA) Party of the Democratic Revolution	Grand coalition	2 July, 2000	President: Vicente Fox Quesada, NA
Netherlands	Labour (L) People's Party Democrats	Centre-left	6 May, 1998	Minister-President: Wim Kok, L
New Zealand	Labour (L) Alliance	Centre-left	27 November, 1999	PM: Helen Clark, L
Norway	Labour (L)	Centre-left	15 September, 1997	PM: Jens Stoltenberg, L
Poland	Democratic Left (DL) Nationalist Movement Motherland Party	Grand coalition	18 April, 1999	PM: Bülent Ecevit, DL
Portugal	Socialist Party (S)	Centre-left	10 October, 1999	President: Jorge Fernando Branco de Sampaio, S
Spain	People's Party (P)	Centre-right	12 March, 2000	President: José María Aznar, P
Sweden	Social Democrats (SD)	Centre-left	21 September, 1998	PM: Göran Persson, SD
Switzerland	People's Party (P) Social-Democrats Freethinking Democrats Christian Democrats	Grand coalition	24 October, 1999	President: Adolf Ogi, P
Turkey	Democratic Left (DL) Nationalist Movement Motherland Party	Grand coalition	18 April, 1999	PM: Bülent Ecevit, DL
United Kingdom	Labour (L)	Centre-left	1 May, 1997	PM: Tony Blair, L
United States	Republican (R)	Centre-right	7 November, 2000	President: George W Bush, R

Source: compiled from 'Elections around the World': http://www.agora.stm.it/ elections/home.htm

ANNEX 2
REGULATORY REFORM IN OECD COUNTRIES

Figure 1: Fully or largely competitive industries

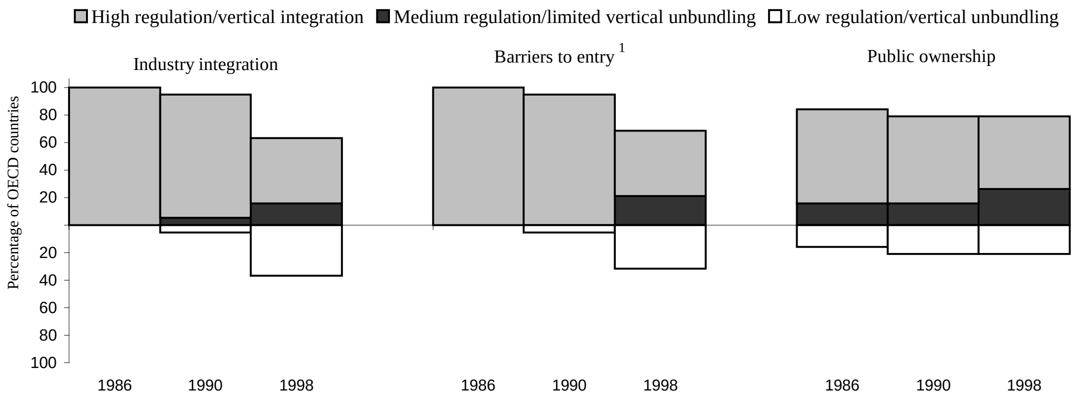


Notes :
High regulation : Entry is restricted, public ownership is substantial and prices or services are set or approved by a regulatory authority.
Medium regulation : Some limited entry is allowed, public ownership is limited and businesses have some freedom to set prices or services.
Low regulation : Public ownership is very limited and businesses are free to entry and have full control over prices and services they supply.
1. Domestic and regional routes.

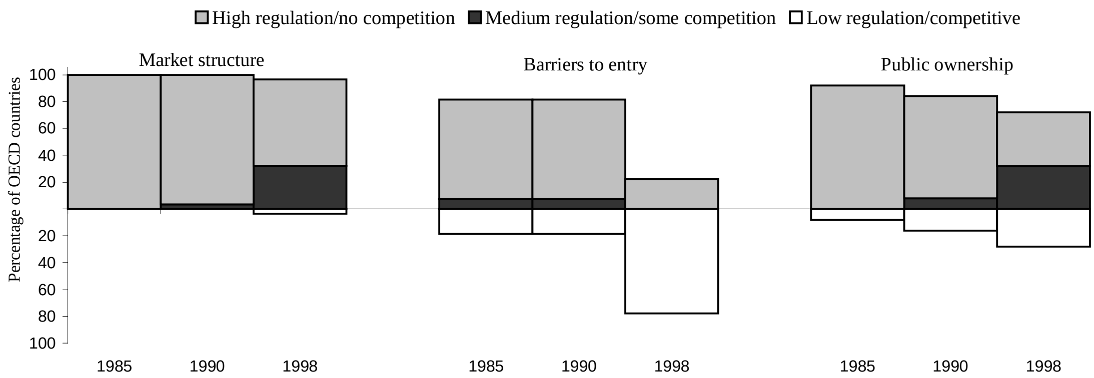
Source: OECD, Regulatory reform, privatisation and competition policy, 1992; and OECD International Regulation Database.

Figure 2: Industries with non-competitive segments

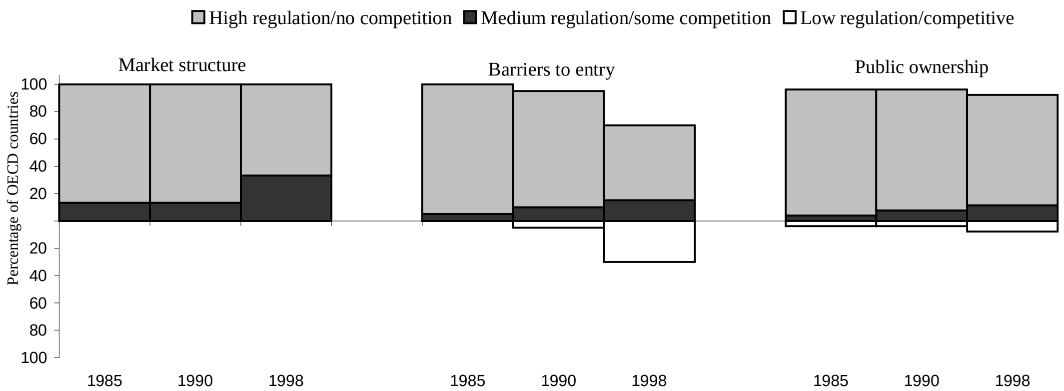
Electricity



Telecommunications[2]



Railways



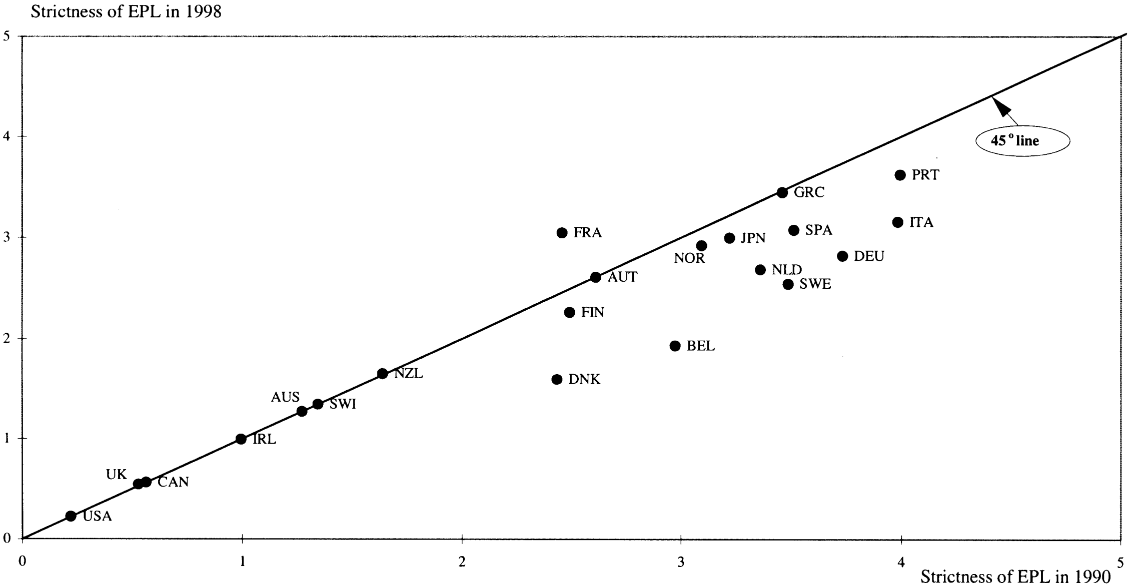
Notes :

High regulation indicates that access to competitive markets is restricted and the supplier(s) of the good or service is (are) fully state-owned.
Medium regulation indicates that some limited market access is allowed and the supplier(s) is (are) partially private.
Low regulation indicates that market access is free and the supplier(s) is (are) private.
1. In electricity generation.
2. Fixed telephony: trunk and international.

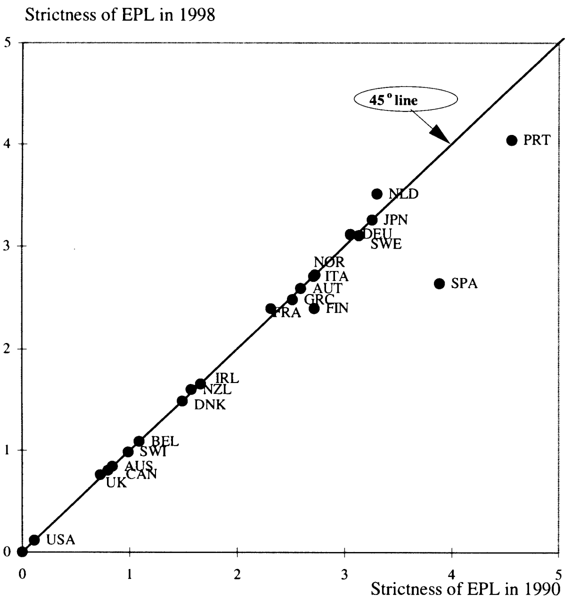
Source: OECD International Regulation Database.

ANNEX 3
SUMMARY INDICATORS OF THE STRICTNESS OF EMPLOYMENT PROTECTION LEGISLATION, 1990 AND 1998

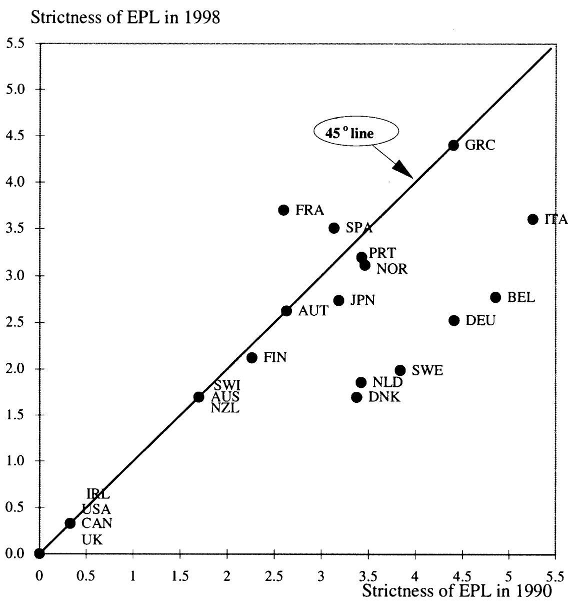
Panel A. **Regular and temporary contracts**



Panel B. **Regular contracts**



Panel C. **Temporary contracts**



Note:

1. The indicator is the weighted sum of indicators referring to several aspects of employment protection regulations for regular contracts as well as for fixed-term and TWA contracts. The original indicators range from 0 (least restrictive) to 6 (most restrictive). The weights are extracted from a factor analysis of original indicators.

Source: OECD estimates.

ANNEX 4
SYNOPSIS OF RECENT STUDIES ON THE EFFECTS OF OWNERSHIP ON PERMORMANCE

Author/Year	Industry	Country/Period	Explanatory Variable	Performance Variable	Effects Found	Method
Fully or largely competitive industries						
Eckel, Eckel and Singhal, 1997	Air (British Airways)	UK 1987	Privatization	Stock Value	Positive	Descriptive
Gonenc and Nicoletti, 2000	Air	27 OECD countries 1996	Private vs. Public	Efficiency	Positive	Econometric
Dewenter and Malatesta, 1998	High information	63 firms 1981-93 cross-country pre/post privatization	Privatization	Profitability Efficiency	Positive Positive	Descriptive
Boardman and Vining, 1989	Miscellaneous	500 largest non US firms 1983 cross-country	Private vs. Public Corporatisation	Profitability Efficiency	Positive Positive	Econometric
Boubakri and Cosset, 1998	Miscellaneous (utilities included)	79 firms 1980-92 developing countries pre/post privatization	Privatization	Profitability Efficiency	Positive (higher in non-competitive industry)	Descriptive
Button and Weyman-Jones, 1992	Miscellaneous	Survey of 9 DEA studies, United States and European firms	Private vs. Public	Efficiency	Positive	Descriptive
Claessens *et al, 1997*	Miscellaneous	706 firms Czech 1992-95	Privatization	Tobin's Q	Positive (but especially if large investors)	Econometric
D'Souza and Megginson, 1999	Miscellaneous (utilities included)	85 firms 1990-96 OECD and developing countries pre/post privatization	Privatization	Profitability Efficiency	Positive (higher in non-competitive industry)	Descriptive
Frydman *et al.,* 1998	Miscellaneous	128 firms East Europe 1990-93 matched sample with privatized and public firms	Privatization	Profitability Efficiency	Positive (but only if outside investors)	Econometric
Galal *et al.,* 1992	Miscellaneous (utilities included)	12 firms cross-country	Privatization	Welfare	Positive	Counterfactual
La Porta, Lopez de Silanes, 1999	Miscellaneous (utilities included)	218 firms Mexico 1992 pre/post privatization matched sample with privatized and public firms	Privatization	Profitability Efficiency	Positive	Econometric
Martin and Parker ,1995	Miscellaneous	11 UK Firms 1981/88 pre/post privatization	Privatization	Profitability Efficiency	Mixed	Econometric
Megginson *et al.,* 1994	Miscellaneous (utilities included)	61 firms 1961-89	Privatization	Profitability	Positive	Descriptive
Pohl *et al.,* 1997	Miscellaneous	6300 firms East Europe 1992-95 cross-country matched sample with privatized and public firms	Privatization	Efficiency	Positive	Econometric
Vining and Boardman, 1992	Miscellaneous	500 largest firms Canada 1987	Private vs. Public Corporatisation	Profitability Efficiency	Positive Unclear	Econometric
Barberis *et al.,* 1996	Retail	452 firms Russia 1990	Privatization	Restructuring effort	Positive (but only if outside investors)	Descriptive

Author/Year	Industry	Country/Period	Explanatory Variable	Performance Variable	Effects Found	Method
Industries with non-competitive segments						
Burns and Weyman-Jones, 1994	Electricity	UK 1981-93	Privatization	Efficiency	Positive	Data Envelope Analysis
Duncan and Bollard, 1992	Electricity	New Zealand 1987-92	Corporatisation	Efficiency	Positive	Econometric
Hawdon, 1996	Electricity	Developing countries 1988	Privatization	Efficiency	Positive	Data Envelope Analysis
Kwoka, 1996	Electricity	US	Private vs. Public Corporatisation	Prices	Negative Positive	Econometric
Newbery and Pollitt, 1997	Electricity (CEGB)	UK 1990	Privatization	Efficiency Environment Welfare	Positive Positive Negative	Counterfactual
Pollitt, 1995	Electricity	95 firms, 9 countries	Private vs. Public	Efficiency	Positive	Econometric
Steiner, 2000	Electricity	19 OECD countries, 1986-96	Privatization	Efficiency Prices	Positive Positive	Econometric
Yarrow, 1992	Electricity	UK 1990-91	Privatization	Prices	Negative	Counterfactual
Ramamurti, 1997	Rail (Ferrocarilla Argentinos)	Argentina	Privatization	Efficiency	Positive	Descriptive
Boylaud and Nicoletti, 2000	Telecommunications	23 OECD countries, 1991-97	Privatization	Efficiency Prices	Unclear	Econometric
Staranczack et al., 1994	Telecommunications	10 OECD countries, 1984-87	Private vs. Public	Efficiency	Positive	Econometric
D'Souza, 1998	Telecommunications	17 firms 1981-94 cross-country	Privatization	Profitability Efficiency	Positive	Descriptive

Source: Gonenc, Maher and Nicolletti (2000).

ANNEX 5
PLANNED PRIVATISATIONS IN THE OECD REGION: 2000/01 (EXCEEDING EURO 500M)

Company	*Country*	*Sector*	*Est Size (US$b)*
Aer Lingus	Ireland	Transport	0.7
Belgacom	Belgium	Telecoms	3.5
Deutsche Post	Germany	Post	5.0
Enel II[1]	Italy	Utilities	8.0
Framatone	France	Energy	8.0
Frankfurt Airport	Germany	Transport	2.0
Iberia	Spain	Transport	1.5
MOL IV[1]	Hungary	Oil and Gas	0.6
New Orange	France	Telecoms	15.0
POAS II[1]	Turkey	Oil and Gas	1.5
Schiphol	Netherlands	Transport	1.8
Statoil	Norway	Oil and Gas	2.6
Sydney Airport	Australia	Transport	2.2
Telekom Austria	Austria	Telecoms	2.0
Telenor	Norway	Telecoms	4.0
T-Mobile	Germany	Telecoms	10.0
TPSA II[1]	Poland	Telecoms	1.0
Turk Telecom	Turkey	Telecoms	1.5

[1] Follow-on sale

Source: Salomon Smith Barney and public sources.

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