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Yilmaz Argüden says for governments, businesses and civil society transparency builds trust

The CTPA write that carbon taxes and ETSs will play a growing role in cutting emissions

Doris Ho on the need for internationalization of MSNEs to create inclusive growth

THE GLOBAL TRADE PLATFORM

Governments, businesses, and civil society: transparency builds trust

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After Brisbane, Helsinki, and Antalya

The need for consistent and effective regulatory regimes has never been more obvious. In 2014, in response to the G20 commitment to put emphasis on implementing structural reforms, the B20 made concrete recommendations[1] to facilitate reforms and their implementation. The Business and Industry Advisory Committee to the OECD (BIAC) furthermore released an *Economic Policy Survey*[2] which provided the perspectives of national business organizations as to which measures are needed, in which fields, and how they can be achieved. In fact, the vast majority of respondents called for product market reforms, including a meaningful reduction of regulatory burden.

Nonetheless, the pace of reforms for growth across both product and labour markets in OECD countries has slowed and has been largely piecemeal over the past years. According to the BIAC Survey, only 4 percent of the OECD's 2013 *Going for Growth* country-specific recommendations were fully implemented a year later, and 35 percent not implemented at all. Consequently in 2015, the Turkish presidency of the G20 put inclusiveness, investments, and implementation (3Is) as the top priorities[3].

Businesses need stable, transparent, predictable, and efficient policy environments and legal frameworks, as well as consistent implementation. The elimination of unnecessary legislative, regulatory, and administrative barriers represents the right and most cost-efficient economic stimulus available to governments today. With the launch of the first OECD *Regulatory Policy Outlook* at the OECD Ministerial meeting[4] on Public Governance, which took place in Helsinki on 28 October, the OECD is fulfilling an important mission on good regulatory practice, further promoting the full benefits of good regulatory practices. The indicators of good regulatory practices developed by the OECD constitute a fundamental basis for trust and an indispensable condition for businesses to operate and increase investment. Hence, consistent implementation of policies and regulations is critical for improving investments and growth.

Inclusiveness, integrity, and regulatory policy

An inclusive society is a society that over-rides differences of race, gender, class, generation, and geography and ensures inclusion, equality of opportunity as well as capability of all members of the society to determine an agreed set of social institutions that govern social interaction. Stakeholder engagement and creating equal opportunities in public and private institutions for all are founding stones of building inclusive societies.

A sustainable global economy is one that combines responsible behaviour, social justice and environmental care, with long term profitability. Sustainability is about seeking to improve the quality of human life while protecting the potential of future generation to do the same. For value creation processes to be sustainable, the society as a whole need to benefit from the value creation effort. This requires not only a strong culture of responsibility, but also an appropriate climate in which good governance is exercised in all institutions, including the public, private, and civil society organizations. Good governance is also a responsibility towards a sense of universal commitment and universal participation in sustainable development.

Public policies and regulations aim to establish standards and limits to individual behaviours, but also a fair playground to motivate individuals and companies to innovate and improve their quality of life. Governments regulate economic activity to shape conduct when markets cannot function to enable efficient resource allocation, with the intention to prescribe or proscribe conduct, calibrate incentives, or to change preferences.

The imperfections are deemed to be market failures, often associated with time-inconsistent preferences, information asymmetries, non-competitive markets (monopolies), principal–agent problems, positive (when social benefits are greater than private benefits) or negative externalities (when social costs outweigh private costs), or public goods (for which insufficient investments would materialize without government intervention). However, government interventions, such as taxes, subsidies, bailouts, wage and price controls, and regulations may also lead to an inefficient allocation of resources. Government attempts to correct market failures may result in high enforcement and compliance costs. Furthermore, uneven implementation of regulations may result in unfair playing ground for competition and lack

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of confidence on rule of law. In short, such interventions themselves may result in regulatory failures.

Value creation requires investments for an uncertain future. The more the governments and their actions are predictable, the more would be the investments as the risk premiums would decline. Therefore, rule of law, public engagement, evidence-based public decision making, and fair implementation of regulations across players are the keys for governments to improve the business investment appetite. Given the prominent role of productivity for the success of our economies, it is important to ensure that the underlying sources of economic growth are well understood.

Therefore, policymakers should explicitly recognize that productive societies and strong economic growth are fundamental for inclusive growth. Effective implementation of structural reforms in product and labour markets is vital, and should promote equal opportunities in our economies. Furthermore, inclusive growth requires improving employment opportunities to all segments of the society, providing an environment whereby affordable products are available for all, and an enabling environment for all to have access to both public services and to be able to contribute to public decision making.

Good regulatory practices and regulatory efficiency matter

Private sector actors are largely aware of the benefits of consistent, transparent and well-balanced engagement with public institutions in decision-making processes, and actively promoting regulatory reform on the ground. Peer pressure and reviews of progress on regulatory reform and quality in OECD countries are an important instrument, but in many countries, the willingness of regulators to engage with the private sector has considerably suffered from the crisis. Discussions on specific company failures have not always been balanced with the broader picture, and in some instances the very positive role the private sector can play in the analysis of existing regulations, in the assessment of relevant measures and as a key provider of expert advice, has been disregarded. Also, policy capture is too often seen as a synonym for private sector involvement.

Stakeholder engagement is a pillar of sound, evidence-based reform and public institutions should not work in isolation. Governments, businesses, and civil society organizations should work together to re-establish trust among stakeholders. Effective consultations and well-conducted impact assessments contribute to improve the design of effective regulations. A strong involvement of relevant stakeholders should also be part of an independent evaluation of the governance cycles, in particular in the implementation phase. These are drivers for stakeholder buy-in and commitment in the implementation of regulations and contribute to the efficient monitoring of regulatory practices.

Better and fair implementation of proposed reforms would be stimulated by enhancing the **effectiveness of regulatory consultation processes** and **impact assessments** as they contribute to improve the design of new regulations, to minimize enforcement and compliance costs, and help ensure key stakeholder support their implementation. In order to increase the quality of consultations, many governments need to allow greater time for consultation. They need to explain how the information provided during consultations will be used, and to make documents for consultation more easily accessible. In particular, tools such as socio-economic development maps, public expenditure analyses, and public service satisfaction surveys provide objective input into public consultations and improve the quality of the consultation process.

Another important factor for ensuring the successful introduction of new reforms is to carry out regulatory impact assessments (RIAs), social impact assessments (SIAs), and environmental impact assessments (EIAs). Unfortunately, businesses in over a third of OECD countries seems to consider that these impact assessments are rarely or never carried out, be it partially or at all. Furthermore, experience shows that there is a tendency to utilize such studies as legitimization of political decisions once they are made, rather than as inputs into the real decision making processes.

Policymakers should also recognize that businesses operate globally, there should be **greater alignment of regulations internationally** in order to enable companies to operate more efficiently and effectively across borders. This calls for improved international regulatory co-operation. The OECD has a significant role to play in this area and the use of its instruments should be expanded, including the OECD 2012 *Recommendation of the Council on Regulatory Policy and Governance*.

Good governance is the key for inclusiveness and increasing growth. After the OECD Governance Ministerial held in Helsinki, governments need to focus on creating a regulatory environment where transparency in the public and private sectors is the norm in order to build trust and achieve inclusive and sustainable development. ■

1. Available on the B20 Australia website (http://www.b20australia.info/Documents/B20%20Summit%20Documents/B20%20Key%20Messages%20and%20Recommendations.pdf) & b20turkey.org/policy-papers (http://b20turkey.org/policy-papers/)
2. Available on the BIAC website (http://biac.org/wp-content/uploads/2014/07/14_05_BIAC_EPC_Survey_2014_Synthesis_Report1.pdf)
3. Available on the b20turkey.org/policy-papers (http://b20turkey.org/policy-papers/)
4. Policy Performance for Inclusive Growth: Towards a new Vision for the Public Sector