

How to reform and be re-elected?

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“To reform and to perform” is the goal of many a serious politician. It is not an easy task.

Noble people with fine ideas frequently find their proposals scrutinised, distorted, and must put their own careers and personalities in the firing line. Electorates can be hard to please. During times of crisis, the public clamours for change, but may balk noisily at the solutions. Backlash, distrust, even protests follow, as we are now witnessing in many crisis-weary countries.

As John Kenneth Galbraith once wrote, contradicting Bismarck, in a letter to John F Kennedy, “politics is not the art of the possible. It consists of choosing between the disastrous and the unpalatable.” If this is so, how can reforms be made to work?

There has been much interesting work devoted to the critical factors behind the success and failure of reforms, but much of it has been highly theoretical and thus of limited use to policymakers. Can we do more, without dwelling on a juicy collection of anecdotes, and actually improve the reform process? Yes, we can, we should, and, in fact, we often do.

Consider the vast half-century of experience in reform efforts in OECD countries. We have studied 20 selected reform cases in the product markets, labour markets and pensions. Our 2009 report, *The Political Economy of Reform*, identifies some interesting common denominators behind initiatives that worked. It shows that political consistency is more important than the economic cycle, for instance. Coherent and cohesive governments

succeed, regardless of whether times are economically good or bad, while divided governments create openings that reform opponents can exploit.

Also, we have found that the benefits and the costs of reforms are rarely evenly distributed, so structural reforms must be backed by measures to compensate those who lose from the reform or to phase in the reform so as to avoid hitting individuals and households with sudden, negative shocks. That is why pension reforms, for example, must typically be phased in over relatively long periods. But we also know that such measures must be temporary and targeted to compensate real, and not merely perceived, losses. It took many countries decades to adjust the early retirement schemes that were introduced in the early 1980s as compensation for job losses. Often, though, it may be possible to devise such measures in a way that goes with the grain of the reform rather than cutting against it. Compromise need not undermine policy coherence, as the governments of France and Mexico discovered when adopting pension reforms in 2003 and 2007, respectively.

Sound public finances also help a lot. This might sound paradoxical—today, fiscal discipline is an important driver for reforms, and countries cannot afford to wait for their finances to be back on track before embarking on reforms. But as structural reforms, like in transportation or taxes, may bring transition costs, some fiscal room for manoeuvring has to be maintained. In short, consolidation not only keeps interest costs down for the future, but gives governments the room to be able to cope with short-term challenges of structural reform.

Reform is about changing for the better, and good policy is about making reform happen. This is precisely the title of another OECD report which will be launched in Paris on 26 November 2010. This time we analyse OECD reforms in ten

different areas, including product markets, tax, environment, health, education, public administration, fiscal consolidation, regulatory policy, labour markets and pensions.

These OECD reform experiences consistently point to the importance of strong leadership. However, this should not be understood as advocacy of a top-down approach or a preference for unilateral action from on high. While unilateral reforms are sometimes the only way forward, demanding both determination and political cunning, our experience shows that successful leadership is about winning consent, not securing compliance.

At every level, be it national, local or even international, it usually pays to engage opponents of reforms rather than simply trying to override their position. Largely for this reason, effective communication is of the greatest importance: one cannot overestimate the role of consistency in building and delivering the right political messages, and highlighting the evidence when presenting the case for reform and describing the desired outcomes.

This is particularly important in education and health reforms, where professionals—if not engaged—tend to be successful in blocking reforms. In most countries, they command greater public trust than any political executive and, in any case, their input may well improve the quality of the original reforms. Commissioning research by authoritative, impartial institutions, such as the Productivity Commission in Australia or the CPB Netherlands Bureau for Economic Policy Analysis, can also help to win support, though it can also lead to counter reports and accusations of bias. But none of this should matter: as our report shows, a general lesson is that structural reforms often require several attempts before they get through. Indeed, most success stories are etched from the ruins of previous failure. As Samuel Beckett said, “try again, fail better”.

There are many reasons why the OECD is committed to helping its members and partners achieve successful reform. We want to build better policies for better lives and to make our economies stronger, cleaner and fairer. This means being prepared to change how we do things. Meanwhile, there are other particular challenges to confront—climate change, population ageing, increasing competition,

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pressures from globalisation, emerging imbalances in trade, finance and geopolitical power, and endemic poverty, to name but a few. Addressing these pressures demands structural reforms. Such challenges underline the urgency of achieving the right policy mix and of people (and countries) acting in concert, and without delay. Understandably, given the current financial, economic and social crisis, governments want to give priority to rescuing their financial institutions and boosting the economy in the short term. But as we now see, there are no quick fixes. The recovery is fragile, and we also see that climate change, ageing and the other global issues that we faced before the crisis still haunt us. To quote the shortest novel ever written: “When he woke up, the dinosaur was still there” (Augusto Monterroso). We have no choice, we have to face reality, and we have to be quick. There is no time to lose on the long and winding roads of reform—and we could gain some time by making more of an effort to learn from each other.

So is there a recipe to reform and be re-elected? No, people tend to vote more on ideas for the future than on results from the past. Alas, failures have more electoral impact than successes. Even good and well-managed reforms might not yield the desired result in time for election day—as the Hartz labour market reforms in Germany showed so clearly.

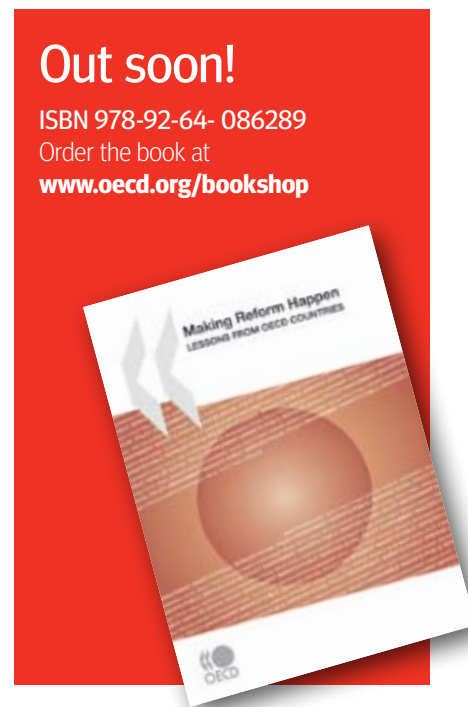
Still, here are a few tips. First, governments and political parties should design reforms in the pre-campaign period, use clear communication to promote them and then start implementing them from day one of settling into office. The rest is down to skill, judgement, leadership and support, and using best practices and insights of the kind the OECD can provide. After all, if reform is indeed more of an art than a science, politicians should at least ensure they are working from a well-prepared “palette”.

NOTE: The OECD high-level conference, Making Reform Happen, will be held on Friday 26 November 2010 at the OECD Conference Centre in Paris. Participants will discuss how they can apply the lessons learned in Making Reform Happen to the global challenges faced by OECD countries and emerging economies today. The conference is organised jointly with the Korea Development Institute, and will be one of the first high-profile events to mark the OECD 50th anniversary. For more information, see www.oecd.org/mrh

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References

OECD (2010), *Making Reform Happen: Lessons from OECD Countries*, forthcoming, ISBN: 978-92-64-08628-9



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