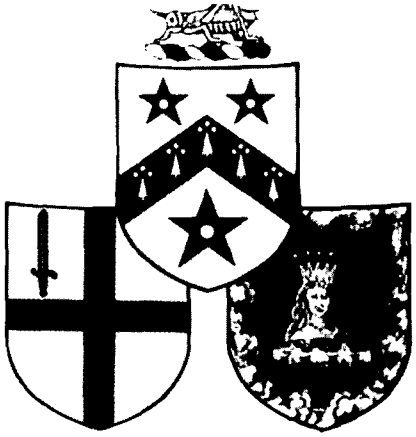
G R E S H A M

C O L L E G E



NEW LEARNING FOR A NEW CITY

CIPHERS AND CODES

A Lecture by

PROFESSOR TOM CANNON CIM FinstEX FRSA FCIM
Mercers' School Memorial Professor of Commerce

4 March 1999

New Learning for a New City

Ciphers and Codes

Tom Cannon: Mercers' School Memorial Professor of Commerce at Gresham College

The overarching theme of this series of lectures has been the nature of change in business, the ways in commerce especially its leaders must change to adapt and lessons we can learn about this process of adjustment. Almost inevitably this theme raises issues about the rules, the support systems and structures which surround business help or hinder these shift. It is clear from the first and second industrial revolutions that the regulatory environment, the systems of corporate governance and ways the business (especially the City) relates to government have significant often unexpected effects on the nature and competitiveness of business. Debate on competitiveness, fitness for purpose, standards in business, the extent of transparency even the nature of corporate governance raises major questions about the ways in which the rules which guide behaviour are understood and translated to action and affect the long term competitiveness of the economy.

This lecture explores the ways in which the new learning especially the debate on competitiveness translates into the type of regulatory environment, hence the types of skills and ultimately appropriate education, training and development. Particular attention will be paid the government's role as the custodian of the environment in which competitiveness evolves especially given the wider social and environmental aims which the state shares with the wider communities business serves. The way the state governs directly (and indirectly) affects the ways business operates and governs.

The Context

For business, regulation – like death – is always with us. From the moment an enterprise is created until it fails, gets acquired or establishes itself as a global player; local, national, regional or international regulations affect the firm's nature, form, development and competitiveness. The simple flow chart in figure 1 gives some indication of the influence of regulation on business life.

Fig 1 Regulating Business

Regulations (include)	Stage in Business	Authorities (include)
Company law requirements	Establish Firm ▼	Companies House
Planning controls	Obtain premises ▼	Planning authorities
Employment, tax, insurance, social security	Employ people ▼	Inland revenue, Employment Service
Competition law	Choose markets ▼	Office of Fair Trading, Department of Trade and Industry, MMC
Health, safety, environmental regulation	Start to produce ▼	Health and Safety Authorities
Consumer safety, trades description, sale of goods	Trade ▼	Trading Standards Authorities
Customs, export and import of goods	Internationalise	Customs and Excise, European Commission, World Trade Organisation

The above figure shows how the scale of regulation and influence of regulatory authorities grows. Alongside these, there is a structure of regulation, which affects different industries or sectors from toys to food, from primary industries, through manufacturing to retailing and distributions..

Regulation can set the minimum standards of behaviour in a market, creating both a level playing field for firms and basic standards of behaviour. Environmental protection, health and safety, patents and licenses, terms of trade and contracts are regulated in most societies. The USA prides itself on the freedom of its markets but within forty years of independence it had passed laws to regulate; customs and duties (1789), patents (1790), the movement of goods (1811), land usage (1812) and banking (1816). The pervasive nature of regulation led Balwin to say of the current interest in regulation that:

"Just as Moliere's M. Vautrin (in *Le Bourgeois Gentilhomme*) discovered one day that what he had been speaking all his life was prose, the phenomenon of government regulation is far from new and long predates the current preoccupation with this policy instrument."[1]

[1] Baldwin, R., Scott, C. and Hood, C. (1998) *Regulation* Oxford, Oxford University Press

The contemporary interest in the regulation of and other aspects of policy for business reflects increased interest in;

- the use of regulation to achieve economic, social and environmental goals
- the limits on the effectiveness of regulation
- the scope for achieving the ends sought from regulation by other means
- the indirect effects of regulation.

Regulation to Achieve Policy Goals

Regulation is one of many means available to governments seeking to achieve their economic, social and political goals. Industrialisation, in particular, forced governments to intervene either to speed up or support industrial development or to protect people, communities, the natural and built environment from some of the consequences of industrialisation. The British government legislated to limit the liability of investors in new businesses, but then passed the Factories Acts to protect workers. The US government gave massive land grants to the builders of the transcontinental railways then created national parks to protect threatened environments. The German monarchy protected the rights of the owners of new industries while requiring a high degree of co-determination in business decisions.

Over the last century, governments have acted as trust busters and trust builders. At the start of the century the US government broke up Standard Oil, more recently it broke up Ma Bell into a number of Baby Bells. The same process stimulated an explosion of enterprise in the operating companies. Governments create their own trusts either by creating monopolies or by taking certain industries into public ownership. Postal Services, for example, remain a state monopoly in the USA while Holland has freed its postal services from state control. Earlier in this century "telephones ... electricity, gas and rail industries were subsequently nationalised in order to promote rationalisation and make the control of natural monopoly elements more straightforward in the light of what was seen at the time by many as the failure of regulation to ensure efficient and accessible public services"[2]. More recently, the same industries were privatised to achieve many of the same objectives.

State ownership of many of these industries was probably essential in the post World War 2 era to provide access to capital, stable economic direction and leadership and survival of their core capabilities. Privatisation was equally important to provide access to the new forms of capital and leadership required for innovation, internationalisation and competitiveness over the last twenty years. The forms, nature and appropriateness of government intervention reflect the type of economic and competitive conditions as much as the prevailing political consensus or goals of policy makers.

---

[2] Baldwin (1998) ibid

The Limits to Power

The formation and delivery of policy by government and its agencies is subject to the same pressures as other aspects of society. Rapid technological change, for example, poses three distinct challenges to government. First, new technologies can contain threats to jobs, industries, the environment, health and, even, ways of life. There is an expectation that the state – in some form – will protect people from these threats. Second, the same technologies can offer solutions to environmental deterioration and illness. These technologies can offer new jobs, create industries or increase the competitiveness of existing industries and improve prospects for entire societies. People are unforgiving of governments that miss out on these opportunities. Third, rapid technological change makes it hard for government to discriminate between the threats and opportunities or deliver policies that are timely and appropriate.

Economic change creates similar challenges. The internationalisation of economies makes it difficult for national or regional governments to act effectively. In part, this reflects the breaking down of barriers between economies. Companies, trades unions, pressure groups, customer and consumer groups operate across and outside national borders. Knowledge, the most important single factor of production today, moves through the Internet with few constraints imposed by these boundaries. At the same time, regional or international agreements limit the power of any government to advocate policies, legislate, regulate or require specific types of behaviour without reference to others. Members of the European Union might accept the principle of subsidiarity but all acknowledge the obligations under their treaties of membership. Similarly, some issues notably protection of the environment transcend national borders.

New Days, New Ways

This new context forces governments to acknowledge the limits on their power to act and to review the ways open to them to achieve their goals. This does not mean that states will not intervene to achieve their economic, social or environmental goals. This environment, however, forces governments to review the available options and the role of regulation as a means of achieving ends.

The vigour of the contemporary debate about regulation as a means of achieving goals reflects the extent of the challenge facing societies as they adjust to changing conditions. The last fifty years saw an avalanche of legislation in North America, Europe and the UK. In sixteen months between April 1, 1996 and August 21. 1997, US Federal Agencies produced 5,476 final rules (or regulations) governing aspects of life in the USA. One estimate of the costs of compliance with Federal regulation puts the annual cost at around $700Bn[3]. The more conservative estimate of the Federal Office of Management and Budget puts the annual costs of compliance at $370 Bn[4]. While there are no equally reliable figures for Japan, Europe or the UK, there is no evidence that the expense in these countries is materially lower than in North America.

---

[3] Hopkins, T.D. (1996) *Regulation Costs in Profile*, Centre for the Study of American Business, Policy Study No. 132, August

[4] US Office of Management and Budget (1996) *Economic Analysis of Federal Regulations Under Executive Order 12866* January

Despite these costs, there are powerful pressures on governments to regulate. Some of these pressures grow from assumptions about the nature of civic society. The US Office of Management and Budget, the agency responsible to overseeing and controlling the flow of regulation in the USA, doubts that "a civil society (could) even exist without regulation." Other pressures for regulation emerge from the huge disparities between the direct and the indirect costs of regulation. In North America, it is estimated that the direct costs of regulation i.e. operating the Federal Agencies responsible for the regulations, are around $15Bn. This figure is dwarfed by the above estimates of the costs of compliance - the charges on companies or communities of fitting in with the regulations.

Perhaps, the greatest appeal of regulation is the apparent fiscal neutrality of this form of action. "As far as government and government regulatory bodies are concerned, the bulk of the costs are 'external' (that is, they fall on others). Consequently, no matter how well-meaning the regulatory decision-maker, he or she probably fails to take into account most of the costs of his or her actions. In such circumstances, is likely to be expanded far beyond its 'efficient' level[5]."

The pressure on government to regulate is especially strong where there are threats to the safety or security of their communities. Environmental change illustrates some of the hardest dilemmas to policy makers. They are aware of the need to take action but conscious of the limitations of their power. It would, for example, be almost impossible for governments to accept the direct costs of cleaning rivers, disposing of waste or reducing atmospheric pollution without introducing regulation, requiring producers to cut back on the causes of these problems. "The first generation of environmental policy accomplished several things. The regulations unquestionably produced dramatic environmental improvements. Many dirty waters became swimmable, fishable, and drinkable again. Boston Harbour, Galveston Bay, and the Connecticut River are all far cleaner. Even Cleveland's Cuyahoga River, famous for its oily film, obnoxious smell--and for catching fire in 1969--now sports tourist cruise ships and only occasional visible residue. The war on air pollution has reduced smog, even in places like Los Angeles, and some waste dumps have been reclaimed while others have been safely contained[6]."

Unequal Calculations

The principle of 'the polluter pays' won widespread acceptance in societies that were alarmed at the seemingly inexorable deterioration in their environment. Growing awareness of the costs of this form of intervention raise questions about the relationship between costs and benefits especially in the light of the accelerating pace of change. The difficulties of policy makers are increased by the problems faced in calculating the cost of inaction or non-compliance. The tools exist, for example, to estimate the burden on industry of new food or drug safety rules. Equally reliable methods do not exist to measure the cost of a failure to intervene unless a crisis such as that affecting the UK's beef industry occurs. The complexity and difficulty in predicting the consequences of action add to the reluctance of governments to intervene through regulations that are hard to change and add to the burdens on business.

---

[5] Institute for Economic Affairs (1998) *Regulatory Models* Paper prepared for the Committee of Inquiry

[6] Kettl, R. F. (1998) *Environmental Policy: The Next Generation* Brookings Institute, Policy Papers, October

Pressure for a shift in thinking about policy formation and delivery to meet the needs of the new economic conditions can be seen in the USA, Europe, the UK and Asia. While acknowledging the achievements of earlier US environmental policies, Kettl points out[7] that "the costs--economic and political--of current environmental policy have risen to the point that continuation of this regime is unsupportable. How can we maintain the first generation's commitment to a clean environment, develop new strategies for attacking problems that the first generation left unanswered, and crack the tough economic and political dilemmas that the first wave of environmental regulations left in its wake?"

New Regimes

These shifts in thinking about appropriate forms of policy intervention are affecting approaches to regulation internationally. Jacques Santer. President of the European Commission will, for example, soon host an informal summit of European leaders with the theme 'Do Less, But Better' to tackle the growth of Europe wide regulation. The EU has already made some progress in "producing fewer laws and regulations than in the past. In the 12 months before Europe became a single market in 1992, the commission put forward 60 new legislative proposals. Last year, the figure was 10. Santer has vetoed staff ideas to introduce uniform drunk driving limits and safety rules for zoos[8]."

In the UK, the work, first of the Deregulation Unit and now the Better Regulation Unit consistently won Prime Ministerial support. Tony Blair argues that "Whitehall, also, needs to be far more discriminating in its intervention[9]." The Deregulation Unit was originally created in the mid 1980's to 'cut out red tape' especially where regulations stood in the way of jobs and wealth creation. Early successes over shopping hours, VAT thresholds, PAYE/NICS illustrated the scope to achieve policy goals through means which reduced regulation with its attendant costs. The focus of the Deregulation Unit widened, for example, to include European regulation but retained its business focus. Equally important, the focus was firmly on fewer regulations achieved largely by attacking the forces behind regulation. Re naming the Unit mirrors a major shift in thinking. In a recent lecture to the Regulatory Policy Institute, Mark Addison described this as "stick" not "hearts and minds" in shifting opinions within Whitehall. The thrust of the government is to accept "the benefits of a regulated world and aims to target bad regulation rather than all regulation. The move is away from deregulation toward better regulation, balancing helping business and protecting people[10]."

---

[7] Kettl, R. F. (1998) *Environmental Policy: The Next Generation* Brookings Institute, Policy Papers, October

[8] Business Week (1998) *Bureaucrats in Retreat* October 19

[9] Blair, T. (1998) *The Third Way* London, Fabian Society

[10] Addison, M (1998) *Deregulation to Better Regulation: More than a Change of Name* Hertford Seminar of the Regulatory Policy Institute, May

Alternatives

There are three broad definitions of regulation. The first, and probably the most widely understood, views regulation as "an authoritative set of rules, accompanied by some mechanism, typically a public agency, for monitoring and promoting compliance with these rules."[11] The second "takes in all the efforts of state agencies to steer the economy. Thus, while rule-making and enforcement systems come within such a definition, a wide range of other government instruments based on government authority such as taxation or disclosure might also be included. This definition expands the definition beyond restriction to the creation of incentives and the means of enabling certain types of behaviour to develop. A third, much wider definition, considers "all mechanisms of social control – including unintentional and non-state processes – to be forms of regulation."[12] Within the Committee of Inquiry attention is focussed almost exclusively on the first two definitions.

The public policy focus of the Inquiry has lead to an emphasis on the role of government – local, national or international – working directly e.g. through statute or through its agencies. Daintith[13] used the earlier work of Mayntz[14] to produce a typology of instruments that has been adapted slightly for this work (see table 1)

---

[11] Baldwin, R., Scott, C. and Hood, C. (1998) *Regulation* Oxford, Oxford University Press

[12] Baldwin (1998) *ibid*

[13] Daintith, T. (1988) *Law as an Instrument of Social Policy* Berlin, Walter de Gruyter and Co.

[14] Mayntz, R. (1983) The Conditions of Effective Public Policy in Hood, C. *The Tools of Government*, London

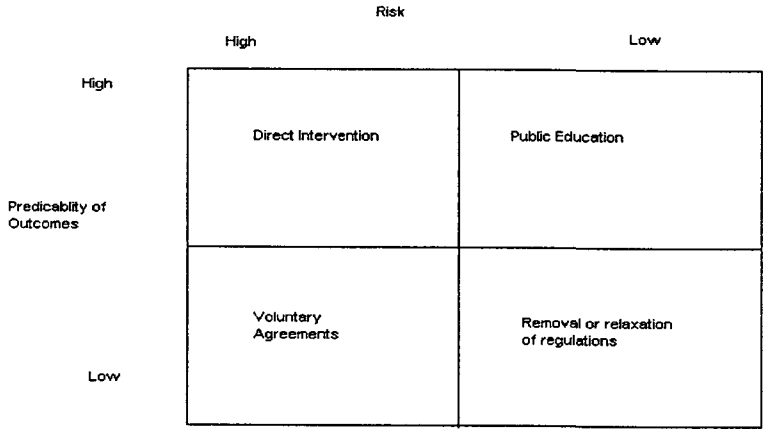
Table 1 Typology of Policy Instruments

Instrument	Nature
Information	Government and other information or development campaigns such as Investors in People
Self Regulation and Voluntary Action	This can be undertaken commercially for example the Good Housekeeping Seal of Approval, through industry based agencies e.g. the Advertising Association's Code of Practice or though state supported agencies notably the British Standards Institutes "kitemark".
Education	Education, training and other initiatives to support or reinforce behaviour for example the proposed Management Code on ethics, values, the environment and lifelong learning
Exemplar initiative	Government acting as an exemplar for specific behaviours e.g. purchasing policies to encourage innovation in small firms
Public Sector Management	Managing public bodies in ways that deliver specific outputs for example setting waste reduction targets for education
Public benefits	Using subsidies and other benefits to stimulate certain behaviours. This includes help to exporters or innovators
Removal of taxation or granting tax exemptions	Firms moving into freeports faced lower taxes to encourage them to operate in economically disadvantaged areas
Removal or reduction of regulations	Some communities simplify or eradicate planning rules to encourage mobile firms to locate in their area
Consensual constraints	Control of activity through contractual and other agreements with government such as the positive employment policies linked with City Challenge projects. Successful contractors agreed to employ local labour
Taxation	High taxes can penalise certain types of activity or low taxes encourage other behaviours e.g. tariff to encourage local producers
Unilateral regulation	This can impose specific requirements on firms wishing to pursue their activities. Planning laws, licensing regulations etc fit into this.

Each of these approaches is consistent with the view that government has a duty to determine the basis on which business operates. The view that the state has a responsibility to produce "authoritative" sets of rules to determine business behaviour is closely linked with the notion that government reflects and, thus, should protect the public interest against certain types of private interest.

The Public Interest

The public interest justification for intervention is rooted in the explicit belief that the market will, sometimes or under specific conditions, fail to protect the vulnerable. Action is needed to overcome these market failures by either making markets work better or limiting the power of those dominating the market. Implicit, however, is the notion that the regulators have the knowledge, expertise and an interest in making markets work more effectively in the public interest. There is little evidence that government policy makers have the knowledge or expertise to make markets work better than the private sector. It is argued with equal force that regulators are not as disinterested in the outcomes as the protagonists of intervention would suggest. Regulators can act in their own interests, be corrupted or pursue goals that have nothing to do with the market.



These arguments lead to the view that the role of regulation and policy is to establish the framework or rules within which firms operate. These rules can include minimum acceptable standards for employment practices, forms of competition, social and environmental impact and compliance with other legal requirements. This view of the role of policy is consistent with the notion that government has a duty to intervene to steer the economy. The forms of this intervention will vary over time and dependent on circumstances. Direct, intrusive intervention is needed where the risks to the public are high and the consequences of intervention predicable. Voluntary agreements are most effective when the perceived risks are high but the results of legislative intervention are hard to predict. While educational campaigns are most valuable

where risks are low and the effects of intervention can be predicated. Low risk, low predictability situations probably require the removal of regulation. Rapid technological and economic change means that it is hard to predict the outcomes of intervention. This has prompted the UK and US governments to focus their efforts of ways to achieve their public policy goals with a minimum of direct intervention.

Reinventing Government

This stronger focus on the wider portfolio of tools open to government is part of a wider shift in thinking sometimes called "reinventing government". Central to this movement are six broad principles;

1. Recognition of the limits on government
2. Acknowledgement of the potential costs of intervention – as well as the gains
3. Awareness of the risks of badly timed action in the face of technological change
4. Recognition of the dangers of stifling worthwhile activities elsewhere in society by government action
5. Realisation of the scope for partnership
6. Awareness of the value of the market as a mechanism for control on abuse or excess as well as a creator of opportunities.

Accepting these principles puts greater emphasis on the ability of policy makers to achieve their goals through advocacy, education, incentives and partnership. Regulation becomes a policy of last resort emerging from central or local governments with greater strategic capacity than previously. The resulting, much smaller flow of regulation can then be subjected to;

- Much wider public participation in the rule making process
- Careful cost-benefit analysis
- Periodic Review

David Varney points out that "good and effective regulation depends on sound principles and concepts fitted to the challenges that lie ahead. Importantly, it must also be based on good practice, on workable processes and, above all, on positive attitudes and behaviour[15]."

[15] Varney, G. ibid

In the USA the view that government was "too large, too expensive, too intrusive wasteful and inefficient[16]" prompted a series of efforts at reform. Most recently, Vice President Gore was given the task of creating a government that works better and costs less. The Clinton Administration has established the National Performance Review to reshape government to make it more responsive to the type of agenda emerging in the new economy. The National Performance Review was built around a coalition of interest groups including "the bureaucracy (particularly federal employee unions), public policy experts, public administration advocates, environmental groups, health care reformers, consumer advocates and business ...(it) focused primarily on how government should work, not on what it should do[17]."

This approach has some similarities with the redirection of work in the UK under the Better Regulation Unit. Here, the emphasis is on not regulating unless essential and basing all regulation on the five tests and five principles;

Tests	**Principles**
Necessity	Transparency
Effectiveness	Consistency
Fairness	Targeting
Balancing Risks and Costs	Accountability
Commanding Confidence	Proportionality

The UK, however, lacks many of the hard, quantitative instruments available in the USA to measure many of the costs and/or benefits, which underpin either the tests or principles. This would seem to mitigate in favour of approaches to policy formation and delivery that emphasis consensus building, voluntary or market action before recourse to regulation. Developing these measures and tools is a major challenge for government.

Moving Forward

Perhaps the most important shift in thinking required in this new environment is recognition – especially by regulators – of the limits on their power, for example, to act proportionally, balancing risks and costs and in a timely way. Where this is not possible, alternative approaches are essential.

---

[16] Nesterczuk, G. (1997) *Reviewing the National Performance Review* Cato Review of Business and Government Winter

[17] Nesterczuk ibid

In some cases, the market will resolve the problem with little need for intervention. The need, for example, for a global standard for personal computers was not resolved through international treaty but through the success of Microsoft MS-DOS and Windows. The result might not be popular in some quarters but it is effective.

There are many potential gains for imposing across government regulators a 'duty' to promote competition and, where new regulations are proposed, to consider non-regulatory alternatives. A structured, staged approach to non-regulatory alternatives requires policy makers to demonstrate to superiority of regulation over non-regulatory alternative. The latter include;

- Advocacy and education
- Leading by example
- Partnerships
- Encouraging voluntary action or self regulation
- Stimulating market based intervention.

In those cases where direct intervention through regulation is necessary, it should be public participation in the review process, cost-benefit analysis and periodic review. Equally important, the nature of regulation needs to shift fundamentally away from an input based approach – emphasising compliance with this – to an output based approach – emphasising specific behavioural outputs.

Advocacy and Education

Reforming central government to give it a greater strategic capability in the face of change is hard to separate from a clearer sense of mission and values. Clear advocacy of these values and their implications for others can operate on two different levels. First, there is the recognition of achievement. The R&D Index published by the Department of Trade and Industry identifies those firms investing significantly in their future through expenditure on research and development. Award schemes like the Queen's Awards for Exports and Innovation highlight the contribution of individual firms to national goals. Complementary awards for environmental excellence, learning at work can deliver policy outcomes with few of the negative effects of regulation.

Leading by Example

Government, itself, is the largest employer, the biggest organisation and has the most pervasive influence in most societies. Leading by example achieves three complementary goals.

1. Improves performance in government agencies
2. Sets standards for those outside government to follow
3. Closes the loop between advocacy and action

Government can use its power over funds to encourage departments and agencies to follow specific paths. The link, however, between funding and outcomes requires careful scrutiny. The Higher Education Funding Council's Research Assessment Exercise links funds for research with the quality and volume of research. This stimulated research output and introduced powerful competitive pressures on institutions to improve their performance. Similar initiatives could be used to support environmental policies, fair trade, fairness at work or wider views of stakeholders. A commitment to "walking the talk" acts as a policy filter while showing real belief in the policy.

Partnership

Some of the most profound shifts in thinking about ways to adapt policy formation and delivery to new conditions emphasise partnerships between government and others. There is growing recognition that the adjustments required to establish vibrant but responsible economies based on long-term investment demand new partnerships especially with business. These partnerships recognise the desire of all parties to improve the quality of life while recognising that "the voluntary action of individuals or groups of individuals can also achieve objectives much more efficiently than the state[18]." Partnership strategies lie at the heart of some of the more innovatory, recent initiatives in the UK. The government's *The Learning Age* Green Paper, for example, gave the task of exploring the value of a Management Code dealing with ethics, environmental and social responsibility and lifelong learning to the employer-lead Management and Enterprise National Training Organisation. The Prime Minister clearly sees "modern government (as) based on partnership and decentralisation[19]."

Voluntary action

Voluntary action can be a key element in any partnership-based approach besides offering tangible gains in its own right. Voluntary action can "avoid the practical difficulties of government regulation ... In particular, because the costs of regulation are not external to the regulatory bodies, the tendency towards over-regulation which exists in state systems is avoided. Furthermore, the system is more readily adaptable to changing circumstances than state regulation normally is ... One of the principle costs of state regulation (though an invisible cost) is the dampening effect on entrepreneurship and innovation which stems from the rigid rules usually associated with government regulation. The greater flexibility of private systems is a major advantage[20]." Voluntary regulation in sectors like retailing highlights the scope for using voluntary regulation more extensively as both an alternative and as a complement to government action.

---

[18] Haskins, C. (1998) *Rules and More Rules* Financial Times, 12 May

[19] Blair, T. (1998) *The Third Way* London, Fabian Society

[20] Institute for Economic Affairs (1998) *Regulatory Models* Paper prepared for the Committee of Inquiry

The Market

Market based approaches can overcome many of the difficulties with voluntary intervention especially where consumer or intermediary knowledge and power is linked to market opportunities. In some senses retailers like Tesco, branded goods producers like Body Shop are market-based responses to consumer concerns. A system of incentives for enterprise that makes it easier for new entrants to compete with superior alternatives or highlight gaps in service or provision is a key element in any emerging system of regulation. Not-for-profit organisations like Underwriters Laboratory, BSI, Green Seal, The Consumer's Association and others play a vital role in both informing consumers, business and policy makers while acting as powerful constraints on the abuse of market power. It is, however, not clear whether their 'not-for-profit' status is an important defence of their integrity or a constraint on their growth.

Conclusion

Shifts towards more partnership, volunteer or market-based approaches are unlikely to work without significant changes in nature of regulation itself. The failure of traditional, highly prescriptive approaches was vividly illustrated with the Piper Alpha disaster. Lord Cullen's report demonstrated that an externally imposed, highly prescriptive safety regime could not cope with rapid technological change, testing conditions and low involvement. His report prompted a shift in approach – from detailed requirements, to operator ownership and self verification – which has changed thinking on appropriate forms of intervention.

A shift in thinking away from direct intervention and direct enforce towards indirect intervention and indirect enforce offers major advantages for policy makers. It should allow speedier action, while minimising the risks of error. It ought to produce lower direct and indirect costs of compliance while being easier to enforce. This emphasis on the indirect approach will allow government and business to establish genuine partnerships based on both parties integrating their strategies while developing tactics and responses to particular conditions. Regulation will, however, remain an integral part of the 'body politic.'

In avoiding abuses of regulation changes in process may be inevitable especially;

- More systematic and transparent cost / benefit analysis of proposals. Estimates of the direct and indirect costs of regulation and compliance should be published
- The powers of the Better Regulation Unit to review important proposals, laws and regulations should be enhanced. The lessons of the US National Performance Review should be fully integrated into the Unit's work. The cross-departmental reviews should be extended especially to local government. There is, also, a case for the Unit encouraging private sector scrutiny especially of the hard measures, which play such an important part in analysis elsewhere
- Government should report to parliament on the quantifiable and nonquantifiable costs of the regulation
- Wider private sector involvement in monitoring compliance should be encouraged.

This shift in approach will shift the focus of policy intervention away from those involving high compliance costs while increasing the incentives for voluntary action and self-regulation. Self-regulation is not a panacea as Ogus points out "where externalities are widespread, as in the case of pollution, a more centralised regulatory regime may reduce both information and enforcement costs. The requirement is, however, to create an approach to intervention which employs the full portfolio of tools and views direct intervention as an option of last resort where the costs of compliance are acknowledged. Of course these shifts will require that business re-learns how to operate without the protection and defences of a largely protectionist state.

GRESHAM COLLEGE

Policy & Objectives

An independently funded educational institution, Gresham College exists

- to continue the free public lectures which have been given for 400 years, and to reinterpret the 'new learning' of Sir Thomas Gresham's day in contemporary terms;

- to engage in study, teaching and research, particularly in those disciplines represented by the Gresham Professors;

- to foster academic consideration of contemporary problems;

- to challenge those who live or work in the City of London to engage in intellectual debate on those subjects in which the City has a proper concern; and to provide a window on the City for learned societies, both national and international.

Gresham College, Barnard's Inn Hall, Holborn, London EC1N 2HH
Tel: 020 7831 0575 Fax: 020 7831 5208
e-mail: enquiries@gresham.ac.uk