



# Meeting tomorrow's productivity needs through regulatory reform

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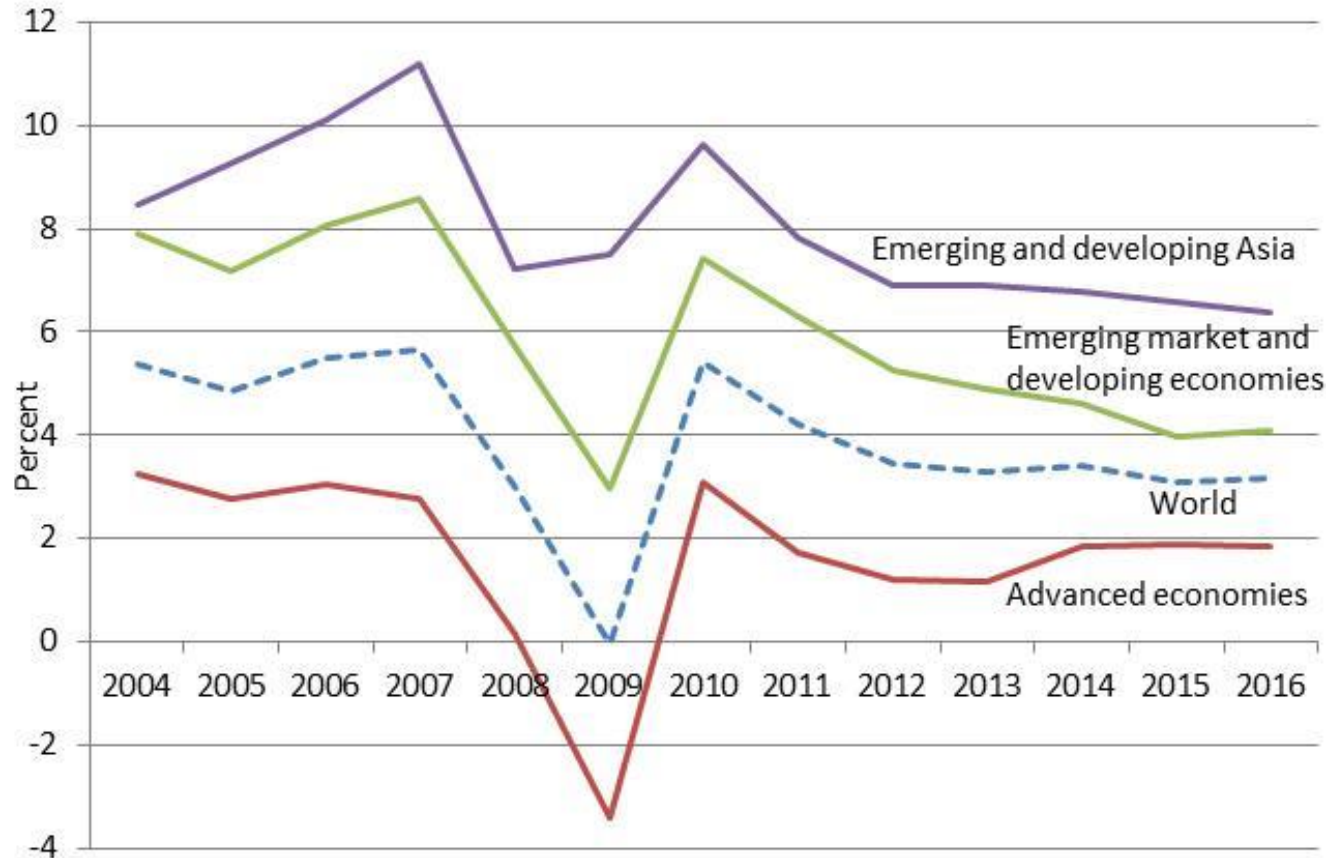
Australian Department of Foreign Affairs and Trade



# Global economic growth has slowed



Chart 1: Real GDP, percentage change



Source: IMF World Economic Outlook





# Productivity

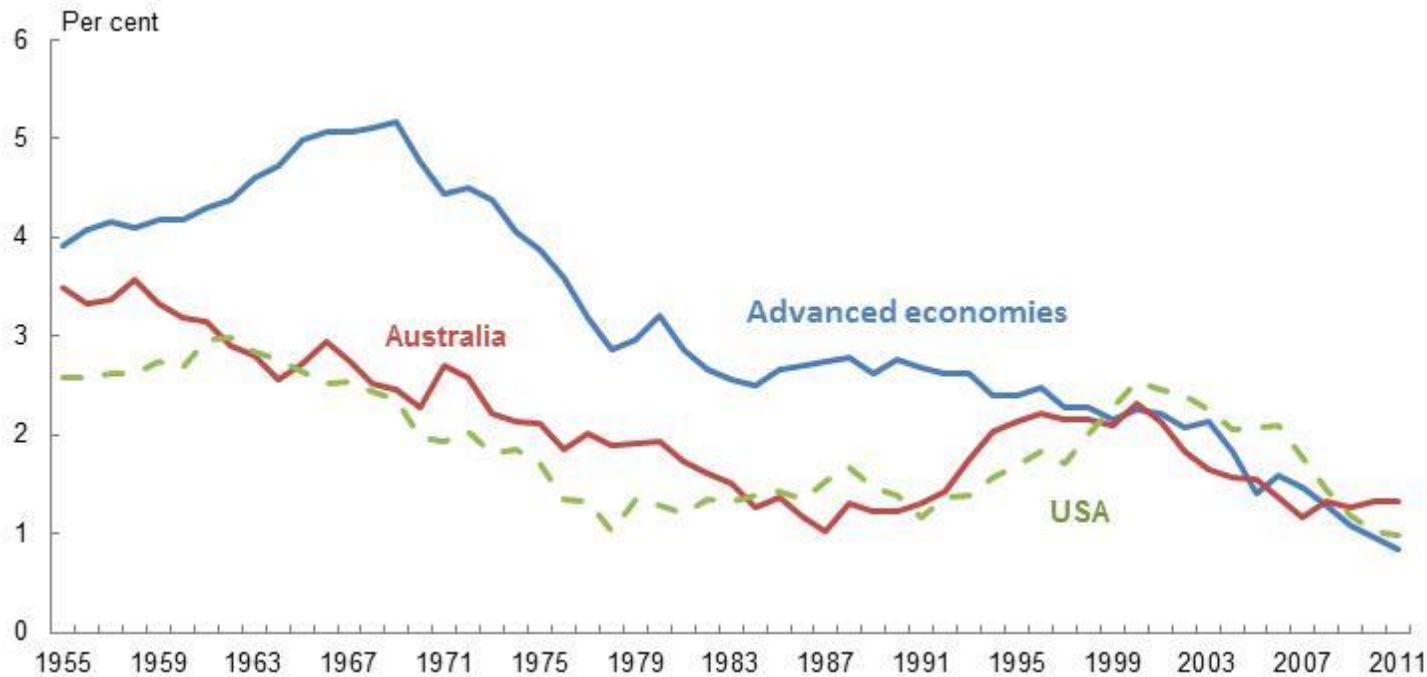
- Productivity matters because it can generate the higher incomes and government revenues needed to raise living standards and rectify disadvantage.
- Accumulation of physical capital and labour cannot drive sustained long run growth. This is instead driven by technological change (productivity growth)



# Increasing productivity is a challenge for advanced economies



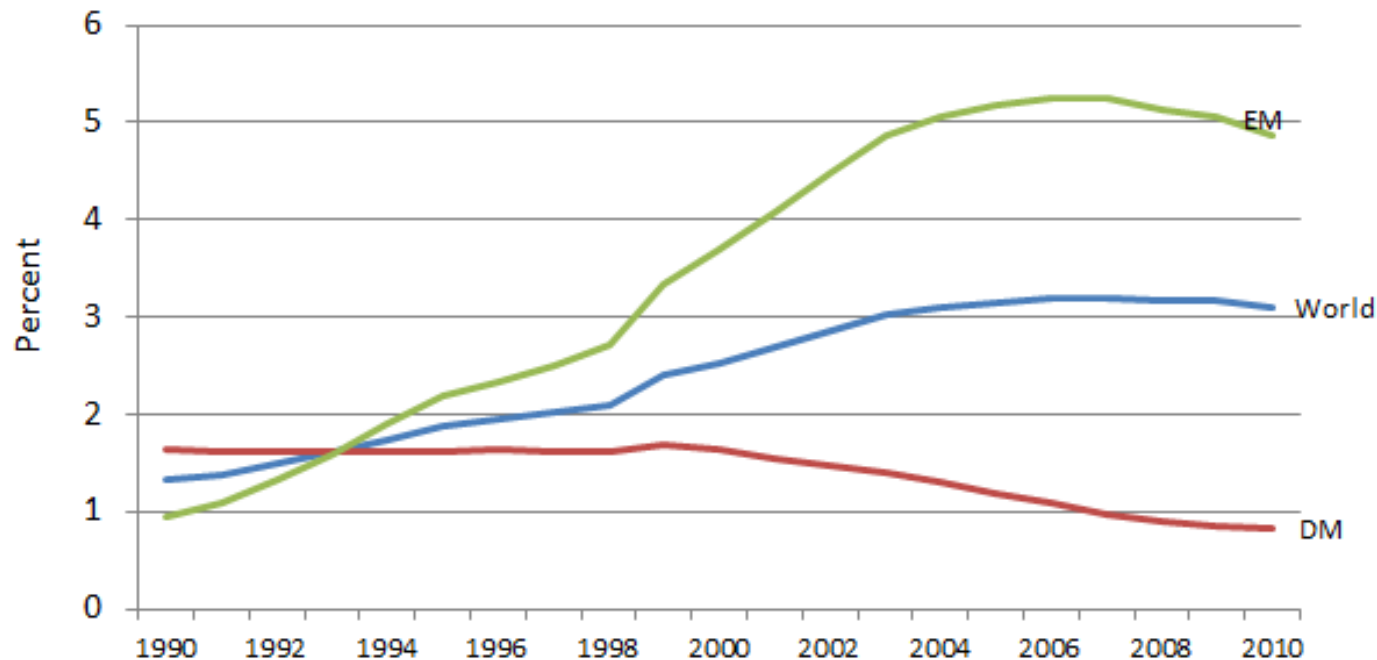
Chart 2: Advanced economies labour productivity growth



# ...for developing economies too (relatively speaking)



Chart 3: **Productivity growth**

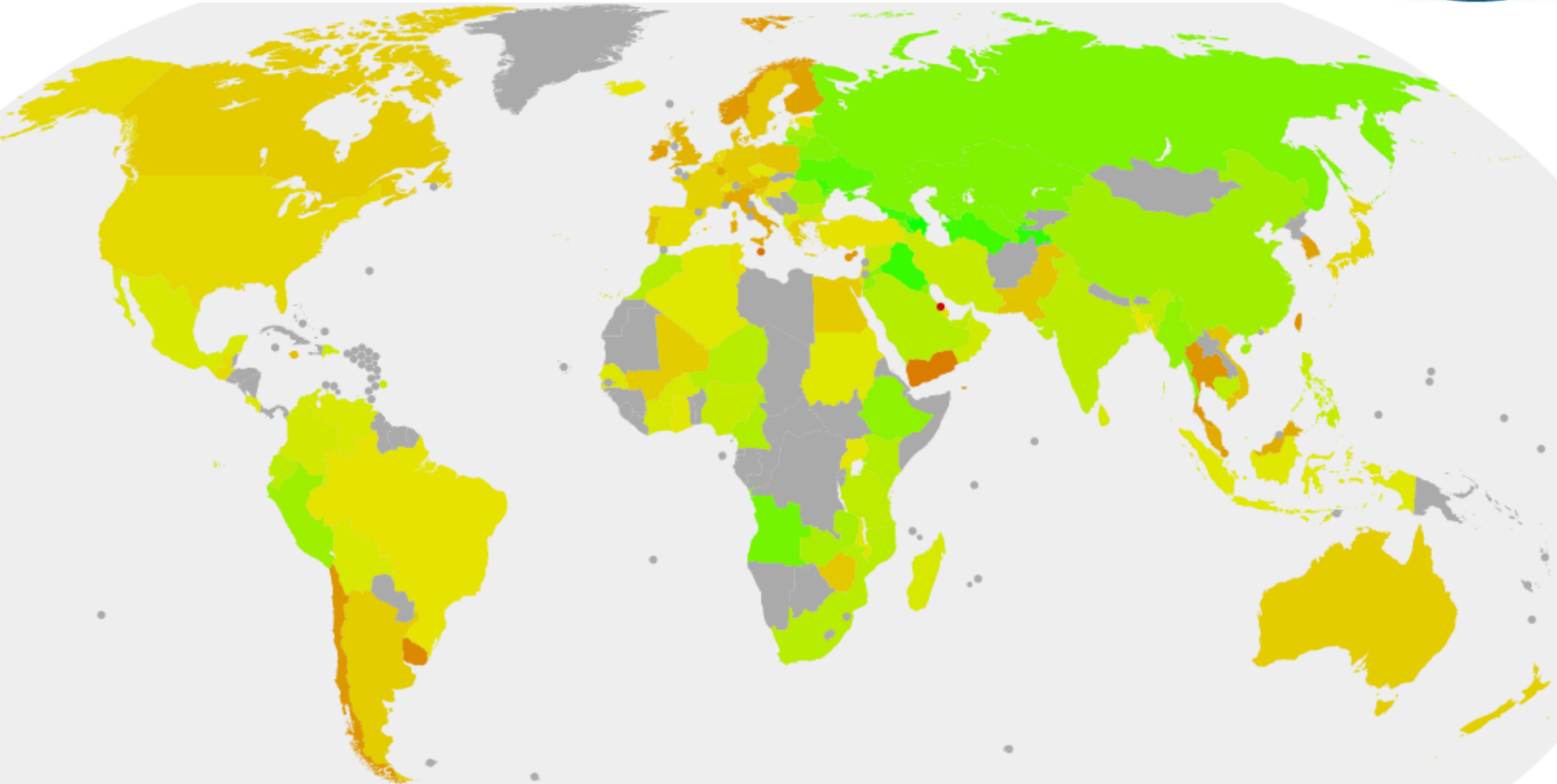


Source: Total Economy Database, author's calculations.





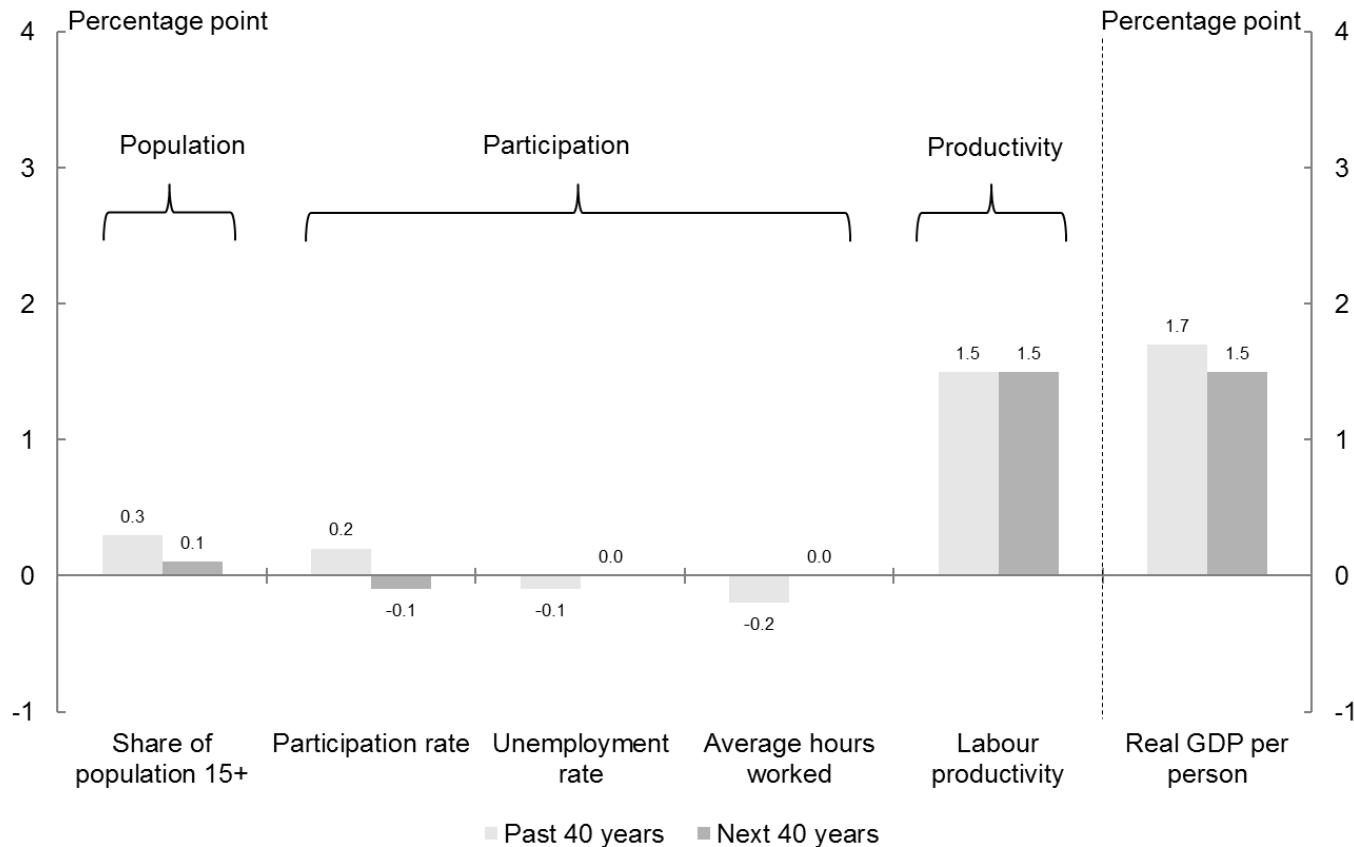
# Change in global productivity growth 1990-2000 to 2000-10



# Challenge maintaining living standards - Australia



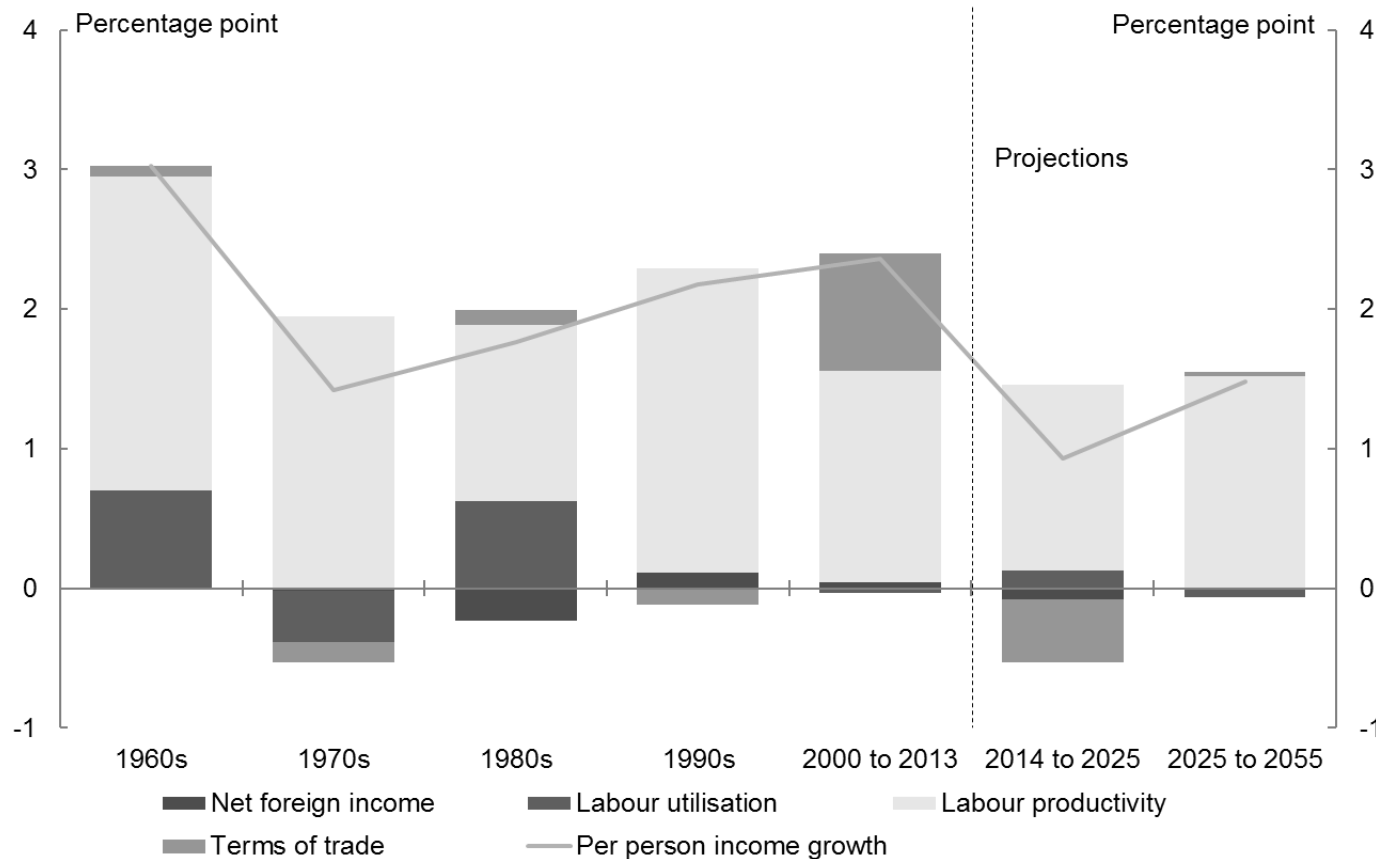
Chart 4: Contribution to growth in real GDP per person



# Challenge maintaining living standards - Australia



Chart 5: Sources of growth in real national income per person







# What can Governments do?

- a. Spend better (fiscal policy); and
  
- b. Regulate better



# Regulation and regulatory management

- Regulation is the most widely used policy instrument of governments
- Regulation creates benefits and costs for society
- Ensuring **high quality** regulation has become a key priority for governments





## Regulatory reform

- Reform, well-coordinated and planned, is **not** an ideological act, nor simply a concession to stronger markets that accelerates painful structural change.
- Instead, **it is** a means of managing necessary change so as to ease disruption and develop new opportunities for economic and social progress.





# Why is regulation important?

Regulations can promote productivity through:

- **innovation** – doing new things or old things better
- or through **better resource allocation** – the decline and exit of the weakest performers enables the more ‘creative’ use of the released labour and capital





## Regulation also...

- Boosts consumer benefits
- Improves competitiveness
- Fosters flexibility and innovation
- Increases job creation



# Examples of sectoral benefits (price reductions in real terms)

- Financial services
  - UK 70%; US between 30 and 60%
- Telecommunications
  - UK 64%; Korea 10-30%
- Electricity
  - Norway 18-26%; UK 9-15%





# Examples of economy-wide benefits (GDP, long-term effects)

- USA 0.9%
- Japan 5.6%
- Korea 8.6%
- Germany 4.9%
- France 4.8%
- Greece 9-11%

Source: OECD: various reports 1997-2000





# Costs of regulation

- Direct costs
- Impact on incentives for entrepreneurship and innovation

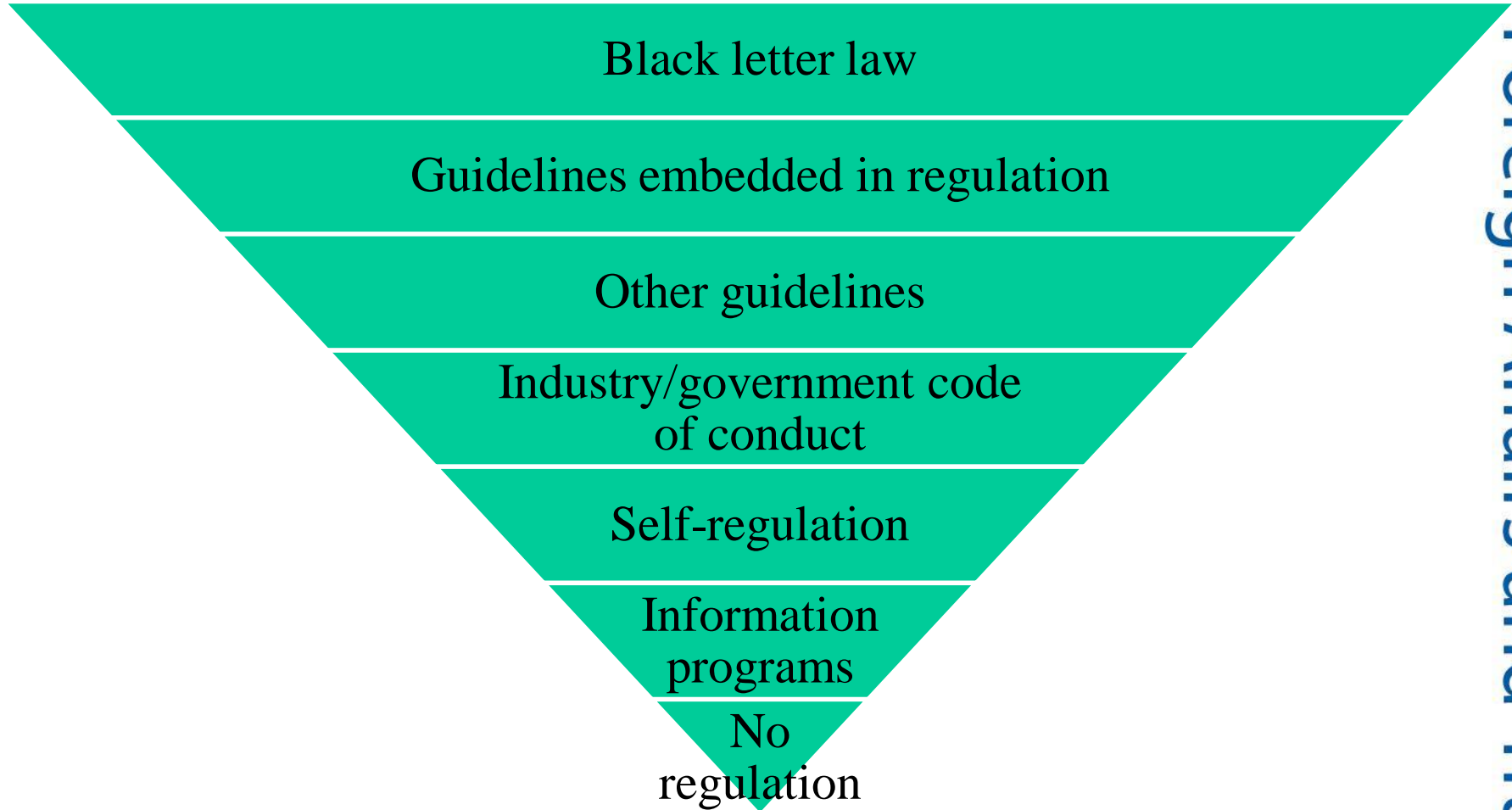


# Why resistance against regulations?

- Regulatory reform has increased business to greater competitive pressures
- Re-regulation, not de-regulation
- Rising prosperity, new knowledge and risk
- An off-budget solution
- Regulation builds on itself



# Range of options



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- “Good process in policy formulation is accordingly the most important thing of all on the ‘to do list’” (Gary Banks, Chairman of Australian Productivity Commission, 2012)



# Top priorities for your Governments too - Examples

- **Korea:** President Park's top structural reform priorities
- **Philippines:** Establishment of National Competition Commission
- **Indonesia:** Aim to improve World Bank's Ease of Doing Business ranking from 109 to 40
- **Vietnam:** Resolution 19 – aim to improve Ease of Doing Business ranking





# Building a Regulatory Management System



1. Adopt regulatory reform policy at the **highest political levels**
2. Establish explicit **standards** for regulatory quality and principles of regulatory decision-making
3. Build regulatory management **capacities**



# Improve quality of new regulations



1. Regulatory Impact Analysis/Statement obliges policy makers to:
  - Consult
  - Work through a sequential process of articulating the problem
  - Assess a range of options
  - Recommend the best option; and
  - Explain why other options are not so good.





...Improve quality of new regulations

2. Systematic public consultation procedures with affected interests
3. Using alternatives to regulation
4. Improving regulatory coordination



# Upgrade quality of existing regulations

1. Review and update existing regulations
2. Reduce red tape and formalities



# APEC-OECD integrated checklist on regulatory reform – some useful prompts

1. Is there an integrated policy for regulatory reform?
2. How strongly do political leaders and senior officials express support for regulatory reform?
3. What are the accountability mechanisms that assure effective implementation of regulatory policy?
4. Does the regulation avoid or seek to minimise discrimination?
5. Is regulatory reform coordinated at all levels of government?





## ...APEC-OECD checklist

6. Are capacities created to ensure quality regulations?
7. Has the legal basis of the regulation been reviewed?
8. Are the rules, regulatory institutions and regulatory management processes transparent, clear and predictable?
9. Are there public consultation and notification mechanisms?
10. Are methodologies to analyse the regulatory impact clear and transparent?
11. Are alternatives to regulation assessed?
12. Are there compliance/enforcement measures?





# Principles for Australian Government policy makers



Ten principles for policy makers (from *The Australian Government Guide to Regulation*)

1. Regulation should **not be the default option** for policy makers: the policy option with the greatest net benefit should always be the recommended option.
2. Regulation should be imposed only when it can be shown to offer an **overall net benefit**.
3. The cost burden of new regulation must be **fully offset** by reductions in existing regulatory burden.
4. Every substantive regulatory policy change must be the subject of a **Regulation Impact Statement**.
5. Policy makers should **consult** in a genuine and **timely** way with affected businesses, community organisations and individuals.



# Principles for Australian Government policy makers



Ten principles for policy makers (from *The Australian Government Guide to Regulation*)

6. Policy makers must **consult** with each other to **avoid** creating cumulative or overlapping regulatory **burdens**.
7. The information upon which policy makers base their decisions must be **published** at the earliest opportunity.
8. Regulators must implement regulation with **common sense, empathy and respect**.
9. All regulation must be periodically **reviewed** to test its continuing relevance.
10. Policy makers must work closely with their **portfolio Deregulation Units** throughout the policy making process.





# Australia's reforms

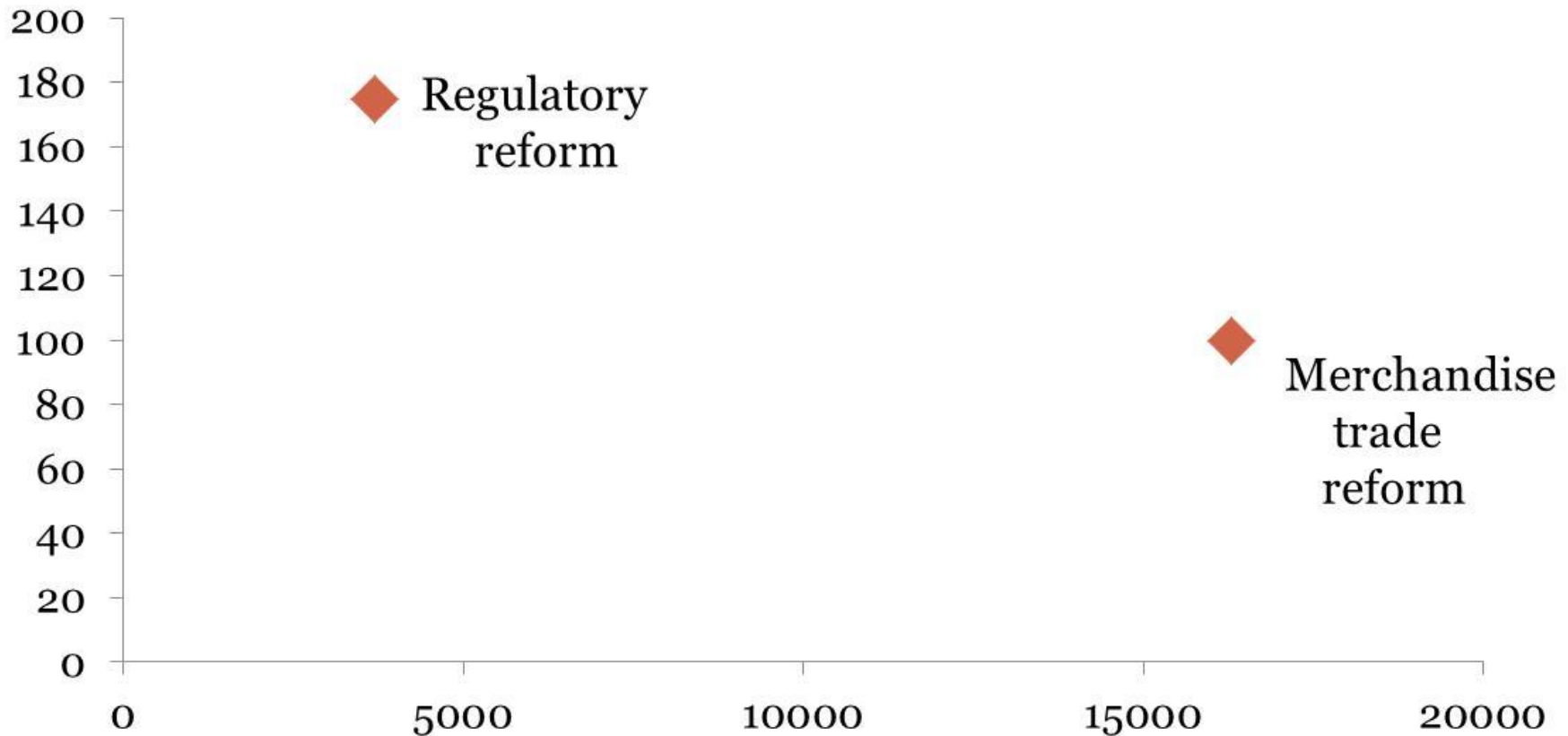
- Whole of Government (and economy-wide) approach to regulation-making
- Systematic use of regulatory policy tools
- Institutional setting for regulatory policy
- Preparation of Regulation Impact Statements
- Cabinet directive – enforcing preparation and consideration of RISs
- Required for primary and subordinate legislation
- Establish Office of Best Practice Regulation



# APEC-wide gains from reform in transport, energy and telecommunications



Chart 5: **Gains from reform (USD billion per year)**





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