Achieving Positive Impacts on Growth and Welfare through Better Regulation

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How does regulation impact growth?

POSITIVELY

- Good regulation creates the conditions for enterprise
- Promotes consumer and investor confidence
- Reduces regulatory risk
- Pursues the goals of inclusive growth which implies:
  - reducing negative externalities
  - facilitating policy goals
  - protecting consumers and the environment
  - Improving overall welfare by delivering net benefits through an intervention in society and the economy

How does regulation impact growth?

NEGATIVELY

- Overregulation and ineffective or poorly designed rules and regulation are negative to enterprise and societies' efficiency.
- Regulatory failure reduces efficiency and opportunities for innovation by:
  - preventing competition,
  - stifling growth and the exploitation of new markets
  - imposing excessive compliance costs
  - reducing the capacity to adapt to technological change and meet consumer needs.
- Estimated that a 25% reduction in red tape would lead to 1.6% increase in GDP across 25 EU Countries (Gelauff and Lejour 2006)
- Challenge to make regulation fit for purpose

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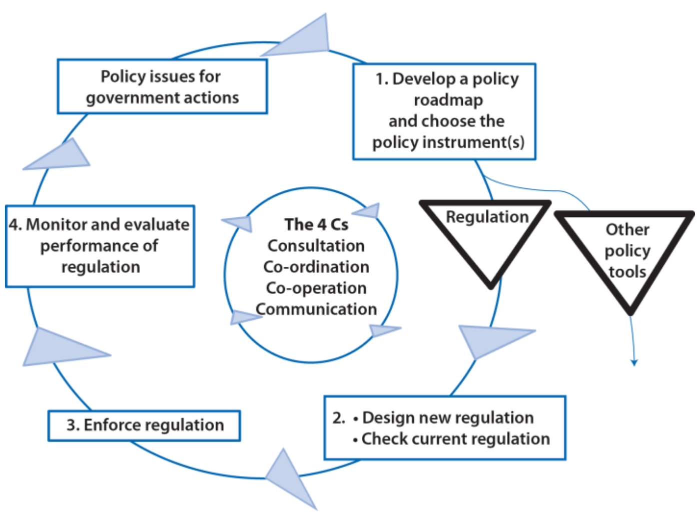
Regulatory costs can arise anywhere in the Regulatory Governance Cycle



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Roundtables of the RPC on Regulatory Reform for Inclusive Growth 2012 - 14

Two complementary approaches

1. Systemic Reform

- Recommendation on Regulatory Policy and Governance : eg.
  - Regulatory Policies
  - Regulatory Practices: ex ante, ex post analysis
  - Regulatory Institutions: oversight, independent regulators

2. Strategic Reform

- Review and microeconomic reform of regulated sectors: eg.
  - Competition policy reviews
- Targeted programs for reducing regulatory costs: eg.
  - One in one out
  - Burden hunters

Govt policy needs to address both!

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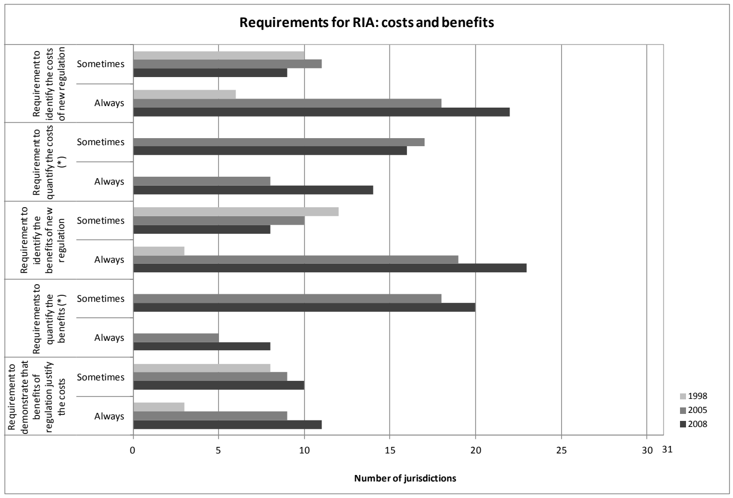
RECOMMENDATION OF THE COUNCIL ON REGULATORY POLICY AND GOVERNANCE

4. Integrate Regulatory Impact Assessment (RIA) into the early stages of the policy process for the formulation of new regulatory proposals. Clearly identify policy goals, and evaluate if regulation is necessary and how it can be most effective and efficient in achieving those goals. Consider means other than regulation and identify the tradeoffs of the different approaches analysed to identify the best approach.

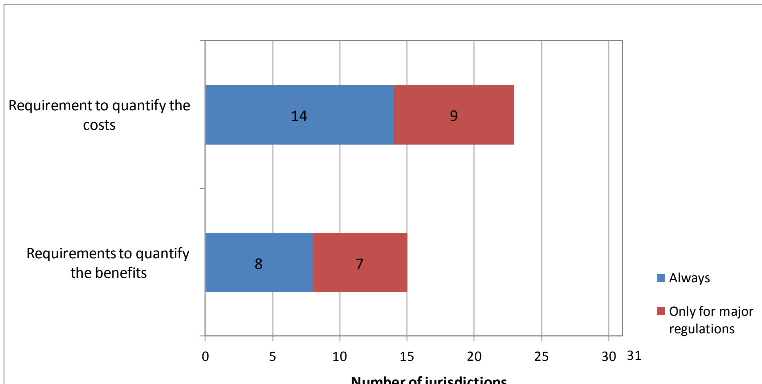
4.1 "...include benefit cost analysis that consider the welfare impacts of regulation, taking into account the economic, social and environmental effects..."

4.3 "*Ex ante* assessment of costs should be quantitative where possible. Regulatory Costs include direct costs (administrative, financial and capital costs) as well as indirect costs (opportunity costs), whether borne by businesses, citizens or government."

Requirements for RIA at central government level fairly widespread (1998 – 2005 – 2008)



Few OECD Countries routinely quantify the Cost and Benefits of regulations (2008)



Notes: Data presented for the 30 OECD member countries and the European Union.

Source: OECD Regulatory Management Systems' Indicators Survey 2008. www.oecd.org/regreform/indicators

Insights from the OECD Recommendation to facilitate Growth

- Regulation should have a presumption in favor of performance based approaches and facilitate the efficient operation of the market.
- Regulation can be oriented to enable economic activity and encourage economic progress.
- Competition analysis can identify and remove economic distortions and unlock productivity.
- Improve the performance of Regulatory Authorities as part of the system of regulation

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Three Recent Examples of Regulatory Reform Strategies

(1.) United States – Executive Order May 10 2012

- Agencies are required to develop retrospective review plans for existing significant regulation to determine whether they remain justified
- Agencies shall invite public suggestions about modifications to regulations.
- Agencies shall give special consideration to initiatives that would reduce unjustified burdens on small business and to the cumulative effects of regulations.
- Agencies shall provide six monthly reports to OIRA on the status of their reviews.

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2.) United Kingdom, Local Better Regulation Office (LBRO) Regulation and Growth - March 2012

Regulatory delivery can support UK economic growth in three key ways

1) Reducing costs
   - minimum regulation to address risks
2) Improving confidence and control
   - provide greater control to business – regulatory co production and earned recognition
3) Realizing wider economic benefits
   - Create a level playing field, eliminate rogue trading, enhance (our) natural assets through environmental protection.

3.) The Victorian Government – A State based reform agenda to Secure Victoria's Future Prosperity – November 2011

Four specific areas of reform to achieve a sustainable reduction in the regulatory burden and increase productivity, competitiveness and participation rates.

1) Re-evaluate how <u>risk</u> is managed in regulation and by <u>regulators.</u>
2) Implement initiatives to improve the <u>timeliness</u> of regulatory decisions and reduce complexity of approvals processes.
3) Enhance the effectiveness of regulatory bodies and reduce complexity through <u>consolidation</u> of functions.
4) Target burden reduction by <u>focussing on</u> individual regulations or industries having <u>high regulatory costs</u>.

Conclusion – Developing a Growth Agenda.

- Are we approaching some sort of ceiling on how much regulation society can afford?
  – unlikely, in fact may be a tendency to more rather than less regulation
- Or is it a question of political economy?
  – *"Achieving good regulation is a demanding task and one that is never over."* Gary Banks Chair RPC.
- Fiscal Constraints – "Necessity Spawns Invention"
  – Regulation clearly holds a key to supporting growth; with the right strategies a crisis can become an opportunity
- Regulation has to be seen as complementary to economic and social policy
  – Reducing regulatory costs is vital, but orienting the regulatory system to better social, economic and environmental outcomes is the prize.
- Opportunity to learn from country experiences, both about cost control and innovation

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