

Economic impacts of domestic reform in Australia: business regulation

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Australia Productivity Commission

Re-Boosting Growth: Overcoming Challenges to
Measuring and Reducing Compliance Costs

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The Australian Federal system — 1 geography, 2 sovereign levels of gov't



National reform
requires
cooperation across
jurisdictions

What is the Productivity Commission?

The Productivity Commission

- Independent Commonwealth agency
- Government's principal review and advisory body on microeconomic policy reform and regulation

Role

- Objective analysis for better informed policy decisions
- Supporting community awareness and policy debate

Economy-wide focus

- Higher living standards for whole community

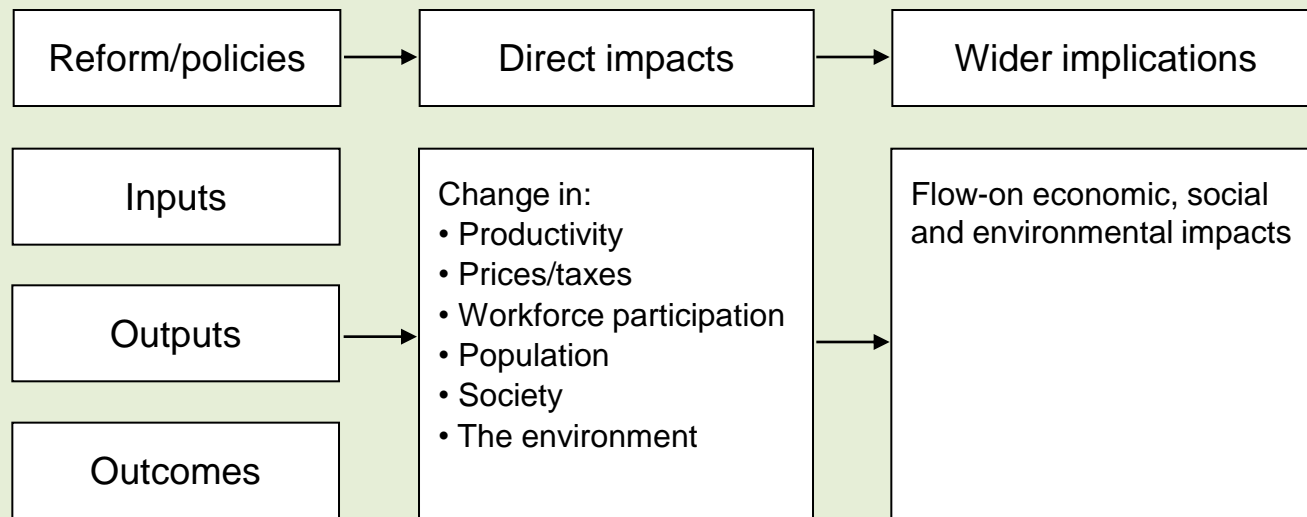
Productivity Commission modelling supporting the case for reform

- Supporting the general case for reform
 - 1995 study supported in-principle case for reform
 - 2006 potential benefits of new agenda including human capital
- Addressing particular concerns (are reforms having unintended adverse consequences?)
 - 1999 - Are there adverse regional impacts
 - 2005 – Are there adverse distributional impacts
- Assessing achievements (why push ahead?)
 - 2005 – what NCP delivered
 - 2012 – what is in prospect from 17 regulatory reforms just implemented / scope for improvement

Current Seamless National Economy business regulation reforms

- Maximizing benefits
 - Make it easier for businesses to operate nationally
 - Reduce the cost of doing business
 - Remove impediments to productivity improvement
 - Raise workforce productivity and participation
- Reforms wide ranging
 - Some industry specific – rail safety, wine labelling & construction
 - Some economy-wide – consumer law, occupational health and safety & trade measurement
- National in character
 - Requiring coordination across jurisdictions

An economy-wide framework for considering impacts



CGE modelling with
highly disaggregated sectoral analysis

Estimating direct economic impacts (sectoral analysis)

- Benefits
 - Productivity, reduction in red-tape
- Costs
 - Implementation costs
 - On going costs
- Timeframe over which benefits (costs) will accrue
- Risk & uncertainty
 - Requires judgements about program effectiveness
- Scope for improvement
 - What is likely compared to reform potential

Estimating flow-on effects (economy-wide analysis)

- Adopt Computable General Equilibrium model
- Productivity Commission framework
 - Each state modelled as separate economy
 - A national labour market - occupational/regional mobility
 - Detailed modelling of government financial accounts ...
- Modelling assumptions (model closure)
 - 'Comparative static' to estimate long-run impacts
 - 'Dynamic' to estimate time-scale of impacts

Assessing business cost savings – many judgements required

Table 1 Estimated reductions in business costs from the 17 COAG business regulation reforms assessed^a
\$ million per year (2010-11 dollars)

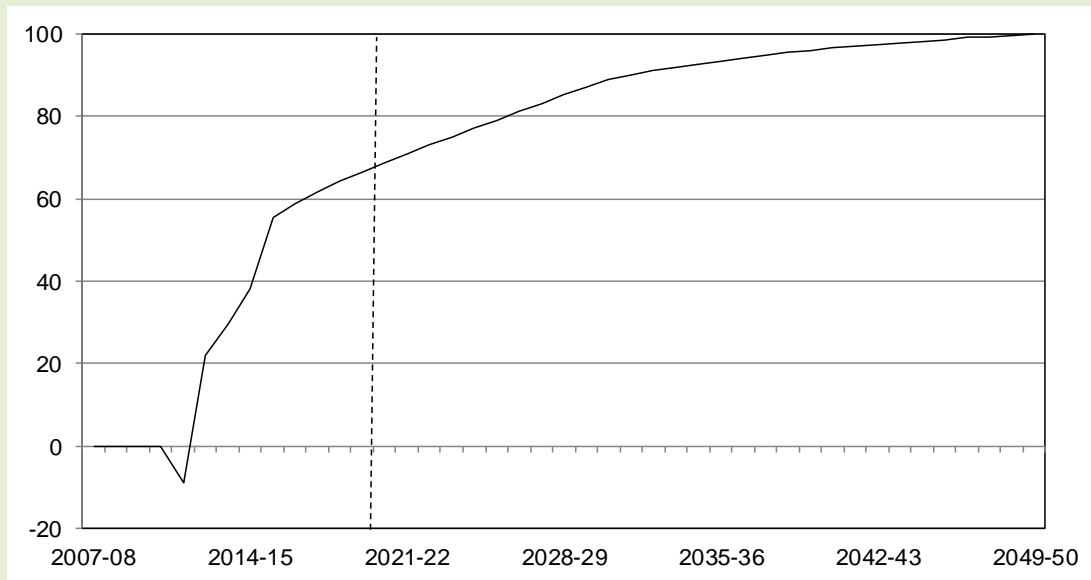
<i>Reform</i>	<i>Realised benefits</i>	<i>Prospective benefits^b</i>	<i>Realised and prospective benefits</i>	<i>Potential benefits^c</i>
Consumer law and product safety	60	820	880	..
Consumer credit ^d	10	35	45	..
Personal property securities	..	70	70	..
Trustee corporations	..	4	4	..
Standard business reporting	2	58	60	500
Payroll tax	20	10	30	..
Occupational health and safety	..	480	480	..
Rail safety	9	7	16	..
Health workforce	..	160	160	..
Trade measurement	5	..	5	..
Food regulation	..	1	1	..
Wine labelling	12	17	29	..
Development assessment	25	200	225	125
National Construction Code	..	1 050	1 050	..
Total direct impacts quantified	143	2 912	3 055	625

.. zero, less than \$500 000, or not estimated. ^a Longer-run direct impacts per year. ^b Reforms have been implemented, but reform-induced reduction in business costs yet to occur. ^c Agreed reforms to be implemented. ^d Mortgage brokers, margin lending and non-deposit taking institutions.

Economy-wide (net) effects – a synthesis of benefits and costs

- Reforms could increase GDP by 0.4% per year (\$6b in current dollars) in the longer run
- Once IMPLEMENTED, benefits accrue progressively

Share of gains of implemented reforms realised over time



National gains spread across jurisdictions

	<i>NSW</i>	<i>Vic.</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas.</i>	<i>NT</i>	<i>ACT</i>	<i>Aust.</i>
Real GSP/GDP	0.3	0.3	0.4	0.4	0.8	0.4	0.5	0.2	0.4
Output per person	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.3	0.4

Also, project fiscal impacts

Estimated increase in govt revenue \$1.4b pa

– (~60% to Australian Government; ~40% to States)

Recap on key issues

- Careful economy-wide modelling supports the case for reform
- To implement approach need to:
 - Have identifiable reforms/reform agenda
 - Estimate direct impacts on productivity & prices
 - Establish an economy-wide framework
 - Implement appropriate model closures

2005 Review of National Competition Policy Reform

<http://www.pc.gov.au/projects/inquiry/national-competition-policy/docs/finalreport>

2010 Impact of COAG reforms – reporting framework

<http://www.pc.gov.au/projects/study/coag-reporting/framework-report>

2012 Impact of COAG reforms – Business regulation and VET reforms

<http://www.pc.gov.au/projects/study/coag-reporting>