Productivity Commission

(1) Introduction to reform agenda
(2) The Commission’s role and benefits of regulatory reform
(3) Regulation stocktake and benchmarking
(4) Summary observations

9 February 2011

OECD Regulatory Reform Review of Indonesia
Introduction

Benefits of regulation/competition reform

• There is wide-ranging evidence that considered regulatory reform brings benefits to the economy:
  • better choices and lower prices for consumers and businesses
  • increased productivity, supporting rising living standards
  • a more flexible economy, capable of adjusting to changes in demand and circumstances.
The Productivity Commission is the Government’s principal review and advisory body on microeconomic policy reform and regulation.

Our role is to achieve better informed policy decisions through independent, published analysis and advice.
Productivity Commission resources

- **12 Commissioners (including Chair)**
  - plus 3 associate commissioners
    - several are from business backgrounds
    - several are from civil society backgrounds
    - several an environmental background
    - and others with academic or public policy careers
- **About 180 staff**
  - ~ 80 in Canberra
  - ~ 100 in Melbourne
- **Budget ~ A$30 million p.a.**
Core design features of the Commission

1. Independent
   • Underpinned by Act of Parliament
   • Operates separately from the Executive

2. Transparent
   • Open and public process
   • Published reports

3. Economy-wide perspective
   • ‘... to achieve higher living standards for all Australians ...’
Where the Commission fits in to regulation reform

As an advisory and review agency, our public reviews have helped shape the regulation reform agenda and build public support for reform

- Overviews (eg ‘Banks report’)
- Sectoral studies (eg road transport, public utilities; ‘stocktake’)
- Federal studies of all levels of government (‘benchmarking’, National Reform Agenda, COAG reform agenda)

In a stylised picture of processes:
- concerns ➔ review ➔ department ➔ Cabinet ➔ Parliament

(Productivity Commission) (confidential RIA) (public RIA)
Four broad categories of work ... 

Activities in the form of ....

Government - commissioned projects
- inquiries
- studies

Government - commissioned performance reporting, benchmarking to governments/COAG

Government - commissioned regulation review activities for governments/COAG

Self directed Supporting research

Outcomes
Findings and recommendations to:
- inform better policy decisions
- enhanced public awareness

Productivity Commission
Forces driving reform and the broad effects of reform

Australia’s per capita GDP ranking
OECD countries, PPP 1990 US$

Ranked 5th in 1950
Dropped to 15th in 1983
Back to 6th by 1998

Major national reform streams in Australia

- **2005**: NCP largely achieved
- **2006**: National Reform Agenda announced
- **2007**: PC reports on potential benefits of NRA
- **2008**: COAG Reform Agenda evolving
- **2008**: Ongoing PC reports on COAG agenda

Productivity Commission
National Competition Policy (NCP) – core reforms

- Extension of anti-competition law to government businesses and unincorporated businesses
- Structural reforms to public monopolies
- Creation of independent authorities to set prices
- Introduction of a regime to enable access to infrastructure
- Review of legislation restricting competition eg, professional licensing, statutory marketing and retail trading
- All levels of government subject to requirements
Commission’s work in assessing the impact of the reforms

In 2005, the Commission reported on the impacts of 10 years of competition reform and estimated that:

- productivity changes in key infrastructure sectors (electricity, gas, urban water, telecommunications, urban transport, ports and rail freight) had served to increase Australia’s GDP by 2.5 per cent, or $20 billion.
- Average retail prices for electricity fell by 19 per cent
- Port charges fell by 50 per cent.
- Rail freight charges had fallen by 8 to 42 per cent.
What were the benefits of past reforms?

Real price changes

1990-91 to 2003-04

Electricity

- Business: -27%
- Households: 4%

Gas

- Business: -12%
- Households: 13%

Cross-subsidisation in favour of households removed

Other benefits

- Large reductions in telecommunications (-20%), ports (-50%) and milk (-5%) prices
- Wider choice for consumers: longer shopping hours, new phone providers
Why was the NCP process successful

- Recognition by all governments of the need for reform
- Broad agreement on priorities by governments
- A solid conceptual framework to develop responses
- Effective procedural and institutional arrangements to implement the reforms
  - Jurisdictional flexibility
  - Transparency
  - Independent monitoring
  - Financial incentives to state and territory government
Major national reform streams in Australia

- National Competition Policy (1995)
- NCP largely achieved
- National Reform Agenda announced
- COAG Reform Agenda evolving

- PC review of NCP (2005)
- PC reports on potential benefits of NRA

- Ongoing PC reports on COAG agenda
The National Reform Agenda (NRA)

- The NRA has three streams:
  - The competition stream – reforms in energy, transport, infrastructure, planning and climate change.
  - The regulatory stream – promoting best practice regulation, reducing the regulatory burden in “hot spots”
  - The human capital stream – improve delivery of health services, improve delivery of education and training, increase workforce participation.
Commissions estimates of the potential benefits of future reforms?

- Improvements in efficiency of energy, transport and infrastructure of around $10b or 2 per cent of GDP. Government net revenue would increase by $5b.
- Improvements in health efficiency of $3b.
- Enhancement of workplace participation of long term increase in GDP of between 3 to 6 per cent
Forces driving reform and the broad effects of reform

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Much of our work impacts on regulation

Analysing the impact of **existing regulation**

- Periodic **overviews** of the state of regulation, highlighting where improvements are needed: “Banks Report”
- Stocktakes of Commonwealth regulation which impacts on particular **sectors**, eg manufacturing
- Benchmarking particular **regulatory regimes** across all levels of Australian government, eg food safety, OH&S
Annual Review of Regulatory Burdens on Business

- Undertake a five-year cycle of reviews of regulatory burdens on businesses
- Identify areas of regulation that are:
  - unnecessarily burdensome, complex or redundant;
  - that duplicate regulations or the role of regulatory bodies, including in other jurisdictions
- And have regard to the policy intent of the regulations
3. Annual Review of Regulatory Burdens on Business - Background

- Undertake a four-year cycle of reviews
  - 2007: primary sector
  - 2008: manufacturing & distributive trades
  - 2009: social & economic infrastructure services
  - 2010: business and consumer services
How we go about our work - what evidence do we consider?

- Review process is driven by concerns raised by industry through:
  - Initial discussions with industry and their representatives
  - Written submissions
  - Roundtables
  - Response to a draft report through further discussions and written submissions

- Final report is then considered by the Government
Heavy regulatory burden can arise because

- Regulation is used to promote competitive behaviour where natural monopolies exist eg energy sector
- Community expectations of service eg aged care
- Considerable provision of government funding eg schools
- Information asymmetry with users of services eg medicines
- Vulnerable users eg child care
- Many businesses operate across jurisdictions eg transport
Common theme - risk management

Minimisation of risk through regulation is a common theme across the sector. Includes risks such as:

- Prudential and financial risk associated with the provision of government funding
- Budgetary risk for the Australian Government
- Health and safety risks
- Other risks to achievement of policy objectives
Consequences of over regulation

Overuse of regulation – ‘risk elimination’ – can lead to:

- Excessive and duplicative reporting requirements
- Overly prescriptive regulations
- Narrow interpretation of regulations by regulators
- Regulation in response to isolated adverse events applied across the whole sector – not targeted at high risk areas alone
Consequences (continued)

- Chilling effect on innovation and reduced business flexibility to respond to changing market conditions
- Lower staff morale as they are called away from core activities
- Diminished trust between the regulators and the regulated
- Greater regulation increases the perception of risk among the public
Other big issues were the effect of federalism and the capacity of regulators

- Many complaints were about inter-jurisdictional differences
- A particular problem for businesses operating in more than one jurisdiction
- Various models of harmonisation have been employed in the quest for a national approach but many appear to be failing to realise their objectives
- Resource inadequacy particularly state enforcement of nationally agreed regulations
Part of the Council of Australian Governments’ National Reform Agenda

- To reduce regulatory burdens
- Especially unnecessary compliance costs
- Reduce regulatory duplication and overlap
- Concerned about regulations and regulators

Includes New Zealand
The Task

- Comparing governments.

- Devise indicators which are likely to show which regulations/regulators impose greater burdens on business.

- Analyse whether the higher costs are associated with better outcomes or if are unjustified.
The exercise is consultative

- complaints driven
- public submissions
- consultations held with governments, peak industry groups and companies
- surveys
- synthetic construction of compliance costs
Summary observations – making reform successful

- Independent and transparent review and assessment can build support for initiating reform programs
- Reform efforts should have clear and convincing objectives
- Reform works best when it has political support from the highest level
- Wide bureaucratic and public support also helps
- Consult widely so that all impacts are anticipated
- Financial incentives to governments can buy cooperation
- Establish institutions with clear accountabilities and timelines for delivering reforms.
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