Introduction

• A widespread complaint raised by businesses and citizens in OECD countries concerns the amount and complexity of government regulation.

• In response to these challenges, OECD governments have over the past two decades increasingly focused on reviewing and simplifying regulation.

• A new and novel approach to controlling regulatory costs is the concept of the regulatory budget.

• The need for fiscal consolidation across nearly all OECD countries may also bring greater prominence to regulatory budgets.
How a Regulatory Budget Works

- Establish an upper limit on the costs of its regulatory activities to the economy
- Apportion this sum among the individual regulatory agencies
- The budget would cover the total costs of all regulations past and present, not just new ones
- The budget would allow agencies to offset the cost of new regulations with savings made by reducing existing expenditures
- The budget would need to provide flexibility for contingencies both over time and across agencies.
How a Regulatory Budget Works

- Institutional and procedural mechanisms would be required to introduce a regulatory budget
- A regulatory oversight body
  - would develop a budget proposal in negotiation with regulatory agencies
  - would be responsible for certifying individual agencies' calculations of regulatory costs
- The budget would be approved by the executive branch of government and submitted for legislative review, revision, and passage.
- Once final budget appropriations were in force, each agency would be obliged to live within its regulatory budget for the time period in question.
A Partial Regulatory Budget

- While a full regulatory budgeting model clearly involves very considerable information requirements, it is possible to develop partial uses of its basic insight.

- Governments may choose to freeze regulatory expenditures at current levels. This would require that offsetting reductions in compliance costs, whether via reforms or revocation of regulation, be identified wherever new regulations were proposed.

- Information requirement are considerably less daunting, being restricted to assessment of the costs of those regulations being reformed and those being introduced – essentially an incremental approach.
The Fiscal Budget Analogy

- Placing a fixed limit on the amount of resources available to an agency with a defined policy objective should result in more cost-effective allocation of those resources.

- An explicit consideration of the aggregate economic costs of regulation would establish a clear upper limit on the government's regulatory activities and recognise trade-offs between competing policy areas.

- Rely more on decentralised decision making than a more centralised regulatory oversight model (where a central unit reviews the entire regulatory system to identify areas for simplification and improvement.)

- Yet the analogies between an expenditure and regulatory budget can only go so far. The regulatory budget would be a one-sided ledger with no receipts with which to compare (and constrain) regulatory costs.

- Do these differences fundamentally weaken the underlying disciplines of the budget process?
Problems with Regulatory Budgets

- A number of serious and practical problems may limit the successful application of this process.
- Collecting and analyzing the vast quantities of cost information that would be needed to establish and enforce the budget.
- Discerning “business as usual” from the marginal costs of regulation; estimating which regulatory expenditures were made because of regulatory requirements as compared to those that would have occurred in the absence of regulation is difficult and subjective.
- The indirect costs of regulation - inherently difficult to measure and requires estimations of elasticises of demand and supply, adjustments to account for risk aversion, and accounting for the effects of a number of exogenous variables.
- An key feature of the regulatory budget, and a significant shortcoming, is the exclusive focus on regulatory costs with no concern for the benefits that accrue from regulation.
Possible Solutions?

• The practical problems outlined above may not be insurmountable.
• A regulatory budget might not have to be applied with a high degree of precision, unlike the expenditure budget. So long as cost estimates are not systematically underestimated and heterogeneous, they can make reliable ceilings and act as a constraint on regulatory expenditures.
• Many OECD countries have made significant investment in developing regulatory burden reduction programmes based around the Standard Cost Model.
• A smaller number of countries are experimenting with the quantification of direct compliance costs. It appears to be possible but will be difficult and expensive.
• Most countries still struggled with distinguishing and estimating business as usual as opposed to marginal costs.
• Quantifying indirect costs and benefits remains a challenge.
The Regulatory Budget in Practice

- A small number of OECD countries have taken a number of steps toward the regulatory budget although no official policies in implement the concept have been adopted.
- The United Kingdom has made the most recent and ambitious effort to introduce a regulatory budget.
- The Netherlands is reportedly having discussion regarding the introduction of a simplified regulatory budget.
- A number of partial approaches have been implemented in OECD countries with greater success - “One in, one out” and “No net increase” approach.
Final Thoughts

• *Is the development of the regulatory budget a possible approach to support fiscal consolidation efforts across the OECD?*

• *Should governments pursue the long term goal of developing management and budgeting system that treat fiscal and regulatory expenditures in an equal manner?*