

# **Economic impacts of domestic reform in Australia: business regulation**

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**Australia Productivity Commission**

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# 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

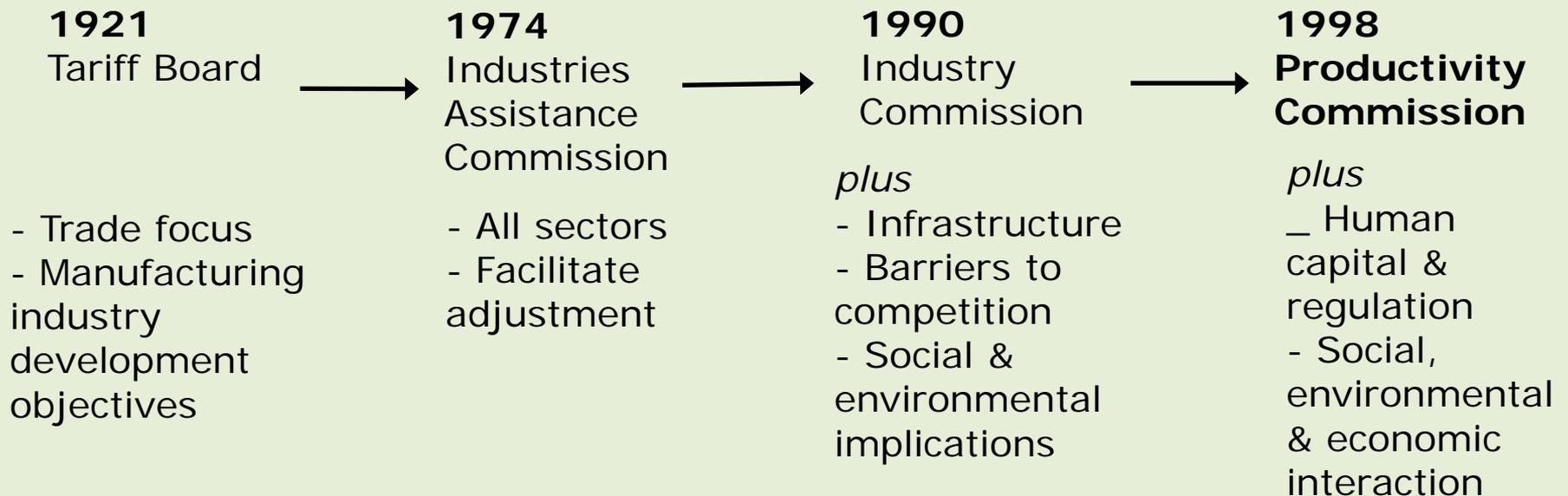
- *Objective analysis for better informed policy decisions*
- *Supporting community awareness and policy debate*

## Economy-wide focus

- Higher living standards for whole community

# History of the Productivity Commission

- A widening remit



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

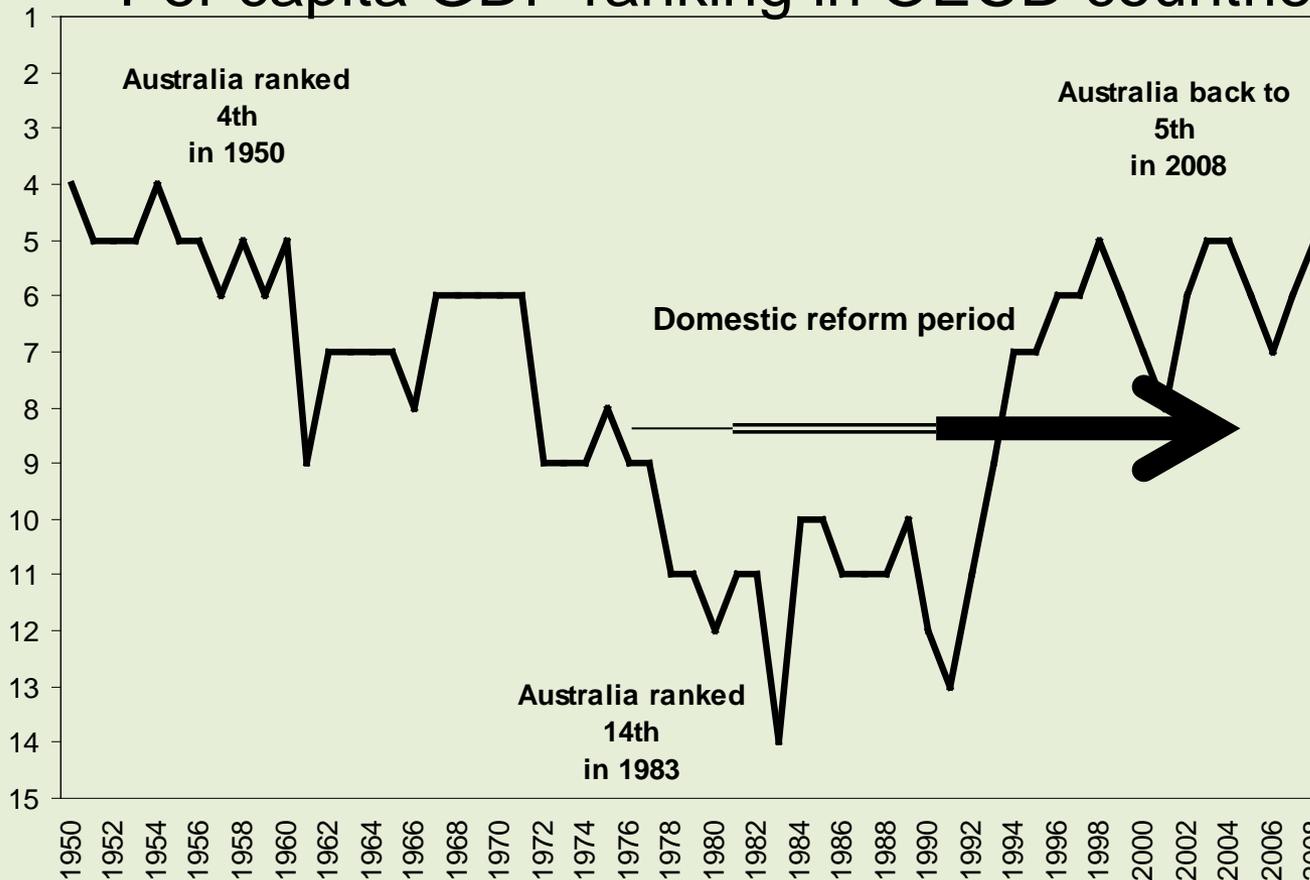


National reform  
requires  
cooperation across  
jurisdictions

# Reform improved Australia's relative economic performance

Reform  
imperative  
remains

## Per capita GDP ranking in OECD countries



- Ageing population
- Term of trade
- Technical change

Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2009

# Domestic reform can outweigh trade reform

Liberalization scenarios considered – Preferential bi-lateral, Unilateral action, APEC-style, Global action

<i>Simulation: tariffs to zero</i>	<i>GDP-Australia</i>	<i>Share of potential world gain</i>
	Per cent change	Per cent
T1. Australia-small country <sup>a</sup>	0.054	5.7
T2. Australia-large country	0.117	12.4
<b>T3. Australia unilateral</b>	<b>0.559</b>	<b>59.5</b>
T4. Stylised APEC	0.862	91.7
T5. World	0.940	100
<b>National Competition Policy</b>	<b>5.000</b>	
<b>Business Regulation Reform</b>	<b>0.500</b>	

**Source:** Simulation results. GTAP model simulations for trade liberalization and MMRF model simulations for National Competition Policy and business regulation reform.

(a) Simulations are representations of the effects of the removal of barriers to trade. T1 Represents zero tariffs on all trade between Australia and a small country, T2 on trade between Australia and a large country. T3 simulates unilateral liberalisation as the removal of tariffs on all imports into Australia. T4 simulates zero tariffs on imports into all APEC countries and T5 simulates zero tariffs worldwide.

# Australia's recent reform history: from industry assistance to broader reform

- National Competition Policy & related reforms
  - *From mid-1980s*
  - *Emphasized removing anticompetitive barriers to productivity & efficiency*
- Manifested in productivity & price changes
- Involved significant structural adjustment
- Commission (1995) quantitative modelling illustrated significant potential economic gains
  - *GDP 5%*
  - *Supported in-principle case for reform*
  - *Provided basis for determining 'competition payments' to state jurisdictions*

# Australia's new national reform agenda - 2008

- Competition and business regulation
- Human capital
- Environment

# 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 required across jurisdictions*

# What the Commission was asked to do

- Report every 2-3 years on the economic impacts of COAG reforms
  - *Impact*
  - *Timescale*
- The Commission's assessment reports will assist the COAG Reform Council's reporting

# Estimating direct impacts

- Comparative static for assessing the impact
- Dynamic for assessing the timescale
- Need to allow for variable nature of reforms
- Need to assess policy effectiveness
  - *How much are regulatory burdens reduced?*
- Need to impute sectoral impacts
  - *On productivity, prices, population & workforce participation*

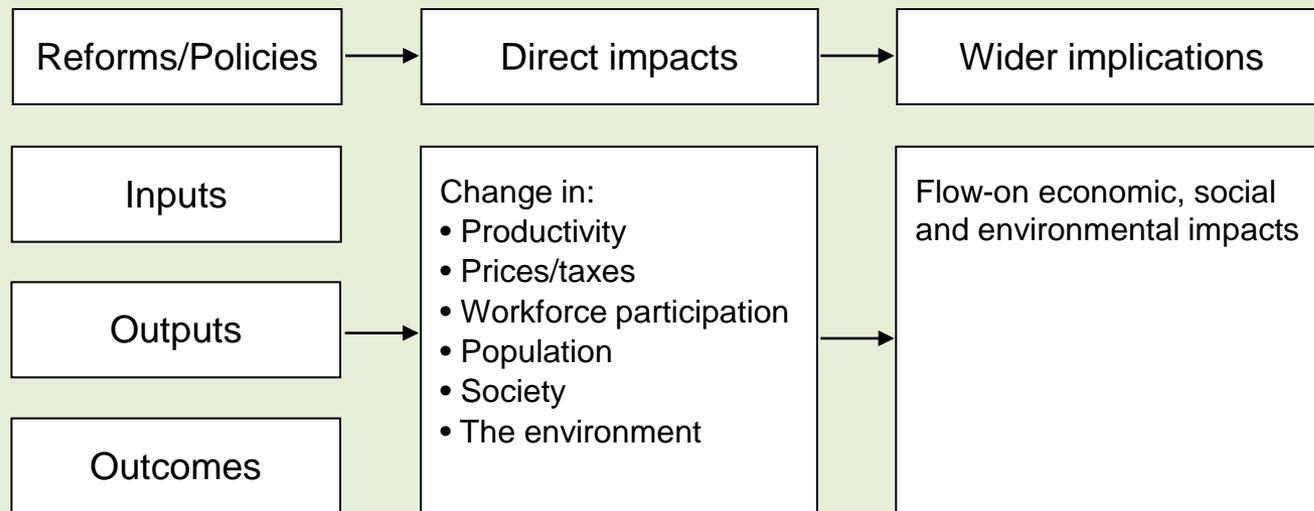
# Other issues in estimating direct economic impacts

- Implementation costs
- Implementation & gestation (timeframes)
  - *Consider inter-temporal distribution of upfront costs*
  - *Identify the transition path for impacts & benefits*
- Risk & uncertainty
  - *Requires judgements about program effectiveness*
  - *Requires assumptions about demographic change & macro-economic conditions*
- For retrospective reform impacts
  - *Adopt assessment of actual effectiveness*
- For prospective reform impacts
  - *Adopt assessment of potential effectiveness*

# Economy-wide implications

- Reforms in one area change relative competitiveness, incomes & consumption
  - *Assessments should recognise resource constraints*
- There are economy-wide impacts & benefits
  - *Aggregate market effects reflected in changes in GSP, GDP & National Income*
- There will be distributional effects
  - *Across industries, regions & households*
- Also, implications for non-market activities
  - *Eg Shifts from unpaid to paid employment*
  - *Expenditure & transfers to achieve social & environmental objectives*

# An economy-wide measurement framework

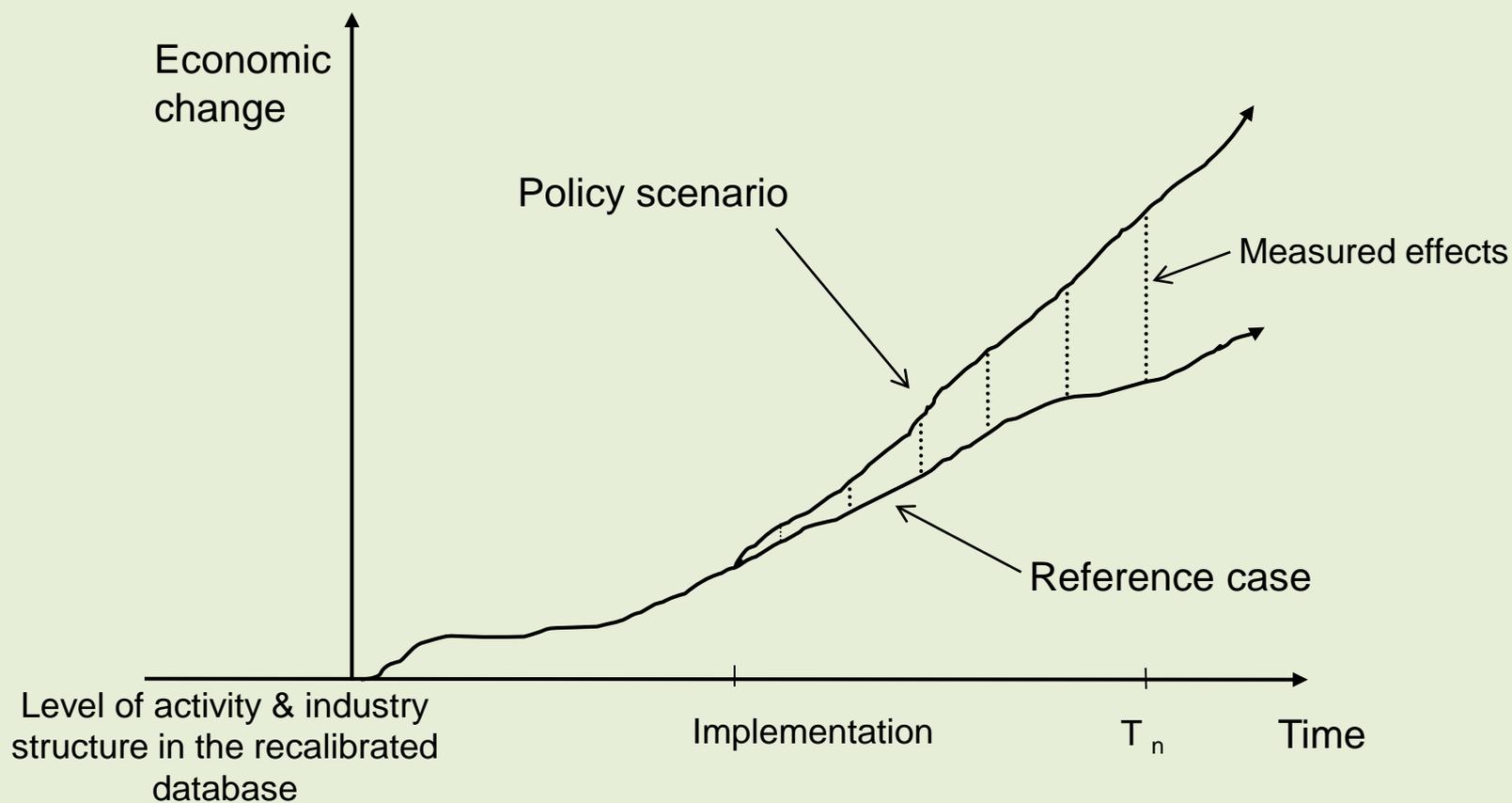


CGE modelling with  
highly disaggregated sectoral analysis

# Monash Multi-Regional Forecasting Model

- A dynamic multi-regional model of the Australian economy
- Developed by the Centre of Policy Studies, Monash University
- Ideal tool for policy analysis:
  - *Dynamic*
  - *Highly disaggregated regional and sectoral database*
  - *A national labour market*
  - *Detailed modelling of government financial statistics*

# A dynamic approach



# Inaugural full report: Business regulation reforms

- 17 reforms that span a range of activities:
  - *Individual activities – rail safety, wine labelling & construction*
  - *Across industries – consumer law, occupational health and safety & trade measurement*
- National in character – requires coordination required across jurisdictions
- Reforms seek to:
  - *Make it easier for businesses to operate nationally*
  - *Reduce the cost of doing business*
  - *Remove impediments to productivity improvement*
  - *Raise workforce productivity and participation*

# Achieving business cost savings

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

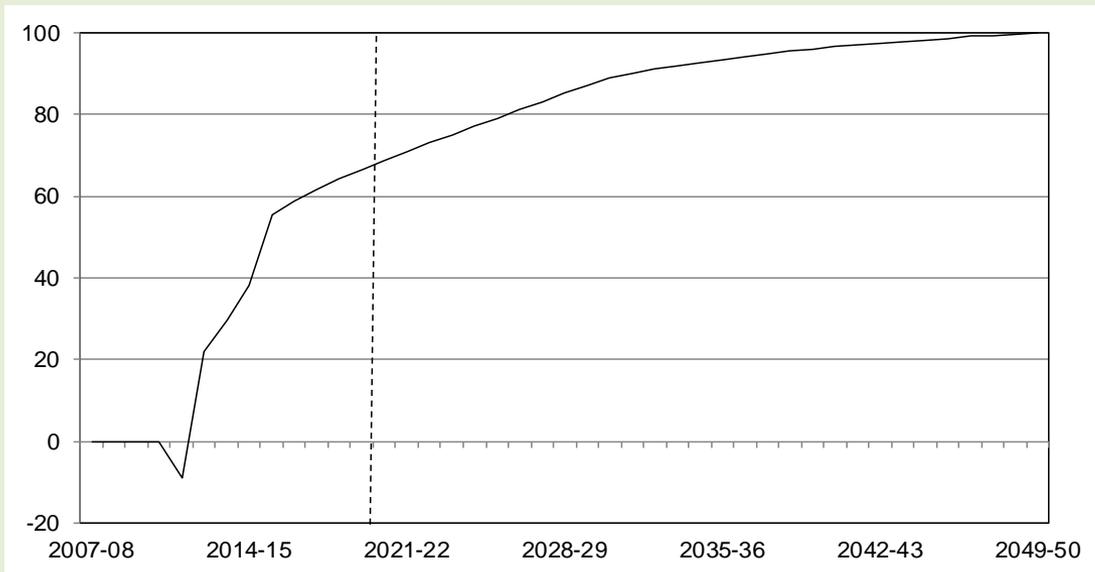
<i>Reform</i>	<i>Realised benefits</i>	<i>Prospective benefits<sup>b</sup></i>	<i>Realised and prospective benefits</i>	<i>Potential benefits<sup>c</sup></i>
Consumer law and product safety	60	820	880	..
Consumer credit <sup>d</sup>	10	35	45	..
Personal property securities	..	70	70	..
Trustee corporations	..	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	..
<b>Total direct impacts quantified</b>	<b>143</b>	<b>2 912</b>	<b>3 055</b>	<b>625</b>

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

# Economy-wide (net) effects – comparing 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



# Modelling framework used

- Economy-wide general equilibrium model
  - *Monash multi-region forecasting model*
  - *9 states & territories modelled separately*
  - *64 industries and commodities in each State*
  - *Interlinkages contained in input-output tables*
  - *Government finances detailed*
- Database for the financial year 2005-06
- Runs under Gempack modelling software
- Has
  - *almost 9000 lines of code*
  - *600 equations & variables*

# 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)*

# Issues sensitivities arising from the inaugural study

- Reform is a difficult road
- Harmonisation might be ideal but slow, difficult and potentially costly for firms
- Consider opt-in as a low cost and faster alternative

[http://www.pc.gov.au/projects/study/  
coag-reporting](http://www.pc.gov.au/projects/study/coag-reporting)