Regulatory principles for the new economy

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Economic Reform

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This presentation reflects the views and opinions of the presenters, not necessarily the position of the Department of Finance
Today

- Context – What is the New Economy
- Problem – Why we need regulatory principles
- Regulatory principles for responding to and enabling innovation
- Implementation – How Government can apply the Principles
CONTEXT:
What is the new economy
New Economy?

NEW ECONOMY

Sharing
- Car sharing
- Clothes
- Accommodation and venues
- Tools and appliances

Access
- Food services
- Health care
- Financial services
- Personal services

Disruptive Tech
- Drones
- 3D Printing
- Review and booking websites
- Automation
Effect of the New Economy

- **Transforms existing markets**
  - Almost five million Australian jobs face a high probability of being replaced by computers in the next 10 to 15 years (CEDA).

- **Creates new markets**
  - Easier access to information and connects suppliers and consumers directly.
  - Cheaper goods and services.

- **Changes how we work and interact**
  - Economic activity is more flexible and dynamic.
  - Pace of change continues to increase.
New economy is “innovation”

- Innovation is doing something differently or creating something new
- Defined by the OECD in the Oslo Manual:
  - “The implementation of a new or significantly improved product (good or service) or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations”.
- Drives productivity – crucial to economic growth
How should government respond to innovation?

- What do we expect government to do?
  - Respond to market failures? e.g. externalities, information asymmetry
  - Give people meaning and something to do?
  - Protect individuals rights?
  - Maintain the status quo?

- Should the new economy trigger government intervention?
PROBLEM:
Why we need regulatory principles
Government culture and incentives

- Innovation risk > status quo risk
- Culture - accountable to the public
  - Risk averse
  - Siloed and hierarchical
  - Laborious
- Incentives
  - Intrinsic – public interest
  - Extrinsic – avoid embarrassment, incumbents
Effect of red tape and regulatory burdens

- Barriers to economic opportunity and growth, as the economy and industry change these risks increase.
- Australia is 80th on the World Economic Forum’s Global Competitiveness Index for regulatory burden.

<table>
<thead>
<tr>
<th>Body</th>
<th>Estimated annual cost of red tape in Australia</th>
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<tbody>
<tr>
<td>Commonwealth Government</td>
<td>$65 billion</td>
</tr>
<tr>
<td>Institute of Public Affairs</td>
<td>$176 billion</td>
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<tr>
<td>Deloitte Access Economics</td>
<td>$95 billion</td>
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REGULATORY PRINCIPLES
Regulatory principles for responding to and enabling innovation

Goal

- *Create a regulatory environment that attracts and enables innovation* while balancing social, economic and environmental interests.

Outcomes

- Government action is targeted at achieving clear and relevant outcomes.
- Reduced business costs and risk.
- Increased innovation and competitiveness.
Principle 1: Innovative

- OECD Action 4: Rules and processes to support not hinder
- Use new tools
  - Identify new technologies and processes Government can use to improve how it regulates.
- Consider numerous options
  - Examine a broad range of potential responses to better achieve desired outcomes.
Principle 2: Adaptable and Flexible

- Make regulation technology neutral
  - The regulatory response to achieve the outcome is adaptable to changing business models and technologies.
  - Constantly catching up – government processes can be too slow to respond to changes in technology.
Principle 3: Consistent

- Ensure fairness and consistency for entire market
  - Create a level playing field – Review the regulations imposed on existing businesses when responding to innovation.
  - Promote competition between entrants and incumbents.
  - Consider transition issues for incumbents.
Principle 4: Evidence-based

- OECD Action 2: Knowledge is power
- Monitoring
  - Monitor the effect of new technologies and business models and the effectiveness of regulatory approaches.
- Gathering data
  - Responsibility for collecting data should be assigned to the parties that can do so most efficiently.
Principle 5: Supported regulators

- OECD Action 1: People Matter
- Give regulators capacity
  - Capacity to assess risks posed by new technologies, business models and markets.
  - Proactively advise government.
  - Facilitate internal public sector innovation.
- Ensure regulator capability
  - Regulators need the right skills and access to advice.
  - Adequate resourcing to respond.
Principle 6: Co-ordinated

- OECD Action 3: Working together solves problems
- Share learning
  - Share best practice regulatory approaches to innovation.
  - Recognise and build on the interdependencies between areas.
- Develop collaborative regulation
  - Inter-jurisdictional collaboration – consistency or competition?
Principle 7: Responsive

- Enable interim measures and stagger reforms
  - Consider interim measures to facilitate innovation, while regulation is updated, and enable responsive management.
  - Examples:
    - regulatory sandboxes,
    - experimental trials, and
    - prototype-pilot-product.

- Iterative management
  - Incorporate preliminary results and feedback into ongoing regulatory development.
Principle 8: Forward Looking

- Undertake early intelligence gathering
  - Continual monitoring and scanning of the environment to enable proactive regulatory and policy action.

- What can we see coming?
  - Autonomous systems – transport, finance, agriculture, programmable or routine tasks.
  - Network effects consolidating data in hands.

- What can’t we see?
  - Look to ‘mega-trends’: aging population, rise of Asia (e.g. India and Indonesia), increasing returns on capital.
IMPLEMENTATION
How government can apply the principles
Practical steps for government

- Incorporate principles into regulatory assessment processes
- Complement existing principles
  - COAG Best Practice Regulation Guide.
  - OECD Guiding Principles for Regulatory Quality and Performance.
- Public sector must want to change culture!
Takeaways

- New economy = innovation
- Need to change culture
- Principles
  1. Innovative
  2. Adaptable and Flexible
  3. Consistent
  4. Evidence-based
  5. Supported regulators
  6. Co-ordinated
  7. Responsive
  8. Forward looking
DISCUSSION