



# Regulatory principles for the new economy

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



# Today

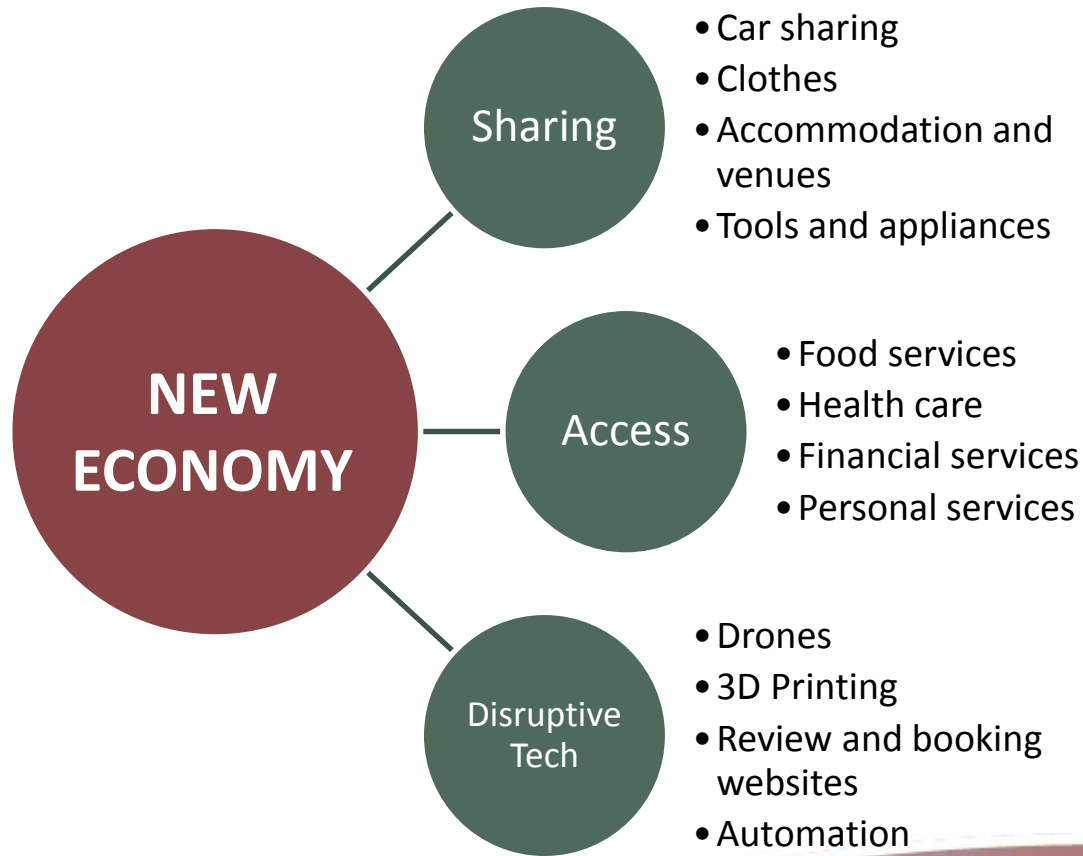
- ⦿ Context – What is the New Economy
- ⦿ Problem – Why we need regulatory principles
- ⦿ Regulatory principles for responding to and enabling innovation
- ⦿ Implementation – How Government can apply the Principles



# CONTEXT:

## What is the new economy

# New Economy?



# *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 80<sup>th</sup> on the World Economic Forum's Global Competitiveness Index for regulatory burden

<b>Body</b>	<b>Estimated annual cost of red tape in Australia</b>
Commonwealth Government	\$65 billion
Institute of Public Affairs	\$176 billion
Deloitte Access Economics	\$95 billion



# 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