



Challenges for Economic Regulators

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Presentation outline

- Background – how and why we got here
- Architecture – regulatory principles and processes
- Challenges for regulators (and de-regulators!)
- Conclusions

Economic regulation background

- An ancient challenge
- “Golden Age”
- Stagflation
- Micro-economic reform
 - Financial deregulation
 - Labour market deregulation
 - Import tariffs and quotas
 - Tax reform
 - Government trading enterprises
 - Competition policy



Elements of National Competition Policy

- Limiting anti-competitive conduct
- Reforming regulation which unjustifiably restricts competition
- Reforming the structure of public monopolies to facilitate competition
- Providing third-party access to certain facilities that are essential for competition
- Restraining monopoly pricing behaviour
- Fostering "competitive neutrality" between government and private businesses when they compete
 - Source: National Competition Policy Review 1993 ("The Hilmer Report")



Economic Regulation Today what and why?

What

- Rules, usually set in law, governing what businesses can and cannot do in their dealings with customers, employees, suppliers and government.

Why

- Economic
 - Market failure
 - Economic policy
- Social
 - Consumer protection
 - Minimum standards
- Environmental
 - Externalities (market failure)
 - Protected values



Economic Regulation how?

Policy Makers
Government
Agencies

Policy Advisors
Political advisors
Policy agencies
Stakeholders
Think tanks/academics

Implementation
Independent regulators
Government departments
Local government
Professional associations

Appeals and Enforcement
Courts
Tribunals
Regulators

- Regulates access to monopoly infrastructure
- licenses service providers
- monitors and regulates markets
- conducts inquiries
(when referred by government)

Long-term interests of consumers

- “to benefit the WA community by promoting an efficient and customer-focused economy”
- Efficiency challenges
 - Productive
 - Allocative
 - Dynamic
 - Social “Public” goods and services
- Long-term viability of service providers



Market failure

- Public goods
- Externalities
- Market power
- Imperfect information



Challenges: policy

“People Respond To Incentives”

- N. Gregory Mankiw’s Fourth Principle of Economics

- Why aren’t we there yet?
- Goals – what should we be trying to do?
- Process – how do we get there?



Challenges: consumers

“People Respond To Incentives”

- N. Gregory Mankiw’s Fourth Principle of Economics

- What do consumers want?
- How do consumers behave?
- Behavioural economics



Challenges: producers

“People Respond To Incentives”

- N. Gregory Mankiw’s Fourth Principle of Economics

- Which incentives?
- Complexity
- Litigiousness



Challenges: regulators

“People Respond To Incentives”

- N. Gregory Mankiw’s Fourth Principle of Economics

- Perverse incentives
- Technocracy
- Information asymmetry
- Stakeholder engagement
- Independence
 - Financial
 - Policy role?



Challenges: markets

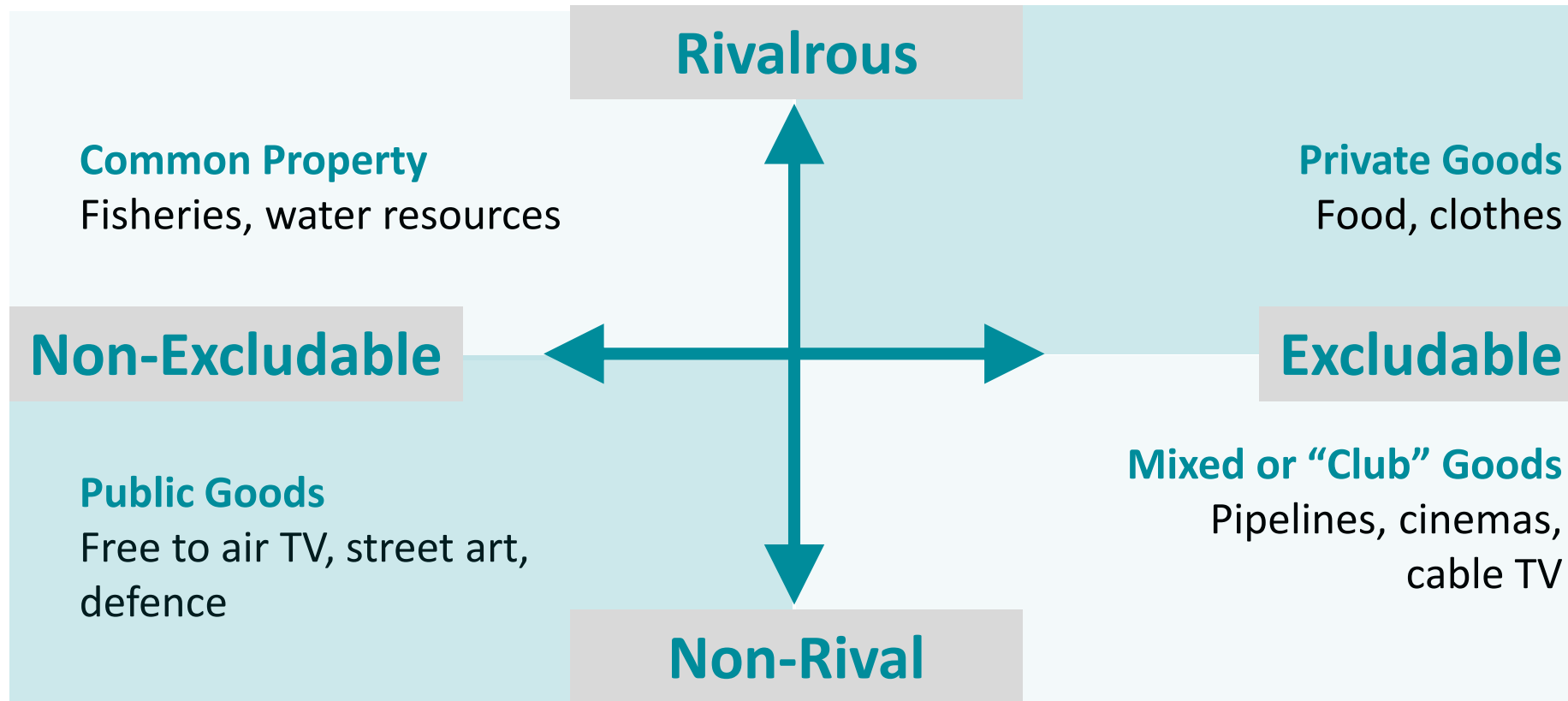
“People Respond To Incentives”

- N. Gregory Mankiw’s Fourth Principle of Economics

- Regulatory models based on fairly static and predictable markets
- Technology
- New markets with new ways of creating value



Types of goods and services





Conclusions

- Looking back
 - What worked
 - What didn't
- Looking forward