



# Challenges for Economic Regulators

Nicky Cusworth

Chair

Economic Regulation Authority



# 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

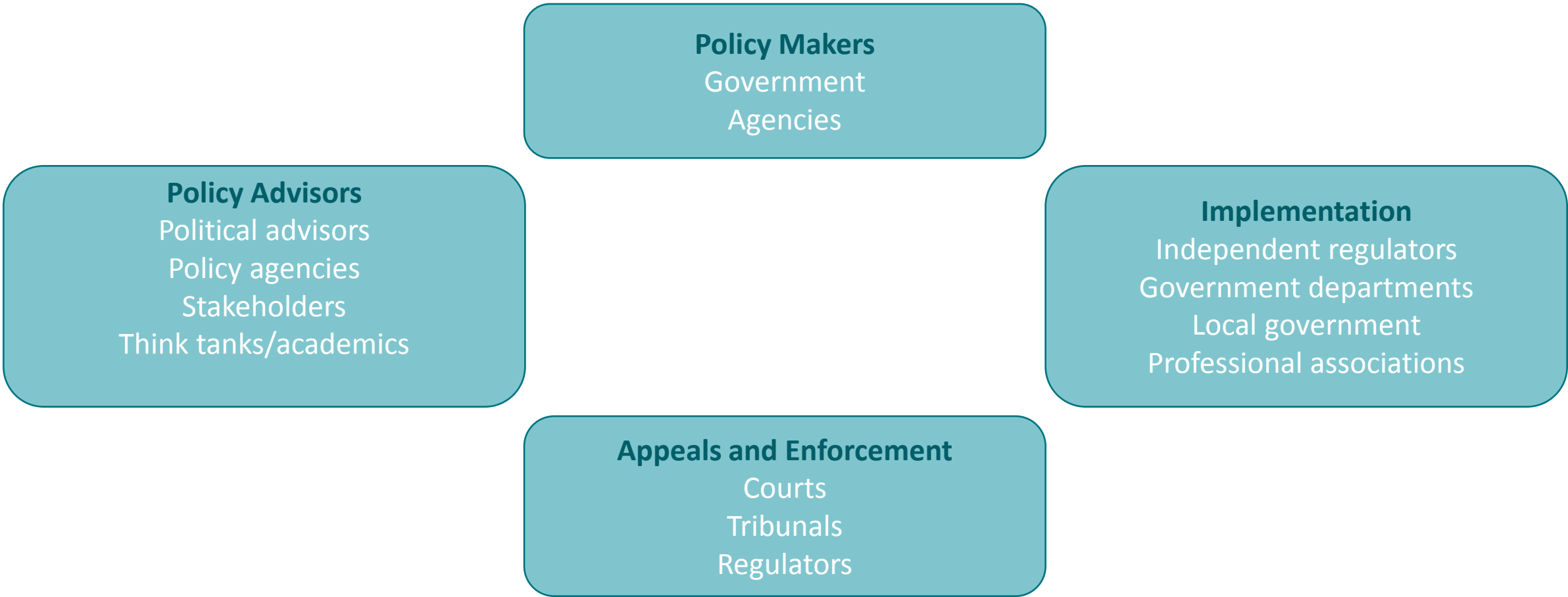
- Rules, usually set in law, governing what businesses can and cannot do in their dealings with customers, employees, suppliers and government.

## Why

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



# Economic Regulation how?



- 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

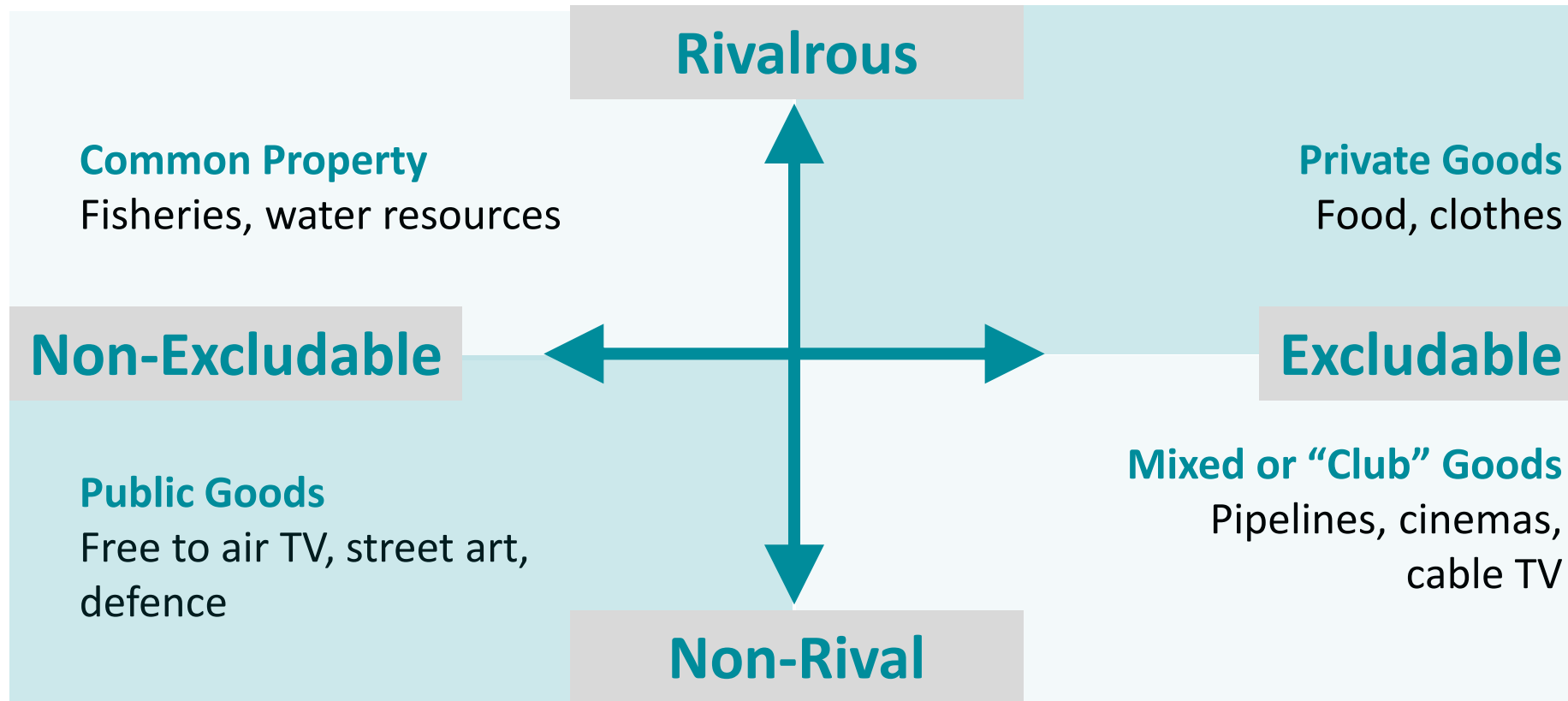
## “People Respond To Incentives”

- 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