

Chapter 5

Private Sector and Economy-Wide Regulatory Costs and Reform Benefits

Whereas Chapters 2, 3 and 4 focused on estimates of costs and benefits possible in the public sector through various government structure reform options, Chapter 5 examines estimates of: (1) private sector and economy-wide costs that various researchers and analysts have attributed to Australia's current government structures and associated regulatory systems, and (2) the benefits possible if various reform scenarios are followed – all of which involve at least some degree of reform to Australia's government structures and regulatory systems. Whilst the emphasis in this section is on private sector costs and benefits, it is acknowledged that the costs and benefits of regulation involve both public and private sectors, and that it is impossible in general to neatly separate public and private sector costs and benefits, noting that: (1) there are regulators in both the public and private sectors (the latter in the case of private industry self-regulation); (2) taxes and regulatory compliance costs are incurred by public and private sector businesses alike; and (3) costs affecting private sector businesses and profitability will impact upon public sector taxation revenues.

The cost and benefit estimates presented in this chapter, and associated reform options, align with concerns that have been highly placed on the policy and reform agendas of business groups, Commonwealth, State and Territory governments, and other stakeholders in recent years. Lewis and Murphy (2005: 4) reported in October 2005, for example, that:

The danger of red tape strangling the economy has forced the Howard Government to establish a high-level taskforce to strip back corporate regulation. Layers of rules and regulation covering environmental and taxation laws are expected to be pared back under plans to streamline a system estimated to cost \$8 billion a year in compliance. ... It will pursue both commonwealth and state legislation, targeting areas of duplication or where laws are redundant.

This chapter has eight sections designed to provide insights into the private sector and economy-wide financial benefits possible through government structure reform. The first provides an overview of business regulation in Australia with an emphasis on the volume of regulators and regulation at both Commonwealth and State-Territory levels. The second and third sections then describe detailed attempts to quantify the overall costs of regulation in Australia, and the benefits possible through reform, by the former Commonwealth Business Regulation Review Unit (BRRU) in 1986, and by Access Economics and others in recent years.¹ The fourth section

examines a comprehensive reform plan developed by Victorian Premier Steve Bracks, and accompanying estimates of the financial benefits possible through such reforms. The fifth briefly considers further quantified estimates established in Australia and other countries. The sixth examines the economic costs Australia faces as a result of its geographic remoteness and distance to world markets, and its unique geography and climate generally. The seventh compares and reconciles various estimates summarised in this chapter. The eighth then briefly concludes.

Regulations and Regulators in Australia

Regulation in Australia is carried out through government regulation and various forms of self-regulation. This section briefly describes Australia's regulation and regulators with an emphasis on quantitative descriptions of the volumes of such regulation and regulators.

Government Regulation and Self-Regulation

Regulations are established by Commonwealth, State, Territory and local governments to impose various legally enforceable obligations on businesses and individuals, including "through legislation, subordinate legislation and other regulatory instruments, such as guidelines, ministerial directions, mandatory codes of practice and accreditation and licensing standards" (Bracks 2005: 25).

The Taskforce on Industry Self-Regulation (TISR 2000: 26-30) observes that self-regulation in Australia takes forms including information campaigns; service charters; internal complaints handling departments and procedures; accreditation, licensing and membership certification schemes; quality assurance schemes; the use of standards (such as those developed by *Standards Australia*); and codes and dispute resolution schemes. The TISR (2000: 12, 23) also refers to a national "directory of self-regulatory schemes" comprising some 45 schemes.²

In addition to systems of government regulation and self-regulation, there are also systems of *co-regulation*, in which a regulatory scheme "is developed by industry with some government involvement but industry is fully responsible for its implementation (TISR 2000: v; see also Sylvan 2002: 3).

The Growing Volume of Regulation

Walmsley and Sorensen (1993: 213) observe that "over the period 1959-1979 the Commonwealth and State governments passed 16 631 Acts and no less than 32 351 Statutory Rules", and that "in the 1970s there were 40 per cent more laws and 62 per cent more rules passed than in the 1960s". They also note that "the cost to the private sector of complying with business regulations was put at \$4 billion dollars as long ago as 1978/79", and that "70 per cent of these regulations" were "imposed by State governments" (Walmsley and Sorensen 1993: 213-214; citing McLachlan 1985: 27-28). Katie Lahey (2005: 8), the chief executive of the Business Council of Australia (BCA), has recently made similar observations:

Regulation is now growing at 10 per cent a year – three times the economic growth rate. More pages of legislation have passed the Commonwealth Parliament in the 14 years between 1990 and 2004 than in the preceding 90 years. The federal and state parliaments added 33,000 pages of new law to the statute and rule books in 2003. In 2003, the state with the greatest volume of new legislation, Queensland, added another 8700 pages of laws and rules. And in Victoria there are 69 state business regulators policing 26,000 pages of rules and regulations. Increasing amounts of business time and resources that would otherwise be directed to growth plans, innovation and improving competitiveness are being diverted into costly paperwork and box-ticking.

The BCA (2005a: viii) notes further that "in the four years from 2000 to 2003, the Commonwealth Parliament passed the same volume of primary legislation as it passed in the sixty-nine years from 1901 to 1969". Banks (2005: 6, citing Banks 2003) similarly observes that "perhaps the most celebrated example of regulatory accretion in Australia is the Income Tax Assessment Act" which "has grown to some 7000 pages from the paltry 120 pages that did the job when it was first introduced back in 1936".

The Volume of Regulators

The Productivity Commission (2005c: 1; see also Banks 2005: 6-7) estimates that there are "up to 600 regulators Australia-wide":

There are approximately 60 Australian [Commonwealth] Government regulators and national standard setting bodies involved in developing and/or administering regulations. While the total budgets and number of staff of these regulators is difficult to estimate, a sample of 16 Australian Government regulators is indicative. In 2003-04, they had a combined staff of over 33,000 and annual budgets exceeding \$4.1 billion ... A further 40 Ministerial Councils are involved in making regulations. While the number of state and territory based regulators is unknown, a recent study by the Victorian Competition and Efficiency Commission [2005] identified 69 regulators in that state. If the Victorian result is extrapolated to the other seven Australian states and territories, there could be up to 500 state and territory based regulators, making a total of up to 600 regulators Australia-wide.

The observation that there are about 60 Commonwealth regulators and about 69 Victorian ones lends strong support to the claim by Banks (2005: 7) that, "as a rule of thumb", Commonwealth Government regulatory volumes could "be multiplied eight times to account for State and Territory regulations". The BCA (2005b: 34) similarly observes that "a major contributor to the compliance burden of larger corporations in Australia arises from duplicated and overlapping regulation between States and between the Commonwealth and States", that businesses operating across Australia face "eight occupational health and safety systems, eight ways of calculating payroll tax and eight sets of environmental approvals", and so on, and that "in many areas of regulation, Australia's 20 million people face greater regulatory diversity, overlap and duplication than Europe's 457 million". Appendix 5A contains further descriptions and examples of regulatory costs which have been at least partly attributed to Australia's current government structure.

In relation to non-government self-regulators, Sylvan (2002: 3) notes that the TISR, which she was a member of (TISR 2000: ix), revealed "that there were literally thousands of self-regulatory arrangements in place in Australia", but she added that "nobody knew much about most of them or even what was going on with the majority of them", and that "attention was really focused on a few of the big self-regulatory or co-regulatory schemes".

The following sections now examines several attempts to quantify the costs of business regulation in Australia, and the benefits possible through regulatory reforms which may include varying degrees of government structure reform.

Estimates by the Business Regulation Review Unit in 1986

Following similar analyses by Murray Weidenbaum (1978) in the United States, the Business Regulation Review Unit (BRRU 1986: 3-4; see also Moran 1987: 138) estimates the total cost of business regulation (TCR_{BRRU}) in Australia in 1986 as the sum of the following three components:³

- the *cost of employing regulators* (CER_{BRRU}) – also referred to as *administrative cost*;
- *paperburden cost* (PC_{BRRU}), defined as "the cost to those regulated of furnishing the regulators with appropriate information and paperwork"; and
- *compliance cost* (CC_{BRRU}) – by far the largest of the three components, defined as "the cost to firms of complying with regulations in undertaking tasks or in not pursuing opportunities which might be open to them"; so CC_{BRRU} includes an *opportunity cost* component.

Cost of Employing Regulators

The BRRU estimates that the total cost of employing regulators (CER_{BRRU}) at Commonwealth and State levels "would be between \$1.8 billion and \$3.6 billion" in 1986. Paperburden costs and compliances costs are then estimated by the BRRU (1986: 4-5) as multiples of this CER_{BRRU} estimate based on rationales established by various studies.

Paperburden Cost

For paperburden cost (PC_{BRRU}), the BRRU (1986: 4) applies a multiple of two, based on estimates by the Confederation of Australian Industry (CAI), although it appears as though a higher figure could also have been employed:

The costs of the paperburden of Commonwealth regulations on industry was estimated by the Confederation of Australian Industry in its 1980 study to be twofold the cost incurred by the Government. Though the derivation of these estimates was based on a small sample, the cost estimate is relatively conservative in comparison with estimates reported in the US. In the US in 1979, according to the Federal Paperwork Commission, the costs of paperwork imposed on the private sector ranged between \$U.S.25B and \$U.S.\$32B – at least five times the budgets of the various regulatory agencies.

Multiplying the CER_{BRRU} estimate by two hence "results in a paperburden cost to business in a range of \$3.6B and \$7.2B" (BRRU 1986: 4).

Compliance Cost

The BRRU (1986: 4; see also Moran 1987: 138-139) employs a multiple of 20 to establish compliance cost (CC_{BRRU}) estimates, again following Weidenbaum (1978):

According to these estimates, the aggregate compliance costs to U.S. business of Federal business regulations amounted to 20 times the size of government expenditures undertaken for these purposes. Weidenbaum's disaggregated estimates of the ratio of compliance to administration costs demonstrate considerable variability, ranging from less than 2:1 for Health, Education and Welfare, through 5:1 for equal opportunity and 19:1 for the Environmental Protection Agency to over 210:1 for the Interstate Commission (which is mainly concerned with transport).

It is further claimed (BRRU 1986: 4) that Weidenbaum "opted for the lower end of costs where a range was available" and generally "sought to apply conservative principles" in developing his compliance cost ratios, and that the multiple of 20 is thus more likely to err on the low side rather than the high side.

The BRRU (1986: 4) employs the 20:1 cost ratio as above to estimate that total Australia-wide compliance cost (CC_{BRRU}) was in the range "between \$36B and \$72B", again in 1986.

Total Cost of Regulation

The CER_{BRRU} , PC_{BRRU} and CC_{BRRU} components as above are summed together to establish that "the estimated overall cost of business regulation" in Australia was "between \$40B and \$80B" in 1985-86 (BRRU 1986: 5). The BRRU (1986: 5; see also Moran 1987: 139; James 1987: 2) notes further that this estimate "is equivalent to 15-30% of Australia's \$250B gross domestic product" in 1985-86, and that "even if the ratio of compliance to administrative costs in Australia were 10:1 (that is half that estimated of US federal regulations), business regulation costs would still amount to between 9% and 19% of gross domestic product". Moran (1987: 139) also notes that the total cost estimates as above "do not include resources expended in lobbying for preferred treatment – resources that, in view of the stakes, could be very considerable". In relation to such lobbying costs, it is noteworthy that numerous Australian industry, trade, employer and employee organisations have State and Territory subdivisions to liaise separately with each government.

Table 5-1 below reproduces the estimates established by the BRRU (1986: 3-5) as above, in both dollar and percentage terms, and for each estimate provides a *middle estimate* defined as the mid-point between the BRRU's low and high range estimates. Two estimates of the overall cost of regulation are provided in Table 5-1: the *total cost of regulation* (TCR_{BRRU}) and the combined *paperburden and compliance cost* (PCC_{BRRU}). The TCR_{BRRU} is the sum of all three components described above, which amounts to the CER_{BRRU} component multiplied by 23 in view of the ratios employed to estimate the PC_{BRRU} and CC_{BRRU} components, as follows:

$$\begin{aligned} TCR_{BRRU} &= CER_{BRRU} + PC_{BRRU} + CC_{BRRU} \\ &= CER_{BRRU} + 2CER_{BRRU} + 20CER_{BRRU} = 23CER_{BRRU} \quad \dots[5.1] \end{aligned}$$

The PCC_{BRRU} is the sum of just the paperburden and compliance components, or CER_{BRRU} multiplied by 22:

$$PCC_{BRRU} = PC_{BRRU} + CC_{BRRU} = 2CER_{BRRU} + 20CER_{BRRU} = 22CER_{BRRU} \quad \dots[5.2]$$

This PCC_{BRRU} estimate excludes the cost of the government regulation itself, but would include the cost of non-government regulation, and is defined here to help compare these BRRU estimates with similar Access Economics described in the next section.

Table 5-1 includes the regulatory cost estimates which would arise in the financial years 2001-02 and 2004-05 if the percentage estimates derived by the BRRU for 1985-86 applied equally in these later years.

Table 5-1: Costs of Business Regulation in Australia Based on BRRU (1986) Methodology

| YEAR | 1985-86 (\$b) | All Years (%) | 1998-99 (\$b) | 2001-02 (\$b) | 2004-05 (\$b) |
|---|------------------|------------------|------------------|------------------|------------------|
| GDP (current prices in years indicated) | 256.1 | 100.0 | 607.9 | 735.8 | 891.5 |
| Estimates of the Cost of Employing Regulators (CER_{BRRU}) | | | | | |
| CER_{BRRU} Low Estimate | 1.8 | 0.7 | 4.3 | 5.2 | 6.3 |
| CER_{BRRU} Middle Estimate | 2.7 | 1.1 | 6.4 | 7.8 | 9.4 |
| CER_{BRRU} High Estimate | 3.6 | 1.4 | 8.5 | 10.3 | 13 |
| Paperburden Cost (PC_{BRRU}) Estimates | | | | | |
| PC_{BRRU} Low Estimate | 3.6 | 1.4 | 8.5 | 10.3 | 12.5 |
| PC_{BRRU} Middle Estimate | 5.4 | 2.1 | 12.8 | 15.5 | 18.8 |
| PC_{BRRU} High Estimate | 7.2 | 2.8 | 17.1 | 20.7 | 25.1 |
| Compliance Cost (CC_{BRRU}) Estimates | | | | | |
| CC_{BRRU} Low Estimate | 36 | 14 | 85 | 103 | 125 |
| CC_{BRRU} Middle Estimate | 54 | 21 | 128 | 155 | 188 |
| CC_{BRRU} High Estimate | 72 | 28 | 171 | 207 | 251 |
| Total Cost of Regulation (TCR_{BRRU}) Estimates | | | | | |
| $= CER_{BRRU} + PC_{BRRU} + CC_{BRRU} = CER_{BRRU} + 2CER_{BRRU} + 20CER_{BRRU} = 23CER_{BRRU}$ | | | | | |
| TRC_{BRRU} Low Estimate | 41 | 16 | 98 | 119 | 144 |
| TRC_{BRRU} Middle Estimate | 62 | 24 | 147 | 178 | 216 |
| TRC_{BRRU} High Estimate | 83 | 32 | 197 | 238 | 288 |
| Estimates of Paperburden and Compliance Cost (PCC_{BRRU}) | | | | | |
| $= PC_{BRRU} + CC_{BRRU} = 2CER_{BRRU} + 20CER_{BRRU} = 22CER_{BRRU}$ | | | | | |
| TPC_{BRRU} Low Estimate | 40 | 15 | 94 | 114 | 138 |
| TPC_{BRRU} Middle Estimate | 59 | 23 | 141 | 171 | 207 |
| TPC_{BRRU} High Estimate | 79 | 31 | 188 | 228 | 276 |

Significant Costs Net of the Benefits of Regulation

The costs of business regulation as above appear to be alarmingly high, but it is acknowledged that "all regulations, like taxation and public spending, produce benefits as well as costs" (Moran 1987: 140), and that estimates of regulatory costs net of benefits would be much lower than the gross estimates as above (BRRU 1986: 5; Moran 1987: 140). Benefits of regulation include security, safety, hygiene, stability, competent corporate governance, public confidence, and higher standards generally (ACCI 2005b: 9; Productivity Commission 2005c: 1). The BRRU (1986: 5) still concludes overall, however, that "massive costs are associated with unwarranted regulations and vast gains possible with their removal".

Recent Estimates by Access Economics and Others

Several recent studies have been carried out in Australia and other countries which provide updated estimates of the costs of business regulation in Australia, including a substantial effort by Access Economics (2005a) for the Business Council of Australia (BCA) which shall now be briefly described.

Access Economics (2005a: 1-2, 13, 17) defines the total cost of business regulation (TCR_{AE}) in terms of three components which largely correspond with those defined by the BRRU in 1986 as above, as follows:

- *administrative cost* (AC_{AE}) – the extra burden on taxpayers to finance the cost to governments of administering regulations;
- *compliance cost* (CC_{AE}) – the cost burden on businesses in complying with regulations; and
- *efficiency loss* (EL_{AE}), or *deadweight loss* – the total cost to the economy which results from regulation, in the form of opportunity costs, higher prices, lower wages, and net losses generally.

The administrative cost component (AC_{AE}) defined by Access Economics is the same as the *cost of employing regulators* (CER_{BRRU}) component used by the BRRU as above. The Access Economics compliance cost (CC_{AE}) and efficiency loss (EL_{AE}) components, in combination, largely or wholly align with the paperburden and compliance cost components defined by the BRRU. The compliance cost component (CC_{AE}) defined by Access Economics appears to align with the paperburden cost component (PC_{BRRU}) and also part of the compliance cost component (CC_{BRRU}) as defined by the BRRU. The Access Economics efficiency loss component (EL_{AE}) similarly appears to align with the remainder of CC_{BRRU} that includes opportunity costs but is not already included in the CC_{AE} component. The following equations summarise the relationship between the BRRU and Access Economics cost components defined above, to close approximation at least, assuming equality of the total regulation costs TCR_{AE} and TCR_{BRRU} :

$$AC_{AE} = CER_{BRRU} \quad \dots[5.3]$$

$$CC_{AE} + EL_{AE} = PC_{BRRU} + CC_{BRRU} = PCC_{BRRU} \quad \dots[5.4]$$

$$TCR_{AE} = AC_{AE} + CC_{AE} + EL_{AE} = TCR_{BRRU} \quad \dots[5.5]$$

Access Economics (2005a: 13) acknowledges that all three cost components they identify are difficult to accurately measure.

Administrative Cost as Defined by Access Economics

The administrative cost (AC_{AE}) component is "typically the most visible and easily identifiable", even though "it is generally not possible to isolate the total of government resources devoted to a particular piece of legislation" (Access Economics 2005a: 18). Citing the 2001-02 annual reports of various Commonwealth agencies, Banks (2003: 3; see also Access Economics 2005a: 13, 18; BCA 2005a: viii) estimates that "at the Federal level, government agencies with explicit regulatory functions alone employed around 30 000 staff and spent some \$4.5 billion in 2001-02", but adds that "this ignores other government departments that have regulatory functions,

not to mention ministerial councils and inter-governmental bodies (such as the National Transport Commission)". This \$4.5 billion estimate also generally excludes the costs of courts, tribunals, and "many more bureaucratic resources within departments" that "are devoted to researching, formulating and monitoring policy with regulatory impacts" (Banks 2003: 3; Access Economics 2005a: 18).

Compliance Cost as Defined by Access Economics

Business compliance cost (CC_{AE}) is defined by Access Economics (2005a: 19; emphasis in original) as "that proportion of a firm's administrative processes and resources which are devoted to activities *they would not do if the regulation did not exist*", including costs associated with:

- staff time needed to comply with regulations;
- hiring of any additional staff required to meet the additional administration burden;
- maintaining and developing new and up-to-date reporting systems;
- obtaining advice (lawyers, accountants, architects etc);
- educating staff about the new requirements; and
- any associated costs of advertising, travel or the like.

The BCA (2005b: ii, see also 10) has identified "six drivers of high compliance costs", the first four of which relate to Australia's government structures and systems, as follows:

1. the interaction between different laws, resulting in conflicting, overlapping or inconsistent regulation;
2. the constant changing of laws, making it difficult for companies to ensure they comply and adding considerably to their costs;
3. the inefficiencies and frustrations of multiple and unco-ordinated licensing and approvals processes;
4. the lack of clear delineation between the roles of different regulators, their powers and their objectives;
5. the perverse consequences of a 'zero tolerance' attitude by regulators, driving excessive, unproductive and, at times, counter-productive compliance responses; and
6. the excessive and growing focus on personal liability of Directors and officers, causing companies to inflict higher than necessary compliance costs upon themselves.

The OECD (2001: 60) estimated that the direct compliance cost of labour market, taxation and environmental regulations incurred by Australian small and medium sized businesses in 1998 totalled approximately \$17 billion, or 2.9 per cent of GDP.⁴ Lattimore et al. (1998: xxiv; see also Banks 2005: 7) provide similar estimates for 1994-95 for small and medium businesses and also for all businesses:

Evidence from some recent surveys suggests that Commonwealth taxation compliance costs for SMEs are around 1.5 per cent of turnover. Other paperwork compliance burdens — associated with state taxes and other regulations — represent roughly another 0.3 per cent of turnover. It appears that regulatory and taxation paperwork compliance costs for SMEs summed to around \$9.2 billion in 1994-95 out of a total of \$10.8 billion in paperwork compliance burdens across

the economy. SMEs, therefore, bear roughly 85 per cent of the aggregate paperwork compliance burden, although their share of economic activity is about one third.

Combining the \$17 billion estimate by the OECD (2001: 60) and the 85% figure derived by Lattimore et al., as above, suggests that the total direct compliance cost for all Australian businesses would have been approximately \$20 billion in 1998 – of which 85%, or \$17 billion, was borne by small and medium sized businesses.

According to a "Dutch study using the MISTRAL model", by Chittenden et al. (2001: 3, as cited in Access Economics 2005a: 20), approximately "one fifth of all administration costs borne by business were caused solely by compliance responsibilities". Access Economics (2005a: 20) recommends further that "while caution is required when extrapolating from the Dutch experience to Australian regulation, a figure of around 20% would support Australian survey data that regulatory compliance costs are significant".

Lattimore et al. (1998: xxiv), like others, recognise the presence of other significant costs and economy-wide efficiency losses associated with regulation, in addition to the compliance costs they estimate, such as "more costly inputs, less efficient production and impacts on entrepreneurship and innovation".

Efficiency Loss as Defined by Access Economics

Efficiency losses (EL_{AE}), according to Access Economics (2005a: 22), are the "economy-wide costs" which "stem from an allocation of resources which is different to that which would otherwise have prevailed in the absence of regulation", and which appear as (emphasis in original):

- **Higher prices** for consumers and other businesses and **lower wages** to employees (to finance compliance costs, and because less efficiently allocated resources mean productivity is lower than it would have been), and
- **Higher taxes** paid to governments (to finance administration costs).

Efficiency losses "are typically the largest costs and most well-hidden costs of regulation" (Access Economics 2005a: 22), and their direct measurement is virtually impossible, but Access Economics (2005a: 23, see also 13) suggests two indirect "yardsticks of the efficiency costs of Australia's regulatory burden":

- The first indirect yardstick of the current burden of regulation on prosperity comes from estimates of the efficiency gains from two decades of deregulation and reform.
- A second yardstick of efficiency costs is provided by a World Bank study of regulatory reach across 137 nations.

In relation to their first yardstick, Access Economics (2005a: 2; see also 2005b: 2; 2005c) estimates that "the efficiency gains from two decades of deregulation and reform" amount to approximately 10.8% of GDP. It is further estimated that about 7.7% of this 10.8%, "or around \$3,000 per person per year", resulted from "reforms to national competition policy, tariff and quota setting, the deregulation of financial and foreign exchange markets" and "reforms to workplace relations policies", and that the remaining 3.1% was achieved by "the Accord in the 1980s" and other wage setting reforms (Access Economics 2005c: 2). Victorian Premier Steve Bracks (2005: 6) is another who shares the widely held view (see also BCA 2005c: 3, 16; Access Economics 2005b: 2; 2005c; OECD 2005: 8, 11, 97-163) that "two major waves of economic reform" since the 1980s "have underwritten the living standards Australians now enjoy":

The first wave of reform, from the early 1980s, saw the floating of the dollar, the deregulation of financial markets and the effective end of tariff barriers designed to protect Australian industry. The 1995 COAG agreement to implement National Competition Policy (NCP) was central to a second wave of reform which sought to increase competition. ... Our living standards have increased dramatically – income per head has risen from 18th in the OECD in the early 1990s to 8th today. Moreover, these benefits have been widely shared across the community.

In relation to their second nominated yardstick, Access Economics (2005a: 25) observes that "another indicator of the efficiency costs to Australia of our less than best practice regulation is provided by a World Bank study of regulatory reach across 137 nations". This World Bank (2004) study revealed that Australia's economy is subject to relatively costly frictions and distortions in the form of slow and costly contract enforcement procedures, and high stamp duties, collateral creation costs, insolvency costs, businesses creation costs and "firing costs" (Access Economics 2005a: 25). Access Economics (2005a: 13) notes that this study also found that "nations that regulate lightly grow faster than others", and hence claims that "the deadweight efficiency losses to Australia of our less than best practice regulatory record is likely to be costing us dearly".

Based on these two yardsticks as above, in combination, Access Economics (2005a: 24) suggests that "further reforms" could possibly "generate similar dividends" to those achieved by past reforms as above:

A recent report commissioned by the National Competition Council [2004: 12] found that, despite the progress to date, there remains "considerable opportunity for the extension of the National Competition Policy reform program to capture efficiency improvements across a broad range of sectors." This finding was based on a comparison of Australian reforms to our OECD peers. In particular, the report concluded that reforms to Australia's health, education, communications and environment sectors are likely to produce the greatest net benefits.

Access Economics therefore suggests that room for improved efficiency within the Australian economy is significant, and sufficient to make feasible the aim to achieve reform dividends in the future that approach the 10.8% GDP improvement that has been attributed to the reforms of the past two decades.

Note that 10.8% of the 2004-05 GDP (\$891.5 billion as in Table 5-1) is approximately \$96 billion, and of the 2003-04 GDP (\$813.2 billion) is approximately \$88 billion. Note also that a lesser estimate of gains from reforms *to date*, such as this 10.8% Access Economics estimate here, would, all else being equal, imply a greater figure for gains remaining to be achieved through further reforms.

Significant support for this 10.8% estimate is provided by the Australian Chamber of Commerce and Industry (ACCI 2005b: 7), which applies methodologies developed by Crain (2005; see also Crain and Hopkins 2001) to estimate that "regulation costs the Australian economy approximately \$86.0 billion per year or 10.2 per cent of GDP". The ACCI (2005b: 7) adds that while this "estimate is inclusive of most types of regulation it is not exhaustive". In an interview with Andrew Geoghegan on ABC's AM program, on 31 October 2005, the ACCI's Chief Executive Peter Hendy estimated further that "between 5 and 10 per cent of GDP is subject to a regulatory burden", amounting to "between 45 to 80 billion dollars" per annum, and hence claimed that "administrative inefficiencies" could be costing the Australian economy up to \$80 billion per annum.

Economy-wide improvements amounting to approximately \$80 billion per annum in current (2005-06) terms also emerge in a second recent analysis by Access Economics (2005b) which examines several future economic growth scenarios, including a *low growth* or *business as usual* scenario achieving annual growth of 2.4% until 2024-25, and a *high growth* or *go for growth* scenario achieving a 4.0% annual growth rate. Assuming "a constant Commonwealth tax to GDP ratio", Access Economics (2005b: v; see also BCA 2005c: 22, 25) estimates that the "prosperity dividend from a 'go for growth' strategy would generate additional tax receipts ... the equivalent of an extra 9% of the 2024-25 GDP in the 'business as usual' scenario – almost \$80 billion in today's money". It is further explained that (Access Economics 2005b: iv):

By 2024-25, income per capita would be \$16,500 a year higher (in today's dollars) with 4.0% growth than 2.4% growth. And the average real wealth of individuals would also be rather higher under the strong growth scenario. Real wealth per capita in 2024-25 would be \$368,200 (in today's dollars) with 4.0% a year average growth – some \$74,200 higher than real wealth per capita under the scenario of 2.4% average GDP growth.

According to the BCA (2005c: 25; see also Access Economics 2005b), reforms such as the following can help achieve "greater efficiency in the allocation and use of resources" in the pursuit of this 4.0% growth target:

- further workplace relations reforms to enhance the flexibility of agreement making and reduce impediments to job creation and workforce participation;
- tax reform, where the BCA recently recommended the lowering and compressing of personal income tax rate scales, reducing company tax rates, abolishing inefficient State taxes, and eventually increasing recourse to taxes on consumption rather than income;
- another round of competition policy reforms focusing on greater harmonisation across the Federal-State system (this cuts across regulatory and Federal-State issues discussed below) and increased competition in sectors which continue to enjoy significant protection;
- improved business regulation (including the reduction of duplication across Federal-State, and within State systems);
- improved planning and provision of infrastructure; and
- Federal-State reforms to improve accountability and efficiency in the delivery of goods and services (including notably health and education).

Significantly, all five reform recommendations as above heavily involve Federal-State issues relevant to government structure reform considerations. Access Economics (2005b: 26) specifically supports comprehensive Federal-State reforms as follows (emphasis added here):

Improving Federal-State cooperation in health, education, infrastructure and the environment would help stop buck passing, shift the spotlight to roles and responsibilities and sort out who does what best (potentially leading to a more rational allocation of funding/service delivery rather than settling for historical precedents). Getting better results out of areas where Federal-State activities intersect is vital. *Inconsistencies, duplication and additional costs associated with poorly coordinated or conflicting State-Federal (and local) Government policies and regulations affect virtually every area of reform highlighted by the BCA and others.* Existing Federal-State relations are a block to delivering better policies in the areas of taxation, workplace and other regulations, and the provision of infrastructure to name a few. Each of these has direct and indirect bearings on Australia's economic and productivity outlook. In addition, two obvious areas in need of a shakedown are health (because of the growing costs and the scope for better efficiencies from cooperation) and education (because of its importance in enabling greater skill acquisition).

Noting the estimate, as above, that Australia's per capita income would be "\$16,500 a year higher (in today's dollars)" in 2024-25 under 4.0% growth, than under 2.4% growth, the Productivity Commission (PC 2005a: 166, see also xxvii), in its 2005 Review of National Competition Policy Reforms, observes as follows:

That Australia still lies well inside the performance frontier in many sectors is a source of opportunity for raising living standards further in the future. For example, were it possible to achieve the same labour productivity levels as in the United States — still well below the world's best performance levels — Australian gross household income would rise by 20 per cent or some \$22 000 a year. Whether or not achieving US levels of productivity is realistic, the benefits for Australia from realising our productivity potential are nonetheless likely to be very significant.

This Productivity Commission Review (PC 2005a) again referred prominently to duplication and overlap among Commonwealth, State and Territory governments and regulatory systems, and related issues.

Whilst it remains to be seen whether this four percent growth target can be achieved and sustained over twenty or more years so as to achieve the estimated 9% increase in GDP by 2024-25, through reforms suggested as above or otherwise, this second Access Economics analysis certainly demonstrates that the aim to eventually improve the Australian economy by 10% of GDP or so is quite realistic.

Bracks Reform Plan Aiming to Add 6% to GDP

Victorian Premier Steve Bracks (2005: 17), in a comprehensive reform plan, regularly draws attention to the "more competitive international business environment" and the "the need for Australian governments to continue to support international engagement and the ability of Australian businesses to compete". Bracks (2005: 25) asserts that regulation "creates compliance costs", "can reduce productivity", and "may constrain labour force participation", and recommends "a concerted push to reduce the costs of regulation for business".

Bracks (2005: 10) also acknowledges an OECD (2005: 12) assessment that Australian productivity levels are now "well below those recorded in several other OECD countries", and warns that the gains from reforms carried out since the 1980s are seriously under threat from three principal sources of pressure which, in combination, "have the potential to undermine economic growth and limit the capacities of governments to meet community needs and expectations" (Bracks 2005: 7, see also 16-17; emphasis in original):

- International *competitive pressures* will intensify with the rapid growth of China, India and other emerging economies.
- As the incremental benefits from the first two waves of reform diminish, recent strong rates of *productivity growth* may prove difficult to sustain.
- Population ageing and low fertility are projected to *reduce overall labour force participation rates*.

Bracks' concerns are supported by Productivity Commission (2005d: 127, as cited in Access Economics 2005b: 7) estimates that population ageing presents challenges which have the potential to decrease Australia's GDP by approximately 13% over the next four decades "in the absence of action" in response to such challenges (Access Economics 2005b: 7).

In response to these various threats and challenges, Bracks (2005: 6, 10) has developed a comprehensive national reform plan which aims to boost Australia's GDP by approximately 6% over the decade to 2015. This "third wave of reform", according to Bracks (2005: 8, 10), should "build on the NCP focus on competition"; "recognise productivity and participation as the critical drivers of future prosperity", with "our people – our human capital – as the centrepiece"; and seek to "further develop the competitiveness of our businesses through completing legislative reviews, reducing 'red tape' and building world-class economic infrastructure".

Bracks (2005: 10) believes a program of reform focused as he proposes can "deliver an extra 6.1 per cent to annual GDP projections within the next decade", which "would add an extra \$65 billion to national income each year by 2015 – or around \$3000 per person". So the Bracks plan is yet another accompanied by estimates that GDP improvements amounting to over \$50 billion per annum can be achieved through effective reform.

Bracks and Others on the Costs and Benefits of Infrastructure

Bracks' emphasis on the importance of "world-class infrastructure" is widely shared. The Committee for Economic Development of Australia (CEDA), for example, in its 2005 paper *Infrastructure: Getting on with the job*, discusses Australia's future infrastructure needs, estimates the cost and benefits of such infrastructure, and frequently refers to the impact of Australia's government structures and systems upon infrastructure.

According to CEDA (2005: 5), Australia currently suffers from a "serious backlog in infrastructure investment, in water, energy and land transport, estimated conservatively at \$25 billion, which requires immediate attention". CEDA (2005: 6) acknowledges that "infrastructure services are important inputs to all industries and hence to economic efficiency, productivity and Australia's international competitiveness", and claims that "Australia's federal system of government imposes unique complexities and constraints on infrastructure investment compared with many other countries" (CEDA 2005: 7). Appendix 5B presents extracts from this CEDA report of relevance to this current research.

In their 2005-06 *State of the Regions* report, National Economics (2005: 6) observes that "infrastructure makes social networks more efficient, minimises production costs, increases the scale and efficiency of labour markets and promotes sustainable growth". It is estimated that (National Economics 2005: 6):

- as a result of other Australian regions not having the same social and human capital standards per capita as Global Sydney, the loss of household income was \$43 billion nation-wide;
- as a result of the rest of Australia not having the same scale in labour market catchment, industry concentrations of activity and balance in terms of the demand and supply of skills, the cost to the nation was \$16 billion in 2001;
- as a result of the rest of Australia not having the same quality transport, communication and other links to the rest of the world as Global Sydney, the cost to the nation in terms of household income was \$37 billion.

Dutch Plan Endorsed by Bracks and Others

Victorian Premier Steve Bracks (2005: 26) believes that there is "ample scope for further reductions in regulatory costs". Citing a report by the UK Better Regulation Task Force (BRTF 2005), Bracks (2005: 26) specifically recommends that Australia should follow the lead of the Netherlands and aim to reduce administrative costs imposed on businesses by regulation "by at least 25 per cent" over the coming decade.

The Productivity Commission (2005c: 94, 96; citing BRTF 2005) acknowledges Dutch Government estimates that "a reduction in the administrative burden of 25 per cent would increase GDP by 1.5 per cent over the medium term", and notes that several other countries "are investigating their own versions of the Dutch approach to reducing administrative burdens", including the United Kingdom, Belgium, Denmark, Estonia, France, Italy, Hungary, Norway, Sweden, Poland and South Africa. In July 2005, the UK Government adopted BRTF (2005: 3) recommendations to implement "the Dutch approach to reducing administrative burden" and "a 'one in, one out' approach to new regulation" requiring "proposals for new regulation to be accompanied by consideration of compensatory simplification measures of other regulation" (Productivity Commission 2005c: 96). The BRTF (2005: 3) estimated that these measures could increase the UK's GDP by more than one per cent.

Citing the 2005 Hampton Report's recommendations to consolidate the number of regulators in the United Kingdom (Hampton 2005), the ACCI (2005b: 35) recommends that regulatory reform in Australia should rationalise regulators as well as regulations to "provide for a more centralised decision-making process and alleviate the possibility of institutions creating regulations in a vacuum". The ACCI (2005b: 21, citing the Commonwealth Office of Small Business 2003) also refers to the following nine countries which have set specific "quantitative targets" for regulatory reductions and, in all cases, have aimed to reduce regulatory burdens by 25% or more in at least some form of regulation: Belgium, Denmark, Germany, Spain, Ireland, the Netherlands, Portugal, Sweden, and the UK.

Further Estimates

To further support the economy-wide estimates of the previous sections, this section provides several other quantified estimates that have been established recently for particular industries or sectors, and further insights from studies in other countries.

Manufacturing and Other Industry Estimates

Manufacturing accounted for 11.7% of Australia's total factor income in 2002-03, so provides significant insights into compliance costs, regulatory burdens generally, and the benefits possible through structural and systemic reform.⁵

Based on "the time cost of staff alone, and excluding purchases of equipment, professional fees, overheads and other on costs that would significantly add to the cost of compliance", the Australian Industry Group (2004: 3; see also Access Economics 2005a: 20; Lahey 2005: 8) has estimated that manufacturing companies on average spend "102 hours per month on managing compliance – the equivalent of 1.79 hours (1 hour 47 minutes) per employee", and that manufacturers alone "are spending over \$680 million per year" Australia-wide "on managing compliance with taxes, environmental management and other regulations".

The Building Products Innovation Council (BPIC 2003: 2; see also Productivity Commission 2004a: 78; 2004b; BCA 2005d: 2), in a submission to the Productivity Commission (2004b) Inquiry into First Home Ownership, referred to a "BPIC-HIA joint survey of Chief Executives of building product manufacturing companies" which established that the "cost impact of complying with the State and Territory variations" were "between 1 per cent and 5 per cent of turnover", which, "at a conservative 2 per cent cost impact ... equates to some \$600m annually on building product manufacturers alone". This submission also noted that respondents to the BPIC-HIA survey "commented that regulatory inconsistencies were on the increase and the highest areas of cost impact were in the area of inconsistent environmental regulation, OH&S, workers compensation, technical building codes and workplace relations" (BPIC 2003: 2).

A survey carried out by the Victorian Automobile Chamber of Commerce (VACC 2003: 2) revealed that:

- members reported that their businesses spend an average of 11.6 hours per week on regulatory compliance tasks, with the average compliance hours rising as business size increases.
- Eighty-six percent of members reported that the time they spent on regulatory compliance activities had increased compared with five years ago.

- Business owners are undertaking 59.4% of total business compliance activities, employees are performing 28.3%, and consultants such as accountants complete the remaining 12.3% of compliance tasks. The survey results show that owners of micro businesses, those with less than five employees, carry the greatest share of the compliance burden.
- Respondents were asked what the impact on their business would be if governments reduced the compliance burden by 50 per cent. The areas of greatest impact identified were 'more time to run business' (cited by 70.8% of respondents), 'less stress' (68.8%), 'increased profits' (50.1%), 'increased productivity' (48.4%), and 'more family/leisure time' (47.4%).

The VACC (2003: 2), like others, laments the fact that regulatory burdens have increased despite government commitments to reduce such burdens:

The Federal Government's commitment to reduce business compliance costs and red tape by 50 per cent has not been delivered. In fact, the majority of small businesses in the Retail Motor Industry report an increased compliance load compared with five years ago. Governments at all levels must work together to reduce the compliance burden by improving the process of regulation design and implementation. This is a key area of reform that could potentially deliver social and economic benefits to Australia.

The Example of Occupation Health and Safety

Several recent reports (for example Productivity Commission 2004c; Australian Treasury 2004; BCA 2005d: 2; Access Economics 2005a: 41-42, 63-64) raise occupational health and safety (OHS) as an area of life and death gravity where duplication and inconsistency of laws and regulations are especially costly.

The Productivity Commission (2004c: 4; see also 50-51), in the report of its Inquiry into National Workers' Compensation and Occupational Health & Safety Frameworks, observes that Australia hosts "ten principal OHS statutes – six State, two Territory and two for the Australian Government (one relating to Australian Government employees and the other relating to the maritime industry)". And "there are even more workers' compensation schemes, as some States have industry-specific as well as State-wide schemes" (Access Economics 2005a: 63). The Commission (2004c: 17) observed that "the multiplicity of OHS and workers' compensation arrangements, their divergent elements and their constant change impose a significant compliance burden and cost, particularly on multi-state employers", and that "while multi-state businesses make up less than 1 per cent of businesses, they are typically larger firms and account for almost 30 per cent of employment". Access Economics (2005a: 64) further observes that submissions to this Productivity Commission inquiry "could not identify the total cost increment due to inconsistent State-based regimes", but notes that "many firms could quantify the impact of duplication and inconsistency on particular aspects of their compliance program", as follows, for example (Productivity Commission 2004c: xxvi):

- Optus (sub. 57) estimated that, if it received a single national self-insurance licence, it would expect savings of up to \$2 million per annum of its \$6 million annual workers' compensation costs. It estimated (sub. 134) that the cost of complying with multiple workers' compensation and OHS arrangements adds about 5 to 10 per cent to the cost of workers' compensation premiums.
- CSR (sub. 109) estimated the cost of maintaining and renewing five self-insurance licences at over \$700 000 per annum, compared to \$200 000 for a single licence.
- Insurance Australia Group (sub. 89) estimated that the existence of multiple schemes added \$10.1 million to the (once-off) cost of setting up a single national IT platform. In total, it estimated that having to comply with multiple jurisdictions adds about \$1.7 million to IT costs annually. Further, it estimated that a national scheme could offer overall operating cost savings to the group of \$1.2 million per annum and reduce actuarial costs by \$400 000 per annum.
- BHP Billiton (sub. 110) commented that it cost in the vicinity of \$50 000 to purchase a system to manage and supply information for each of the jurisdictions.
- Skilled Engineering (IRsub. 177) estimated that the annual cost saving from operating under a single set of national OHS and workers' compensation rules would be in excess of \$2.5 million, or some 15 per cent of the company's annual costs of OHS and workers' compensation.

Several further submissions to this Productivity Commission inquiry also "identified areas of lost efficiency to the economy, the value of which could not be quantified in dollar terms"

(Access Economics 2005a: 64):

The opportunity cost of internal safety management staff time spent on training and researching jurisdictional differences in law may be that less time [is] spent on other areas of their job which generate greater benefits in terms of preventing injuries. Alternatively, firms could redirect these labour resources to other areas of the organisation and increase production and profitability without any reduction in safety standards.

Studies in Other Countries

Costs of regulation generally, and economy-wide efficiency loss in particular, in a given country, will depend upon the government structures and regulatory systems in the country, and their efficiency and effectiveness, and also on the extent to which efficiency enhancing reforms have already taken place, and hence the reform potential which remains to generate further improvements. Costs of regulation in a given country, therefore, could only ever offer general guidance on the situation in another country. It is significant, nevertheless, that Australian estimates in the vicinity of 10% of GDP, as above, closely align with corresponding estimates in several other countries. The UK Better Regulation Task Force (BRTF 2005: 12; see also BCA 2005a: 13; Lahey 2005: 8; US Office of Management and Budget 2004) observes, for example, that "information from the United States and the Netherlands suggests that the total cost of regulation is 10% - 12% of GDP".

The BCA (2005a: 13) refers to an estimate, by the US Office of Management and Budget [2004], that "the cost of federal regulation alone is about 8 per cent of US GDP", which indicates that the total cost of regulation in the US would comfortably exceed 10% of GDP. It is also

observed with respect to these US estimates that "analyses of the costs of regulation in Canada and Mexico give comparable figures and it is reasonable to assume that a similar figure applies in Australia" (BCA 2005a: 13). Lahey (2005: 8) notes further that "overseas experience suggests that a figure of 8 per cent of Australia's GDP soaked up by red tape and compliance costs is not an unreasonable estimate", and emphasises that "regulation costs and burdens are not just confined to business":

They have direct costs for the community. The vast majority of tax returns are lodged through tax agents, while federal tax legislation has grown from 3000 to 10,000 pages in a decade. A recent Victorian Competition and Efficiency Commission found that red tape was adding \$1500 to the cost of building homes in Victoria and these costs were being passed on to the consumer. Even volunteer organisations are losing personnel because of the endless form-filling and liability requirements, according to a recent survey in Newcastle.

Costs Associated with Australia's Remote Location and Unique Natural Environment

American geologist Herbert E. Gregory (1916: 473) once described Australia as "the most isolated of all inhabited continents" and "remote from the center of all of the world's activities". Spate (1968: 19) later wrote that "humanly speaking the most essential feature in Australian life is this: with New Zealand, she is the remotest outlier of Western, and specifically British, civilisation". Blainey (1982: 341, 342) has since written that "distance has been visibly tamed in the last quarter century but it has not been conquered" and that "Australia will continue to be seen as isolated". Australia constantly faces significant challenges as a result of its remoteness from global markets, and its unique natural environment generally, and no examination of alternative government structures for Australia, and the financial costs, benefits and affordability of such structures, could be adequate without a candid assessment of such challenges.

Appendix 5C describes Australia's geographic remoteness and unique geography and climate generally, with an emphasis on economic impacts and features of relevance to government structure, and is supported by five additional appendices – 5D through 5H – which provide more specific descriptions of Australia's exports and primary industries, wealth, geographic remoteness, geography generally and climate. This section briefly summarises some of the main findings established in Appendices 5C through 5H on the economy-wide costs of Australia's geographic remoteness and unique natural environment.

Economic Costs of Australia's Geographic Remoteness

Appendix 5F presents a detailed comparison of Australia and other countries in terms of their geographical remoteness and distance to world markets, and combines results established by Leamer (1997), Blum and Leamer (2002; 2004), Ewing and Battersby (2003) and Maddison (2003; as summarised in Appendix 5E) to estimate the economy-wide costs Australia faces as a result of such remoteness. It is estimated that (1) the tariff-equivalence of Australia's distance to world markets may range between 20% and 120%, depending on the type of good traded, and (2) the compounding impacts of geographic remoteness since 1870 or so may have left Australia's per capita GDP some 20% to 50% lower now than might have eventuated if Australia's distance to world markets approximated the average for all countries, or about \$200 billion to \$900 billion lower in dollar terms (based on Australia's 2004-05 GDP of \$891.5 billion), or \$11,000 to \$44,000 lower in per capita terms. Further research could improve on these estimates, but it is certainly clear that Australia faces significant economic challenges as a result of its geographic remoteness, and is therefore particularly reliant upon government structures and regulatory environments which at every point support individuals, communities and businesses, rather than hinder them, in their quest to overcome the relentless impacts of distance in an increasingly competitive global economy in which comparative advantages and disadvantages are increasingly magnified.

Australia's Unique Geography and Climate Generally

Australia's natural environment is unique in ways which extend well beyond its geographic remoteness from other countries as described above. As further described in Appendices 5C, 5G and 5H, Australia:

- is the third least densely populated country in the world, and the least densely populated of the 30 OECD countries;
- is the only island continent and by far the largest island country in terms of land area;
- is the hottest continent;
- is the driest of the five inhabited continents in terms of average annual rainfall per unit land area, river volumes, wetland areas, and runoffs;
- has the highest average rainfall per capita of the inhabited continents, despite having the lowest average rainfall per unit land area, as a result of its very low population density;
- has the most variable and uncertain rainfall patterns and the most variable stream flows of the inhabited continents; and
- is especially prone to droughts, heat-waves, floods and bushfires, and highly variable climatic patterns generally, for reasons which appear to be associated with the El Niño-Southern Oscillation effect.

Australia's vast land area and extremely low population density mean that Australia faces very high costs for domestic land transport and trade as well as for international transport and trade as above. As further illustrated in Appendix 5D, Australia's export levels are relatively very low as a percentage of GDP and very highly dependent on primary resources exports. Australia's rural sector continues to account for a significant fraction of Australia's total exports, but is constantly at the mercy of Australia's hot, dry and variable climate, and is especially susceptible to potentially adverse impacts of global warming and climate change. According to research by Peter Grace of Queensland University (quoted by Beeby 2006: 2):⁶

In Australia over the next 30 to 50 years, atmospheric carbon dioxide levels are predicted to increase significantly, with temperatures rising up to three degrees and rainfall falling by around 20 per cent or more in some areas. Under these conditions and with the wheat varieties and agronomic practices currently used in Australia, we would expect to see an average decline in wheat yields across the country of 15 per cent which equates to around a billion dollars in lost income.

Australia's climate clearly hosts significant strengths, advantages and opportunities, as well as weaknesses, disadvantages and threats, but the persistent heat and low and variable rainfall levels make Australia relatively very highly susceptible to natural disasters in the forms of droughts, floods and bushfires, and associated human, economic and environmental costs. Australia's very hot climate also presents significant disadvantages to its manufacturing sector and wealth creation generally, relative to other industrialised countries (see, for example, Blum and Leamer (2004: 546, 555, 561).

Australia's Particular Need for Supportive Government Structures

The empirical evidence summarised in this section (and in more detail in Appendices 5C through 5H) demonstrates that Australia is genuinely unique in terms of its global isolation and distance from world markets, and its geographic and climatic features generally, and hence faces unique disadvantages and costs which significantly impact upon the viability and profitability of businesses and trade generally, and the manufacturing, agricultural and export sectors in particular. The need to avoid complacency and take particular care in the design of competent and supportive government structures and regulatory systems is therefore especially great for Australia. Structures and systems which could competently serve locationally advantaged countries in North America, Western Europe and parts of Asia may not be enough to reverse the economic decline Australia has experienced over the past 130 or so years. Australia apparently needs *especially* competent and supportive government structures and systems which, to the

greatest extent possible, gainfully exploit its advantages, and at the same time mitigate against its unique and severe disadvantages.

Comparison and Reconciliation of Recent Estimates

The above estimates by Access Economics, the OECD and others, as summarised in Table 5-2 below, turn out to be remarkably consistent with the estimates developed by the BRRU in 1986, as in Table 5-1 above, noting that the BRRU estimates applied to regulation deriving from all levels of government.

Table 5-2: Summary of Recent Regulation Cost Estimates

| Cost Component in BRRU Terminology | Cost Component in Access Economics Terminology | Estimate (Australian unless otherwise indicated) | Source of Estimate |
|---|--|--|--|
| Cost of Employing Regulators (CER _{BRRU}) | Administrative Cost (AC _{AE}) | At least \$4.5 billion in 2001-02 for Commonwealth Government only | Productivity Commission (see, for example, Banks 2003: 3) |
| Paperburden Cost (PC _{BRRU}) | Compliance Cost (CC _{AE}) | \$17 billion in 1998 for just small and medium sized businesses | OECD (2001: 60) |
| Paperburden Cost (PC _{BRRU}) | Compliance Cost (CC _{AE}) | \$10.8 billion in 1994-95 for all businesses | Lattimore et al. (1998: xxiv) |
| Paperburden Cost (PC _{BRRU}) | Compliance Cost (CC _{AE}) | \$9.2 billion in 1998 for just small and medium sized businesses (85% of the total of \$10.8 billion) | Lattimore et al. (1998: xxiv) |
| Paperburden Cost (PC _{BRRU}) | Compliance Cost (CC _{AE}) | \$20 billion in 1998 (85% of which is \$17 billion, the OECD small and medium sized business estimate) | OECD (2001: 60) and Lattimore et al. (1998: xxiv) |
| Compliance Cost (CC _{BRRU}) | Efficiency Loss (EL _{AE}) | 10.8% of GDP (\$96 billion in 2004-05) | Access Economics (2005a: 2, 2005b: 2) |
| Compliance Cost (CC _{BRRU}) | Efficiency Loss (EL _{AE}) | 9% of GDP (\$80 billion in 2004-05) | Access Economics (2005b: v) |
| Total Cost of Regulation (TCR _{BRRU}) | Total Cost of Regulation (TCR _{AE}) | 10.2% of GDP (\$86.0 billion in 2005) | ACCI (2005b: 7), based on by Crain (2005; see also Crain and Hopkins 2001) |
| Total Cost of Regulation (TCR _{BRRU}) | Total Cost of Regulation (TCR _{AE}) | 6.1% of GDP (\$65 billion in 2015) | Bracks (2005: 6,10) |
| Total Cost of Regulation (TCR _{BRRU}) | Total Cost of Regulation (TCR _{AE}) | 10% to 12% of GDP in the United States and the Netherlands | UK Better Regulation Task Force (BRTF 2005: 12) |
| Total Cost of Regulation (TCR _{BRRU}) | Total Cost of Regulation (TCR _{AE}) | 8% of US GDP in 2004 for federal regulation alone | US Office of Management and Budget (OMB 2004) |

The Productivity Commission's estimate as above, that the administrative cost of Commonwealth government regulation alone was at least \$4.5 billion in 2001-02, suggests that the cost of regulation from all governments (Commonwealth, State, Territory and local) was

probably at least \$7 billion or so in 2001-02, which very closely matches the corresponding CER_{BRRU} estimates in Table 5-1 – ranging from a low estimate of \$5 billion to a high estimate of \$10 billion, with a middle estimate of \$8 billion. This apparent confirmation that the 1986 CER_{BRRU} estimate appears to be very reasonable is highly significant given that the BRRU Paperburden Cost (PC_{BRRU}) and Compliance Cost (CC_{BRRU}) estimates are formed as multiples of this CER_{BRRU} estimate.

The estimate that Australia's total business compliance cost, or paperburden costs in BRRU terminology, was approximately \$20 billion in 1998, as in Table 5-2, slightly exceeds the high range PC_{BRRU} estimate for 1998-99 of \$17 billion as in Table 5-1. This comparison is highly significant in view of the BRRU (1986: 4) acknowledgment, as above, that the ratio of two they employed to estimate paperburden costs perhaps should have been higher in view of the ratio of five or so suggested by the 1979 study by the US Federal Paperwork Commission. The more recent estimates by Lattimore et al. and the OECD suggest that the 1986 BRRU estimates could be improved slightly if a ratio of three was used rather than two, although it is also possible that the OECD and Lattimore et al. figures may slightly overestimate the true costs. Overall, the various results mutually confirm one another quite strongly.

The BRRU compliance cost estimate (CC_{BRRU}) of 21% almost exactly aligns with the Access Economics estimates that reforms since the 1980s have generated improvements amounting to approximately 10.8% of GDP, and that there is still room for improvement within the Australian economy such that further well targeted reforms could possibly achieve another similar level of improvement, so perhaps another 10% of GDP or so. It is clearly extremely significant that these BRRU and Access Economics estimates derive from substantially different approaches – so can be considered independent checks of each other – yet provide such strong mutual support for one another. It is possible that the BRRU and Access Economics analyses could both be inaccurate to an extent, but given the strength of agreement of these independent approaches, it seems more likely that both estimates are very reasonable indeed.

Furthermore, the BRRU compliance cost estimate (CC_{BRRU}) of 21% of GDP exactly aligns with the combination of the Access Economics estimate of 10.8% of GDP, and the ACCI (2005b: 7) estimate, as above, that "regulation costs the Australian economy approximately \$86.0 billion per year or 10.2 per cent of GDP". For this comparison it might be more apt to employ the BRRU total cost of regulation estimate (TCR_{BRRU}) of 24% of GDP, but this is still very close to 21%.

The reports by Crain (2005) and Crain and Hopkins (2001), which the ACCI followed to derive their 10.2% of GDP estimate, contain no reference at all to the work by Weidenbaum which the BRRU followed in their 1986 estimates. So the ACCI and BRRU estimates can also be considered independent of one another, and hence robust reinforcers of one another. It is possible that the BRRU, Access Economics and ACCI analyses could share similar inaccuracies, but their strength of agreement despite their substantially independent approaches is certainly significant.

The estimates described in this chapter provide significant benchmarks and broad magnitude guides against which the private sector and economy-wide estimates developed in Part III can be compared. The private sector and economy-wide relative benefit estimates presented in Chapters 11 and 12 turn out to be substantially consistent with the estimates in the order of 5% to 10% presented in this chapter.

Conclusion

A range of estimates established over the past two decades have consistently indicated that the economy-wide costs of excessive regulation in Australia, and the benefits possible through regulatory reform, amount to approximately five to ten per cent of GDP, or some \$40 billion to \$100 billion per annum in 2004-05 terms. Exploratory estimates established in this current study have also suggested that the economy-wide costs of Australia's geographic remoteness and distance from world markets amount to approximately 20 to 50 per cent of GDP, or at least \$200 billion in 2004-05 terms. These estimates, if at least broadly accurate, indicate that (1) the tyranny of distance remains one of Australia's most enduring and economically significant characteristics, (2) Australia is especially reliant upon government structures and regulatory systems which support trading and commercial endeavours to the greatest extent possible, and (3) government structure and regulatory reforms have the potential to achieve significant economic gains for Australia.