A REGULATORY BUDGET: ASSET OR LIABILITY?

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ABSTRACT

Federal and State Government regulation has grown piecemeal over the years largely in response to economic and social problems faced at the time. The complexity of our present regulatory frameworks and the nature of our budgetary and regulatory review mechanisms results in only limited control being exercised over regulation. Moreover, few attempts are made to systematically compare the achievements of regulation with the costs. As a result there are many costly and inefficient regulations being paid for by the community.

The purpose of this paper is to discuss a Regulatory Budget particularly in the context of a review of the US proposal for such a budget.

Although the Regulatory Budget was never implemented because of a change in Government in the USA, the proposal received wide support during 1978. The approach was developed because of growing concern with the costs of regulation and the belief that existing regulatory reform measures were not proving effective in constraining the level of industry compliance costs. The budget was intended as a supplement to these other reform measures.

The aim of a Regulatory Budget is to provide Government with a coherent and overall regulatory structure in which existing regulations are reviewed and new regulations considered.

With a Regulatory Budget all departments would be set an annual total cost budget for their regulatory activities. Both public and private sector costs would be included in the budget limit. In concept it is similar to the financial budget though its focus is on total regulatory costs.
The Regulatory Budget has considerable potential as a vehicle for both countering over-regulation and encouraging more efficient and equitable regulation. Similar to the financial budget, use of a budget limit would require regulatory priorities to be set and would ensure that the total costs of new regulations are included in the decision-making criteria when regulatory proposals are being considered.

The disadvantages of the Regulatory Budget are that it has some conceptual limitations and its significant methodological problems would need to be resolved before it could be fully implemented. The more rigorous approach towards the consideration of regulation would also require fairly extensive government machinery and administrative changes. Accordingly substantial government and administrative commitment would be necessary to implement such a budget.

Apart from its general interest as a system-wide institutional measure, there are certain features of the Regulatory Budget approach which if adopted would lead to regulatory decision-making being improved without the need for institutional change or significant additional staff resources. These features are canvassed in the paper.
1. INTRODUCTION

Government intervention by means of regulation is often justified in terms of overcoming "market failure" - with the purpose of the regulation being to rectify economic and/or social problems derived from having an imperfectly competitive private sector economy.

While there is a general acceptance of the need for regulation in a civilized industrial society like Australia, there is a growing debate over its extent, effectiveness, and the nature of the regulation used. The essence of the argument at this time is whether our economic growth and welfare would benefit from a less regulated economy, particularly in the areas where extensive use is made of price and entry control. Most of the debate covers the way government regulates individual industries or sectors of the economy.

So far there has been little discussion on whether overall institutional changes would assist in the way regulation is considered or reviewed.

Since 1974, major institutional regulatory reform measures have been implemented in the USA. There have also been a number of major proposals considered, amongst which was a proposal to introduce a system-wide Federal Regulatory Budget.

The purpose of this paper is to provide an overview of the Regulatory Budget and to discuss its advantages and disadvantages. In addition, some of its underlying features are reviewed with a view to ascertaining ways of improving regulatory decision-making in Australia.
2. REGULATORY BUDGET

2.1 Background

One of the first exponents of the Regulatory Budget Concept, R Crandall, defined it as "a shadow budget through regulatory agencies to better communicate the real cost of regulation to the public". (1)

In essence it is an approach to ensure that Government treats industry compliance costs as if they were a cost to Government without actually assuming these costs. This is achieved by the Government setting a Regulatory Budget that provides all agencies with an upper limit on the costs of their regulatory actions both with respect to Government and industry.

Interest in the Regulatory Budget as a means of encouraging regulatory agencies to minimise the total private and public sector costs of regulation - through the setting of agency budget limits - largely arose because of some dissatisfaction with other regulatory reform measures implemented in the USA during the 1970's. Although these measures led to an increased level of government oversighting of regulation and some improvement in regulatory decision-making, it was felt that these were less effective in constraining the costs that industry had to bear in order to comply with the regulation. The Regulatory Budget was seen as an accompanying scheme to other regulatory measures which collectively would enable control to be maintained on the total costs of regulations both existing and new.

Although the concept only emerged publicly in 1978, it received early and widespread support. In an unanimous report - the first in twenty years - the Joint Economic Committee of Congress recommended the introduction of a Regulatory Budget. In addition, the 1980 Annual Report of the Council of Economic Advisors, whilst noting the difficulties of precisely estimating regulatory costs, concluded that "tools like the Regulatory Budget may have to be developed to encourage the agencies to set priorities and to make certain that the first problems addressed are those in which regulations are likely to bring the greatest social benefits". (2)

Regulatory Budget Bills were introduced into the US House of Representatives and the Senate by Members of the Joint Economic Committee of Congress in October 1978. In addition, the Office of Management and Budget circulated the proposal to all Federal Government departments and agencies and developed model regulatory cost accounting procedures. Congress was dissolved, however, before a vote was taken on the Bills. With the change in US administration neither Bill has been re-introduced into Congress.

While there now appears to be no early prospects of the legislation being enacted, it has been argued that its rapidity of progress within the establishment and its widespread appeal suggest it should continue to be regarded as a future legislative possibility.

2.2 Conceptual Issues

The Regulatory Budget concept envisages having a budget which includes all the financial and economic costs of imposing economic and social regulation on the community. These costs would include the financial costs of government, the compliance costs of industry, as well as the economic costs of efficiency losses.

It is mainly designed as a means of controlling the total impact of regulation on the community. This includes reducing any economic inefficiency losses created by regulation as well as limiting redistribution of wealth or income through the use of regulation. It has been argued that using regulation as a means of redistribution often results in the benefits being directed to politically effective groups rather than to the needy. Accordingly, more direct measures, such as grants and taxes, should be used where redistribution objectives are intended.

The debate on the Regulatory Budget concepts has been quite extensive. Amongst the more important conceptual issues considered have been its undue emphasising of costs and the problems of identifying and including only the real costs of regulation in the budget.

(a) Cost Emphasis

The problem of over-emphasis on costs can be largely overcome in practice where the Regulatory Budget is regarded as a supplementary measure to be integrated with regulatory and other measures. In the USA it was envisaged that the Regulatory Budget for a department would be set having regard to the benefits of the regulatory activities and the priorities of the government. As part of the existing regulatory processes, evaluation techniques - such as cost benefit analysis - would be used wherever practical to
assist in choosing and retaining regulations whose benefits were greater than costs. Where lack of information or conceptual difficulties preclude the use of cost benefit analysis, a cost effectiveness approach would assist in determining a regulatory budget limit that reflected the government's defined objectives.

(b) Identifying the Costs of Regulation

Implementation of any regulation usually results in less (or greater) economic efficiency and some redistribution of wealth and income in the community. The Regulatory Budget would need to distinguish between these two effects and include only the economic inefficiency costs of the regulation.

Economic efficiency costs can arise when economic regulatory measures restrict competition. For example, if there is restricted entry to the industry and prices rise the economic efficiency costs would need to include the costs to consumers unwilling to purchase the service at the higher price.

There are counter-arguments - both at the theoretical and practical level - which suggest that this issue may not be such a substantive issue in practice.

With respect to identifying and including only the real costs of regulation, it has been contended that the differences between the redistributive effect (transfer costs) and the economic inefficiency effect (deadweight losses) are often less extensive than is apparent at first sight. This is because part of transfer costs become deadweight losses as groups compete to obtain the redistribution of wealth and income. The costs of this would include the cost of lobbying to maintain political support for the regulatory program, litigation to maintain
a regulatory advantage, and competition in service quality (where prices are controlled) to increase their individual market share.

There has been some debate in the U.S.A. on whether in practice it would be feasible to include economic inefficiency costs in a regulatory budget.

Proponents for including economic costs argue that it would be insufficient to limit the costs to the expenditures of business firms and other organisations. This is because such an approach provides little constraint on economic regulation particularly where costs for the programmes fall upon unorganised consumers through the traditional control on prices and entry. The problems, however, of estimating these costs for a wide range of industries throughout the economy are recognised as being immense. Even in industries where extensive studies have been undertaken the results may be conflicting. For example, various academic studies have estimated the net costs to shippers and ultimately the community of railroad regulation in the U.S.A. The results, however, have shown widely differing solutions varying by factors of between three and six.\(^{(3)}\)

Those opposed to the inclusion of economic costs usually argue, on pragmatic grounds, the formidable difficulties involved in obtaining acceptable estimates of these costs. Some also contend that the composition of a Regulatory Budget should be comparable to that of the traditional financial budget and only include accounting costs.

For practical and administrative purposes, the budget would need to be limited to including only the measurable costs of applying both economic and technical regulation. It is unlikely therefore that economic efficiency costs would feature largely in any regulatory budget.

For this reason alone, if the emphasis is on containing total regulatory costs, then it may be necessary that new major measures included in a Regulatory Budget be supported by some form of economic impact analysis statement which seeks to provide broad estimates of economic efficiency costs.

3. ADVANTAGES OF A REGULATORY BUDGET

The potential benefits of a Regulatory Budget can be broadly categorised into those of an institutional, economic efficiency, administrative and informational nature.

3.1 Institutional

There is a wide-spread view in the USA that governments are neglecting their regulatory responsibilities and are not taking on the overall resource decisions with respect to regulatory issues. Moreover, some believe that the spiralling costs of regulation provide evidence that the US Government, for reasons of budgetary economy, is increasingly pursuing objectives through regulation even where its alternative taxing or spending powers would enable it to achieve its objectives more equitably and efficiently.

This view of the role of government is seen in terms of its overall financial and regulatory responsibilities being closely aligned with controlling the level of public and private resources needed to meet government objectives. The role is ultimately a political one and cannot be delegated.
The advantages claimed for the regulatory budget is that it allows government to exercise its regulatory responsibilities in the same way as the financial budget enables the government to undertake its expenditure function within a budget constraint. Both budgets are basically political mechanisms involving the setting of priorities and limits. By establishing an upper limit to the costs of regulatory activities of agencies, the government is in effect setting its economic and social priorities amongst the various health, safety, and environmental objectives.

As setting priorities essentially involves achieving a political balance between various organisations with conflicting or overlapping objectives, the Regulatory Budget is seen as a proper vehicle for arriving at a practical compromise between the political and the economic system.

The Regulatory Budget is also believed to provide an effective means of separating the allocative responsibilities of Governments and regulatory agencies. As governments have the overall financial and welfare responsibilities they would be required to determine the total amount of private and public sector costs that should be allocated to meet proposals, for example, relating to health and safety. The departmental regulatory responsibility would be to ensure that within that regulatory budget constraint any package of safety measures proposed would, as far as practical, maximise the safety objective.

3.2 Economic Efficiency

The setting of a Regulatory Budget limit would result in greater scrutiny of regulatory costs and provide incentives to encourage increased efficiency in regulatory decision-making. This would follow as there would be a need for regulatory agencies (like in a financial budget) to set priorities and make trade-offs, so as to remain within their
budget limit. Competition would also be encouraged between regulatory agencies particularly where the overall regulatory budget limit required the Government to rank its regulatory priorities as is currently necessary for expenditure proposals in a financial budget.

Since the cost of all regulations are included in the budget there would also be incentives for the regulatory agency to eliminate outdated or inappropriate regulations. The effects of this would be to lower the total regulatory costs and provide the agency with scope for introducing more important regulations within the total budget limitation where these were needed.

3.3 Administrative and Informational

Another advantage claimed for this budget is that focussing on total costs is much easier than considering total benefits. For example, adding up the costs of complying with regulations is a substantially easier task than undertaking a cost benefit analysis for all regulations which would also require estimating the benefit of prolonging human life for health and safety regulatory proposals.

It would also ensure that the total costs of regulation, both public and private, were properly identified. This should enable better decision-making and allow the public and interest groups to provide informed comment on proposals through having access to basic cost information on regulation.

Where regulation is being used by Government for re-distributive purposes - that is to benefit other sectors of the community - estimates of transfer costs, where identifiable, could be regarded as government induced redistribution of income similar to that achieved through other taxation and expenditure policies.
4. DISADVANTAGES OF A REGULATORY BUDGET

Aside from cost biases and the conceptual problems which have been discussed, there are a number of complex design problems that need to be solved before a Regulatory Budget could be introduced. As regulatory and accounting budgets have similar features with respect to estimates of costs and accounting structures, many believe that the problems are solvable if a firm commitment to implementation is made. Nevertheless, considerable work and development of appropriate methodologies would be necessary.

4.1 Cost Biases

As the Regulatory Budget is concerned with costs and not benefits, criticisms have been made suggesting a bias towards costs. The conceptual arguments relating to this criticism were outlined in Section 2.2.

Whether this would occur in practice would largely depend on the regulatory cost limits set, which would need to reflect the benefits of the activity and the priorities of government.

Treating industry compliance costs, like other public regulatory expenditures, is an extension to the approach taken in the traditional financial budget of considering all forms of public spending. That budget is not usually criticized as being overly cost conscious.

It has been suggested that under a Regulatory Budget hard-to-measure costs might be ignored. There seems to be no evidence, however, that the regulatory budget would exacerbate this tendency. In point of fact the regulatory budgetary process provides a powerful incentive for program opponents to limit regulation by identifying and estimating such costs.
As compliance costs are not actually part of the public accounts, some contend that they would be "rigged" by regulators, regulatees, or budgetors with either an interest in inflating or deflating the costs. There are clearly problems to be resolved in this area to ensure adequate reporting and accounting for compliance expenditures.

There is a view, however, that the checks, balances and negotiations inherent in the budget process would ensure over time that compliance estimates would be made fairly. For example, different participants in the process would have the incentive to rig the estimates in different directions. Moreover, some of the costs could be identified accurately from business records.

4.2 Implementation Problems

It has been recognized that the implementation of a Regulatory Budget would require fairly extensive re-arrangement of the process by which regulatory actions and subsequent expenditures are approved within Government. Considerable preparatory work would be required particularly in relation to implementing the initial Budget.

Collecting and analysing the existing amount of cost information needed to enforce the budget would be a substantial task.

However, this may not have to be as large and complex a task as it appears at first sight as estimation does not need to be as precise as in the traditional revenue budget. It has been suggested that overall regulatory restraints on US agencies applied to say the nearest $US10 million would be more than sufficient for the purpose for which it is required. As far as the USA is concerned considerable work has already been undertaken in measuring regulatory costs for both public and private purposes. Moreover, recently
the Securities Exchange Commission has begun to require firms to make precise disclosures of costs to investors of complying with major regulatory requirements.

5. Preparation and Implementation of a Regulatory Budget

In summary, the US process envisages the draft budget being developed by the Office of Management and Budget in consultation with the regulatory agencies. Following its consideration and approval by the President the budget would be reviewed, amended and eventually passed by Congress.

The preparation of initial regulatory budgets as already noted would be particularly time-consuming and complex. The various mechanisms involved are outlined.

Regulatory Budget estimates and proposals would be prepared according to the guidelines issued by a Central Agency (e.g. Office of Management and Budget in the USA). The budget would include each year itemised estimates of costs together with a summation of the regulatory costs expected to be generated by each federal agency.

5.1 Public and Private Sector Regulatory Costs

Assuming full economic costs were not to be included, two kinds of regulatory costs would need to be estimated:

(i) the administrative enforcement costs of government regulatory activities which are the costs presently reflected in the federal budget; and
(ii) the usually much larger private sector compliance costs covering capital expenditures, related overhead reporting and other associated business costs involved in meeting the requirements of the regulations. In the Weidenbaum study total private sector economic and technical costs of regulation in 1976 were estimated to be twenty-times that of US federal costs of regulation. (4)

The accounting system would record private sector compliance costs in notational program accounts. These accounts would be linked to the administrative financial costs in which actual government enforcement and administrative expenditures incurred by regulatory agencies would be recorded. This would permit monitoring, control and reporting on the execution of the budget.

5.2 Budgetary Process

The Regulatory Budget process would operate parallel to and as a component of the existing federal expenditure budget process. The base would be composed of the annual on-going regulatory costs of government and the private sector resulting from existing statutory and administrative requirements. The increment or new policy component would comprise proposals to extend or add new programmes and expenditures to current activities.

The process of setting the Regulatory Budget limit would be an internal process similar to that of determining an administrative budget. In the USA it would mainly involve the Office of Management and Budget, the regulatory agencies and Congress. Review of agency regulatory proposals (as required by other regulatory legislation) would assist in determining whether agency regulatory standards as applied

to decision-making over-or-under-stated the government's own overall evaluation of safety or health benefits. If understated, budgets would be increased and vice versa. Several iterative processes would be necessary to determine the appropriate level.

The agency would be obliged to stay within its budget and could only issue or enforce new regulations to the extent that the ongoing cost of present regulations permitted it to do so. Elimination of existing regulations would increase its regulatory allocation.

Like the financial budget, there would be means by which under unusual circumstances, the agencies could obtain a supplementary regulatory appropriation to enable it to exceed its budget because of the need to meet the requirements of its regulatory act. Provisions could also be made for "carry forward" against its budget for the next period.

The private sector would be expected to play a much larger role in providing actual costs and estimating future costs of proposed regulations than is normally the case with outside groups. Once a regulatory budget is introduced, private firms would be required to record regulatory compliance expenditures over the regulatory financial year according to Government guidelines and these would need to be audited and submitted to government.

5.3 Implementation

The implementation of regulatory budgets would also parallel the procedures employed for expenditure budgets. To gain the maximum benefit from a regulatory budget, a great deal of flexibility would be required to enable the transfer of funds from notional to administrative accounts so as to provide an incentive for regulatory agencies to reduce the total costs of achieving specified regulatory objectives.
The incentive to agencies would be that they would gain real spendable resources if they reduced private sector compliance costs. Congressional appropriation of monies would be required to enable these transfers up to specified amounts to take place in the regulatory budget prior to their occurrence. In the same manner when an agency operated to increase private sector costs of compliance, the revenue amount of the regulatory agency would be reduced.

These procedures would require considerable changes in attitudes towards government budgeting and its funding. Traditionally the emphasis on the cost of regulation has been on what it costs government rather than the cost to industry and the consumer. Under a properly functioning regulatory budget, within defined limits, increments of government appropriations would be freely inter-changeable with those of the private sector budget.

Because of the difficulties of initial implementation, some have argued for a pilot implementation of a regulatory budget to provide the opportunity to evaluate it more carefully.

6. APPLICATION OF REGULATORY BUDGET TECHNIQUES IN AUSTRALIA

(i) Regulatory Debate

Government control is achieved through a combination of taxation, expenditure and regulation. It is the latter category which usually involves relatively little public expenditure compared with private expenditure, and yet can have major economic and social implications for the community.

There are no statistics which show how Australia compares with other countries with respect to total government involvement in the community.
As the total impact of regulation is not known, public
debate on comparative issues such as whether Australia has
"small" or "big" government often only considers the size
of the public sector or levels of taxation. A taxation
comparison would clearly show that, although the public
sector has been growing quite significantly in recent years,
Australia is still not a highly taxed country when compared
with other OECD countries. In 1982 Australia ranked
seventeenth out of twenty-three countries in terms of the
total tax revenue collected as a proportion of GDP.

As a comparative measure taxation provides a broad guide
to the proportion of resources transferred from the private
sector to the government for community purposes. By itself,
it does not indicate the extent to which the government
directly or indirectly controls economic and social activity
in the economy.

Even if comparative measures were available, the central
issue is not the size or extent of government control. It
is whether the role being played by government in its
various activities contributes more effectively to the rate
of economic growth and achievement of social justice
compared with the outcome achieved in an unregulated
market.

The justification of intervention by government - through
regulation - arises from the view that the market is unable
to deal with particular structural problems of an economic
or a social nature. These types of problems cover a wide
range including concern with natural monopolies,
externalities, excess profits, excessive competition,
inadequate information and unequal bargaining power. In
practice, many regulatory programs are justified on a number
of these rationales.
Regulation is often classified as economic and social, for explanatory purposes, though there may not be such a clear distinction in practice.

Economic regulation is concerned with control over entry, prices and quantity of output whereas social regulation often involves a greater degree of regulation focusing also on the quality of output and the nature of production processes.

Social regulation usually contains a combination of equity and economic efficiency objectives and covers fields like consumer protection, community health, safety and the environment. It is this type of regulation which tends to grow most rapidly in affluent societies during periods of economic growth. At such times, consumer, environmental and other special interest groups are most likely to be successful in persuading governments to intervene for quality of life reasons or to reduce social inequities.

The debate between the advocates of "big government" and those for "small government" has been continuing for several centuries and is unlikely to abate as it is concerned with fundamental philosophical and economic questions on what is the appropriate role and size of the public sector.

Critics of "big government" in Australia tend to oppose regulation either on economic efficiency grounds or on philosophical grounds concerned with individual freedoms. Those supporting government intervention and a large public sector often argue on the basis of social justice and maintain that there is not necessarily a correlation between a larger public sector and a lower economic growth.

With respect to the economic efficiency issue, there are two main economic theories - welfare theory and private interest theory - concerned with the question of the value of government intervention. Those supporting the classical
"Welfare theory" argue that where there is market failure, for reasons outlined above, there are sound reasons for government intervention as a means of improving resource allocation and overcoming market defects. Advocates of the newer economic and social "private interest theory" argue that, despite the intentions of government, intervention tends to redistribute resources - rather than improve efficiency - and leads to the main beneficiaries being narrow sectional interests rather than the general community.

With regard to the regulatory role of government, there is, however, some middle ground as there is a general acceptance of the need for some regulation in a civilised and affluent society. There seems to be a reasonable level of agreement over the need for having - or extending - social regulation into fields like consumer protection, environmental or cultural regulation, though there is often disagreement over the means of achieving the objectives. There is little agreement, over the need for economic regulation of industry where the objectives are achieved through price and entry controls.

Where regulation is regarded as necessary, many economists would argue that the objectives of the program should be achieved in the least restrictive method. These methods would include the use of taxes, penalties, market-based incentives, disclosure, rather than relying on detailed administrative specifications incorporating quotas and prohibitions.

The fact that some existing regulations are not achieving their objectives may well be the result of the regulatory alternative not being matched with the problem rather than an indication that deregulation is the right solution.
Indeed, it is often argued that the main problems of public policy-making are due to its initiation and implementation without having sufficient information on the objectives, costs and likely achievements. (5). A regulatory budget would assist in these areas.

(ii) Application of Techniques

Although no one approach is likely to overcome serious regulatory problems, there is no doubt that a regulatory budget supplemented by other regulatory mechanisms could play a major supportive role in overcoming these types of problems. In developing such a budget, the objectives and possible achievements of regulation would need to be evaluated and ranked having regard to the size of the regulatory budget limit set on the organisation. In addition, information on the total regulatory costs would be obtained for evaluative purposes and for preparing the budget.

At this stage of the development of the regulatory budget, it is unlikely that serious consideration would be given to such a budget in Australia as there is only limited general interest in system-wide regulatory reform (as contrasted with individual industry reforms). Furthermore, it is administratively complex and requires fairly substantial political and administrative changes towards the consideration of regulation.

Whilst implementing a regulatory budget may not be a feasible or acceptable proposition at this time, there are a number of its concepts and features that could be used to improve public decision-making particularly where policy appraisals and reviews are concerned. Adoption of these (5) F. H. Gruen, Surveys of Australian Economics, Vol. 3, p. 58.
features would not involve institutional change or significant staff resource usage. The features primarily relate to the Regulatory Budget's priority setting role which requires relationships to be established between the policy objectives, probable achievements and the total regulatory costs of the policy.

There are sound reasons for Government becoming more aware of the total costs to industry and the consumer through implementing particular regulations, particularly as the costs of these regulations will eventually be passed on to the community. These costs can be high. Indeed estimates made of total regulatory costs in 1979 in Australia suggested these were around $A4.86 billion or 4.6 of GDP. (6)

The pressures for more government intervention - either by means of regulation or expenditure - will continue to be strong and governments will increasingly need to determine their expenditure and regulatory priorities in terms of achieving economic growth and social justice. While the budget mechanism generally fulfills the priority setting task with respect to expenditure, this is not currently the case with regulation which often does not meet the same scrutiny.

The use of program budgeting, cost benefit and cost effectiveness studies - as public sector appraisal techniques - to assist priority setting and decision-making is still fairly limited in Australia. This is in marked contrast to the USA where for nearly a decade now all significant proposals have been required to be supported by cost-benefit studies.

While there are many areas of public policy-making where the use of cost benefit analysis may be limited because of the difficulties in determining benefits, cost effective studies concerned with comparing costs of various options against a given policy objective could be much more extensively used. Furthermore studies of this nature would be facilitated if total regulatory costs were reasonably known.

As part of the administrative and political decision-making process there appear to be strong grounds for regulatory departments systematically building up their information data sources so that realistic estimates of costs are available when new regulations are being considered or old regulations reviewed. This would facilitate the use of public sector evaluation techniques as well as enable a better appreciation to be obtained of the implications of bringing in regulation. It could also have the desirable effect of increasing the level of consultation between the public service and industry/community as well as improving the knowledge and understanding of public servants concerned with regulating industry.

Where there is a concern over the level of regulatory costs in particular sectors of industry and alternatives to regulation are not available, consideration might also be given to providing overall regulatory cost guidelines to the department administering the industry with a view to reducing the cost of regulation on that industry.

Although the regulatory budget is designed as a system-wide approach with cost limits being determined at a political level, there is also scope for departments to set internal "administrative regulatory targets" for particular programmes. Appropriate provisions could be provided for review where it appears that these limits are likely to be exceeded. This would also encourage the development of internal information systems for use in evaluation or reviewing regulation.
7. CONCLUSIONS

The Regulatory Budget concept recently emerged in the USA largely as a result of continuing concern that the implementation of major regulatory reform measures had not had a marked impact on the magnitude and costs of regulation. It was viewed as a means of constraining public and private sector costs arising from regulation and was to supplement these other regulatory reform measures. It achieves its purpose through the setting of regulatory limits which require determining regulatory priorities similar to the expenditure priorities imposed through the financial budget.

Like a financial budget, the regulatory limit set for various activities should have regard to economic and social objectives of the government and could facilitate changes in regulatory balance or emphases between different sectors. In essence, it provides a very flexible mechanism for offsetting both "over-regulation" and "under-regulation" where new regulations appear necessary.

As a theoretical concept it has both strengths and weaknesses. In order to achieve its objectives a regulatory budget would require sufficient political will and administrative commitment to develop and integrate the budget into the institutional decision-making and review processes. It is more likely to be effective combined with other regulatory review mechanisms and where public sector evaluation techniques are regarded as playing an important role in decision-making.

At this stage of its development it would appear unlikely that the regulatory budget would be given serious consideration in Australia. Nevertheless, as discussed in Section 6, certain features of the budget could usefully be adopted as a means of improving our regulatory decision-making and effective management of regulation.
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