



MICROECONOMIC REFORM – THE DINNER TABLE CONVERSATION WE HAVE TO HAVE

A surefire way to halt a dinner party conversation in its tracks is to respond to the inevitable question of “*What do you do?*” with: “I chair the Economic Regulation Authority and we’re the organisation that’s running an inquiry into microeconomic reform”. The questioner’s eyes usually glaze over and he/she usually begins anxiously searching for an alternate conversation at the other end of the table, like “How unfair was that decision on Nat Fyfe?”

Indeed.

Economics and microeconomic reform are subjects with a bad rap.

The truth is, microeconomic reform is absolutely relevant to a dinner party conversation and should be a barbecue or water cooler stopper!

Still not convinced about why we need reform?

Imagine a WA where you could get an affordable taxi at any time of the day or night. Perhaps a relatively uncongested peak hour drive into the city, better public transport or lower stamp duty costs when you buy your next home? Or even something as simple as having a wider choice of potatoes at the supermarket?

Imagine no longer having to rush to the shops after work before they close. What if you were rewarded appropriately for not using electricity at peak times? When you need a regulatory approval – say, starting a new business – imagine if this was a straightforward process.

Last July the ERA was tasked by the Treasurer to undertake an independent inquiry into microeconomic reform in WA. The intention was to inform the debate about how to maximise the living standards of current and future West Australians. That’s why microeconomic reform is relevant to all of us.

We have released a 300 plus page draft report containing 31 recommendations designed to generate greater productivity in the economy. They include ways to generate more value from our expenditure on social infrastructure, better checks and balances to keep regulatory costs down, more efficient taxation, and ways to remove unnecessary government interventions in markets such as taxis, retail trading hours and potatoes.

It is entirely conceivable that we would see higher employment, as well as lower costs to consumers, than would be the case without these reforms.

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Our focus has been on reforms that will improve productivity and flexibility of the economy, increase choice for consumers and business, increase opportunities for businesses to compete nationally and internationally, and remove or reduce unnecessary regulation.

And what have we recommended, with I might add, a great deal of input from the community?

There is a need to review the way government makes decisions on new infrastructure projects and utilises existing infrastructure, and to review the ownership of existing assets.

Further, the government should focus on the sale of assets and businesses that will in turn improve economy efficiency, while introducing user-pays charges to fund infrastructure development and encourage private sector investment in infrastructure projects. There's also a strong argument that the Royalties for Regions should be replaced with an alternate mechanism for prioritising regional investment.

As far as State taxes like payroll, transfer duty and land tax are concerned, there's a compelling case to broaden the base while removing concessions. It would be more efficient to remove transfer duties (which affects decisions to downsize or relocate) and raise more revenue through payroll and land taxes.

I'm sure everyone – business and residential users alike - will have an opinion on "time of use" electricity charges which aim to smooth out demand so that we can avoid very costly expenditure on new electricity infrastructure. Similarly is the proposal for congestion charges for CBD travel in peak hours.

The cost and risks associated with the government's Keystart home loans also came under the microscope. Added to these is the suggested removal of the Domestic Gas Reservation policy along with deregulation of potato growing and marketing, taxis and retail trading hours.

Quantifying the benefits of reform can be challenging, and we haven't been able to do so for many of the recommended reforms. However, we have quantified benefits for three of the areas of reform considered in this report: State taxes, the taxi industry, and the potato market. For these three areas alone, the benefits could exceed \$594 million per annum or \$234 per year for every Western Australian resident. The benefits of the other reforms are likely to be considerably greater and would include increased employment.

Undoubtedly, the list of recommended reforms will generate considerable debate in the community. We certainly welcome the constructive views of individuals and groups on these important areas before finalising our report to the Treasurer.

Until then, I live in hope that microeconomic reform will become a genuine topic of conversation at those dinner parties, barbecues and water coolers in WA.

So let the debate begin.

Lyndon Rowe is the Chairman of the State's Economic Regulation Authority which has both regulatory and independent advisory roles to the State Government. Submissions on the ERA's Draft Report close on May 9.

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Note to Editors:

The Draft Report on Microeconomic Reform can be downloaded at:

www.erawa.com.au