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This Silent Deregulation Must Become A Pillar Of Recovery

Publish Date:

April 2020

The government has hurriedly dumped a large number of costly business rules. Why would we now want to bring them back?

The COVID-19 pandemic has seen a massive expansion of the power of the state – heavy-handed police action and huge increases in government spending are just the most obvious.

But at the same time, the crisis has also seen a major retreat of state power in other areas – a wave of deregulation across the economy that has almost no historical parallel. And these regulatory reforms offer us a path back to prosperity.

The most obvious regulatory reductions have been on the medical frontline. Some controls over the production and use of medical face masks, ventilators, virus testing and pathology have been relaxed. Supervision requirements have been reduced for nurses re-entering the workforce. Regulations have been eased to allow distilleries to produce alcohol-based hand sanitiser.

But the most consequential deregulations have been intended to keep the economy afloat. Night-time curfews on delivery trucks have been lifted to ensure supermarkets can be more easily restocked, and trading and operating hours restrictions for essential retail have been eliminated. Liquor licensing has been relaxed to allow restaurants and bars to do home-delivered alcohol. Construction work can now be done on weekends and public holidays to make up for productivity losses that might come from trying to build while social distancing.

Other reforms have involved the government relaxing its most burdensome regulations. The Australian Prudential Regulatory Authority has eased capital requirements on banks. The Australian Competition and Consumer Commission is reducing its enforcement and surveillance program, announcing that it would now “carefully consider the impact on businesses already under pressure” (this is great, but at the same time reveals a lot about their attitude before the pandemic).

The Australian Securities and Investment Commission has even put a hold on the program that embeds bureaucrats in private companies. This is the program introduced after the financial services royal commission that has government-appointed psychologists observing the ethical standards of senior management. It was widely derided as “shrinks in the boardroom” – and it is no longer active because of COVID-19.

The rules we didn’t need

Even more astonishingly, the communications regulator has suspended Australian content requirements on commercial television and pay TV. It would be hard to nominate a more heavily defended and politically sensitive bunch of regulations. And they have now been shelved with almost no comment.

For the past two decades Australian governments have repeatedly announced red tape reduction programs. Regulatory reform has been a major plank of the Coalition government’s agenda. It was a major plank of the Labor government before it. But none of those heavily promoted programs have had as much scope and scale as the COVID-19 deregulations.

How heavily a country is regulated predicts how quickly it recovers from crisis.

Those earlier red tape reduction programs focused on the sorts of regulations that nobody was interested in defending. They tended to eliminate lots of minor rules rather than significant ones. The guiding principle has been quantity not quality. Ultimately they were less major economic reform and more tidying up the statute books.

But this time is different. The regulations that have been suspended are precisely those that are most burdensome. They are the rules that are most costly to comply with but also least essential to support a functioning economy.

In other words, they are the rules that governments worried about the effect of over-regulation on productivity and economic growth should be very reluctant to reinstate.

This is the conversation to have now. The pandemic is moving from urgent crisis stage to risk-management stage. The Reserve Bank governor warns that we are looking at the greatest hit to the economy since the Great Depression. We need to start thinking about what policy settings will be able to revive the relative prosperity we enjoyed at the end of 2019 – and pay for all the spending that the government has committed to.

Deregulations must stay

Making these temporary deregulations permanent should be one of the pillars of recovery. We cannot assume that the economy will happily bounce back once social distancing controls are lifted. The damage inflicted by the shutdown on business models and supply chains has made this naïve hope impossible. The economy needs to adapt to the post-pandemic world – quickly. Regulations that prevent this rapid adaptation or prevent firms from establishing new sustainable business models need to be culled.

In a 2016 paper published in the *European Journal of Political Economy,* the economist Christian Bjørnskov looked at how economic freedom (that is, low taxes and minimal regulation) affected how different countries performed during an economic crisis. He found that how heavily a country was regulated predicted how quickly it recovered from crisis – the less regulation, the quicker the recovery.

A lot of the growth in government is likely to survive after the COVID-19 pandemic. It will be politically hard to abolish free childcare or to return Newstart payments to where they were. But we're going to need a much more productive and prosperous economy to pay for it all. So the deregulations done during the crisis should be locked in too. And the principles that have been established during this crisis – that many politically popular regulations make it hard for businesses to adapt to unexpected circumstances and keep people employed – will be needed to guide our policymakers when they return.

As Scott Morrison has said, all workers are essential. But not all regulations are.

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