

Regulation and the dilemmas of central planning

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Melbourne Institute: 2008 Economic and Social Outlook Conference
New Agenda for Prosperity: Melbourne, 28th March 2008



LateralEconomics

Outline

- Why didn't Australia make the keyless car?
- Regulation Review
- Problems with Regulation Review
 - The Lord Acton Critique
 - Is something more fundamental missing from reg review?
- Hayek's critique of Scientism and central planning
- Deming's/Toyota's critique of Taylorism
- Regulatory Taylorism
- Some proposed (partial) responses
- Conclusion



Australia and the keyless production car

80s

High theft rates



Late 80s

Major NRMA Theftability Campaign



Late 80s/90s

R & D on increasing car security



Early 1990s

*Australia becomes world leader in car security technology
Anti entry engineering, engine immobilisation technology and keypads*



Mid 1994

Car keys become redundant



*Australia generates and exports
world's first keyless production cars*

Business as usual



The keyless production car

Fifteen years since the Federal Government first committed itself to 'minimum effective regulation'

- ADR 25 required all cars to have
 - locks with at least four mechanical barrels
 - a steering lock of specified mechanical strength
- ADR 61 required metal compliance plates
 - so tamper resistant plastics couldn't be used



Regulation review

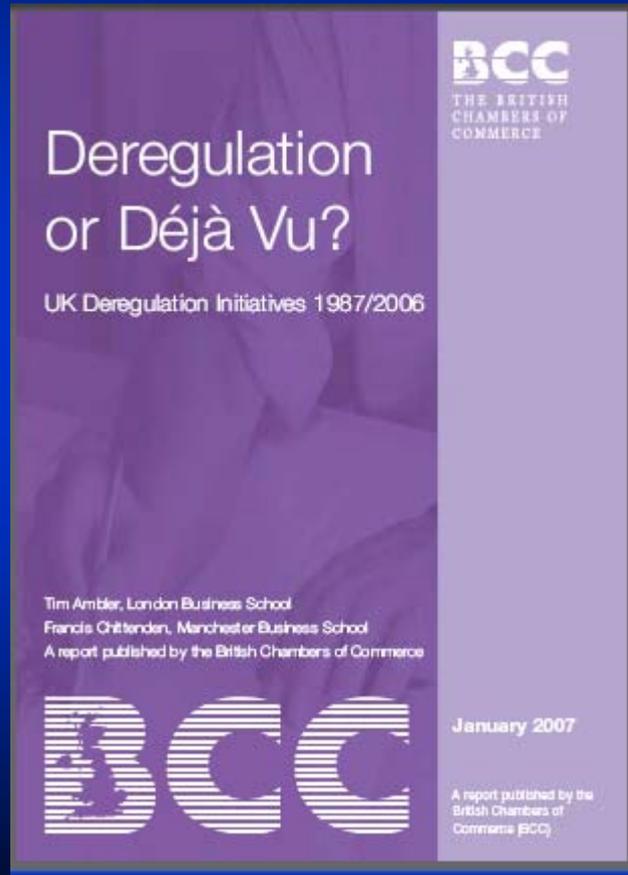
- Minimum effective regulation announced in 1986
- RISs required early in regulatory process
- Requirements to consult stakeholders
- Major periodical reviews of regulation
- 'Regulatory Impact Statements' – cost benefit style analysis to operate as a quality hurdle

These initiatives are

- 'top down'
- with review being periodic (rather than ongoing) and separate from operation



Regulation review



- Labour and Conservative governments approach regulation reform “with apparent enthusiasm, learn little or nothing from previous efforts and have little if anything to show from each initiative.”



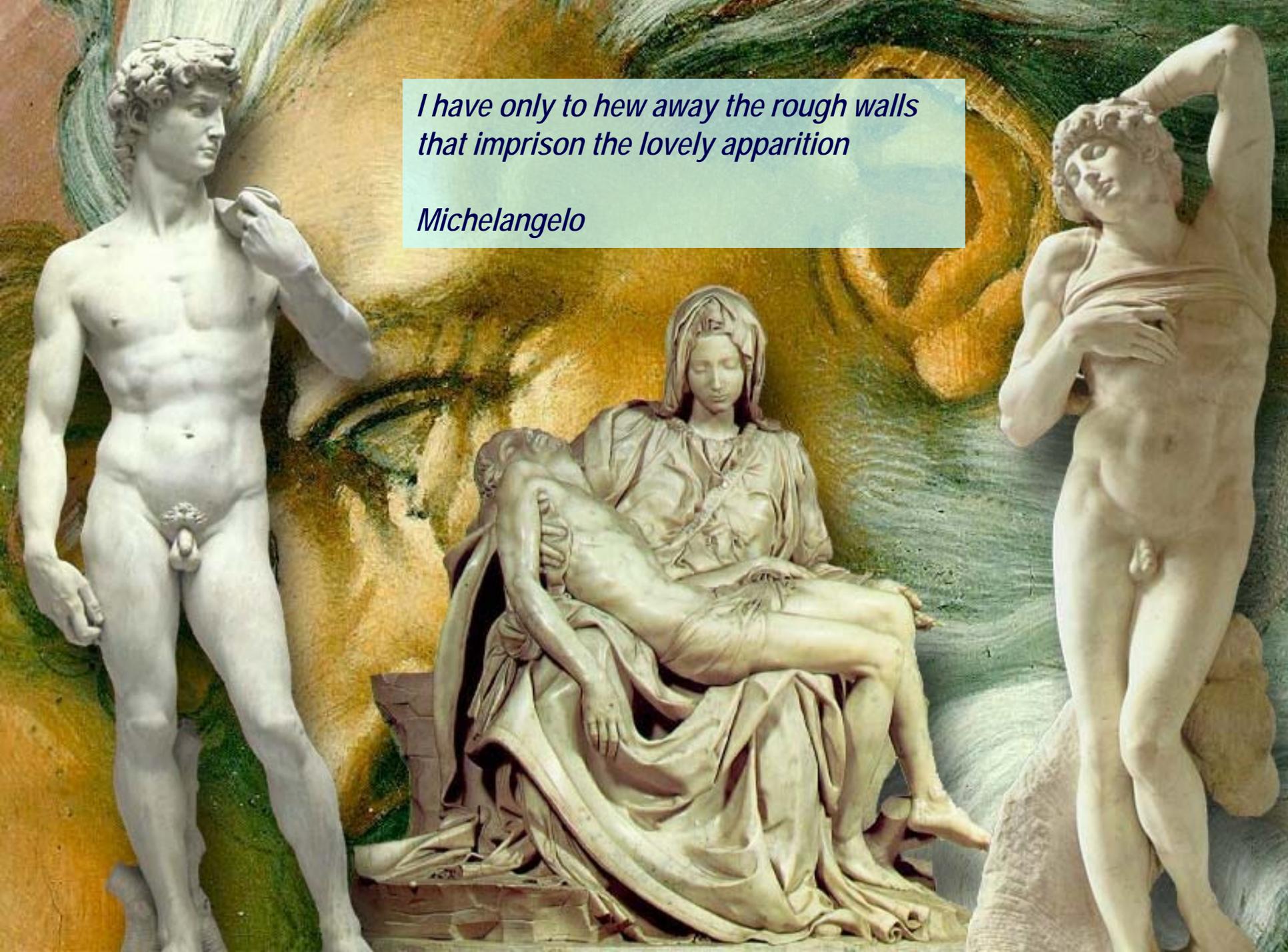
Regulation review

- Little attention given to
 - Enforcing compliance
 - Citizens as opposed to businesses
 - Optimising benefits (as opposed to minimising costs)



*I have only to hew away the rough walls
that imprison the lovely apparition*

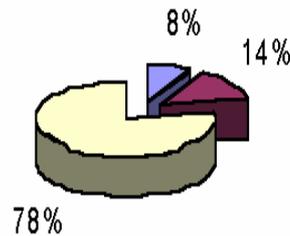
Michelangelo



Regulation review – the Lord Acton Factor

- 1994 Council of Regulation
- Enforcing compliance

Compliance with RIS guidelines



Source, IC, 1997

■ Full compliance ■ Partial compliance ■ Non-compliance



Regulation review

- Compliance is now much better

Table 1 RIS compliance, by type of regulation, 2005-06

<i>Type of regulation</i>	<i>Decision-making</i>			<i>Tabling^a</i>		
	<i>prepared</i>	<i>adequate</i>		<i>prepared</i>	<i>adequate</i>	
	<i>ratio</i>	<i>ratio</i>	<i>%</i>	<i>ratio</i>	<i>ratio</i>	<i>%</i>
Primary legislation (bills)	28/32	19/32	59	28/29	23/29	79
Delegated legislation	45/51	44/51	86	47/51	46/51	90
Quasi-regulation ^b	2/4	2/4	50	n/a	n/a	
Treaties	4/9	3/9	33	5/5	4/5	80
Total	79/96	68/96	71	80/85	73/85	86



Regulation review

But regulation is proliferating



LateraEconomics

- The RIS for ANTS had no analysis of the BAS
- Following political uproar, a 'top down' review
- Even after a major political 'fix', problems remain
 - Why is it necessary to itemise capital purchases on a GST return rather than the annual return?
 - Installments can't be used in the first year
 - Banks review recommended further changes be considered

Maddy and Maxie Pty Ltd
Shop 4
27-29 Campbell St
Albury NSW 2640

Document identification number 30500400
12 123 123 123
A3 01/07/2000 A4 30/09/2000

This statement is due on 30/09/2000
Amount payable 9,450

Show whole dollars only.

DEBITS		CREDITS	
Goods and services tax payable 1A \$	11,434	Credit for goods and services tax paid 1B \$	9,450
Wine equalisation tax 1C \$		Wine equalisation tax 1D \$	
Special credit for wine equalisation tax 1E \$		Special credit for wine equalisation tax 1F \$	
Pay As You Go withholding 4 \$	2,971	Credit arising from reduced tax 5A \$	5,016
Deferred capital goods instalment 7 \$		Deferred capital goods instalment 8 \$	
Add 2A + 4 + 5A + 6A + 7 8A \$	2,044	Add 2B + 5B + 6B + 8 8B \$	9,450

Declaration: I declare that the information given on this form is true and correct, and that I am authorised to make this declaration. Tax for purposes other than self assessment.

Signature: M. [Signature]

Please return this completed form to:
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Private Bag 6007
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Payment Advice - 60
0000 0156 03
97 999 999 999
Maddy and Maxie Pty Ltd
\$10,991
EFT code 97999 999 999 9360
Private Bag 6007
ALBURY NSW 2640

<979999999999> <> < 000000> 15600< >

Acquisitions you have made

Accounting method	Non-cash (accruals)	Amounts at G1, G7, G10, G11, G13, G15 & G18 are GST-inclusive	
Total sales & income \$ G1	3,059,774	Capital acquisitions G10 \$	4,500
Less: Input tax credits G2		Other acquisitions G11 \$	2,421,922
Less: Input tax credits G3		Input tax credits G12 \$	2,466,922
Less: Input tax credits G4		Input tax credits G13 \$	
Add G2 + G3 + G4 G5	1,801,920	Acquisitions with no GST in the price G14 \$	1,420,441
Total sales & income less input tax credits G6	1,257,854	Total of estimated private use of assets G15 \$	694
Add G6 + G7 G8	1,257,854	Less: Input tax credits G16 \$	2,735
Divide G8 by eleven G9	114,344	G12 minus G16 G17 \$	1,039,577
Total of sales & income less input tax credits less GST in the price G10	1,143,510	Adjustments G18 \$	
Less: Input tax credits G11		Total of sales & income less input tax credits less GST in the price G19	1,143,510
Less: Input tax credits G12		Divide G19 by eleven G20 \$	9,450
Less: Input tax credits G13		The amount at G20 is your GST credit. Transfer this amount to 1B on the front.	
Less: Input tax credits G14		Amounts withheld from investment distributions where no TFN is quoted W3 \$	
Less: Input tax credits G15		Amounts withheld from payment of dividends where no ABN is quoted W4 \$	
Total of sales, income and other payments W1 \$	1,068,000	Transfer the amount at 4 on the front.	
Less: Amounts withheld from salary or other payments W2 \$	2,971	Instalment account T1 \$	2,951,011
Transfer the amount at 4 on the front.		New varied instalment rate T3 %	1.70 %
Reason for variation T4		Reason for variation T4	
Estimated total fringe benefits tax instalment F1 \$	1,020	Reason for fringe benefits tax variation F4	
Transfer your fringe benefits tax instalment to 6A on the front.			

Payments can be made by direct credit; Bpay (savings or cheque accounts only); direct debit, at Australia Post or by mail. For details refer to your activity statement instructions.

Aust Post Use Biller Code 75556
The customer reference number is your EFT code located on the front of this payment advice.

Regulatory Taylorism

- Taylorist regulation review can actively obstruct responsiveness
 - *Industry Commissioner: Why do you specify that the compliance plates must be metal when there are now products - such as self voiding plastic - which would be cheaper and more effective.*
 - *FORS: Its not that easy. We would have to do a regulatory impact analysis and that takes time and resources we don't have.*



The culture of over regulation

* This email includes information on legislated comparison rates (CRs) wherever possible. These provide a single rate allowing cost comparisons between products with different fees. However remember they are general figures, and may not accurately reflect your specific circumstances. [Click here](#) for more explanation or feel free to discuss it with us. Remember the CRs we quote do not include our rebates and would be lower if they did. Government regulation requires comparison rates to be provided over a range of different loan values from \$20,000 to \$300,000. We have quoted the comparison rates quoted by lenders which are typically, but not always quoted for loan rates of \$150,000. Should you wish to look more closely, resources to do so are posted [here](#). Different amounts and terms result in different comparison rates and so you should use CRs as a broad guide only. Costs such as redraw fees or early repayment fees, and cost savings such as fee waivers, are not included in the comparison rate but may influence the cost of the loan. We also think it is better to use the methodology used prior to the new regulation, which calculates comparison rates over 7 years - rather than the whole term of the loan as is done with CRs - as we think it advisable to review your loan at least every seven years but preferably more often.

- **Has improving compliance helped?**
Please note, providing this information does not constitute an offer of financial services. We may have information about commercial opportunities that we think may be of interest to you. We suggest you may be interested in our services. We will be providing this information on a non-exclusive basis. Should you not wish to receive this information, we suggest you unsubscribe from this email by returning our first email. However you are also welcome to unsubscribe by returning this email and requesting the same.
- **Is something more amiss?**
The credit code obliges us to say that, where variable rates of lenders are mentioned, those rates are current variable rates. They vary over time and so should be regarded as indicative. Note some lenders lending against strata titled property require borrowers to obtain particular insurance to overcome perceived limitations with strata titled insurance. If you are borrowing against strata titled property, please be aware of this. If you request it, we will investigate with your lender whether this will be required in your case.
- **Lord Acton explains Workchoices RIS**
Peach arranges loan for you from the lender. In doing this, we act as a contractor, you are the client. We may be paid a commission by funders, managers, product suppliers or the lender with whom we do business. You were referred to us by Peach, so we may make payments to people who referred you to us. No commission is payable by you. In respect of most loans, we will be paid an upfront commission, which is a percentage of your loan amount, and a trail commission, which is a percentage of the ongoing loan balance. In respect of other products and services we may be paid a commission which may consist of an initial commission plus an ongoing commission calculated by reference to the loan or product amount. It is not practical at the date of this disclosure to specify the exact amount of commission payable, though it is likely that the amount paid by the lender (not all of which Peach receives) will be disclosed to you in the contract you exchange with the lender. If you require further clarification of the commission paid to us when we know the precise details of your lending, please advise us and we will provide you with our best estimate. Clients who have not yet received the specific information required in the contract often fees are not payable unless a loan proceeds. However, where payments for application fees or ancillary costs or fees of loan establishment - such as valuation fees - are charged, the client is generally liable to reimburse the lender. Further some lenders pass on larger than normal valuation fees, where properties have high valuations - sometimes over \$500,000 though usually the threshold is higher than this. Others impose requirements that borrowers take out unusual insurance policies where properties have their own insurance - for instance for strata titled buildings. If you are concerned about any of these matters, please contact us and we will clarify the situation for you or proceed in any circumstances in which the lender charges Peach or Peach's Lenders for such costs. Peach or Peach's Lenders do not receive their fee for our services, either for or from a lender, unless successfully proceeded with. Where we have suggested you consider obtaining a loan with a different lender, you are not switching out of that lender during the honeymoon period. This will generally be with the same lender. It is possible that during the honeymoon the terms of the product into which you are planning to switch change. We are not responsible if this change is unfavourable, however we will be pleased to assist you explore other products with that lender or with another one to assist you obtaining value in the marketplace.
- **But not failure of the ANTS RIS**



The dilemmas of central planning: Hayek

- Self evidently regulation shares many foibles of central planning
- Hayek diagnosed many of the problems of central planning paradigm
- As well as his 1930s and 40s articles on information in economies
- Anatomised a culture of "scientism" in 'The counter-revolution of science' (1941-51)



Hayek's critique of scientism I

	Scientism (Neoclassicals, Keynes? Veblen? Schumpeter?)
Metaphors	<ul style="list-style-type: none">• The economy is a mechanism• Scientism overrates central, global and theoretical knowledge
Role of Policy	Unitary vision: Those at the centre can optimise the economy – Barone, 1908, Lange 1937



Hayek's critique of scientism II

	Scientism (Neoclassicals, Keynes? Veblen? Schumpeter?)	Hayek's critique
Metaphors	<ul style="list-style-type: none">• The economy is a mechanism• Scientism overrates central, global and theoretical knowledge	<ul style="list-style-type: none">• Economy is complex adaptive system• Engineering and central planning knowledge supplemented by local and temporal knowledge of trader
Role of Policy	Unitary vision: Those at the centre can optimise the economy – Barone, 1908, Lange 1937	'Ecological vision': Efficiency requires two things <ul style="list-style-type: none">• Good rules of the game• Local activity optimising local possibilities



Hayek's critique of the Engineers III

- Hayek's critique was at the level of the economy
- And was directed to the socialist calculation debate and subsequent anti socialist concerns
 - Not to ameliorating the dilemmas of central planning where they were inevitable
 - But business encountered problem of central planning in large complex production processes
 - The problem of Taylorism/Fordism/Top Down management



Taylorism – Central planning for the firm

- A loose set of ideas – also sometimes called Fordism or 'top down' or 'command and control' management
- Fredrick Winslow Taylor's *Principles of Scientific Management*
 - 'Time and motion' studies
 - Management and engineers set tasks in (often minute) detail
 - Workers rewarded on piece rates – to maximise production
 - Components designed 'in house' and outsourced to lowest bidders



Taylorism and Post-Taylorism

	Taylorism
Metaphor of Production System	A mechanism designed by engineers
Role of Management	Unitary vision. Funding and empowering professionals to design or buy in machinery, products, work routines and work incentives 'Incentivising' employees with piece rates
Means of Productivity Growth	Better management, and technology bought in or produced by internal R&D



Taylorism and Post-Taylorism

- In the 1970s the Japanese began exporting cars with lower costs and higher quality than competitors
- Finessed dilemmas of or centrally planned production.
- JIT and similar 'post-Taylorist production systems focus on
 - capturing the information and intelligence of everyone in the production system.
- Just as Adam Smith spoke of excessive control destroying the productivity of slavery, and feudalism, so the modern manufacturing productivity miracle required
 - managers to relinquish some control
 - establishing an ecology not a unitary vision



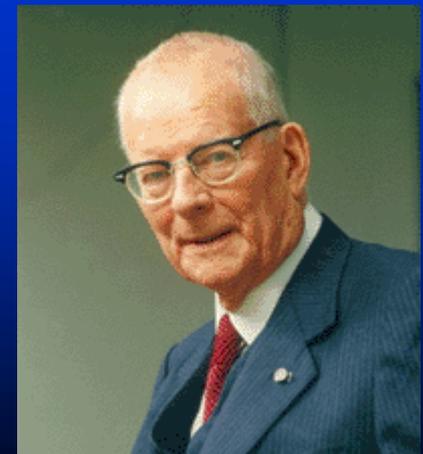
Hayek on central planning

- The universal demand for 'conscious' control or direction of social processes is one of the most characteristic features of our generation. . . . The belief that consciously directed processes are necessary superior to any spontaneous process is an unfounded superstition.
- Friedrich Hayek



Taylorism and Post-Taylorism

- JIT/TQM/Toyota systems create the conditions for a 'guided spontaneous order' – not a directed order
 - Workers organised into teams
 - 'First drive out fear'
 - Accesses co-operative spirit (and surveillance of shirking)
 - Intense attention to problems of feedback
 - In place of suggestion boxes and individual rewards, teams are given
 - security
 - sophisticated tools of measurement and analysis
 - authority to optimise production system both in 'policy' and 'practical' sense (Quality Circles)
 - Much closer relations with suppliers and customers
 - Co-dependent supplier relationships
 - With single suppliers given greater design autonomy



Economic thinking and 'the engineering type of mind'

- The ideal of conscious control of social phenomena has made its greatest influence felt in the economic field. . .
- The engineer has complete control of the particular little world with which he is concerned. . . . So far as . . . his engineering problem is concerned, he is not taking part in a social process in which others may take independent decisions, but lives in a separate world of his own.

Friedrich Hayek



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Taylorism and Post-Taylorism

	Taylorism	Post-Taylorism
Metaphor of Production System	A mechanism designed by engineers	A complex adaptive system
Role of Management	Funding and empowering professionals to design or buy in machinery, products, work routines and work incentives 'Incentivising' employees with piece rates	<ul style="list-style-type: none"> • Eliciting the expertise/enthusiasm/feedback of all in the productive network • Down and out
		Richness of feedback, to guide production and continual improvement, high morale and 'alignment' of employees with firm objectives
Means of Productivity Growth	Better management, and technology bought in or produced by internal R&D	Organisational learning, through continual incremental improvement at all levels



Regulation and 'top down' central planning

	Taylorism	Post-Taylorism	Regulatory Taylorism (Regulation Review)
Metaphor of Production System (regulatory system)	A mechanism designed by engineers	A complex adaptive system	A mechanism designed by policy makers in consultation with stakeholders
Role of Management (regulators)	Funding and empowering professionals to design or buy in machinery, products, work routines and work incentives 'Incentivising' employees with piece rates	Eliciting expertise/enthusiasm of all Down and out	Analysing costs and benefits and resulting design of regulation Overwhelming effort put into new regulation.
		Richness of feedback, to guide production and continual improvement, high morale and 'alignment' of employees with firm objectives	
Means of Productivity Growth	Better management, and technology bought in or produced by internal R&D	Organisational learning, through continual incremental improvement at all levels	Major reviews of regulation to find improvements

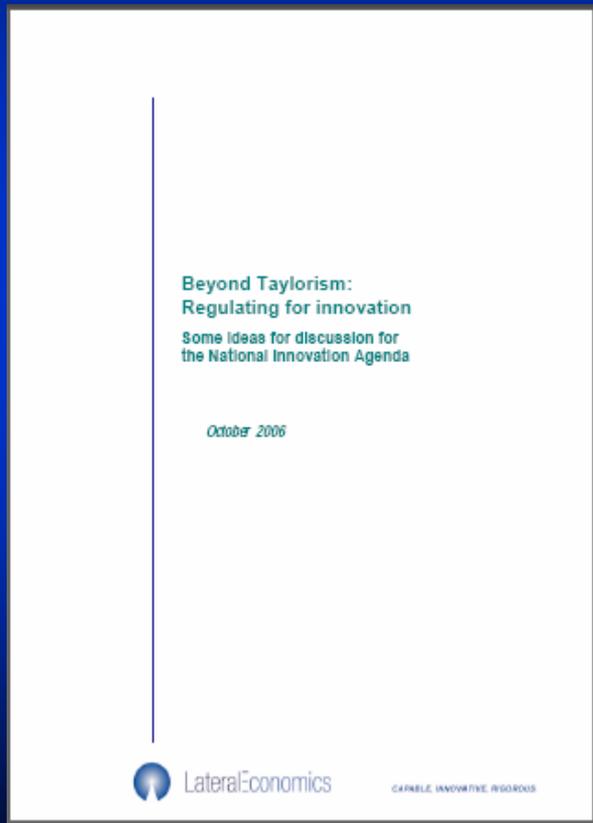


Regulatory Taylorism

- Little focus on incremental improvement
 - TFNs on loan applications
- And could RISs solve the problems of regulation – even in best of worlds.
- The BAS
 - Full of idle questions
 - Which often had no corresponding measure in businesses accounting systems (like input taxed sales and income and other supplies)
 - All this information was required quarterly/monthly and then reproduced annually
 - No scope for estimates (like provision tax) subject to annual reconciliation



Beyond Regulatory Taylorism



- Lateral Economics addressed some of these issues
 - Not a comprehensive response but
 - Proposed that Regulation Review be complemented with 'Post Taylorist' approaches – without providing a blueprint
 - Offered some suggestions in the context of innovation



The road ahead

Better regulation is very hard

- not just for usual political reasons (Lord Acton)
- we're also wrestling with the dilemmas of central planning (Hayek).

We're pretty bad at it

- But one of the best in the world

Big theories have failed

Perhaps we need to build our theory slowly – as we build the practice of continual improvement

