

Alternatives to regulation

Introduction

In many cases, alternatives to regulation can be less costly, more flexible and more effective than legislation.

Do nothing?

Consider carefully whether there really is a need to take any action or whether the problem could be addressed through the market and existing legislation.

In some cases, intervention may not improve the situation or may move the problem elsewhere; the costs of government action may be greater than the costs imposed by the problem it is designed to correct.

Consider the cause of the problem. It may have been caused by previous government action and resolving the problem may be achieved through removing, simplifying or amending existing legislation, rather than adding new regulation.

Regulation is often designed to reduce risk, but holding people responsible for their actions and requiring them to pay damages can provide an incentive to take appropriate levels of care.

Standards (including voluntary and regulatory standards)

Voluntary standards are developed by national standards organisations and many have become international standards through the International Standards Organisation. They can be incorporated into regulations or used as regulatory standards. There are three main types of standard:

- principles-based – which describe the objective being sought in general terms and require interpretation according to the circumstances;
- performance-based – which specify the desired outcome in precise terms, but allow individual organisations to determine how to achieve the outcome; and
- prescriptive – which specify the technical means for achieving the specified outcome.

Self-regulation

An industry or sector can self-regulate, by producing its own rules and codes of conduct, which it then enforces.

Codes of practice are generally adopted and administered by the industry to which they relate. Codes may deal with a range of issues such as membership eligibility, standards for processes, practice or products and services and complaint handling procedures. The advantage of codes is that they are industry specific. Generally, codes of practice can be amended more quickly than legislation. The industry is often best placed to enforce compliance.

Quasi-regulation

Quasi-regulation can be used by the Government to influence businesses to comply with rules and standards, for example government-endorsed industry codes of practice, government agency guidance notes and national accreditation schemes.

Quasi-regulation, like self-regulation, can be more flexible and responsive than formal government regulation. It can also result in better compliance if the rules are designed in collaboration with industry experts.

Market-based instruments (taxes, subsidies and user charges)

Economic incentives can be used to change behaviour by altering the relative prices of goods and services in a market, or by creating a market where none previously existed. They can be more efficient than prescriptive regulation because they allow individuals to make their own cost-benefit trade-offs. However, outcomes are less certain.

A tax will raise the cost of a certain activity, while a subsidy will lower it. User charges can also be used to increase the cost of certain activities. But taxes can also be used to create incentives by offering credits or favourable tax write-offs.