



Economic regulation in dynamic systems:
implications and opportunities

Cathryn Ross

25 April 2014



What is independent economic regulation for?

Implications:

- Interfaces matter
- Evolution or decay
- $L > C$

So what?

What is independent economic regulation for?



Economic regulation aligns the interests of capital with the interests of customers

Independence enables a long term, balanced view

Regulators influence **institutions...**

... that influence **behaviour ...**

... that generate **outcomes** that customers and society care about

All of these things matter for the **legitimacy** of regulated sectors...

... and the legitimacy (and continued independence) of regulators

Implications (1): Interfaces matter



The behaviour that produces the outcomes customers and society want to see (or not) is complex

The formal regulatory tool kit is a powerful driver of behaviour, through:

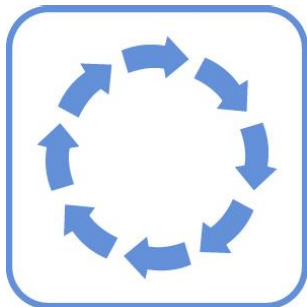
- Financial incentives
- Reputational incentives
- Procedural incentives

But:

- If it is complex it may not be fully understood
- Other factors may play a bigger role
- The informal regulatory tool kit matters too

Regulators must understand and work through a wide range of interfaces

Implications (2): evolve or decay



The wider system in which regulators operate does not stand still...

... to generate the outcomes that customers and society want to see in regulated sectors, the regulatory regime must evolve

Stability = low risk, low bills

Stability = no change

Change = bad



Stability = low risk, low bills

Stability = an enduring system,
predictability

An enduring system = a
legitimate system

A legitimate system = an
evolving system

Change = stability

Regulators need to do (cultural) change management

Implications (3): Learning is critical



Successful change comes from, and depends on learning

- Learning within regulators – what works and what doesn't
- Learning between regulators – best practice, commonalities and differences
- Other actors in the system must learn to – and regulators can influence this process

Change will be more successful where $L > C$

UKRN is a fabulous opportunity

Regulators should influence rates of change *and* rates of learning

So what? Some opportunities...



Regulators influence **institutions**...

... that influence **behaviour** ...

... that generate **outcomes** that customers and society care about

Independent economic regulation must **evolve or decay**

Change is **complex**, because the system is complex

But it is **possible** if:

- We really understand interfaces
- If we work with and through others
- If we learn and encourage others to do so

And the size of the prize is immense