

Terms of Reference

INQUIRY INTO BARRIERS TO BUSINESS ENTRIES AND EXITS IN THE AUSTRALIAN ECONOMY

I, Joseph Benedict Hockey, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission (Commission) undertake an inquiry into barriers to business entries and exits and identify options for reducing these barriers where appropriate, in order to drive efficiency and economic growth in the Australian economy.

Background

Firm entry and exit plays an important role in fostering innovation, competition, and thereby driving productivity and economic growth. Competition from new firms, or even the threat of potential entry, forces existing firms to be more efficient. The exit of inefficient firms can provide for greater allocative efficiency as their former resources can be put to higher value uses.

Certain barriers to entry and exit have the potential to hinder the efficient operation of markets, with negative consequences for economic growth. Barriers to entry and exit can be a function of market structure, government regulation, industry specific sunk costs or geography. Cultural appetite for risk is also an important determinant of the level of business entry and exit in an economy.

Business insolvency also results in losses to equity and debt holders, and to employees. Different approaches to managing insolvency can affect the efficient provision of finance and labour.

Scope of the Inquiry

The Commission is to conduct a broad ranging investigation into barriers to business entries and exits and how or where it might be efficiency-enhancing to reduce such barriers. In undertaking this inquiry, the Commission is to investigate, analyse and propose recommendations on the following:

1. The nature and scale/extent of barriers to entry and exit that currently exist for firms and their impact on economic performance.
 - a. Consideration could also be given to the variance in entry and exit rates, for example, between industries, locations, or firm size.
2. Identify appropriate options for reducing these entry and exit barriers, including, but not limited to, advice on the potential impacts of:
 - a. The regulation of product and service markets;
 - b. Transfers and subsidies to businesses, including import barriers;

- c. Regulations affecting the ease of starting, operationalising or closing a business;
- d. Time spent on and cost of complying or dealing with government regulation, licensing and bureaucracy; and
- e. The personal/corporate insolvency regimes on business exits.

Process

The Commission is to undertake an appropriate public consultation process, inviting public submissions and releasing a draft report to the public. A final report should be provided to the Government within nine months of receipt of the reference.

J.B. HOCKEY
Treasurer