



Better Regulation in Israel

By: Avital Ben Shlomo, Shahar Avimor, Katja Knoechelmann and Yitzhak Klein

This paper describes a government-wide approach to regulatory reform prompted by the emerging understanding that Israel's severe regulatory burden is a primary driver of economic dormancy and high cost of living. After discussing regulation and "better regulation", explaining the challenges born of bad regulation and reviewing insights from other countries in the world, a proposal is laid out for a regime of better regulation in Israel.

The **first chapter** describes the importance of better regulation: explaining the meanings of: regulation, "rents" born of harmful regulation, and the concept of 'better regulation'.

The **second chapter** looks to the international community for examples of better regulation methods: reducing the regulatory burden, the ROB model, regulation assessment tools, reducing impediments to competition and political support.

The **third chapter** looks at current better regulation in Israel, starting with Government Resolution 402, and going through the work already done to reduce the regulatory burden, increase competition and other initiatives.

The **fourth chapter** proposes an institutionalized framework for better regulation in Israel, outlining a regime that includes setting norms; establishing an authority; and setting up special committees to evaluate regulation and the process of better regulation.

Summary:

Compared to the majority of OECD states, Israel is afflicted by low per capita income and high consumer prices. One of the primary reasons for this is restrictive regulation, constituting an unnecessarily heavy burden on citizens and businesses. To take on this challenge, it is necessary to create an effective framework for better regulation. "Better regulation" is the term used for processes that seek to optimize a country's regulatory

regime and reduce regulation's negative impact on the market, businesses, households, standard of living and earning capacity of citizens.

Harmful regulation can be divided into two: (i) regulation that lays an excessive direct burden on citizens and businesses in terms of time, money and effort they must invest to comply; and (ii) regulation that creates "rents", i.e. grants business institutions income they would not obtain in the free market. For example, the regulation of driving licenses obligates citizens to spend money on driving lessons they may well have chosen not to take if the law only required they pass a driving test.

Most OECD member states, as well as the organization itself, recognize that combatting harmful regulation requires a systemic, market-wide initiative to change the administrative culture of the regulatory bodies. Such an effort requires an appropriate institutional regime and most particularly, steadfast political backing from elected officials.

The OECD recommends states adopt general rules for better regulation: (i) the prevention of rents, (ii) the promotion of free competition and (iii) opening local markets to international competition. These principles are critical to reducing the high cost of living and promoting economic growth in Israel.

Some OECD states focus on combatting the direct regulatory burden. Such initiatives often come in the form of a campaign to reduce the burden at a certain percentage (such as 25%) within a set number of years. These initiatives require a mechanism for measuring regulatory burden, with the Standard Cost Model developed in the Netherlands being the common method of choice. This method measures the cost of compliance with regulation – the direct costs incurred by citizens and businesses, without considering the indirect costs arising from the embedded rents. A quantifiable objective is helpful, though, in generating public support for better regulation.

Another significant tool for evaluating regulation is the Regulatory Impact Assessment (RIA). This is an official, government-wide method to examine the implications of existing or proposed regulation. Although the method varies from state to state, its basis and features are fundamentally the same around the world. It has proved useful to combine the RIA with a method for evaluating the risks in the regulation of fields such as medicine, safety or finances which carry potential hazards for the public. Proactive consultation with the public is an integral part of an effective RIA method.

The common model for a better regulation regime in OECD states today is the Regulatory Oversight Body (ROB) model. In this model, a designated body is charged with: (a) developing an RIA method that includes the public's requests and recommendations; (b) integrating the method in all state regulatory bodies; and (c)

maintaining oversight of the regulation evaluation, carried out after binding rules for regulation quality are adopted by the government or legislature.

Since 2010, much has been done in Israel to promote government-wide processes to optimize regulation: a PMO department operates as an ROB and a better regulation policy has been adopted, including an Israeli RIA guide and a multi-year policy to reduce existing regulation. The main drawback of this body is that its authority is restricted to only some of the cabinet ministries' regulators and has no jurisdiction over financial or independent statutory regulators. Other bodies (such as the Israel Competition Authority's Competitiveness Division) deal with identifying and dismantling rents born of regulation, but they are unsuccessful, mostly due to their scattering among different institutions that do not work under a unified vision or framework.

Recommendations:

1. Pass a law detailing the principles of better regulation and establishing a better regulation authority. This authority will serve as ROB and supervise all regulators in the state. It will be authorized, among other things, to review various industries and professions to locate rents created by regulation and recommend their deconstruction; a ministerial committee to guide this authority's policy should be established as well.
2. The recommended authority should be authorized to require regulators to review their regulation in light of the regulation principles provided by the law, and do so transparently, so that the public and the media are free to follow their actions. The authority would not have the power to undermine the authority of any regulator.
3. The law should include a sunset clause, according to which the law and the authority it established stay in force for a decade, after which either the Knesset votes to extend them for another decade or they are terminated. This will allow lawmakers to cancel the institution should it devolve into another layer of burdensome bureaucracy.
4. The process should be rounded out with designated review committees authorized to evaluate the regulation of certain areas and give detailed recommendations for its improvement. These committees, dedicated to reviewing specific areas such as agricultural imports or public transportation, would be dissolved automatically after a set period of time.

[For the full Hebrew paper](#)

