Submission to the Productivity Commission Inquiry into Reducing Barriers to Business Dynamism in Australia[1]

Benchmarking business entry and exit over time

The Productivity Commission's call for submissions asks about barriers to starting, growing and closing businesses, their wider economic effects and how reforms should be implemented and evaluated. This intentionally brief submission does not identify a particular regulatory or administrative barrier. Instead, it makes one point about benchmarking the effects of reforms intended to improve business dynamism.

The main point is that the early effects of reducing a barrier may differ greatly from the effects seen several years later. There is no general rule that the first response will be larger, smaller or even in the same direction as the longer-run response. The outcome depends on the kind of reform and on how the expectations of new and established businesses react over time.

My research provides two contrasting examples.

In Spencer (2022), I studied a corporate tax reform that increased the attractiveness of creating new businesses. The initial rise in entry was small because established businesses also reacted immediately and competed more strongly for available resources. As those businesses completed their adjustments, more room opened for new businesses and entry rose further. In that case, benchmarking the reform only in its first years would have understated its longer-run effect on business creation.

In Jha, Rodriguez-Lopez and Spencer (2026), we studied a reduction in barriers to exporting. In one setting, entry rose strongly at first because prospective businesses expected better opportunities in the future. Once the new exporters were operating, however, stronger competition reduced the incentive for further entry and entry later fell. In another setting, entry declined from the beginning. The broader lesson is that the pattern depends on the setting: early results can understate the final effect, overstate it or point in the wrong direction altogether.

These studies concern tax and exporting rather than the particular regulatory and administrative barriers at the centre of this inquiry. They are offered only to support a general principle for policy evaluation: the first few years of entry and exit data should not automatically be treated as evidence of a reform's lasting effect.

I recommend that reforms arising from this inquiry use the following benchmarking principles:

1. **Set separate benchmarks for different time horizons.** Evaluation plans should state what is expected immediately after implementation, over the following few years and over the longer term. The timing should reflect the particular reform rather than using the same window in every case.
2. **Benchmark entry and exit together.** A rise in new registrations may not represent a lasting improvement if many of those businesses close quickly. Likewise, a modest rise in entry may still be valuable if the new businesses survive and grow.
3. **Use unexpected results as a prompt for further investigation.** Missing an early benchmark should not by itself establish that a reform has failed. It may instead show that businesses are adjusting more slowly, or in a different order, than expected.

The practical recommendation is therefore simple: benchmarking should be specific to the reform, cover several time horizons and consider the full sequence from entry through growth and exit. This would reduce the risk of judging a reform too early or drawing the wrong conclusion from temporary movements in business numbers.

References

Jha, P., Rodriguez-Lopez, A. and Spencer, A. H. (2026), "Labor Market Monopsony Power and the Dynamic Gains to Openness Reforms", *International Economic Review*. doi:10.1111/iere.70077.

Spencer, A. H. (2022), "Policy Effects of International Taxation on Firm Dynamics and Capital Structure", *Review of Economic Studies*, 89(4), 2149–2200. doi:10.1093/restud/rdab071.

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