Australian Government
Productivity Commission

PC NEWS

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The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians.

Media and Publications
Leonora Nicol (Media Director)
Ph: 02 6240 3239
maps@pc.gov.au

Melbourne Office
Locked Bag 2
Collins Street East
Melbourne VIC 8003
Level 12, 530 Collins Street
Melbourne VIC 3000
Ph: 03 9653 2100
Fax: 03 9653 2199

Canberra Office
PO Box 1428
Canberra City ACT 2601
Level 2, 15 Moore Street
Canberra City ACT 2600
Ph: 02 6240 3200
Fax: 02 6240 3399

Website www.pc.gov.au
Email webmaster@pc.gov.au
Twitter @ozprodcom

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Productivity Commission News




NEW COMMISSIONED PROJECTS

Data Availability and Use

The Australian Government has asked the Productivity Commission to undertake a public inquiry to investigate ways to improve the availability and use of public and private sector data. The Commission is required to look at the benefits and costs of making public and private datasets more available; examine options for collection, sharing and release of data; identify ways consumers can use and benefit from access to data, particularly data about themselves; and consider how to preserve individual privacy and control over data use. The inquiry report is expected to be handed to the Australian Government in March 2017.

Education Evidence Base

The Productivity Commission is to undertake a public inquiry into the further development of the national evidence base for school and early childhood education. A significant amount of data on students, schools and early childhood education and care is currently collected at the state and territory level, but data reported nationally are more limited. The Commission is to provide advice on the refinement of the national approach to collecting and using data to provide an evidence base to aid effective policy and program development. Through consultation with states and territories, education authorities and other key stakeholders, this inquiry will help to identify current investment in national data collection and education evidence, opportunities to collectively invest further, and how we can improve the effectiveness of our investment through a more streamlined, comprehensive and collaborative national approach. The inquiry is to be completed by December 2016.

Superannuation

The Commission has been asked to undertake:

- a study to develop criteria to assess the efficiency and competitiveness of the superannuation system
- a public inquiry to develop alternative models for a formal competitive process for allocating default fund members to products.

The study into superannuation competitiveness and efficiency will be completed by the end of November 2016, and the inquiry into alternative default fund models will be completed by August 2017.

For both the study and the inquiry, the Commission is to consult widely, including conducting industry roundtables. Both tasks will inform a review of the efficiency and competitiveness of the superannuation system, which the Commission will be asked to undertake following the full implementation of the MySuper reforms (after 1 July 2017).

Professor Kay (left) with Productivity Commission Chairman Peter Harris.

Richard Snape Lecture 2016

The Productivity Commission's 2016 Richard Snape Lecture was presented in Melbourne on 2 February by Professor John Kay, Visiting Professor of Economics at the London Business School. Professor Kay contributes a weekly column to the *Financial Times* and was chair of the Review of UK Equity Markets and Long-term Decision-Making, which reported to the UK Government in 2012. In his Richard Snape Lecture, titled *Finance for Growth*, Professor Kay drew on his insight into the financial markets to give a riveting account of the growth of the finance sector in the modern economy, and the factors leading up to the global financial crisis.

Barriers to business set-up, transfer and closure

In a recently released inquiry report the Commission provided advice for public policy on disruptive new business models, government approaches to supporting start-up activity, and closure processes for insolvent businesses.

The existence of barriers to business set-up, transfer and closure can have a detrimental impact on the efficient operation of markets and economic growth. Such barriers can be a function of government regulation, market structures, industry specific arrangements and interactions, or broad cultural features (such as attitudes to entrepreneurial activity, risk or to business failure).

The Australian Government asked the Productivity Commission to conduct a broad ranging investigation into impediments faced by those setting up, transferring or closing businesses in Australia. The Commission's final report was released on 7 December 2015.

The business landscape is hindered by longstanding regulatory issues

There are around 2.6 million businesses registered as operating in Australia. Businesses are set-up for a variety of reasons and in any one year there is a churn of business entries and exits in Australia that is comparable with other countries.

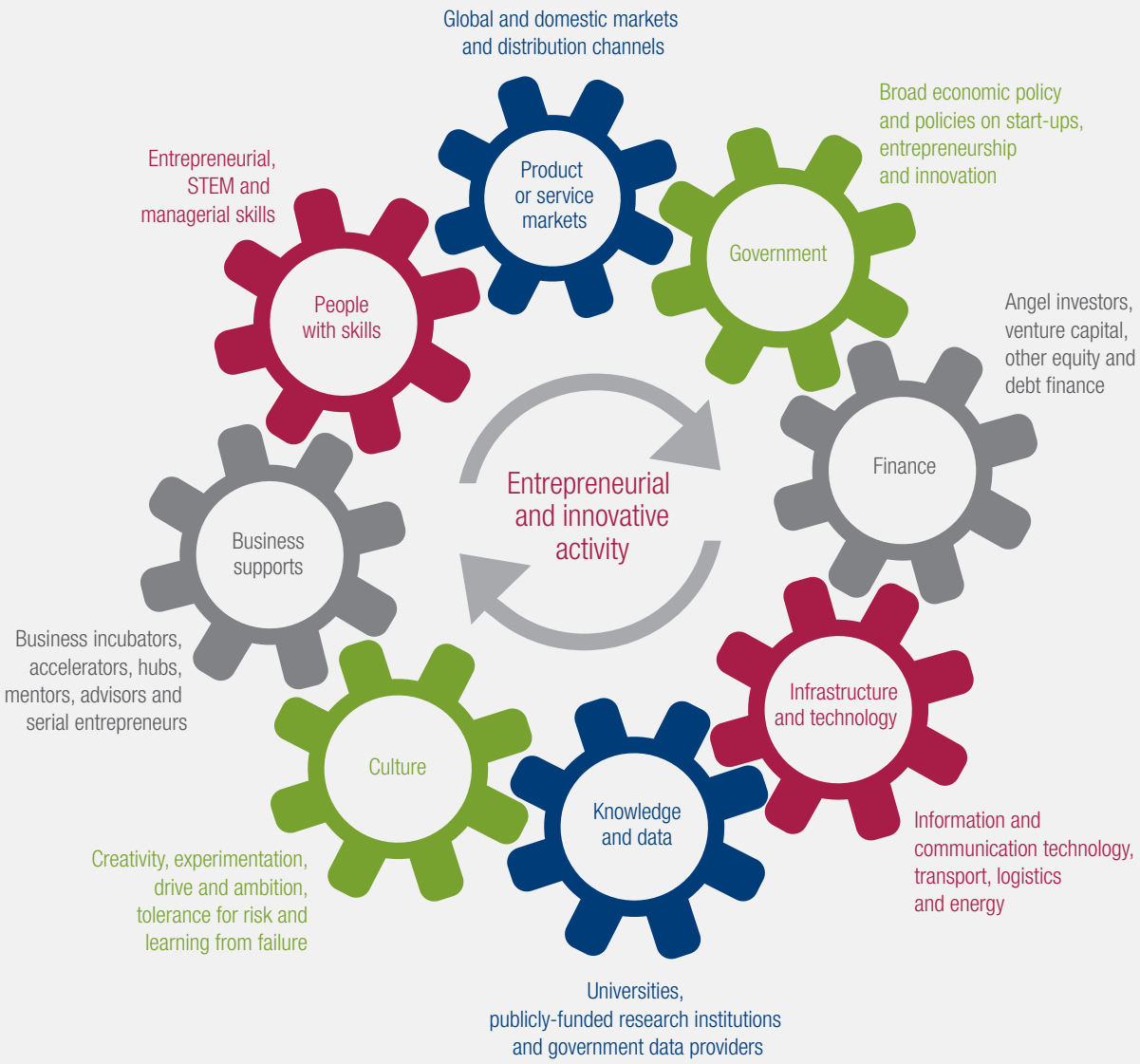
While it is relatively easy to start a business, a number of longstanding issues with specific regulatory requirements and regulator engagement practices remain unaddressed. This creates ongoing unnecessary costs to businesses, communities and taxpayers. The Commission called for governments to take action on previous recommendations of the Commission and others that remain valid and largely unimplemented.

The challenge of new business models: fixed term exemptions

The emergence of new business models is a fundamental aspect of an innovative and growing economy. New business models have the scope to improve consumer choice, increase the utilisation of existing capital or labour, and/or lower the prices at which products or services are provided. The Commission's report emphasised that the default position of governments should be to allow entry of innovative new business models, not restrict them or protect incumbents.

Regulators need to be able to respond flexibly and transparently to new business models and ensure that regulatory frameworks are capable of adapting quickly to cope with new technological developments. The Commission recommended across-the-board legislation for fixed term exemptions to specific regulatory requirements that deter entry by business models that do not fit within the existing regulatory

Entrepreneurial ecosystems



framework. Conditions may be placed on exemptions to ensure no material increase in the risk of adverse outcomes for consumers, public health and safety or the environment.

Entrepreneurial activity

There is a growing focus among governments in Australia and overseas on supporting high growth potential start-ups and the role entrepreneurial communities play in start-up success. This reflects the growing recognition of start-ups as a catalyst for competition, productivity, employment and income growth, and virtuous cycles of innovation and investment.

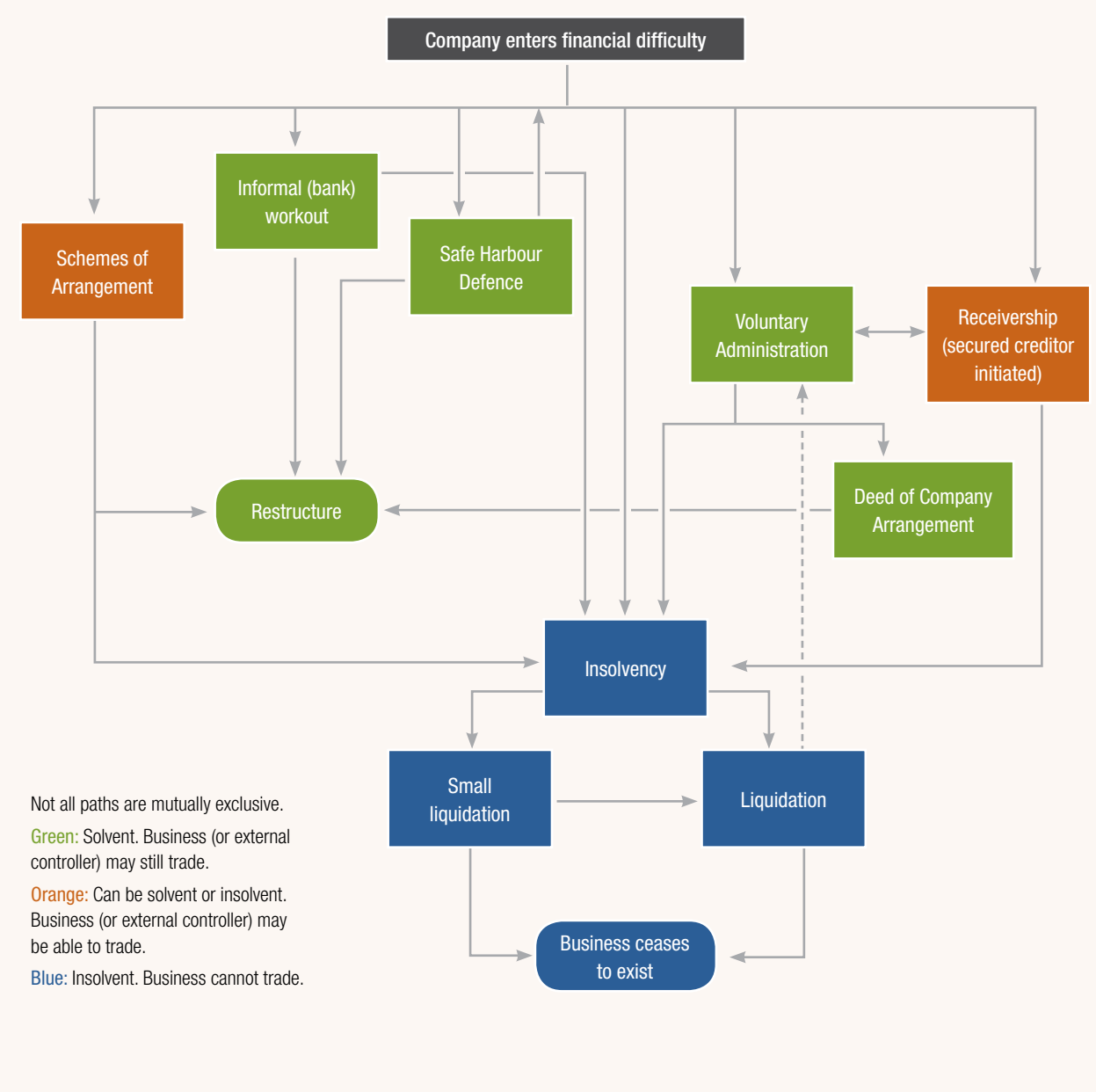
The inquiry report found that entrepreneurial activity is generally only successful and self-sustaining if driven by entrepreneurs (rather than governments). Targeting individual elements or 'failures' within the ecosystem, without considering the whole, is likely to be ineffective or even detrimental. In particular, identifying the local factors in need of attention and minimising unnecessary regulatory impediments is a strongly preferred approach for governments to take.

Embrace the concept of risk: early use of a safe harbour

The Commission's recommended reforms to Australia's corporate insolvency regime are intended to enable the restructuring of economically viable companies, and where restructure is not possible, provide procedural certainty to creditors, with less emphasis on punishing financial failure. The Commission found that while a wholesale change to the corporate insolvency system (such as the adoption of the United States' 'chapter 11' framework) is neither justified nor likely to be beneficial, some specific reforms are warranted. These include:

- restricting formal company restructuring procedures to those businesses that are capable of being economically viable in the future
- introducing a safe harbour defence to allow directors to explore early restructuring options without liability for insolvent trading
- introducing a streamlined liquidation process to reduce the time and expense of winding up businesses with few or no recoverable assets
- requiring all directors to obtain a director identification number.

The Commission's recommended framework for corporate restructuring and insolvency



Summary of the Commission's key recommendations*

Regulation of new and innovative business models

Some new business models, particularly those that exploit digital technology, challenge existing regulatory arrangements or cause associated businesses to operate in regulatory grey areas. An across-the-board legislative shift is required to enable explicit exemption of classes of new businesses, for a fixed period, from particular regulatory requirements, where these deter entry but exemption does not threaten consumer, public health and safety, or environmental outcomes.

Governments and entrepreneurial activity

Any assistance programs must work within, and not distort, existing entrepreneurial communities to enable the capture of knowledge and network spillovers, beyond what would otherwise occur. Any assistance to entrepreneurial activity should:

- avoid targeting particular business sizes, models, technologies or sectors
- focus on strengthening ecosystems and networks
- be modest relative to the scale of the market, be conditional on measurable private sector 'buy in' that exceeds government contributions, and include a clear exit strategy for government that is established at the outset.

Access to finance is not a barrier for most new businesses but some specific areas need to be addressed

- Crowd-sourced equity funding should be a financing option available to any small company. There should be caps on the level of investment possible by small-scale 'mum and dad' investors, but no caps for sophisticated and professional investors.
- Superannuation fund trustees should not be required to allocate funds to particular asset classes or investments, including venture capital or small businesses.
- The Australian Government's tax incentive scheme, the Venture Capital Limited Partnerships, should be closed to new registrations. Tax incentives under the Early State Venture Capital Limited Partnerships should remain limited to seed and early stage investments and be back-ended (to reward success and avoid tax minimisation). Both schemes should be subject to an independent evaluation.

Restrictions on bankrupts should be reduced

The default exclusion period and restrictions on bankrupts in relation to access to finance, employment and overseas travel should be reduced from 3 years to 1 year, with the trustee and courts able to extend this period to prevent abuse. The obligation to repay debts should continue to be required for 3 years or until bankruptcy discharge.

Some specific reforms to Australia's corporate insolvency regimes are needed

- Formal company restructuring through voluntary administration should only be available when a company is capable of being a viable business in the future.
- A 'safe harbour' defence should be introduced to allow directors to explore, within guidelines, restructuring options without liability for insolvent trading.
- Where a company is undergoing voluntary administration it should not be possible to terminate contracts, solely due to an insolvency event. Such companies remain obliged to meet any contractual obligations.
- A simplified liquidation process should be introduced to reduce the time and expense of winding up businesses with few or no recoverable assets.
- All directors should be required to obtain a director identification number.

** A complete list of recommendations is available in the overview of the inquiry report.*

Business Set-up, Transfer and Closure

> Inquiry Report

> Released December 2015

How does Australia's tax and transfer system redistribute income?

Australia's personal income tax and transfer system is less progressive when measured on a lifetime basis rather than at a point in time, but it is still strongly progressive, according to a recent Commission Working Paper. The paper also found that many families pay income tax and receive transfer payments at the same time, and that some families with relatively high wealth receive more in transfers than lower wealth families.

Almost all families are affected by the tax and transfer system – they will pay personal income tax and GST and receive transfers at some point in their lifetimes. Taxes and transfers redistribute income, and in doing so, they alter people's incentives to work, save and invest in ways that can be reinforcing or offsetting. For example, consider a two-parent family with school-age children and only one parent in the paid workforce. If the second parent were to enter the paid workforce, not only would they be liable to pay additional personal income tax, but the family may not be eligible for the same level of family payments. In part, the financial incentive for the second parent to enter the workforce would depend on the combined effects of the tax system and the transfer system.

The Commission used a static microsimulation model to examine these interactions, including who pays income tax and GST, and who receives transfers. The modelling also included results from a lifetime perspective, rather than only focussing on a single year.

Tax and transfer incidence can be measured by income or wealth

Net taxes rise with income levels. On a cohort basis, families earning less than $25 000 per annum in

Australia's tax and transfer system

The tax system and the transfer system are administered independently and differ in many important ways. Nonetheless, it is common to analyse these systems together – and refer to the whole as the 'tax and transfer system'.

The Australian tax system is composed of a large number of taxes including personal income tax, company income tax, superannuation fund taxes and fringe benefits tax. Indirect taxes include the GST; excise on alcohol, tobacco and fuel; customs duties; wine equalisation tax; and the luxury car tax.

In 2013-14, the Australian Government raised $352 billion in taxation revenue, equivalent to 23 per cent of Australia's GDP. Eight out of every ten dollars in tax revenue raised came from just three taxes: personal income tax, company income tax and the GST. Personal income tax accounts for almost half of all Australian Government tax revenue.

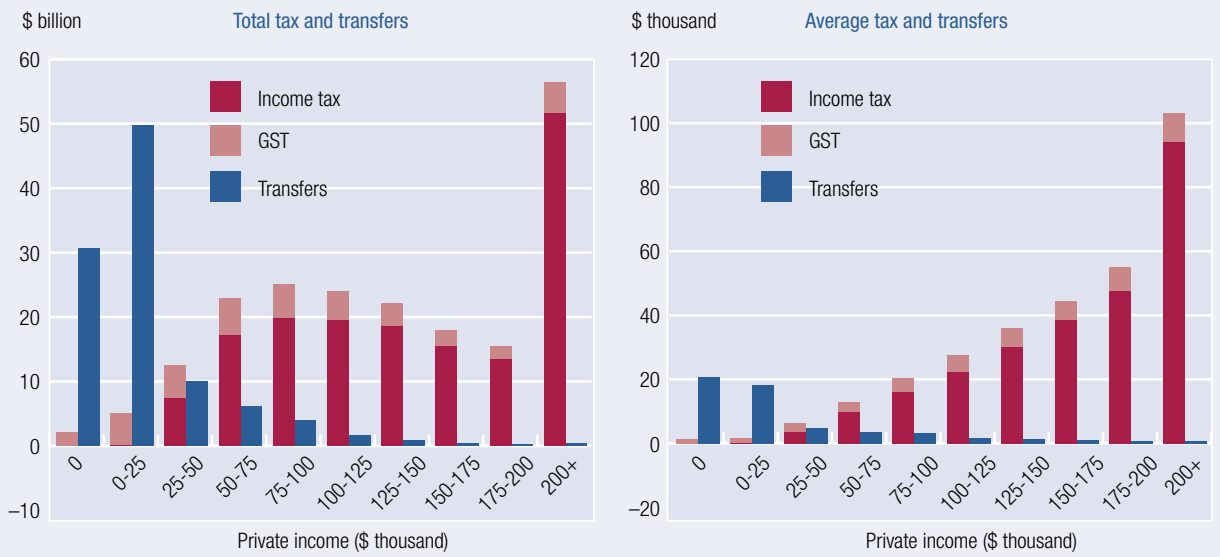
Transfer payments are defined in the Commission paper as cash payments provided by governments to individuals and families. Eligibility for most payments is determined by income and assets tests, and most payments have tapered withdrawal rates. In the Australian system, cash transfers come in four basic forms: pensions; allowances; supplementary payments; and family payments.

In 2013-14, transfer expenditure by the Australian Government totalled $125 billion, equivalent to 8 per cent of Australia's GDP. In 2013-14, transfer expenditure was equivalent to 35 per cent of total tax revenue. Transfer payments tend to grow as a proportion of tax revenue when the economy is weak and shrink when the economy is strong.

The five largest payments – the Age Pension, the Disability Support Pension, Family Tax Benefit Parts A and B, and the Newstart Allowance – accounted for two thirds of all transfer expenditure in 2013-14.

Figure 1: Transfers are concentrated towards low income earners, and tax increases with income

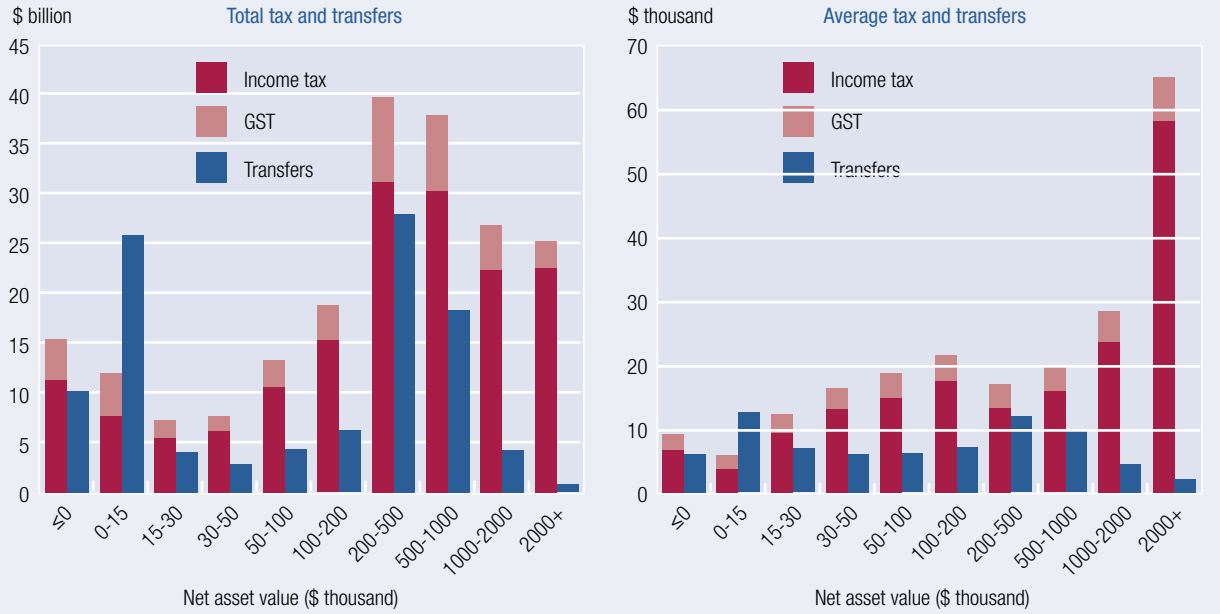
Total and average taxes and transfers by private income



Data source: Commission estimates

Figure 2: Families with $200 000 to $1 000 000 of net assets receive more in transfers than some families with less wealth

Total and average taxes and transfers by wealth



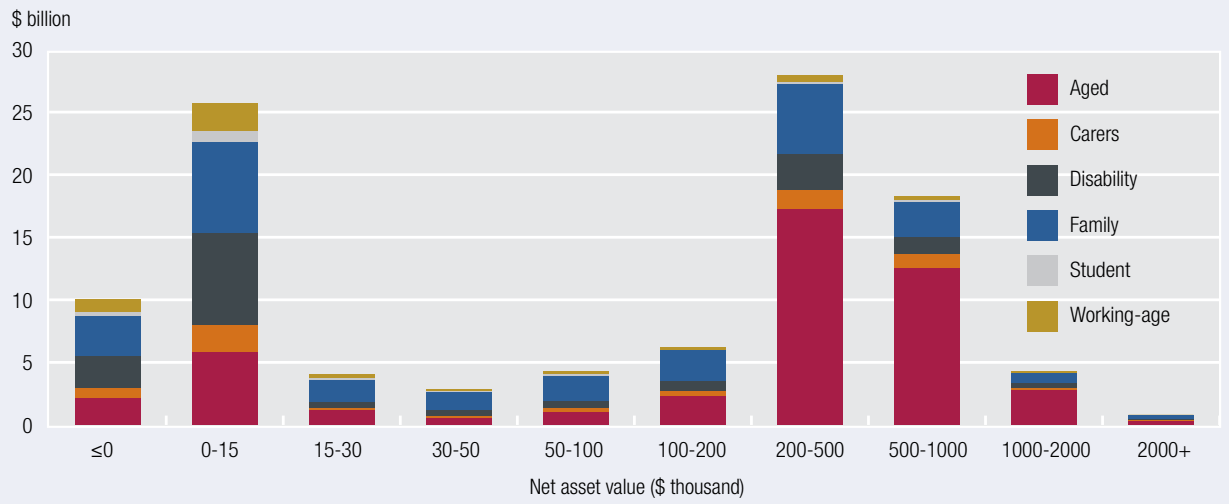
Data source: Commission estimates

private income[1] pay less in tax in aggregate than they receive in transfers; but the cohorts above generally pay more tax (GST and income tax) than they receive in benefits. The average taxpayer in the $25-50 000 private income range receives more in benefits than they pay in income tax alone, but when GST is included, taxes paid are larger than transfers. Families with more than $125 000 in private income (about 15 per cent of

[1] Private income refers to income before taxes, transfers or in-kind services are taken into account. It includes income from wages, salaries, superannuation, investments, and other non-government income.

Figure 3:
A large share of Age Pension transfers are directed to families with high levels of wealth

Composition of total transfers by wealth



Data source: Commission estimates

the population) contribute more than half of all taxes.

Average tax paid may also increase with wealth, but not as consistently as with income. As wealth rises, income tax generally increases, but the amount falls for families with $200 000 to $500 000 in net assets before increasing again. While transfers tend to decrease with wealth, a significant proportion of transfers are paid to families with net assets between $200 000 and $1 000 000. These observed patterns occur because some older home owners with relatively low private incomes pay little income tax and receive transfers (the family home is not included in assets tests for the Age Pension).

When looking at who receives different types of transfer payments, aged and disability payments represent the largest shares of transfers to families with low private incomes. In contrast, family payments represent the largest share of transfers to middle-income families. Furthermore, much Age Pension expenditure is directed to families with relatively high levels of wealth.

A sizeable portion of all families (nearly 20 per cent) receive transfers and pay income taxes at the same time. This 'churn' is mainly due to the structure of family payments – families with children account for 80 per cent of families who simultaneously pay personal income tax and receive transfer payments.

The tax and transfer system also redistributes income from families of working age to families of retirement age. Average net tax flows (taxes paid less transfers received) are positive across all age groups except for those aged 60 and above.

GST is slightly regressive, but there is wide dispersion within income groups

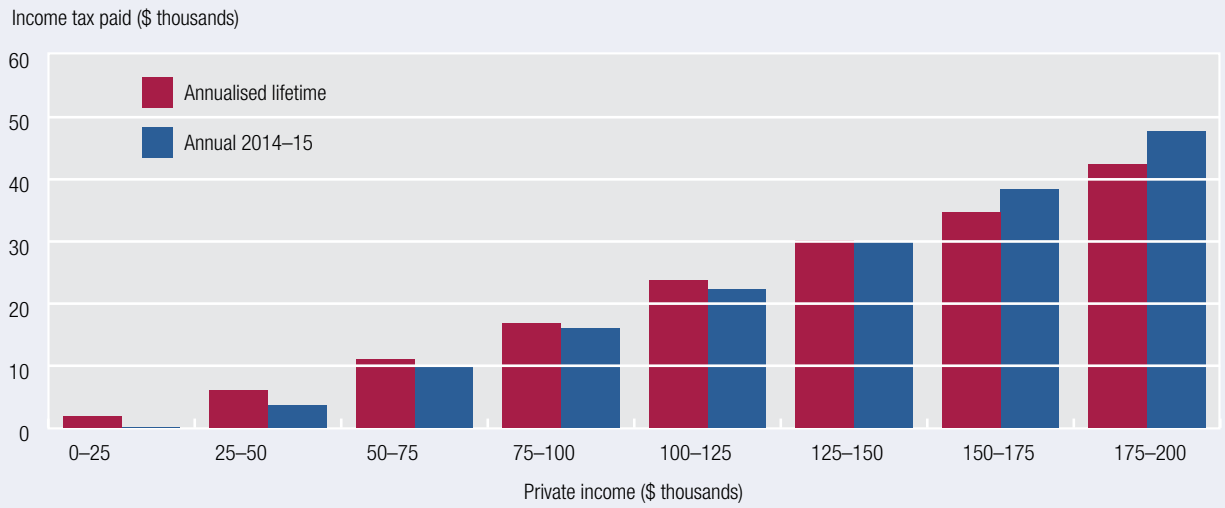
The average amount of GST paid as a proportion of disposable income and as a proportion of expenditure decreases, although only slightly, with private income. For families with no private income, GST makes up about 7 per cent of disposable income, on average. In contrast, for families with private incomes greater than $150 000, GST accounts for about 5 per cent of disposable income, on average. However, there is wide variation within private income groups, particularly for some low-income families. For some families the share of GST relative to disposable income is over the statutory rate of 10 per cent, which can occur because of borrowing or dissaving.

Taxes and transfers may affect incentives to work

Effective marginal tax rates (EMTRs) are an indicator of the financial incentive from additional work. They not only account for the extra amount of personal income tax paid, but also take into account any transfers foregone, when a family earns additional private income. Among those families that earn a private income, but earn less than $25 0000 a year, two-thirds have primary income earners who face an EMTR of 20 per cent or less, while about one-quarter have primary income earners who face EMTRs greater than 40 per cent. The high EMTRs (more than 40 per cent) largely reflect the withdrawal rates of 50 to 60 per cent for the Age Pension

Figure 4: The tax system is less progressive on a life-time basis

Average income tax paid – annualised lifetime results compared to annual 2014-15 results



Data source: Commission estimates

and Newstart Allowance, and the imposition of income tax and the Medicare Levy.

Another indicator of the incentive to work is the participation tax rate. This measures the additional tax paid and transfers (eg Family Tax Benefit) foregone when a person moves into employment. Scenarios showed that some families can face participation tax rates that exceed 50 per cent. This is particularly the case when a large loss of transfers is accompanied by increases in income tax paid.

Measuring tax and transfer incidence over time

As people age and progress through different stages of life, their income, wealth and personal circumstances change. This affects the amount of tax they pay and the amount of transfers they receive.

Tax and transfer flows are smoother over lifetimes than in a single year

The tax and transfer system can help smooth income flows over a person's lifetime. For example, a person may be a net taxpayer during prime earning years, but may be a net recipient earlier in life (for example, when studying) or later in life (when retired).

The Commission modelled what would happen if many different types of families, representative of those in today's population, were to fully live out their lives under the current tax and transfer system. The results suggest that the tax and transfer system is less progressive over lifetimes, although still progressive. Annualised tax impacts (figure 4) are also offset somewhat by transfers, which are larger for high-income families when measured on a lifetime basis. Thus the tax and transfer system smooths income over lifetimes, but still redistributes income from high- to low-income families.

Projections of tax and transfer flows show an increasing burden on younger cohorts in the future

Forward estimates of tax and transfer incidence in 2034-35 were projected using population growth projections and various assumptions for indexation of income tax thresholds, wage growth and inflation.

Income tax paid and transfer expenditure are expected to increase, across all scenarios. In terms of transfer payment category, average transfers for the Age Pension are expected to increase the most, while there is a decline in family and student payments. The former occurs because of the ageing of the population and the more generous indexation of Age Pension payments.

The projections indicate an increasing share of the tax burden will fall on the under-60 age group, though the size of the shift will depend on economic conditions, how tax and transfer policies change over time, and the extent to which the maturation of the Superannuation Guarantee reduces reliance on the Age Pension (a separate Productivity Commission report 'Superannuation Policy for Post-Retirement' highlights this).

Tax and Transfer Incidence in Australia

> Commission Working Paper

> Released October 2015

Housing decisions of older Australians

In a recent research paper, the Commission examined the housing choices of older Australians. The analysis found that older Australians are increasingly remaining at home until very old age, and are generally net savers from an early point in retirement as unrecognised wealth embedded in the family home increases. The nature of policies affecting retirement incomes is not necessarily serving the interests of retiree living standards.

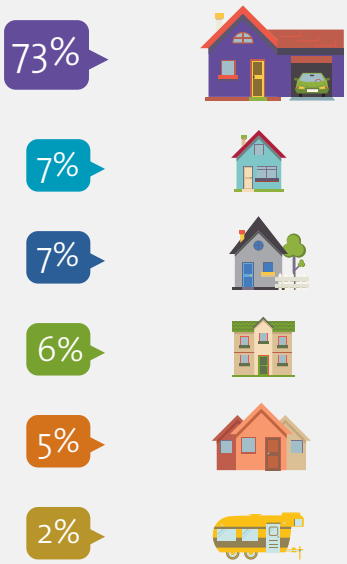
Housing is integral to people's wellbeing. It serves the basic human need for physical shelter, contributes to physical and psychological health, and provides emotional security. In Australia, the vast majority of older people live in their own homes and generally prefer to age there – and by extension in their local community – throughout their retirement. However, as people age, their housing and care needs change, making it potentially difficult to 'age in place'. People are more capable of ageing in place if their house can be modified, they can access home care, or they can move into suitable age specific accommodation within their local community – such as a more suitable home, retirement village or mobile home community.

Most older Australians do not 'downsize' to a smaller home in retirement because they prefer to age in their current home or because there is a lack of suitable and affordable options within their desired community. Therefore, many older Australians' homes tend to have one or more spare bedrooms. This is not necessarily a problem – older people are generally satisfied with their homes and tend to find other uses for spare rooms, such as hobbies. A small proportion of older Australian households are renters. Renting in old age is often a necessity rather than a desirable choice of tenure; older renters tend to experience more housing affordability stress and face less secure housing tenure than home owners.

Most people entering permanent aged care are 80 years or older

For those older Australians who require a high level of care and are no longer able to age in place, residential aged care is an option. In Australia, most people who enter permanent care are 80 years and older due to

Most older Australians are home owners



Home owners (excluding age-specific housing)
Average age: 74 years

Private rental
Average age: 74 years

Residential aged care
Average age: 84.5 years

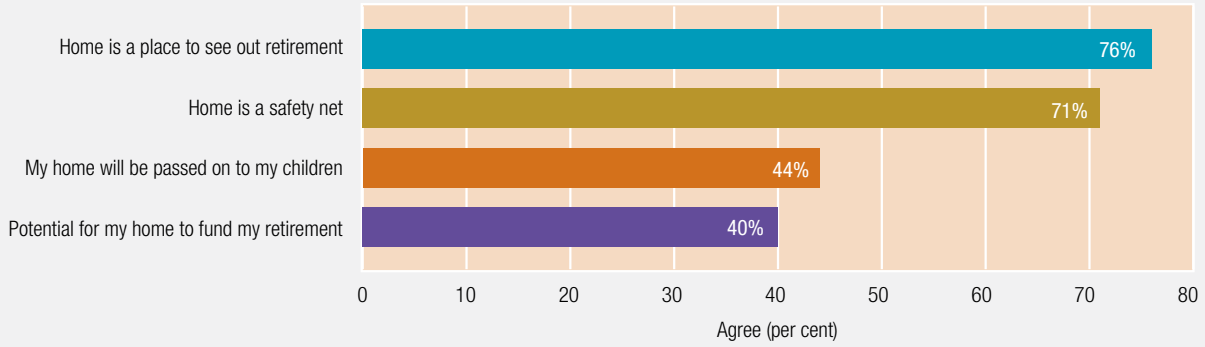
Social housing
Average age: 75 years

Retirement villages
Average age: 81 years

Mobile home communities
Average age: 67 years

Data source: See Productivity Commission 2015, *Housing Decisions of Older Australians*, figure 4.1.

Older home owners prefer to age in place and keep their home as a safety net



Data source: See Productivity Commission 2015, *Housing Decisions of Older Australians*, figure 11.

greater longevity and delayed morbidity. Further, the average duration of stay is quite short – around 2 to 3 years. These trends show that residential aged care is increasingly turning into an end of life option.

Some reforms in aged care policy – such as the expansion of home care – are supporting ageing in place. In addition to being what older Australians want, home care generally requires less government funding than residential aged care. However, some policies can limit the flexibility of age specific housing to cater for the needs of older Australians. State and local government planning and development approvals also create barriers to expansion and innovation of age-specific housing.

Housing as a store of wealth

As well as being a place to live, housing also acts as an investment good for the vast majority of Australians who own their own home, acting as a store of wealth built up over a lifetime.

About 80 per cent of older Australians are home owners, many of whom have benefited from strong house price growth and thus have increasing *wealth* even while *incomes* are low and there is substantial dependence on the Age Pension. In fact, older Australians are more likely to cut expenditure than draw down their assets in retirement. This means there is scope for older Australians to increase their incomes, and therefore standard of living, by drawing on their home equity through equity release products (such as reverse mortgages) or downsizing. The Commission's analysis showed that most retirees could modestly and safely increase incomes this way.

However, the Commission's survey showed that older Australians are reluctant to draw on their home equity and typically leave it as a last resort. This 'precautionary saving' is used to cope with uncertain costs that may arise in the future, such as medical expenses. While it is not irrational for older Australians to seek financial security, it can affect their wellbeing if living standards are lower than necessary and their decision to save is not based on quality information. A consequence of this can be unintended bequests: most older Australians seek to leave a bequest and in the absence of better information on options, the family home appears a logical choice. This contributes to low demand for home equity withdrawal products.

Reducing the distortionary treatment of owner-occupied housing

A contributing factor to the strong attachment of home owners to retaining their present home in old age can be the favourable treatment of owner-occupied housing in the tax and transfer system throughout peoples' working life and on into retirement. Exemption from capital gains tax encourages over-investment; heavy stamp duties can reduce the incentive to move; and exemption of the family home from the Age Pension means test creates an incentive not to trigger a review of pension entitlement by 'cashing in' some equity. The Commission's analysis showed that setting a cap on the means test exemption can reduce this distortion. Estimates are made of the consequent reductions in pension access, which may surprise some commentators. The means tests for residential and home aged care could also be improved – incorporating assets to a greater extent would better align the tests with people's capacity to pay.

Housing Decisions of Older Australians

> Commission Research Paper

> Released December 2015

Developments in Anti-dumping Arrangements

A new Productivity Commission Research Paper finds that changes to Australia's anti-dumping system in recent years have increased its protectionist impact and so increased its net costs for the community as a whole. It notes that there has been little effort to consider and track the costs of the system and suggests, overall, that the basis for retention of such a system is weak.

The paper provides an economic stocktake of recent anti-dumping activity and the changes to Australia's anti-dumping system since the Commission's 2009 inquiry[1].

The Commission found that there has been an increase in usage of anti-dumping measures in recent years, alongside policy changes that have made anti-dumping protections easier to access. The situation now prevailing is one of increased demand for protection and an Australian system more likely to deliver it, often tailored to the interests of a single firm (but not the wider economy).

In the wake of the Global Financial Crisis, the cyclical upswing in usage of the system that typically occurs during softer economic conditions has again been evident in both Australia and overseas. Australia is a substantial user of anti-dumping measures, ranking tenth on a global scale.

While cyclical pressures explain part of the recent increase in anti-dumping activity, other factors have also been at play. In particular, a global supply glut in the steel industry has seen the Australian steel industry increasingly seeking relief from intense price competition through the anti–dumping system.

Recent changes to Australia's system to make protection more accessible for its clients are also likely to have contributed to the increase in usage.

Like other countries, system activity is concentrated in a handful of industries producing mainly intermediate products, including metals, paper, and plastics. This appears to reflect factors such as system criteria

[1] *See* Productivity Commission 2009, *Australia's Anti-dumping and Countervailing System*, Report no. 48.

Australia's anti-dumping system and recent changes

Australia's anti-dumping and countervailing system provides Australian firms with protection in addition to that available through the general tariff regime. Companies may apply to the Anti-Dumping Commission for protection – which usually takes the form of special customs duties on the imported goods – when:

- either the export price of a good to Australia is lower than the price (or deemed 'normal' price) in the supplier's home market; or
- the supplier has received any of a specified group of subsidies from its government, and
- the 'dumped' or subsidised imports cause, or threaten to cause, 'material injury' to a local producer of 'like goods'.

Once instituted, anti-dumping measures generally remain in place for at least five years, with some persisting for decades.

Recent changes to Australia's anti–dumping system have collectively increased the likelihood that firms can obtain support, and the likely level of those measures:

- a broadening of the material injury test
- widening of the scope to use proxy or constructed normal values in dumping cases. Typically, these methodologies will be more likely to lead to a finding of dumping than the previous default methodology based on prices in the exporter's home market
- weakening of the lesser duty rule (which provides for reduced levels of protection when this would be sufficient to remediate injury for a local industry)
- introduction of a new anti–circumvention framework, which will almost inevitably lead to some unwarranted extension of measures – as well as unduly constraining importers' pricing flexibility.

One firm has recently achieved anti-dumping coverage of 75 per cent of its product base after advising its shareholders in 2014 that it would explore the feasibility of applying for additional anti-dumping measures on top of its then already significant coverage levels (65 per cent).

and the capital intensive nature of production in these industries. The former means that the system is, in practice, easier for some industries to access than others. The latter means both that the pricing concepts underpinning the anti-dumping system may conflict with commonly employed pricing approaches in such industries, and that during times of excess supply, price competition can be particularly intense.

Growth in anti-dumping activity has been concentrated in the steel sector

A notable feature of Australia's anti-dumping activity in recent years is the predominance of the steel sector. Steel products accounted for 86 per cent of anti dumping and countervailing investigations and 60 per cent of all the measures imposed in 2014-15. Moreover, the rapid rise in the number of measures on steel products accounts for the bulk of the total increase in Australian measures in recent years. Measures on steel products currently make up 60 per cent of all measures in force. Most of the steel measures were on products from Asia.

While soft economic conditions coupled with a global supply glut have contributed to the recent growth in the steel sector's recourse to the anti-dumping system, such supply gluts have been endemic in this sector. And, like other smaller global steel producers, Australian producers have been facing longer-term competitive pressures associated with the emergence of China as a major global steel producer. These factors suggest that greater use of anti-dumping measures by Australian and other traditional steel producers has also been a means to counter natural structural pressures, eg efficient foreign producers.

The majority of measures are imposed on exports from emerging and developing countries, particularly, from Asia. In the ten years to 2014-15, 84 per cent of all measures imposed were against products from Asia. Measures on Asian products accounted for 86 per cent of all measures in force as at January 2016, with almost one third of those measures applying to products from China.

How much protection is provided?

In Australia, the average dumping duty imposed between 2009 and 2015 in percentage terms was 17 per cent, which is more than three times Australia's maximum scheduled tariff rate of 5 per cent. The median duty was 11 per cent.

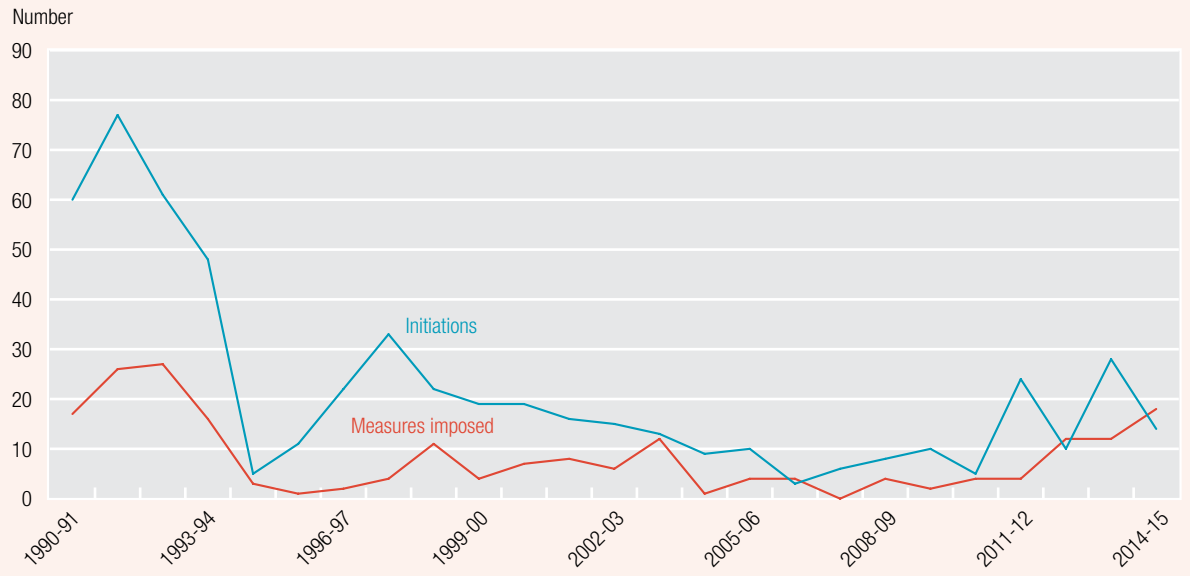
The value of protection available to local industries is a function of the duration of measures as well as their magnitude. The available data suggest that a significant proportion of measures are extended beyond their initial term of five years. For example, of the 29 measures that were eligible for renewal between 2008-09 and 2014-15, 60 per cent were continued. In a few cases, protection has been provided for very long periods – 15 years or longer.

The costs of imposing measures exceed the benefits

Anti-dumping protection – like other forms of trade protection – reduces the competitiveness of the imports concerned and thereby helps to support activity, employment and investment in recipient local industries and their suppliers. But there are offsetting activity, employment and investment effects

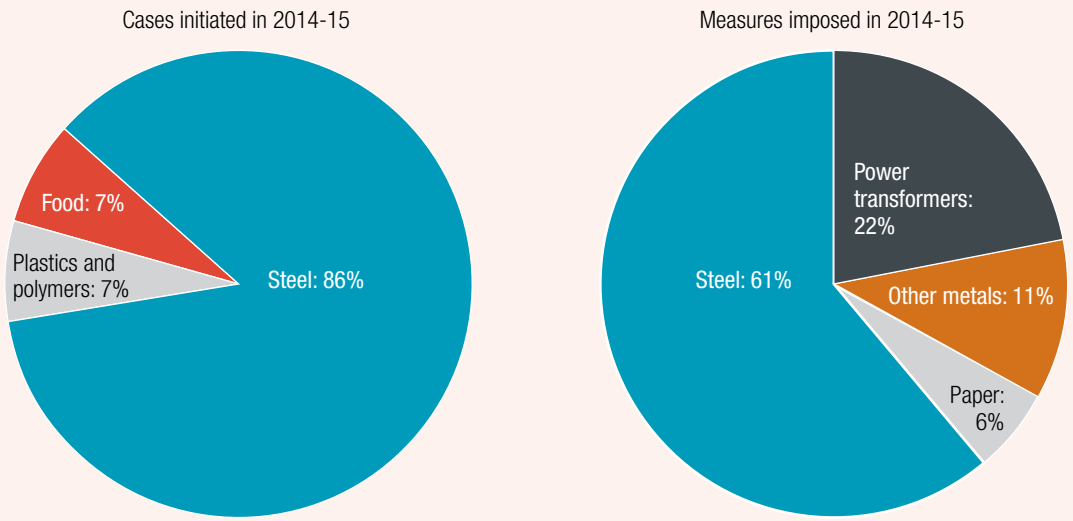
Anti-dumping activity has increased since the Global Financial Crisis

Australian anti-dumping and countervailing activity 1990-91 to 2014-15



System activity is concentrated in a handful of industries

Australian anti-dumping and countervailing initiations and measures imposed by industry, 2014-15



– including for locally-based importers and for downstream industries using the goods concerned. Anti-dumping measures also result in higher prices for consumers, whether felt directly as a tax on imports purchased, or indirectly via higher input costs for some goods and services, or the higher price levels permitted by reduced competition.

Importantly, the costs imposed on the community by anti-dumping protection will exceed the benefits for recipient industries. This net cost arises from, among other things, less efficient resource use and muted incentives for protected industries to innovate or otherwise improve their competitiveness.

In fact, anti-dumping measures lead to worse outcomes for the community than 'comparable' tariff protection – the accompanying administrative and compliance costs are (proportionately) much higher, there are hidden trade deterrence costs, and there is scope for overseas suppliers to appropriate duty revenue.

Arguments that the system provides other benefits to the community that would eliminate this cost are without merit or highly problematic.

By increasing access to, and the scope of, protection offered to eligible industries, the recent changes to the anti-dumping system almost certainly have increased, or will increase when they come into full effect, the net cost of the anti-dumping system for the Australian community.

The harm arising from Australia's anti-dumping policy is, at present, largely ignored in deliberations as to whether measures should be imposed and in current policy development processes. Indeed, the current environment is one in which policy is being driven by the interests of a small group of local industries rather than the interests of the community as a whole.

Reducing the detriment caused by the anti-dumping system

Australia ostensibly has an anti-dumping system because WTO rules allow it. However there is no compelling economic rationale for doing so and it is clear that current anti-dumping arrangements are making Australia, on a national welfare basis, worse off.

The Commission paper calls for a rethink of anti-dumping policy, based on a balanced consideration of the costs as well as the benefits of the system. It suggests measures that could significantly reduce the detriment caused by the system, including increasing the thresholds for accepting anti-dumping and countervailing applications, instituting provisions that would allow measures to not be applied if they would be disproportionately costly for the community, and putting a finite limit on the duration of measures.

However, the paper emphasizes that such a 'harm minimisation' approach would have drawbacks and risks, and that even with significant modification the system would still be detrimental. It therefore concludes that a review of policy in this area should give serious consideration to whether it is in Australia's interests to retain an anti-dumping system at all.

Developments in Anti-Dumping Arrangements

> Commission Research Paper

> Released February 2016

Delivering mobile broadband to Australia's public safety agencies

Commercial carriers represent the most efficient, effective and economical approach for delivering mobile broadband to public safety agencies.

Mobile broadband technology has the potential to transform how Australia's public safety agencies (PSAs) – police, fire, ambulance and other emergency services – perform their duties. It can open up new ways for PSAs to access and share information while in the field. This represents a significant opportunity to save lives and property, improve officer safety and drive productivity gains in how PSAs operate.

Most PSAs currently rely on voice radio to communicate. While these networks have generally proved highly reliable, they offer limited scope to transfer data. And historically, different agencies have tended to use their own separate networks, which has sometimes made it impossible to communicate with one another or with their interstate counterparts.

Some PSAs have started using mobile broadband, but uptake has been modest and piecemeal to date. This reflects concerns about the quality of service offered by Australia's commercial mobile carriers. To rely on mobile broadband in situations where lives are on the line, PSAs need confidence that they can access sufficient capacity when and where they need it. In other words, they need a 'public safety grade' service.

Reflecting this, the Australian Government asked the Productivity Commission to undertake a first principles analysis to identify the most efficient, effective and economical way of delivering a public safety mobile broadband (PSMB) capability to PSAs by 2020.

What did the Commission do?

The Commission evaluated three ways that a PSMB capability could be delivered:

- building a dedicated network to the specific standards that PSAs require
- using services delivered by a commercial carrier, with investments in that carrier's network to meet PSAs' requirements
- hybrid approaches that combine a dedicated network with commercial services – with the dedicated network built to cover all areas that currently have mobile broadband, or just in urban areas where most of the population lives.

How could mobile broadband improve public safety?

Police officers could remotely access databases and more easily record key evidence, saving time spent on administrative tasks.

Firefighters could download maps and building plans while en route to an emergency, making it easier to identify how best to respond.

Information could be more effectively shared between emergency services and the community. It could also be better shared across agencies and jurisdictions, allowing public safety agencies to work more effectively together.

Each of these options would be technically feasible, though the precise way that mobile services are delivered would vary. The cost of each option was estimated by adding up the cost of the specific equipment and inputs that would likely be needed. The benefits and risks of each option were assessed qualitatively, given the difficulty in measuring these in dollar terms.

A commercial approach minimises costs

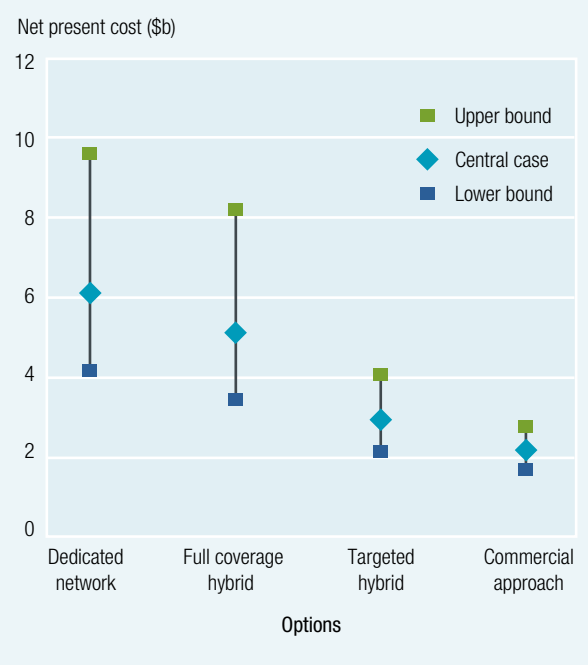
The analysis found that deploying a dedicated PSMB capability is nearly three times more expensive than relying on commercial networks: $6.2 billion versus $2.2 billion over 20 years. This largely is because a dedicated option requires significantly more investment in new equipment. The hybrid options fell in between, depending on the footprint of the dedicated network.

The results varied depending on the inputs used in the analysis. However, the ranking of options was robust to changes in the specific assumptions and parameter values (as illustrated opposite).

Other factors also matter

While the benefits of PSMB are likely to be substantial, the options under evaluation were designed such that the benefits of each were not expected to vary

PSMB delivery costs – best and worse case sensitivity analysis



markedly. However, some key risks are likely to vary across options.

While the technology exists to provide PSAs with priority access and capacity over other network users in a commercial approach, the precise service levels that could or would be delivered are uncertain. Moreover, the state of competition in markets for mobile broadband services and equipment could make it more challenging for governments to obtain value for money under a commercial approach.

On the other hand, a dedicated network is expected to take longer to deliver and may face greater risk of delay. It would also provide much less scope to immediately scale up the capacity delivered to PSAs during large-scale emergencies – unlike a commercial approach, where networks already serve millions of other users.

Pilots should be the next step

The Commission concluded that a commercial approach offers the best way forward. However, small-scale pilots of the technology would provide an opportunity to build PSAs' confidence in this approach. Pilots would also help governments to better understand the benefits of PSMB and build a business case to expand the capability.

Ultimately, each jurisdiction – the States, Territories and Australian Government – is responsible for deciding whether or how to provide its PSAs with mobile broadband. Nevertheless, all jurisdictions should agree on common technical protocols to support interoperability across agencies and state borders.

Not least, PSAs will be responsible for taking up PSMB and using it to improve how they operate. To make the most of this new capability, institutional barriers to PSAs sharing information or network capacity with one another will need to be overcome.

Public Safety Mobile Broadband: Summary of the Commission's recommendations*

Governments and PSAs that decide to deploy a PSMB capability should undertake pilots of a commercial approach on a small scale. This would provide an opportunity to demonstrate the technical and commercial feasibility of the approach; evaluate the costs, benefits and risks; and develop the business case and resolve uncertainties ahead of a wider-scale rollout.

Governments that decide to facilitate the deployment of a PSMB capability should set clear expectations and deadlines for their PSAs to develop inter-agency protocols for sharing information over mobile broadband. Where two or more PSAs share the same PSMB capability, protocols are also needed for prioritising specific agencies, users, devices and applications.

All jurisdictions should agree on a set of minimum technical protocols to facilitate interoperability over PSMB.

If the Australian Communications and Media Authority licences spectrum for PSMB, it should be priced at its opportunity cost.

Governments and PSAs that decide to deploy a PSMB capability should maximise value for money by using competitive procurement. Strategies include splitting up tenders, leveraging infrastructure assets and insisting on open technology standards.

** A complete list of findings and recommendations is available in the report overview.*

Public Safety Mobile Broadband

> Research Report

> Released January 2016

Using the Report on Government Services to monitor the performance of government service delivery

Early Childhood Education and Care

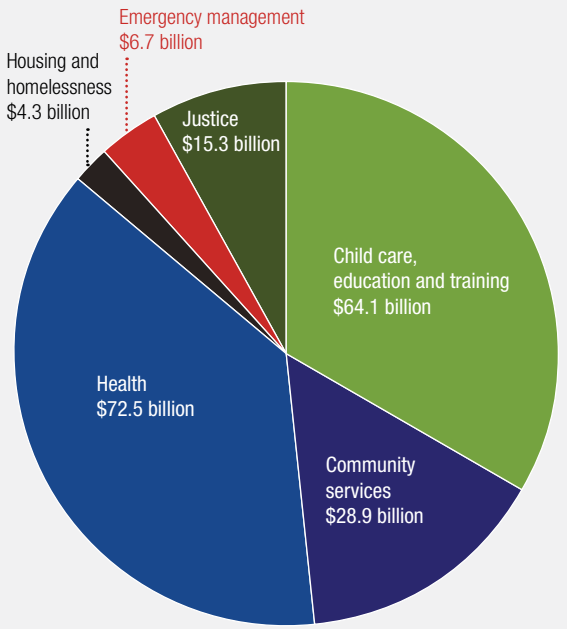
The Report on Government Services (RoGS) – produced by the Productivity Commission for the Intergovernmental Steering Committee for the Review of Government Service Provision – provides transparency of comprehensive, quality information on the performance of services to improve government service delivery and increase accountability.[1] The latest issue was released over a two-week period commencing 27 January 2016. This article provides a high-level snapshot of some results in one service area – early childhood education and care services (ECEC) – to illustrate how the RoGS can be used.

How can the RoGS inform improved service delivery?

Performance reporting enables governments and the public to see which jurisdictions are performing well over time across which service areas, as well as identifying those where performance may lag. This in turn provides an evidence base for asking what is working (or not working) and why. More information on the approach to performance reporting in the RoGS can be found on the PC website at: *www.pc.gov.au/research/ongoing/report-on-government-services/2016/approach-to-performance-reporting/chapter-1-the-approach-to-performance-measurement*

[1] The RoGS was commissioned in 1993 by Heads of Governments (now COAG), with the first report produced in 1995. The Steering Committee for the Review of Government Service Provision comprises senior representatives from the central agencies of each of the Australian, State and Territory governments and is chaired by the Chairman of the Productivity Commission.

The 16 service areas reported in the 2016 RoGS account for $192 billion in government recurrent expenditure – around 12 per cent of GDP.



Services covered in the 2016 RoGS

Child care, education and training (Vol B)

- Early childhood, education and care
- School education
- Vocational education and training

Justice (Vol C)

- Police services
- Courts
- Corrective services

Emergency management (Vol D)

- Fire and ambulance services

Health (Vol E)

- Primary and community health
- Public hospitals
- Mental health management

Community services (Vol F)

- Aged care services
- Services for people with disability
- Child protection services
- Youth justice services

Housing and homelessness (Vol G)

- Social housing
- Homelessness services

Stepping through the reporting ... ECEC as an example

A subset of national level results for early childhood education and care services – selected on the basis that they are comparable over time and the most recent year of data are no more than two years old – provides insights into effectiveness, efficiency and equity.

1. What are the objectives of ECEC services?

The shared objectives for ECEC services, endorsed by the Steering Committee, are to:

- meet the education and care needs of all children in developmentally appropriate ways, in a safe and nurturing environment
- provide quality services across a range of settings delivered in an equitable and efficient manner, meeting individual need.

The approach to performance reporting is comprehensive, focusing on the extent that each shared objective for a service has been met. The Report's framework gives equal prominence to effectiveness, efficiency and equity as the three overarching dimensions of performance in meeting objectives.

continued overleaf ...

Stepping through the reporting ... ECEC as an example (cont'd)

2. How effective are the services in meeting the agreed objectives?

Effectiveness indicators measure how well the outputs of a service reflect the stated objectives of that service. The RoGS framework groups effectiveness indicators according to characteristics that are considered important to the service. For ECEC services, reporting focuses on access and quality, including service usage, service affordability, staff quality, standards and health and safety. A selection of results is below.

Selected measures	National results
Access: Children 0-12 years using child care	Increasing over time to 30.6% in 2015.
Access: Enrolment in preschool in year before school	Increasing over time to 95.1% of 4yos in 2014.
Access: Median *weekly* cost for 50 hrs long day care	Increasing since 2011 to $400 in 2015.
Access: Median *hourly* cost for preschool program (after subsidies)	Increasing since 2012 to $2.20 in 2014.
Quality: Proportion of workers delivering preschool programs at least 3-year university trained in early childhood field	40.5% in 2014. Decrease from 41.6% in 2012.
Quality: Proportion of teachers delivering preschool programs at least 3-year university trained in early childhood field	88.2% in 2014. New indicator – no time series reported.
Quality: Proportion of National Quality Framework (NQF) approved services that met/exceeded National Quality Standards (NQS)	Increasing from 62.3% in 2014 to 66.5% in 2015.

3. Is the service delivery efficient?

Reporting on efficiency for ECEC services focuses on technical efficiency – that is, how well services use their resources (inputs) to produce outputs to achieve their desired outcomes. They also focus on the system-wide cost of services relative to the targeted population. These efficiency indicators are limited measures as only government expenditure is included – non-government expenditure is not captured. In addition, while high or increasing costs per child can reflect deteriorating efficiency, they can also reflect increases in the quality of a service provided. Similarly, low or declining costs per child can reflect improving efficiency or lower quality. Therefore, these data should be interpreted with care.

Selected measures	National results
Government recurrent expenditure on ECEC per child aged 0-12 years	$1824 per child in 2014-15. Up from $1244 in 2010-11.
Australian Government recurrent expenditure per child aged 0-12 years attending CCB approved child care	$5951 per child in 2014-15. Up from $4806 in 2010-11.

4. Is there equitable access for users?

Equity indicators in the RoGS measure how well a service is meeting the needs of particular groups that have special needs or difficulties in accessing government services.

Selected measures	National results
Representation of children 0-12 years in childcare compared to their representation in the community	Lower for children from NESB, Aboriginal and Torres Strait Islander children, children with disability and children in regional/remote areas. Higher for children from low income families.
Representation of children 3-5 years in preschool compared to their representation in the community	Lower for children from NESB, Aboriginal and Torres Strait Islander children, children with disability and children in remote areas. Higher for children in regional areas.

5. What are outcomes from these services?

Outcomes provide information on the impact of the service on an individual or group. Data should be interpreted with caution as, by their nature, outcomes are often influenced by factors external to the service.

Selected measures	National results
Proportion of children aged 0-12 years for whom additional formal child care or preschool was required *(note: this should not be interpreted as unmet demand)*	10.0% in 2014. Increase from 5.5% in 2011.
Proportion of weekly disposable income that families spent on one child in 30 hours per week long day care (after subsidies)	4.5-6.0% in 2015. New measure – no time series.
Proportion of weekly disposable income that families spent on one child in 50 hours per week long day care (after subsidies)	7.6-11.1% in 2015. Similar to 2014.

Some conclusions

The RoGS has an outcomes focus, but its comprehensive approach recognises that outcomes need to be considered within a framework that looks holistically at the equity, effectiveness and efficiency of the services. For example, improvements in quality may result in an increase in expenditure and an overall increase in unit costs (decrease in efficiency).

At a national level, the above results indicate increasing service use (for child care and preschool), with a greater rate of increase for expenditure, resulting in (real terms) increasing unit costs. There is evidence of increasing quality over time with increasing proportions of services meeting NQS standards (though staff qualification information is difficult to interpret until we have a time series reported for preschool teachers).

Comparative assessment across all jurisdictions on each aspect of the framework assists in building the evidence base to channel further analysis for what works (or doesn't work) in a jurisdiction. ECEC data by jurisdiction is available on the Commission's website at: *www.pc.gov.au/research/ongoing/report-on-government-services/2016/childcare-education-and-training/early-childhood-education-and-care*.

Report on Government Services 2016

> Steering Committee for the Review of Government Services Provision

> Released 27 January – 4 February 2016

> For more information see the 2016 RoGS web page *www.pc.gov.au/research/ongoing/report-on-government-services* or contact the Commission via email at gsp@pc.gov.au

Current commissioned projects

31 March 2016

Data Availability and Use – *Public Inquiry*	
Issues paper TBA Draft report TBA Inquiry report to Government March 2017	Contact: Miriam Veisman-Apter 03 9653 2214 Email: data.access@pc.gov.au www.pc.gov.au/inquiries/current/data-access
Education Evidence Base – *Public Inquiry*	
Issues paper: April 2016 Draft report: August 2016 Inquiry report to Government December 2016	Contact: David Garner 03 9653 2227 Email: education.evidence@pc.gov.au www.pc.gov.au/inquiries/current/education-evidence
Superannuation – *Commissioned Study and Public Inquiry*	
Study: Superannuation Competitiveness and Efficiency Issues paper: March 2016 Draft report: August 2016 Research report to Government: November 2016 ***Public Inquiry: Alternative Default Fund Models*** Issues paper: TBA Draft report: TBA Inquiry report to Government: August 2017	Contact: Mary Cavar 03 9653 2187 Email: super@pc.gov.au *Study website:* www.pc.gov.au/inquiries/current/superannuation/competitiveness-efficiency *Inquiry website:* www.pc.gov.au/inquiries/current/superannuation/alternative-default-models
Marine Fisheries and Aquaculture – *Public Inquiry*	
Issues paper: February 2016 Draft report: August 2016 Inquiry report to Government: December 2016	Contact: Mark Bryant 02 6240 3314 Email: fisheries.inquiry@pc.gov.au www.pc.gov.au/inquiries/current/fisheries-aquaculture
Regulation of Agriculture – *Public Inquiry*	
Issues paper: December 2015 Draft report: May 2016 Inquiry report to Government: August 2016	Contact: Ana Markulev 03 9653 2137 Email: agriculture@pc.gov.au www.pc.gov.au/inquiries/current/agriculture#draft
Migrant Intake Into Australia – *Public Inquiry*	
Issues paper: May 2015 Draft report: November 2015 Final report to Government: mid April 2016	Contact: Stewart Plain 02 6240 3219 Email: migrant.intake@pc.gov.au www.pc.gov.au/inquiries/current/migrant-intake
Intellectual Property Arrangements – *Public Inquiry*	
Issues paper: October 2015 Draft report: end April 2016 Final report to Government: August 2016	Contact: Leo Soames 02 6240 3214 Email: intellectual.property@pc.gov.au www.pc.gov.au/inquiries/current/intellectual-property

Log on to the Commission's website www.pc.gov.au for full details of all current projects.