



PC update

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10th anniversary issue

The Productivity Commission was created by Act of Parliament in April 1998 to combine the Industry Commission, Economic Planning Advisory Commission and Bureau of Industry Economics. This special issue of PC Update marks the 10th anniversary of the Productivity Commission.

Highlights

▲ Riding the third wave: some challenges in national reform

'COAG's National Reform Agenda has the scope to provide substantial gains for the Australian economy', said Productivity Commission Chairman Gary Banks, in a recent speech to the Melbourne Institute's New Agenda for Prosperity Conference. 'In recognising these gains, there will be some major challenges that will require sustained effort. It is important that a "need for speed" does not overtake rigorous, evidence-based, policy development'. (Page 2)

▲ Supporting policy reform: the Commission's first 10 years

The Productivity Commission's role is to provide independent evidence and analysis to assist government policy-making and to inform community debate. This article presents an overview of Commission reports and analyses that have made a significant contribution to public policy formulation over the past decade. (Page 3)

▲ Urban water reform

There is effectively no market for water in Australia's cities, and water restrictions have become pervasive. A Commission discussion paper canvasses the potential for a more market-oriented approach to urban water management. (Page 8)

▲ Raising labour force participation

There is scope to raise labour force participation rates in Australia, potentially offsetting the economic effects of the ageing of the population. The Commission's 2006-07 Annual Report discusses the policy challenges. (Page 9)

▲ Trade and Assistance Review

Assistance totalling nearly \$16 billion was provided to industry by the Commonwealth Government last financial year, according to the Commission's annual *Trade & Assistance Review*. (Page 10)

▲ Chemicals and plastics regulation

In a draft report on chemicals and plastics regulation, the Commission finds that the current institutional and regulatory arrangements are broadly effective in managing the risks to health and safety, but are less effective in managing risks to the environment and national security. (Page 6)

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Riding the third wave: some challenges in national reform

In his opening address to the New Agenda for Prosperity Conference in March, Productivity Commission Chairman Gary Banks said that COAG's National Reform Agenda (NRA) has the scope to provide substantial gains for the Australian economy. For example, reforms to workforce participation and productivity could raise GDP by 6 and 3 per cent respectively. However, he also argued that, in realising these gains, there are some major challenges facing the new COAG working groups, that will require sustained effort. For example:

- *Health and aged care:* The recent emphasis on prevention is warranted, but there is a need for analysis of the cost effectiveness of interventions, as well as a willingness to experiment with new approaches.
- *Human capital development:* Education policy has been characterised by a misplaced focus on reducing class sizes, when teaching quality is the key to improved outcomes.
- *Climate change:* This is the biggest regulatory challenge Australia has ever faced. The potential costs of poor regulatory design place a premium on good regulatory processes – including careful assessment of compliance burdens and adjustment costs.
- *Water:* Significant gains could be made by developing more effective urban water markets, with prices directing water to its most valued uses and providing signals to investors.

- *Infrastructure:* There should be periodic audits of the regulatory and governance arrangements that shape infrastructure investment and management decisions. Periodic testing of the case for public ownership itself could be particularly useful.
- *Enhancing business regulation:* Some progress has been made in this area, with commitment to good regulatory principles and tackling 'hotspots'. Occupational health and safety is the litmus test for whether regulatory harmonisation can be successful generally.

'Climate change is the biggest regulatory challenge Australia has ever faced. The potential costs of poor regulatory design place a premium on good regulatory processes – including careful assessment of compliance burdens and adjustment costs.'

- *Competition:* Beyond some unfinished business from National Competition Policy, there is a need to scrutinise various industry assistance schemes, particularly in the current capacity-constrained environment where a job gained or retained in one industry as a result of government assistance, is a job lost in another.
- *Achieving affordable housing* faces two major political obstacles – entrenched zoning and heritage laws, and the concessional income tax treatment of housing.
- *Indigenous policy:* The major challenge to COAG's goals in this area is to introduce the evidence-based approach which has been sorely lacking in the past.

The strengthening of COAG's oversight of the NRA, including the working group framework and quarterly meetings, is a major advance. However, it is important that a 'need for speed' does not preclude rigorous, evidence-based policy development in areas where this is needed.

The full text of Gary Banks' speech to the Melbourne Institute's New Agenda for Prosperity Conference can be downloaded from the Commission's website:

<http://www.pc.gov.au/speeches/cs20080327>



Productivity Commission Chairman Gary Banks at the New Agenda for Prosperity Conference. © Newspix/Stuart Mcevoy.

Supporting policy reform: the Productivity Commission's first 10 years

Building on the contribution the Industry Assistance Commission and the Industry Commission, the Productivity Commission has continued to provide evidence and analysis to assist government policy-making and to inform community debate.¹ This article presents an overview of Commission reports and analyses that have contributed to public policy formulation.

A wide-ranging contribution

The Productivity Commission's remit has extended beyond the traditional industry assistance focus of its forebears, to cover structural reform issues across all sectors of the economy, including in the social and environmental spheres. Around 80 per cent of Commission reports have related to cross-sectoral, infrastructure, social and environmental policy issues.

The Commission's 'flagship' work is its public inquiries and other major reports commissioned by government. It also undertakes performance monitoring and benchmarking for COAG bodies, including indicators of indigenous disadvantage for COAG's Government Services Review. Its commissioned work is complemented by a wide-ranging program of supporting research, developed in consultation with

Independence, transparency and community-wide perspective

The Productivity Commission's contribution to the development of policy advice is underpinned by three core operating principles that date back to the Industries Assistance Commission:

- *Independence* – the Commission operates under its own legislation, with an arm's length relationship to government. All reports are tabled in Parliament and published.
- *Transparency* – the Commission is required to hold public hearings and release draft reports before finalising its recommendations to government.
- *Community-wide* – the Commission is required to consider the overall interests of the Australian community, not just the interests of particular firms, industries or sectors, in formulating its recommendations.

government and community groups. The Commission also provides advice on competitive neutrality complaints, and reports annually on industry assistance and regulatory matters as well as on its other activities.

A community-wide approach to industry assistance

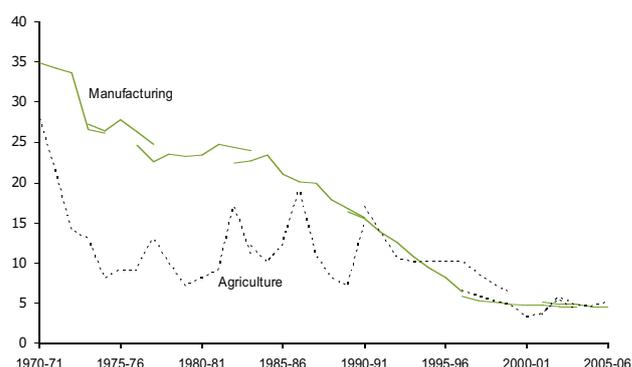
The Commission's annual *Trade and Assistance Review* has chronicled a significant decline in industry assistance over recent decades – including reductions in tariffs and regulatory restrictions on imported goods and services, and subsidies and tax concessions for domestic producers (figure 1). Such reductions have been informed by Commission inquiries, including into the automotive and textiles and clothing industries. They reflect a recognition that industry assistance should not inhibit competition, but rather support adjustment to market pressures and address market failures, including impediments to innovation.

In its recent report on government support for science and innovation, the Commission argued that public support has generated significant benefits, but that there was scope to improve the design of programs to elicit additional activity and improve cost-effectiveness.

Australia has generally reduced its barriers to trade unilaterally, for the domestic benefits. It has also pursued liberalisation through multilateral and bilateral negotiations.

A Commission study of multilateral liberalisation of trade in services indicated that Australia is likely to gain as much from global liberalisation of services trade as it would from liberalisation of trade in agriculture and manufacturing.

Figure 1: Declining industry assistance in Australia
Effective rates of assistance (%)



Supporting policy reform

Promoting international competitiveness

Selected Commission reports

Public support for science and innovation (2007)
Rules of Origin under the ANZCERTA (2004)
Review of textile, clothing and footwear assistance (2003)
Review of the Pharmaceuticals Industry Investment Program (2003)
Trade and investment effects of preferential trading arrangements (2003)
Review of automotive assistance (2002)
Removal of tariffs on goods originating from Least Developed Countries (2002)
Structural adjustment – key policy issues (2001)
Australia's general tariff arrangements (2000)
Multilateral liberalisation of services trade (2000)
International air services (1999)
Pig and pigmeat industries (1999, 2005, 2007, 2008)
Trade and assistance review (annual)

Other Commission research has focussed on the costs and benefits of preferential trade agreements, including the impacts of complex rules of origin.

Reducing the regulatory burden

Inappropriate and unnecessary regulation is costly and undermines the ability of Australia's economy to achieve its full potential. Over the years, the Commission has examined a range of specific areas of regulation in detail and recommended many changes. Also, through the Office of Regulation Review, the Commission has had a gatekeeping role on good regulatory process. More recently, following the *Rethinking Regulation* report in 2006 by the Banks Taskforce, the Commission has been engaged in ongoing reviews of regulatory burdens on business and a new regulatory benchmarking exercise for COAG.

Promoting better regulation

Selected Commission reports

Best practice regulation report (2007)
Performance benchmarking of Australian business regulation (2007)
Annual review of regulatory burdens on business – primary sector (2007)
Regulation and its review (annual, until 2006)
Reform of building regulation (2004)
Review of mutual recognition (2003)

Incentives for efficient infrastructure

The efficient provision and use of economic infrastructure is fundamental to economic growth. A significant determinant of the performance of Australia's infrastructure is the institutional and regulatory structure within which it operates.

The Commission has undertaken reviews of the gas access regime, telecommunications competition regulation and the price regulation of airport services. A major theme of these reports is the desirability of an approach to infrastructure price regulation that does not discourage efficient investment.

In its review of road and rail freight infrastructure pricing, the Commission found that pricing neutrality between the two modes was much less of a concern than claimed, and that the main policy objective should be to ensure efficient investment decisions in both modes, through better institutions and governance. In a review of broadcasting legislation, the Commission called for rapid reform to deal with the new competitive dynamics of the converging media environment – regulatory distinctions between media, services and delivery platforms should be avoided.

The Commission reports annually on the financial performance of Government Trading Enterprises (GTEs) in co-operation with Australian, State and Territory Governments. Monitored GTEs provide services in key sectors of the economy, including electricity, water, urban transport, railways, ports and forestry. Despite some recent improvement, about half of the monitored GTEs do not achieve commercial rates of return, indicating a long-term failure to operate these businesses on a fully commercial basis in accordance with competition policy agreement undertakings. Review of the governance arrangements of GTEs found considerable scope for improvement.

The Productivity Commission's first 10 years

Promoting efficient provision of infrastructure and communications

Selected Commission reports

Road and rail freight infrastructure pricing (2007)
Review of the gas access regime (2004)
Price regulation of airport services (2002, 2006)
Review of the national access regime (2001)
Telecommunications competition regulation (2001)
Progress in rail reform (2000)
Broadcasting (2000)
Financial performance of Government Trading Enterprises (annual)

Understanding productivity's drivers

In the long term, productivity growth is the main determinant of living standards, and competition is a key driver of productivity growth. Commission research shows that microeconomic reform played an important enabling role in Australia's record productivity growth over the 1990s. More recently, productivity has declined – due mainly to the drought and cyclical factors affecting productivity in the mining sector. While there are favourable prospects for recovery in the near future, various Commission reports have shown that much can be done by governments to facilitate better performance in the long run.

Australia's productivity performance

Selected Commission reports

Can Australia match US productivity performance? (2007)
ICT use and productivity (2004)
Productivity in Australia's wholesale and retail trade (2000)
Microeconomic reforms and Australian productivity: exploring the links (1999)

A dynamic and efficient labour market

Selected Commission reports

Men not at work: an analysis of men outside the labour force (2007)
Australia's health workforce (2006)
Non-traditional work in the Australian labour market (2006)
Workforce participation rates – how does Australia compare? (2006)
Economic impacts of migration and population growth (2006)
Independent review of the Job Network (2002)
National workers' compensation and OHS arrangements (2004)
The Australian black coal industry (1998)

Promoting employment and labour productivity

Impacts of population ageing on economic growth, through reductions in workforce participation, have spurred research into the scope to offset these influences, including in the Commission's analysis of the benefits of the National Reform Agenda (see page 12). A comparison of workforce participation in Australia and other OECD economies found considerable scope to lift participation rates in Australia, especially for prime-aged males, women of child-bearing age and older people generally. The characteristics of the increasing numbers of men not participating in the labour force are assessed in the research study 'Men Not At Work'. The Commission has emphasised that increased participation is not an end in itself – the policy objective is to improve overall community wellbeing, having regard to peoples' innate preferences as well as to the costs and benefits of specific reform initiatives.

(Continued page 12)

Chemicals and plastics regulation – draft report

The Australian Government has asked the Productivity Commission to undertake a study into chemicals and plastics regulation in Australia. The key areas of investigation are to:

- assess Australia's current system of chemicals and plastics regulation, including its effectiveness in achieving public health, occupational health and safety, and environmental outcomes, and its impacts on productivity, competitiveness and efficiency;
- recommend reforms to the current system of regulation, including options to enhance national uniformity and consistency, streamline data requirements and assessment processes, and use alternatives to regulation.

The Commission released a draft report in March 2008. The report notes that while chemicals and plastics contribute to our wellbeing, some can pose substantial risks to health and the environment. Government intervention to manage risks is warranted where benefits materially exceed costs. Chemicals regulations are generally grafted onto (differing) state and territory acts that deal with public health, workplace safety, transport safety, environment protection and national security.

The Commission found that the current institutional and regulatory arrangements are broadly *effective* in managing the risks to health and safety, but are less effective in managing risks to the environment and national security. *Efficiency* could be enhanced by national uniformity in some regulatory areas, by reducing costs and delays in obtaining regulatory approvals, and by attaining regulatory economies of scale.

'Governments choose to regulate chemicals in different ways, yet the hazards and risks they pose vary little across the country. Regulating to protect people and the environment from the risks posed by chemicals and plastics has resulted in unnecessary complexity under our federal system', said presiding Commissioner Mike Woods. 'Developing uniform regulatory standards and streamlining responsibilities would have significant benefits'.

The Commission proposes a four-tiered model of good practice governance for chemicals and plastics regulations:

- *Policy oversight* would be provided by ministerial councils comprising the Commonwealth, State and Territory Ministers and coordinated through a standing committee on chemicals.
- *Hazard and risk assessment* should be an Australian Government function undertaken by an independent authority of experts in the appropriate sciences.
- *Risk management standards* would be set by expert national bodies in such areas as workplace safety, poisons scheduling, and the transport of dangerous goods, within the policy framework agreed at ministerial level by all governments.
- *Administration and enforcement* would largely be undertaken by the individual governments.

This framework allows all governments to participate in developing and implementing regulatory approaches. While it would achieve a high degree of uniformity, the standards would be flexible enough to accommodate the range of circumstances facing individual governments. The Commission's proposed reforms would also serve to reduce and simplify the regulatory burden on businesses.

The Commission has released its draft report to encourage further discussion and input before it completes its final report in July 2008.

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Safeguards inquiry into the import of pigmeat

The final report of the Commission's safeguards inquiry into pigmeat imports was tabled in Parliament on 4 April 2008. While Australian pigmeat producers are feeling pressure from substantially higher feed costs, in the Commission's assessment these circumstances do not meet the WTO criteria for safeguards action.

The WTO Safeguards Agreement requires evidence that significant increases in imports have caused serious injury to the local industry. However, although imports have been increasing in recent years, the Commission found that they had broadly met increases in consumer demand, without driving down local producer prices. A sharp fall in industry profitability in the second half of 2007 was caused by an unprecedented increase in feed grain costs, which increased production costs by 40–50 cents per kilo of pigmeat. This rise added to substantial increases in feed grain prices in 2006. Without these higher feed prices, producers would have remained profitable over 2007.

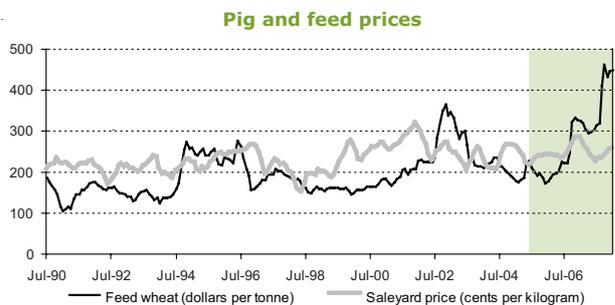
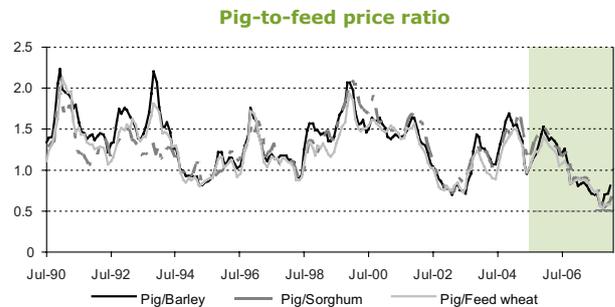
A sharp fall in industry profitability in the second half of 2007 was caused by an unprecedented increase in feed grain costs. This rise added to substantial increases in feed grain prices in 2006. Without these higher feed prices, producers would have remained profitable over 2007.

The report also looked at factors affecting the industry's performance, including the availability and cost of feed. In the Commission's assessment, a number of actions could be taken to address underlying problems affecting industry competitiveness:

- some regulations and policies appear to impose unnecessary burdens, or have unintended effects
- feed price rises are partly attributable to quarantine restrictions on grain imports as well as ethanol production targets overseas and, to a lesser extent, support for ethanol production in Australia.

The Commission did not find a strong case, however, for additional financial assistance sought by industry representatives.

The pig-feed price ratio has plummeted



Towards urban water reform

Most Australian capital cities and other urban centres are currently experiencing severe water restrictions. The failure to provide urban residents with water that many would have willingly paid for is not just a consequence of low rainfall, it also reflects policy choices. Urban water provision is centralised, with government acting as planner, regulator, wholesaler, distributor and retailer. A new Productivity Commission discussion paper, *Towards Urban Water Reform*, explores options for a more market-oriented approach to urban water management to facilitate more efficient use of Australia's water resources.

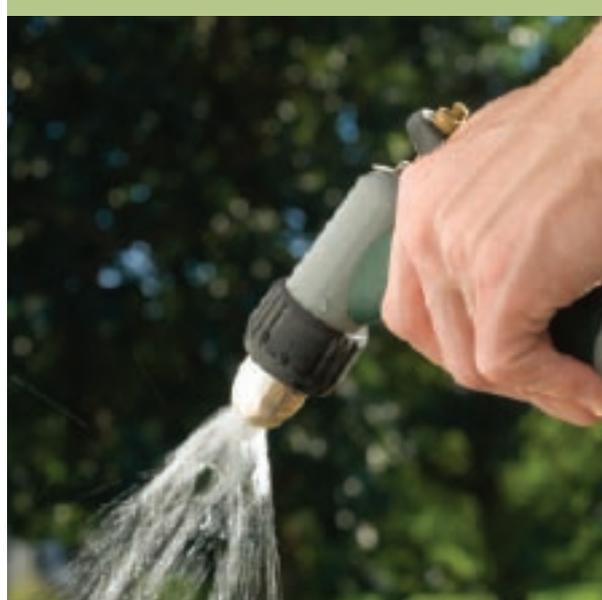
From restrictions to price signals

Under current institutional arrangements, charging regimes now recover operating costs and a return on assets but do not reflect the scarcity of water in times of shortage. Instead, demand is managed through restrictions on water use. The annual cost to households of restrictions could amount to billions of dollars. A more efficient approach to managing demand would be to introduce a form of scarcity-based pricing. For example, during a period of drought, prices could increase as dam levels fell and the threat to water security increased. Scarcity-based pricing would allow households to choose how to use and conserve water in ways they value most. Analysis suggests that the equity impacts on low-income households would not be as significant as often suggested, and could be addressed by targeted policy measures.

Promoting efficient supply and integrated markets

Faced with dwindling water reserves, governments have recently commenced or announced major new investments in desalination, recycling, rural-urban pipelines and water grids. The Commission discussion paper argues that markets could reveal information about costs, prices and valuations that would better equip water providers to make decisions about when new investment should proceed and the costs and benefits of different forms of augmentation. Integration of rural and urban water could provide opportunities for supply augmentation for some cities.

A well-functioning urban water market could provide more timely investment signals, a wider range of innovative supply options, greater choice of products and options for water users and more efficient use nationwide of water resources.



Reform directions

The Commission discussion paper argues that the potential gains from reform warrant a comprehensive public review to assess the extent to which more market-oriented arrangements could be pursued, and to quantify the likely gains. Key areas for investigation include assessment of the costs and benefits of:

- allowing a greater role for prices to signal water scarcity and to allocate water resources
- removing artificial impediments to rural-urban water trading
- removing barriers to competition in the supply and retailing of urban water.

The sequencing of reform implementation would need to be determined, taking into account transaction and adjustment costs. Additionally, there may be scope for modifications to existing inter-jurisdictional arrangements, such as the National Water Initiative, to progress a more ambitious and coordinated reform agenda.

Towards Urban Water Reform – A Discussion Paper
Released March 2008

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Raising labour force participation

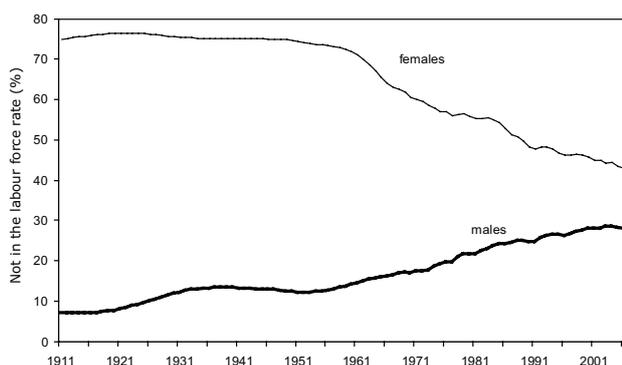
In its Annual Report for 2006-07, the Commission focused on the scope to raise labour force participation rates in Australia and the policy challenges involved. Increased labour force participation can potentially make an important contribution to future prosperity, partly offsetting the effects of population ageing.

A number of indicators point to significant opportunities for improving participation rates. The Commission identifies three broad areas where reform can contribute to improved labour force participation outcomes:

- improving the *capacity* of people to work, through policy measures that improve health, education and training
- enhancing *incentives* to work, including by measures directed at tax and income support arrangements
- creating more *flexible* institutional arrangements, including work arrangements and child care.

The Commission notes that developing effective policy responses to improve participation outcomes raises some difficult issues and challenges, that bear on the potential costs and benefits of reform. One includes the need to take explicit account of broader policy objectives and trade-offs. It is also important to understand the characteristics of target group(s) relative to the existing workforce. And there needs to be a realistic appreciation of the often long timeframe for benefits to materialise. Such challenges underline the value of careful policy design and review, including learning from the experiences of different jurisdictions. The Commission emphasises that tackling policy-related impediments to participation will require actions by all governments in Australia.

Trends in labour market inactivity differ by gender



In assessing the scope to increase labour force participation, it is important not to view participation as an end in itself. There are reasons for some Australians preferring not to participate in the workforce, or wishing to lessen their involvement, that are entirely consistent with community wellbeing, for example, participating in education and training; caring for children and older family members; undertaking volunteering activities; or retirement. These activities generally give rise to socially valuable outputs and contribute to the growth of the economy over the medium to longer term. Overall, the policy objective is to improve community wellbeing having regard to individual preferences.

Reform is about promoting efficient choices that yield outcomes in the longer term interests of the community as well as the individuals concerned.

Annual reporting

Each year, the Productivity Commission publishes

- the *Annual Report*, which gives details of the Commission's operations and reflects on the current research activities
- the *Trade and Assistance Review*, which reports on industry assistance and its effects on the economy.

The Commission's previous series, *Regulation and its Review*, was replaced by the *Best Practice Regulation Review* in 2007, which henceforth will be published by the Office of Best Practice Regulation from its new location within the Finance and Deregulation portfolio.

Topics analysed in previous Commission *Annual Reports* include analysis of the National Reform Agenda (2005-06); federalism (2004-05); population ageing (2003-04); productivity trends (2002-03); market-based policy mechanisms (2001-02) and pro-competition regulation (20001).

Annual Reports can be downloaded from the Commission's website: <http://www.pc.gov.au/commission/annualreports>

Migration, trade and investment

The Productivity Commission's (2006) report on the *Economic Impacts of Migration and Population Growth* showed that migration has a small positive impact on GDP per capita, mainly because migrants are, on average, more highly skilled than the locally-born population, and a high proportion are of prime working age. A new Commission staff paper examines an additional way in which migrants could affect living standards: by strengthening international social and business networks, thereby facilitating trade and investment flows.

The patterns of trade and investment across the OECD suggest that migrant networks are important. Countries tend to trade and invest more with countries from which they have received more migrants and, at least for trade, this relationship appears to be stronger where information barriers like distance and language may otherwise inhibit trade.

However, this does not necessarily mean that countries with more migrants will have more trade and foreign investment in total. This distinction matters because previous research suggests that countries that increase their total trade flows and foreign investment tend to see their living standards rise, while the benefits from changing the direction of trade and investment are less clear.

The Commission study finds that, by lowering the cost of trade between the country of residence and the country of birth, migrants appear to reduce trade with *other* countries, so that the overall effect on aggregate trade is small.

The effects of migrants on foreign direct investment appear to be different. Bilateral investment patterns show that migrants increase investment between their country of residence and country of birth, but there is no strong evidence that this is accompanied by a reduction of the stock of investment in other countries.

Migration, Trade and Investment

Productivity Commission Staff Working Paper, February 2008

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Update on industry assistance

The Commission's latest review of Commonwealth assistance to industry has been released. *Trade & Assistance Review 2006-07* completes the 2006-07 annual report series.

It shows that import tariffs, budgetary grants and tax concessions provided Australian industry with nearly \$16 billion in assistance last financial year, equivalent to around \$8 billion in net terms.

In 2006-07, tariffs provided (gross) assistance equivalent to \$9.1 billion. The majority of this assistance was directed towards manufacturing industries.

Estimated budgetary assistance to industry totalled \$6.5 billion in 2006-07. This was shared roughly equally between the manufacturing, primary production and service sectors. It includes R&D, export, sectoral and industry-specific assistance.

The textiles, clothing and footwear and the automotive industries remain the most highly assisted manufacturing industry groupings. Transitional programs are in place to move these industries to lower levels of assistance, although these arrangements are currently being reviewed.

The level of assistance to primary production has increased recently, in part because of the provision of substantial 'exceptional circumstances' drought support.

The report indicates that, while some forms of assistance to businesses, such as R&D subsidies, can deliver net community benefits if well designed, assistance typically entails costs to consumers, taxpayers and other businesses, and may generate net costs. It notes that tariffs on manufactured imports effectively taxed businesses in the services sector by more than \$4 billion in 2006-07.

To ensure that assistance measures provide a net pay-off to the community, the report emphasises importance of rigorous design and evaluation of measures, including public scrutiny of proposals.

Trade & Assistance Review 2006-07

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New commissioned projects

Ways of improving support for parents with new born children

The Australian Government has announced that the Productivity Commission will undertake an inquiry into support for parents with new born children. The Commission has been asked to look at the costs and benefits of paid maternity, paternity and parental leave.

Specifically, the Commission is to:

- identify the economic, productivity and social costs and benefits of providing paid maternity, paternity and parental leave
- explore the extent of current employer provision of paid maternity, paternity and parental leave in Australia
- assess models of paid maternity, paternity and parental leave that could be used in the Australian context, including the potential interaction of these models with the social security and family assistance systems
- assess the efficiency and effectiveness of Government policies that would facilitate the provision and take-up of these models.



An issues paper was released on 7 April. The Commission will present a final report to Government by February 2009. Public hearings will be held and submissions from the public will be sought. A draft report is expected to be released in September.

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Modelling options for automotive and TCF industry reviews

The Australian Government has announced reviews of the automotive and textile, clothing and footwear (TCF) industries. The Minister for Innovation, Industry, Science and Research announced that the Productivity Commission will undertake modelling on economy-wide effects of future assistance options for these industries. The Commission's modelling will be released publicly to inform the reviews, public debate and the Government's deliberations in these areas.

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Stop Press

In March 2008, COAG requested that the Productivity Commission undertake two new projects.

Upstream petroleum regulation (oil and gas)

This 12-month study will consider Australia's framework for upstream petroleum regulation and consider opportunities for streamlining regulatory approvals, providing clear timeframes and removing duplication between jurisdictions.

Review of Mutual Recognition Arrangements

The Commission will undertake a further review of the mutual recognition arrangements and report back to COAG and the NZ Government by the end of 2008.

Supporting Policy Reform (cont'd from p.5)

The benefits of national microeconomic reform

The Commission has undertaken two comprehensive studies of major reform programs in Australia and the potential benefits of further nationally coordinated reform.

The first, a review of the National Competition Policy, found that reforms in infrastructure services and other areas had delivered substantial benefits to the Australian community. The report also identified future reform priorities, including improving the operation of the national electricity market; building on the National Water Initiative; developing an efficient and integrated freight transport system; addressing uncertainty and policy fragmentation in greenhouse gas abatement policies; improving the effectiveness of consumer protection policies; and reforming the health system to address rising costs, and to improve access and service quality.

In 2006, COAG agreed to a new National Reform Agenda (NRA) which encompassed further competition and regulatory reform, as well as policies to enhance Australia's human capital (specifically in health, education and training, and work incentives). The Productivity Commission was asked to report on the potential economic and fiscal impacts of the NRA. Commission analysis indicated that the greatest gains would come from increased workforce participation and productivity, with potential increases in GDP of around 6 and 3 per cent respectively, after 25 years or more. Significant gains could also come from further competition and regulatory reform in electricity, gas, ports and associated infrastructure and road and rail transport, and from reductions in regulatory compliance costs.

The benefits of wide-ranging microeconomic reform

Potential benefits of the National Reform Agenda (2007)

Review of National Competition Policy Reforms (2005)

Applying an economic framework to social policy

Economic analysis from a community-wide perspective can contribute to the development of policies with important social dimensions. For example, the Commission's inquiry into Australia's gambling industries found that net gains in jobs and economic activity from the liberalisation of gambling had been negligible. It found that the consumer benefits, while significant, could be outweighed by the social costs associated with problem gambling.

The policy challenges of the ageing of Australia's population (figure 2) were identified in a research report, *Economic Implications of an Ageing Australia*, requested by COAG to provide information at a State as well as Commonwealth level. The Commission's work confirmed major fiscal and economic pressures related to ageing. It highlighted policy areas central to raising productivity and work force participation, and to encourage more cost-effective service provision, especially in health care.

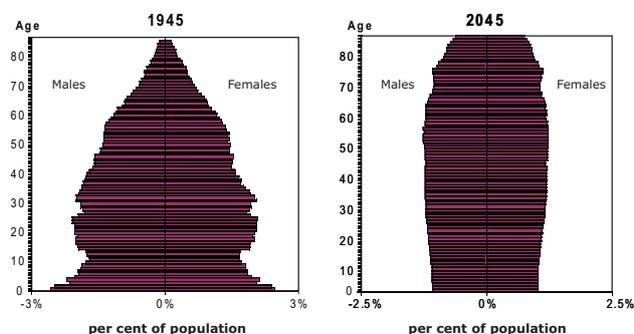
Net gains in jobs and economic activity from the liberalisation of gambling have been negligible. The consumer benefits, while significant, could be outweighed by the social costs associated with problem gambling.

The Commission's first home ownership inquiry report identified policies that cause prices to be excessive over the entire housing cycle, such as constraints on the capacity of the housing supply to respond to increases in demand, and the impact of income tax arrangements on demand pressures. The First Home Owner Scheme was seen as having more beneficial impact if it were targeted at lower-income households.

Efficient and effective health services

Private and public health expenditure totals around \$100 billion annually, or around 10 per cent of Australia's GDP. This is projected to increase to 18 per cent of GDP by 2050 as a result of the ageing of the population. An efficient and cost effective health system is important for community wellbeing and, through its links to human capital formation and productivity, for overall economic welfare.

Figure 2: From pyramid to coffin? Changing age structure of the Australian population



Commission research into the impacts of medical technology in Australia found that while technological advances have provided value for money overall, the cost effectiveness of individual technologies varies widely. Better coordinated, more systematic health technology assessment, underpinned by the principle of enhancing overall community wellbeing, should be implemented.

A recent research report on the health workforce recommended integration of the current profession-based accreditation of health education and training through an over-arching national accreditation board; and provision for national registration standards for health professions. This would develop a more sustainable and responsive health workforce, while maintaining a commitment to high quality and safe health outcomes.

Measuring the effectiveness of government service provision

The annual *Report on Government Services* provides comparative information on the equity, effectiveness and efficiency of government services provision across Australia. It covers public provision in six broad service areas – education, justice, emergency management, health, community services and housing – which account for almost 13 per cent of GDP.

Since 2002 the Commission has assisted in preparing indicators of the impact of government programs and policies on a range of socio-economic outcomes for Indigenous Australians. The reports, *Overcoming Indigenous Disadvantage: Key Indicators*, embody a strategic framework for assessing progress in reducing the disparities between Indigenous and other Australians.

Informing effective social policy
Selected Commission reports

- Australia's health workforce (2006)
- Economic implications of an ageing Australia (2005)
- Impacts of medical technology in Australia (2005)
- Inquiry into first home ownership (2004)
- Review of the *Disability Discrimination Act 1992* (2004)
- Social capital (2003)
- Long-term aged care (2000)
- Australia's gambling industries (1999)
- Private hospitals in Australia (1999)
- Nursing home subsidies (1999)
- Private health insurance (1998)
- Report on Government Services (annual)
- Overcoming Indigenous Disadvantage: Key Indicators (biennial)

Applying economic frameworks to improve environmental outcomes

The application of economic analysis to natural resource management and other environmental issues can help ensure that environmental objectives are met as efficiently as possible, including minimizing perverse outcomes.

Several Commission inquiries have highlighted the costs of poorly designed regulatory responses to environmental problems. For example, the inquiry into the impacts of native vegetation and biodiversity regulations found that existing regulatory approaches are not fully effective and impose significant costs; while the Commission's inquiry into historic heritage concluded that because heritage regulation does not sufficiently account for the costs of conservation, it can have perverse effects.

In an inquiry report into energy efficiency, the Commission argued that although government intervention to overcome failures in markets for energy efficiency technologies may be warranted, a light-handed regulatory response is likely to be preferable to more prescriptive and intrusive approaches.

Using markets to increase water efficiency

In a research report on rural water use and the environment, the Commission argued that markets can play an important role in the efficient allocation of water among competing uses, and can also be used to achieve other environmental goals, such as efficiently managing salinity. The potential for a more market-oriented approach to the management of water resources in Australia's cities to yield better outcomes for the community at lower cost was also canvassed in a recent Commission discussion paper *Towards Urban Water Reform*.

Responding cost-effectively to climate change

In a submission to the Prime Ministerial Task Group on Emissions Trading, the Commission argued that the fragmented patchwork of climate change policies across jurisdictions in Australia should be replaced with a national approach based on greenhouse gas pricing – through either an emissions tax (which has some merit as a transitional tool) or an emissions trading scheme. The assumptions and value judgements underlying the Stern Review's analysis of the economic impact of climate change were examined in a Commission staff paper *The Stern Review: An Assessment of its Methodology*.

Responding to environmental challenges

Selected Commission reports

Towards urban water reform (2008)
The Stern Review: an assessment of its methodology (2008)
Submission on emissions trading (2007)
Rural water use and the environment (2006)
Waste management (2006)
Conservation of historic heritage (2006)
The private cost effectiveness of improving energy efficiency (2005)
Impact of native vegetation and biodiversity regulations (2004)
Water quality in the Great Barrier Reef (2003)

A full list of publications is available on the Commission's website www.pc.gov.au

1. See Productivity Commission 2003, *From Industry Assistance to Productivity: 30 Years of 'the Commission'*, Canberra. See also: Banks, G. 2007 'Public Inquiries in policy formulation: Australia's Productivity Commission', Address to International Workshop, China-Australia Governance Program, Beijing; and Banks, G. and Carmichael, W. B. 2007, 'Domestic transparency in Australia's economic and trade reforms: the role of 'the Commission'', Paper for the Lowy Institute and Tasman Transparency Group Conference, Enhancing Transparency in the Multilateral Trading System, Sydney.

Recent Releases

April 2008

*Improved Support for Parents with New Born Children (Issues paper)**

Trade and Assistance Review 2006-07
ISBN 978-1-74037-245-9 RRP \$17.00

Safeguards Inquiry into the Import of Pigmeat (Inquiry report)
ISBN 978-1-74037-248-0 RRP \$15.00

*Report on Government Services 2008 (Indigenous Compendium)**

March 2008

Towards Urban Water Reform: Issues and Options
ISBN 978-1-74037-246-6 RRP \$16.50

Chemicals and Plastics Regulation (Draft report)*

February 2008

The Armington General Equilibrium Model: Properties, Implications and Alternatives (Staff Working Paper)*

Annual Report 2006-07
ISBN 978-1-74037-239-8 RRP \$15.50

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* available in hard copy only from the Commission (03 9653 2244)

International Visitors

Germany: State Secretary Agriculture, Food and Consumer Protection to discuss Productivity Commission's role and function and economic reform.

New Zealand Ministry of Economic Development to discuss ways in which Trans-Tasman cooperation could be explored through the work of the Productivity Commission.

Associate Professor of Economics, William Morrison, Laurier University, Ontario, Canada to discuss Productivity Commission report on the regulation of airport pricing.

South African government delegation to discuss the role of the Productivity Commission and structural change in the automotive sector.

National Development Reform Commission (NDRC), China. Workshops to discuss the NDRC's reform proposals.

Current commissioned projects

Improved Support for Parents with Newborn Children

Public inquiry

Release of issues paper	April 2008
Initial public hearings	May 2008
Initial submissions due	2 June 2008
Release of draft report	September 2008
Public hearings for draft report	Late November 2008
Final report	February 2009
Contact	Troy Podbury
Telephone	(02) 6240 3257
Email:	parentalsupport@pc.gov.au
Website:	http://www.pc.gov.au/inquiry/parentalsupport

Business Regulation Benchmarking - Stage 2

Commissioned study

Release of information paper	Mid October 2007
Provision of preliminary results to governments	April 2008
Publication of exposure draft(s) and call for written submissions	June 2008
Completion of final report(s)	August 2008
Contact	Adam Sheppard
Telephone	(02) 6240 3294
Email	regulationbenchmarking@pc.gov.au
Website	http://www.pc.gov.au/study/regulationbenchmarking/stage2

Chemicals and Plastics Regulation

Commissioned study

Release of issues paper	September 2007
Release of draft report	March 2008
Submissions on draft report due	30 April 2008
Final report	July 2008
Contact	Paul Belin
Telephone	(03) 9653 2177
Email	chemicalsandplastics@pc.gov.au
Website	http://www.pc.gov.au/study/chemicalsandplastics

The Market for Retail Tenancy Leases in Australia

Public inquiry

Release of draft report	December 2007
Final report to government	31 March 2008
Contact	Jared Greenville
Telephone	(02) 6240 3263
Email:	retailtenancies@pc.gov.au
Website	http://www.pc.gov.au/inquiry/retailtenancies

Assessing Local Government Revenue Raising Capacity

Commissioned study

Release of issues paper	May 2007
Release of draft report	December 2007
Final report to government	April 2008
Contact	John Salerian
Telephone	(03) 9653 2190
Email:	localgov@pc.gov.au
Website	http://www.pc.gov.au/study/localgovernment

Current projects (cont'd)

Annual Review of Regulatory Burdens on Business

Commissioned study

Release of issues paper	February 2008
Release of draft report	June 2008
Consultation on draft report	July 2008
Final report to government	31 August 2008
Contact:	Les Andrews
Telephone	(02) 6240 3251
Email:	regulatoryburdens@pc.gov.au
Website	http://www.pc.gov.au/study/regulatoryburdens

Review of Australia's Consumer Policy Framework

Public inquiry

Release of issues paper	January 2007
Release of draft report	December 2007
Final report to government	April 2008
Contact	John Papadimitriou
Telephone	(02) 6240 3246
Email	consumer@pc.gov.au
Website	http://www.pc.gov.au/inquiry/consumer



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