



# PC update

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## The productivity reform outlook

In support of continuous reform



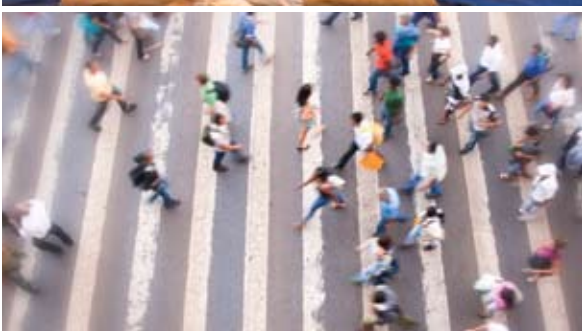
## Adapting to climate change

Policy frameworks and reform options



## Changing forms of work

Recent Australian trends



## Income distribution in Australia

Factors underlying measured inequality



## Better Indigenous policies

The role of evaluation



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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.

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# The productivity reform outlook

In his first public address as Chairman of the Productivity Commission, Peter Harris reflected on how best to create public consensus in favour of continuous productivity reform. Edited highlights of his remarks follow.



Governments are very well aware that productivity growth is the central element in improving future national welfare. I sometimes feel that this is not well enough recognised. It is a very rare Minister who is not in favour of productivity growth, and few do not know instinctively that it is our flexibility, our workforce capabilities and our competitive environment, rather than swings in the terms of trade or the commissioning of any big project, that determine the economy our children will inherit.

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For a productive economy, we need a continuous commitment to innovation; early adaptation to new technology; the regular updating of business process; removal of impediments to competitive entry; and a constant effort to upgrade the skills of employees.

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We are in an environment where much adjustment will be necessary:

- as the global economy goes digital and wreaks brutal but innovative change across whole industries and even aspects of national advantage as a deteriorating age-dependency ratio affects us and many Western nations, shifting consumer demand and altering the revenue-generating capacity of governments globally
- as the needs and desires of the strongly developing nations of Asia take ever greater hold of the international trading environment.

Australia will need to compete aggressively, with skills and technology, in such an environment. And, to offset the effects of the relatively high Australian dollar (reflecting global confidence in our economy), we need to be investing and working smarter.

It is important to recognise that in making the case for change, government is not always part of the answer. There are times when it is unreasonable, even unhelpful, to call on governments to intervene. We rely on firms to address the productivity task, across most markets. And for good reason. >

We are generally well aware that when governments directly invest in particular firms, the success rate is pretty low. And once involved, even at the sector level, extricating itself can be particularly hard.

But governments do set the framework for the economy. In the provision of infrastructure and services – where risks or ability to capture benefits are beyond the scope of any one firm, or where regulatory structures or factors outside the control of firms discourage efforts to improve productivity, or where allocative efficiency is not delivered due to market impediments – it is legitimate to look to governments.

### The ‘supply and demand’ of productivity reform

There is a good supply of advice to Governments on the scope for such changes. *Supply* indeed seems not to be the larger problem.

Supply includes what has become known as the Commission’s ‘to do’ list of advice. And there is a plethora of COAG reform processes looking at important matters such as energy markets; the national operating environment for business; and health management. There is also the Productivity Commission’s pipeline of work: we currently have references on electricity networks, mineral and petroleum exploration, major project approvals, access regimes and the interaction between small business and regulators. We hope to receive a few more references in crucial areas shortly. These too will yield yet more proposals for enhancing our productivity. A number of state government review and reform exercises are also extant. And the business community and social policy groups have further ideas and proposals.

Less evident is the same amount of effort, at Commonwealth and state level, to establish the need for reform in the public mind. Put another way, to improve the *demand* for continuous reform.

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We perhaps rely too much on crisis to establish in the public mind the demand for reform. And it is quite ironical that our own success in crisis may count against us: in Australia, we have been good at managing a crisis.

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Commencing with the 1986 ‘banana republic’ warnings and subsequent recession; the March 1991 Economic Statement and Working Nation; the response to the Asian currency crisis of 1997; the GST reforms; and most recently the response to the global financial crisis. The threat creates the opportunity. ‘Never waste a crisis’, we used to say.

The overall result has been that the Australian economy has allowed an entire generation to gain an education, enter employment and save for the future without the damage of a major down-turn and the consequent loss of that desirable path to economic opportunity.

And so to today, where it could almost be said that we have no crisis. Or in any event not of the kind that motivated some of these past plans. But we know that our recent productivity performance indicates our prospects of maintaining the pathway to improved living standards is at some risk.

Our labour productivity has recently recovered after a significant period of decline. It will, however, take persistent growth to return to the long-term average performance expected of an economy like ours at its best. And the possibly more policy-relevant indicator of Multi Factor Productivity remains very weak, as it has for much of the past decade.

This matters quite a lot because, as Nobel Prize winner Paul Krugman has said, ‘productivity isn’t everything, but in the long run it’s almost everything’. Our demography – the ageing of our population, the fall-off in participation and worsening of the dependency ratio – will make sure that is true.

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How can Governments at all levels translate that into community recognition – or demand – for the kind of continuous reform that can offset an ageing population and sustain higher productivity levels and incomes? Part of the answer may lie in our policy-making structures – and the expectations they create. Expectations are very powerful things.

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When I refer to our policy-making structures, I do not mean the departments of state or the ministries. I mean, rather, the means we use to deliver our economic plans. Do we have the necessary structures to offer an incentive in favour of productivity-oriented reform, on a continuing basis?



Our current economic policy structures have evolved over many years. There is an annual Budget used to promote and implement macro-economic objectives. Fiscal policy is thus institutionalised in a structure via a process that has been built up over many decades. And it is still adding to its weight, with the MYEFO assuming a greater significance than it has had in the past.

Monetary policy too has increasingly come to have an institutional public framework, in the profile accorded to the monthly meetings of the Reserve Bank Board and the issuing of Minutes. Both these arrangements have a substance beyond that of the decisions they communicate. They are structured opportunities that create the *expectation* that change will be promulgated, or reasons advanced as to why circumstances do not justify change, *on a continuous cycle*.

Governments do not need to 'bring on' fiscal change or monetary change, as they need to do with individual firm or sectoral level reform. Rather, these structured arrangements determine that the opportunity for action occurs regularly, and draw in almost by definition the need to act, or explain why not, *on a continuous basis*.

### Establishing a structure for reform review

For the micro economy, or reforms at the sector level, there is no such structured opportunity. Instead, proposals for change are initiated occasionally; then make their individual way towards implementation, often alone in a sea of criticism, sustained only by a report or inquiry that is aimed almost always at solving a problem rather than making the case in a wider context of the productivity impact on the national economy. Many sink. Others disappear, never to be heard of again.

I am not proposing specific aspects of what such an approach could encompass. My remarks are more about establishing a generic way forward. Clearly there is scope for a regular, wide-ranging review of productivity-oriented reforms, including those generated by the Productivity Commission.

This is not a concept that can be created overnight. If pursued seriously, the effort involved means it may not even be an annual event. Yet to be successful, there are also some things it should not be. I am not talking, for example, about a Budget paper, a document of record. The consequent focus on productivity

would be anticipated, debated and become an *expected* part of the national economic psyche. Powerful thing, expectations.

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We need a mechanism under which continuous reform is invited. Governments would be deeply advantaged in pressing the case for productivity reform if there was a regular opportunity – similar in principle to the focus established by formal statements of fiscal and monetary policy – to put a comprehensive series of reforms and the narrative to accompany it. An opportunity to better explain the problem and lock in recognition of the case for higher productivity. An integrated approach, where the voice of any one affected sector or region may not dominate; and where the breadth of necessary changes and the combined potential for economy-wide gains can be clearly set against any costs.

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My proposal is an idea about expectations, about improving the conditions in which policy reform might be pursued, drawn from asking: *do we have, in microeconomic reform, all the tools that they find so useful in fiscal and monetary policy?*

As a final point, I would note that we have conditioned public expectations in this way before. Primarily in crisis, of course. Looking back, we celebrate these occasional reform statements. We celebrate them, but we have yet to replicate them into the long term. In the future effort to lift our productivity, perhaps we should.

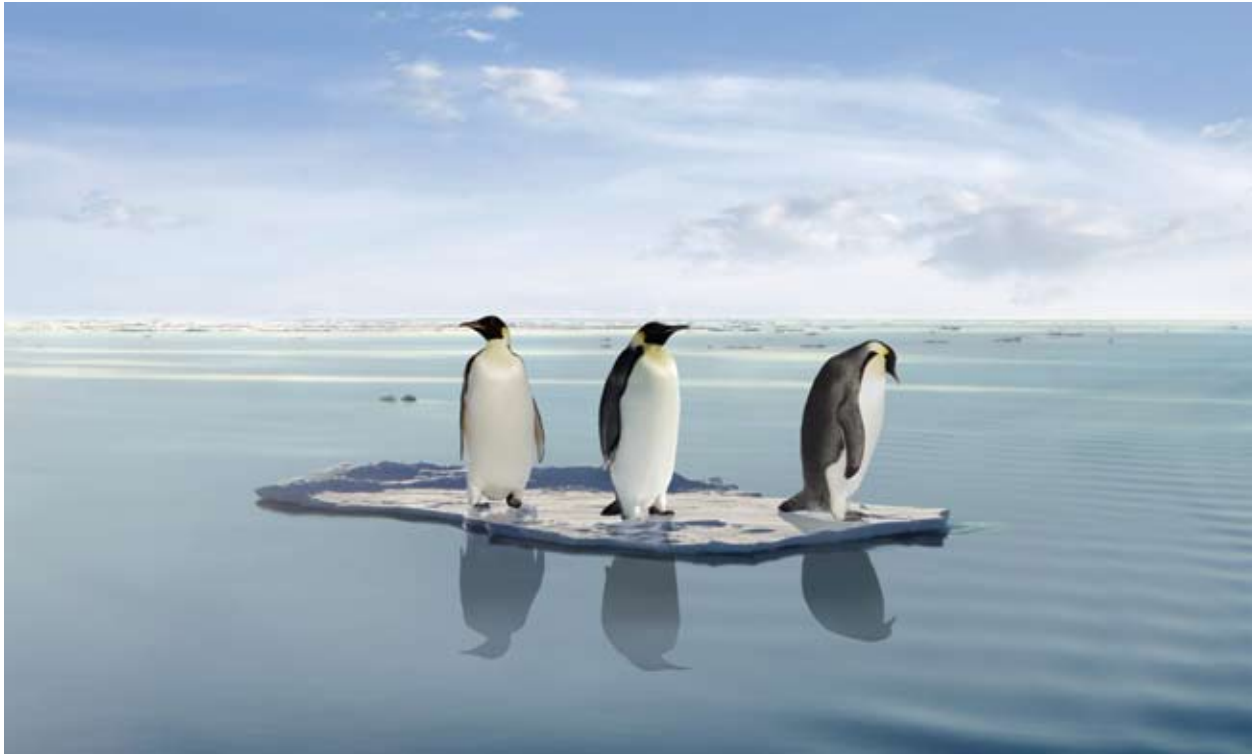
#### The Productivity Reform Outlook: Creating an Expectations Effect, in Support of Continuous Reform

> Address by Peter Harris, Chairman, Productivity Commission to the Trans Tasman Transparency Group Productivity Agenda seminar, Sydney, 1 May 2013

> Available on the Commission's website [www.pc.gov.au](http://www.pc.gov.au)

# Adapting to climate change

The policy frameworks and reform options required to facilitate adaptation to unavoidable climate change were identified in a recent Commission inquiry report.



Australia's climate is changing and will continue to do so. While the timing and magnitude of climate change impacts will depend on global efforts to reduce greenhouse gas emissions, some future climate change is inevitable. Projections suggest that average temperatures will be higher, sea levels will rise, rainfall patterns will change, and bushfires, heatwaves and hailstorms will become more frequent.

These changes will affect life in Australia in numerous ways. For example, more frequent droughts could affect the viability of some farming businesses and higher sea levels could make some areas of existing settlement uninhabitable. Climate change could also increase pressures on natural ecosystems and, in some cases, threaten the survival of already endangered species.

Households, businesses, governments and other organisations will need to take actions to respond and adjust to these changes – a process referred to as climate change adaptation. When done effectively, adaptation actions can maintain or increase community wellbeing.

In September 2011, the Australian Government asked the Productivity Commission to undertake an inquiry to identify any regulatory or policy barriers that may prevent effective adaptation to unavoidable

climate change, and high priority options for addressing those barriers. The Commission was to:

- examine the costs and benefits of the options to address those barriers where it is feasible to do so, including a 'no change' (maintaining the status quo) option
- assess the role of markets (including insurance markets) and non-market mechanisms in facilitating adaptation, and the appropriateness of government intervention.

The Commission's final report was sent to Government in September 2012 and was released in March 2013.

## Few barriers to effective adaptation were identified

The Commission report found that in some cases, regulations and government policies may be preventing people from adapting in the best possible way, and may pose barriers to effective climate change adaptation. Such barriers could mean that people take adaptation actions that are of the wrong sort or insufficient.

## The role of insurance in a changing climate

Insurance can help people to manage many of the climate related risks they face, including fire, wind, hail and flood. The price and availability of insurance send a signal about the level of risk that people face, and encourage them to reduce their risk exposure and adapt to climate change. The Commission identified a number of policy options relating to the provision and regulation of insurance that would facilitate effective adaptation to climate change.

### Insurance taxes should be removed

Taxes and levies make up a significant portion of the cost of insurance to households and businesses, and can distort the ways that they manage their risks. By making insurance more expensive, insurance taxes can discourage people from taking out an adequate amount of insurance.

#### > Recommendation

The Commission found that removing state and territory taxes and levies on general insurance, and replacing them with less distortionary taxes, would facilitate adaptation to climate change. This could ensure that insurance premiums more closely reflect the level of risk faced, and would likely improve the affordability and uptake of insurance by households and businesses.

### Costly insurance regulations should not be pursued

Two regulatory interventions have recently been put forward as ways of helping households – temporary subsidies targeted at households facing high flood risks, and requirements for all household insurers to offer flood cover. While these may benefit some households, there would be broader costs. Subsidies could reduce incentives to manage exposure to risks (such as by modifying property or relocating), and would not necessarily support those households that are most in need. Requiring insurers to offer flood cover in all household policies could raise capital and operating costs (which may be passed on to consumers), or lead to some insurers withdrawing all cover from particular areas altogether.

#### > Recommendation

The Commission recommended that governments not subsidise insurance, and not require insurers to offer flood cover unless it can be demonstrated that the benefits to the wider community would outweigh the costs.

The Commission identified only a limited number of policy and regulatory barriers that may inhibit adaptation responses. These include:

- shortages of professional and technical expertise, and financial constraints, that are preventing local governments from planning for climate change and implementing effective adaptation actions
- the lack of a well-established or comprehensive approach to managing climate change risks to many areas of existing human settlement such as residences, parks and beaches.

The report argues that the greatest benefits from addressing barriers to adaptation are likely to come from initiatives that cut across sectors. This includes identifying reforms in a number of policy areas to improve the community's ability to adapt to climate change. Policy areas examined by the inquiry include local government, planning and building regulation, information

provision, emergency management, infrastructure provision and regulation, environmental management, the health system, and insurance.

### Reform options

A number of reform options to address barriers to effective climate change adaptation and build the community's capacity to adapt were identified. Reform options were categorised into two groups.

The first group of reforms would improve the management of 'current climate' risks – those that arise from climate variability and extreme weather events that can have adverse effects today. These reforms are likely to yield immediate benefits and improve the community's capacity to adapt to future climate change. They include: >

- improving the provision of information on hazards such as floods, cyclones and bushfires
- clarifying the roles and responsibilities of local governments for managing the risks of climate change, and ensuring that local governments have the capacity to fulfil their functions, including those that relate to climate change adaptation.

The second group of reforms addresses barriers to adaptation to 'future climate' risks – those that are not causing significant damage today, but could lead to damage in the future (such as sea level rise). Given uncertainty in the timing and magnitude of climate change impacts, governments should prioritise reforms with low upfront costs and large potential benefits. These include:

- ensuring land-use planning systems are sufficiently flexible to incorporate climate change risks and developing approaches to manage risks to areas of existing human settlements potentially exposed to climate change
- incorporating climate change projections in the National Construction Code and considering new planning instruments to manage climate change risks.

In all cases, the selection of a particular reform option should be made after consultation with the community and consideration of the costs and benefits of all options. The reform option likely to deliver the greatest improvement in community wellbeing should be pursued.

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On the release of the report, Presiding Commissioner Wendy Craik noted that: 'Improving our response to current climate variability and extreme weather events leaves us in a good position to deal with future climate change'.

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## Emergency management: getting the balance right

Emergency management includes actions to prevent and prepare for disasters, and to respond to and recover from them when they occur. Improving the management of emergencies in the current climate will assist in the management of future climate risks as the intensity, frequency, duration or location of extreme weather events change.

### The balance between expenditure on disaster prevention and recovery should be assessed

Following recent natural disasters, concerns have been raised that prevention and preparedness actions have been inadequate, imposing significant costs on the community after a disaster has occurred. Over the past six years, Australian Government funding for disaster recovery (including funding for recovery projects related to the 2009 Victorian Bushfires and 2010-11 floods in Victoria and Queensland) totalled around \$6.7 billion. In contrast, expenditure on the main federal programs for disaster prevention was around \$0.2 billion for the same period. This discrepancy suggests that current arrangements may not be achieving the right balance between disaster prevention, preparedness, response and recovery. This may hinder effective adaptation to climate change.

### > Recommendation

The Australian Government should commission an independent public review of disaster prevention and recovery arrangements. The review should examine whether current arrangements result in inappropriate actions in the prevention and recovery phases of a disaster; and consider the costs and benefits of potential reform options.

## Barriers to effective climate change adaptation: summary of the Commission's recommendations

### Assessing reform options and identifying priority reforms

- Reforms to address barriers to effective climate change adaptation should be assessed on a case-by-case basis to determine whether they are likely to deliver net benefits to the community.

### Building adaptive capacity

- Australian governments should implement policies that help the community deal with the current climate by improving the flexibility of the economy. This would also build adaptive capacity to deal with future climate change.

### Information provision

- The Government should improve the coordination and dissemination of natural hazard information and ensure that guidelines to improve the quality and consistency of risk information are regularly updated.

### Local government

- The roles, responsibilities and legal liability of local government with respect to climate change matters should be clarified.

### Planning and building regulation

- Land-use planning systems should be sufficiently flexible to enable a risk management approach to incorporating climate change risks into planning decisions.
- The Australian Building Codes Board should monitor projections of climate change risks to buildings and revise the standards in the National Construction Code to take into account these projections where this delivers a net benefit to the community.
- The Council of Australian Governments should commission an independent public inquiry to develop an appropriate response to managing the risks of climate change to existing settlements.

### Emergency management

- Disaster prevention and recovery arrangements should be reviewed. The review should cover the Natural Disaster Relief and Recovery Arrangements and funding mechanisms for disaster mitigation, including the National Partnership Agreement on Natural Disaster Resilience.

### Insurance

- Taxes and levies on general insurance should be phased out and replaced with less distortionary taxes.
- Reforms that require all household insurers to offer flood cover should only proceed if there is a net benefit to the community.
- Governments should not subsidise household or business property insurance.

### Barriers to Effective Climate Change Adaptation

- > Productivity Commission Inquiry Report
- > Released March 2013

# Income distribution in Australia

A recent Productivity Commission Staff Working Paper examines the interplay of factors underlying recent trends in measured income inequality in Australia.



Over the past 20 years the incomes of individuals and households in Australia have risen substantially in real terms. Individual labour earnings have increased by around 38 per cent on average, while 'equivalised' final household income (which takes into account government payments and services and household size and composition) increased by 64 per cent (figure 1). Real income growth has occurred 'across the board' – that is, for the lowest to highest income groups.

Around 75 per cent of the growth in real household earnings has come from increased labour force earnings. This reflects:

- *Increased employment* – the proportion of adults in paid employment per household increased from 56 per cent in 1988-89 to 60 per cent in 2009-10.
- *Longer working hours* amongst part time workers – average hours worked by Australians with part time jobs has grown by around 16 per cent, from 17.6 hours in 1998-99 to around 20.4 hours in 2009-10.
- *Increased real wages* – between 1998-99 and 2009-10 real hourly wages increased by 22.7 per cent for full time workers and 8.1 per cent for part time workers.

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While both real individual and household incomes have risen across their distributions, increases have been uneven. Growth for those in the top half of the income distribution has been greater than for the bottom half.

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The different rates of growth at the top and bottom of the income distribution, along with movements in summary measures of income distribution such as the Gini coefficient, have led to the observation that income inequality has risen in Australia. A new Productivity Commission Staff Working Paper, *Trends in the Distribution of Income in Australia*, examines the underlying forces driving these changes.

## What has happened to individual market-based earnings?

An individual's market income is made up of labour income (from working full-time, part-time or being self-employed) and capital and other income (such as interest from savings, share dividends, and income from investment properties). Labour income is the most important component of market income for most individuals.

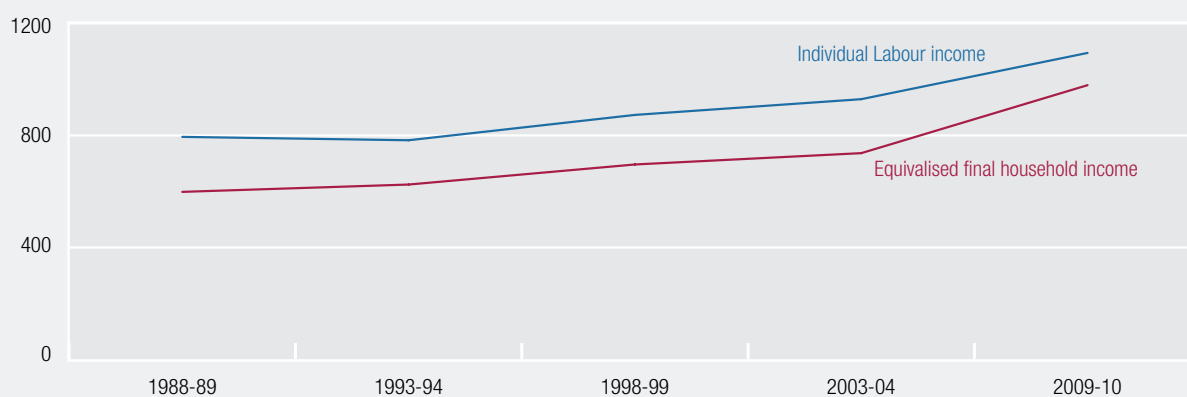
Changes to the distribution of individual labour income are indicated in figure 2. Over the last 20 years, the distribution has shifted to the right (indicating rising average incomes); flattened (indicating greater spread of income); and the 'top' tail of the distribution has lengthened (reflecting increased incomes for those at the top of the distribution). These combined effects have driven an increase the Gini coefficient from 0.35 in 1988-89 to 0.41 in 2009-10 – indicating, at the individual level, rising inequality in labour incomes.

The measured increase in income inequality for individuals can largely be explained by two factors:

- Increasing income inequality amongst full-time workers, driven by the widening dispersion of hourly wages

**Figure 1: Individual and equivalised final household incomes, 1988-89 to 2009-10**

Inflation adjusted 2011-12 dollars

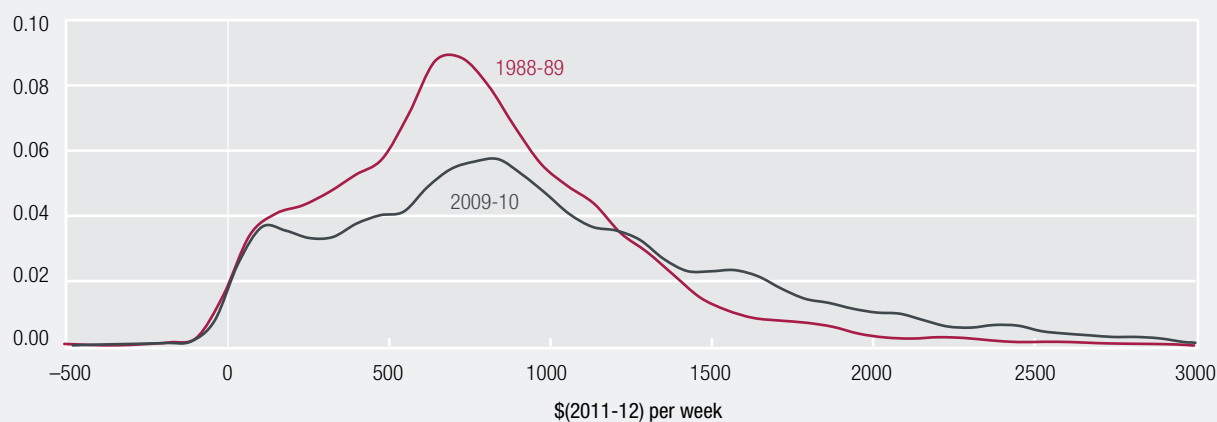


Source: Greenville, J., Pobke, C. and Rogers, N. 2013, *Trends in the Distribution of Income in Australia*, Productivity Commission Staff Working Paper.

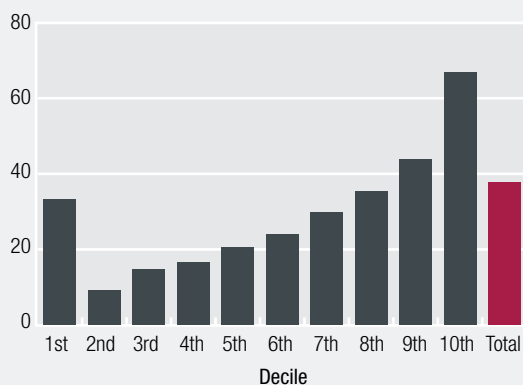
**Figure 2: Movements in the distribution of individual labour income, 1988-89 to 2009-10**

Inflation adjusted 2011-12 dollars

Probability distribution of labour income



Per cent change in labour income by decile



Gini Coefficients



Source: Greenville, J., Pobke, C. and Rogers, N. 2013, *Trends in the Distribution of Income in Australia*, Productivity Commission Staff Working Paper.

between high and low income earners. (Over the last 20 years income inequality has increased significantly more for full-time workers than for part-time or self-employed workers.)

- The increasing share of part time workers in the labour force, as part-time workers have lower average incomes than full-time workers.

### What has happened to household income?

Most individuals live within family groups or households where they can combine income with other household members. And government assistance is often targeted at the household level, influencing the final income of household members. The Gini coefficient for equivalised final household income has increased from around 0.25 in 1988-89 to around 0.27 in 2009-10, with most of this increase occurring since 2003-04. However, movements in the distribution of final household incomes over time can largely be explained by movements in the distribution of gross household income (pre tax market income and direct government transfers) (figure 3).

There is no clear trend in measured gross household income inequality between 1988-89 and 2003-04. While capital income growth amongst higher income households tended to increase measured inequality, this was offset by the progressive impact of the government tax and transfer system on lower income households, and a decline in the share of jobless households.

At the bottom of the income distribution, increases in government payments have been very important in reducing household income inequality. On average, increases in government payments accounted for around 45 per cent of income growth in the 1st decile and 57 per cent of income growth in the 2nd decile. In 2009-10, the combined effect of taxes and transfers was a reduction in the Gini coefficient from 0.52 to 0.34 – slightly lower than in previous years. Taking account of household size further reduces the Gini coefficient to 0.27 (equivalised final income) (figure 4).

As well, a marked increase in employment has had significant distributional effects, especially for families in the bottom half of the income distribution and among households containing dependent children.

### Two popular myths about income inequality

Two aspects of the distribution of income have attracted particular attention: the impact of the gender pay gap, and the disproportionate effect of very high earners (the 'top 1 per cent'). Both involve complex causes and effects.

#### The gender wage gap

According to the Staff Working Paper, decomposition of most indicators suggests that less than 3 per cent of measured inequality is accounted for by the difference in average hourly rates of pay between men and women. The factors affecting labour income inequality have affected women and men in similar ways.

#### The 'top 1 per cent'

Analysis in the Staff Working Paper finds that removing the top 1 per cent from the income distribution in 2009-10 would reduce the Gini coefficient by 6.5 per cent. However, Australian Bureau of Statistics data suggest that over time there has been little change in the contribution to inequality by the top 1 per cent, and changes in income for this group do not overly account for the rise in measured labour income inequality.

Over the period 2003-04 to 2009-10, employment for sole parent families and couples increased by around 11 per cent and 6 per cent respectively.

Capital and other income has grown relatively evenly across most deciles, but has had the biggest effect on the 10th decile. This 'top end' capital income growth occurred mainly between 2003-04 and 2009-10 (more than doubling).

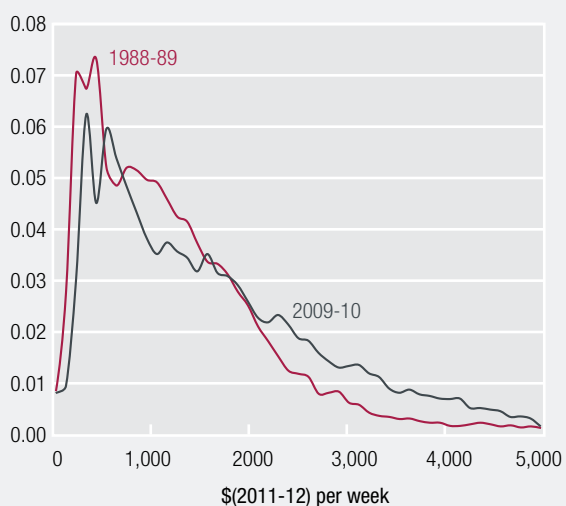
Analysis in the Staff Working Paper highlights the need to examine changes within different income and population subgroups to understand changes in the distribution of income and inequality measures such as the Gini coefficient. The paper also notes that differences in individual income, and therefore household income levels, occur for a variety of reasons including personal choices and innate characteristics as well as opportunities and inheritances. These differences combine with broader economic forces and policy settings to influence the distribution of income over time.

**Figure 3: Change in gross household incomes, 1988-89 and 2009-10**

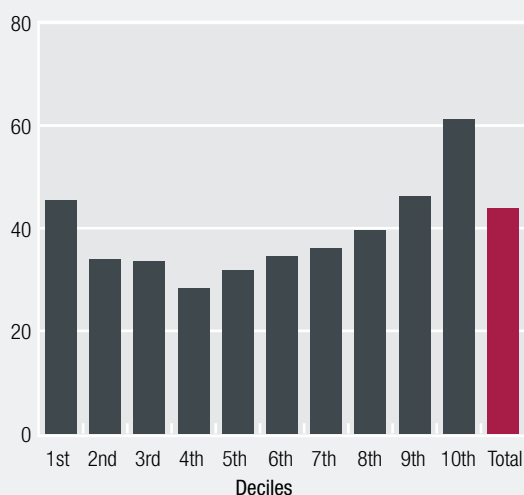
Inflation adjusted 2011-12 dollars

### Probability distribution

Proportion of households

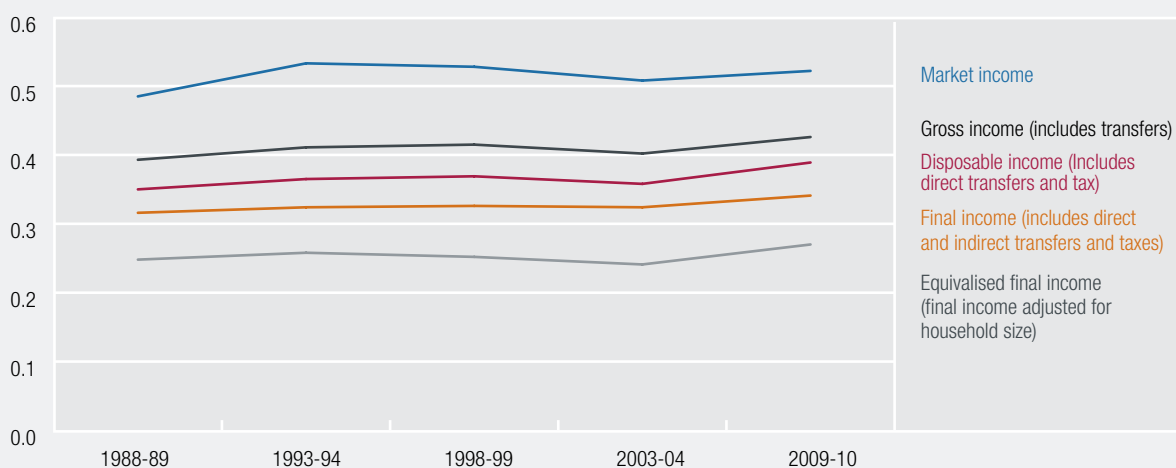


### Per cent change in income by decile



Source: Greenville, J., Pobke, C. and Rogers, N. 2013, *Trends in the Distribution of Income in Australia*, Productivity Commission Staff Working Paper.

**Figure 4: The impact of taxes, transfers and household size on the Gini coefficient, 1988-89 to 2009-10**



<sup>a</sup> All households.

Source: Greenville, J., Pobke, C. and Rogers, N. 2013, *Trends in the Distribution of Income in Australia*, Productivity Commission Staff Working Paper.

### Trends in the Distribution of Income in Australia

- > Greenville, J., Pobke, C. and Rogers, N.
- > Productivity Commission Staff Working Paper
- > Released March 2014

# Changing forms of work in Australia

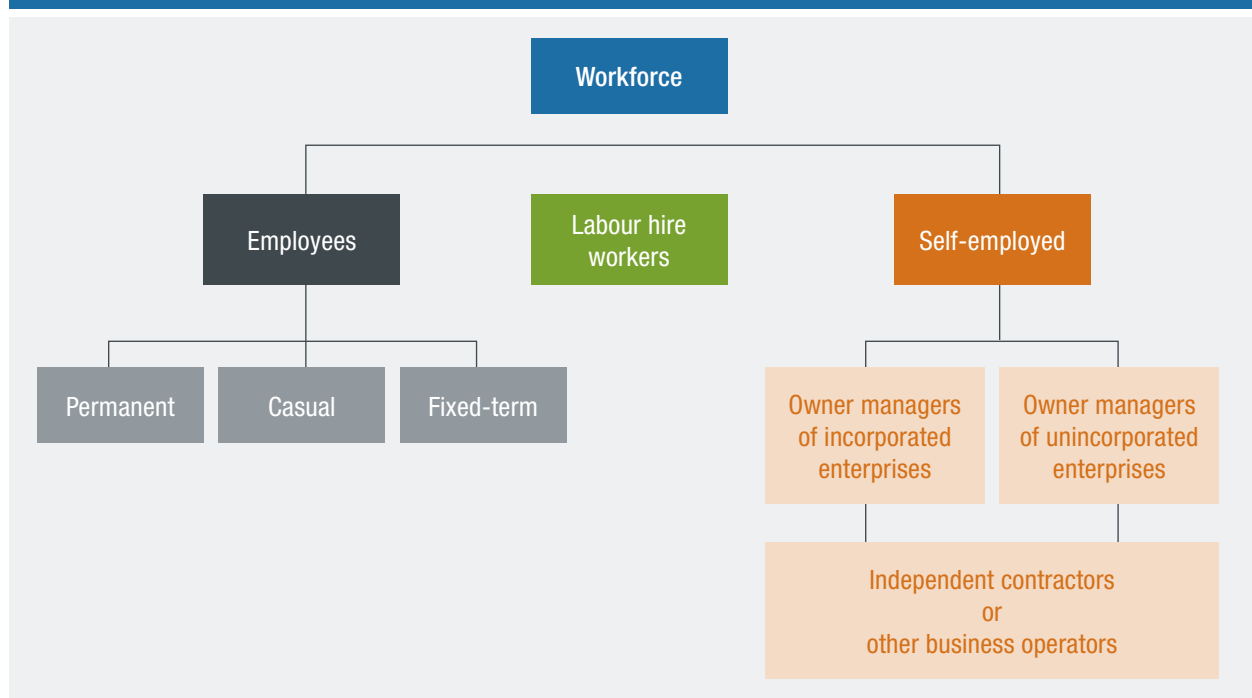
A recent Productivity Commission Staff Working Paper finds that the rapid growth of casual employment and labour hire workers occurring through the 1980s and 1990s, did not continue through the 2000s.



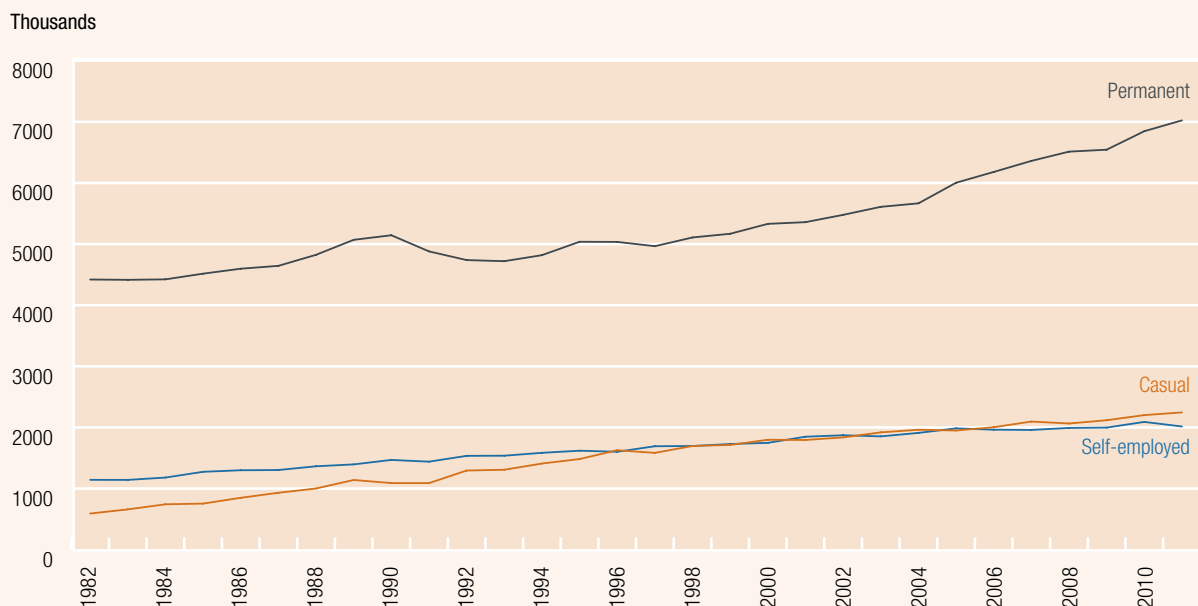
Over the 30 years to 2011, employment in each of the major forms of work – permanent, casual and self employment – grew markedly in Australia. The number of permanent employees increased from about 4.4 million to 7 million; casual employment expanded from about 0.6 million to 2.2 million; and self employment rose from 1.1 million to 2 million.

Although employment in each of these major forms of work increased, it did so at different rates. As a result, the employment shares (that is, the prevalence) of each major form of work changed over time. In particular, the share of casual employees in the workforce doubled between 1982 and 1996 (to 20 per cent), and the proportion of permanent employees fell markedly. Over the same period, participation in the labour force by women, and participation in education by young people aged 15 to 24 years – groups over represented in casual employment – grew strongly. Employment in industries that are particularly large employers of casuals – retail, accommodation and food services – also grew relatively quickly.

## Forms of work analysed in the Staff Working Paper

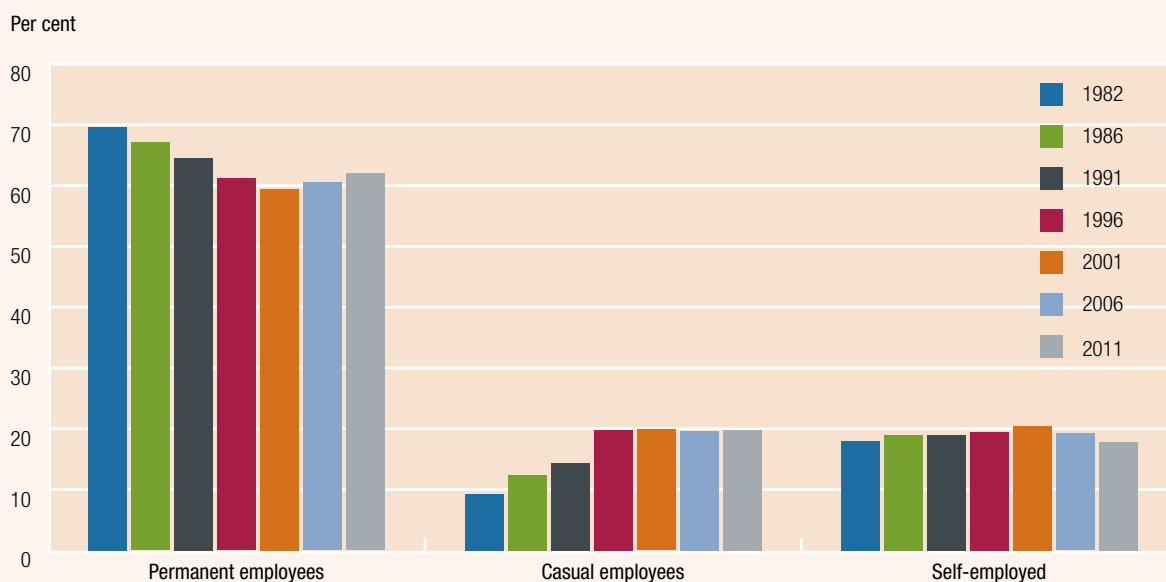


## Employment in all major forms of work has increased over time



Source: Shomos, A., Turner, E. and Will, L., *Forms of Work in Australia*, Productivity Commission Staff Working Paper.

## Workforce shares of major employment types have changed across time



Source: Shomos, A., Turner, E. and Will, L., *Forms of Work in Australia*, Productivity Commission Staff Working Paper.

Many of the workers entering casual employment over this period would have subsequently transitioned into permanent employment or self employment. Among those who did not, some may have preferred to remain in casual employment because it provides the

flexibility to meet individual preferences for working hours, or because they did not want to lose casual wage loadings. Others may have wanted other forms of work, but been unable to find it. >

### Turnover costs fall as Coles turns away from casuals

Changes in employment practices at Coles illustrate the links between the engagement of permanent employees and both labour turnover and business confidence about demand. From 2009, Coles began employing more staff on permanent arrangements. Over the following three years the share of the workforce employed as casuals fell from 70–80 per cent to less than 30 per cent. Staff turnover halved and absenteeism rates fell from 12.5 per cent to 3 per cent. Casual employment was reduced after investment in an improved scheduling system meant store managers could better forecast peaks and troughs in demand for labour.

Source: 'Coles staff stop checking out', *Australian Financial Review* 6 March 2013.

In a Commission Staff Working Paper released in April, authors Anthony Shomos, Erin Turner and Lou Will find that trends in the employment shares of different forms of work during the 1980s and 1990s did not continue during the 2000s. The analysis used data on the major forms of work, as well as less common forms of work including fixed term and labour hire employment and independent contracting.

Between 2001 and 2011, only permanent employees increased as a share of employment. This increase was accompanied by a 2 to 3 percentage point decline in the share of owner managers of unincorporated enterprises. Casual and fixed term employment was no more prevalent at the end of the decade than at the start. Labour hire workers probably became less prevalent and it is likely that the workforce share of independent contractors also fell marginally.

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During the 20 years to 2001, the employment shares of different forms of work in Australia changed markedly. But the trends over that period did not continue into the 2000s. The most notable change in the decade to 2011 was a small increase in the share of permanent employees – offset by a decline in the share that was self-employed in unincorporated enterprises. Overall, the decade to 2011 was characterised by relative stability in the shares of the various forms of work in Australian employment.

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### New data – stronger trends

Data released since the report was completed show that the share of permanent employees in the workforce increased relatively strongly in 2012 (by one percentage point), and that the share of owner managers of unincorporated enterprises continued to fall. The data also suggest that the shares of casuals and independent contractors in the workforce might be trending down.

Source: ABS 2013, *Forms of Employment 2012*, Cat. no. 6359.0.

### Why have the employment shares of different forms of work changed?

The relatively small changes in the shares of different forms of work over the decade to 2011 took place in a dynamic labour market: employment grew more rapidly in that decade than in the preceding two decades, and the profile of net jobs created was significantly different from the profile of employment in 2001.

The mining states (Queensland, Western Australia and the Northern Territory) accounted for a disproportionately large share of the increase in the proportion of permanent employees in the workforce. Mining state employers might have increased their use of permanent employees as a strategy to reduce the costs associated with higher labour turnover in a strong labour market. Greater business confidence might also have encouraged hiring of permanent employees, as the risks of having to lay off workers and associated redundancy costs are lower in a strong economy.

### Forms of Work in Australia

- > Productivity Commission Staff Working Paper
- > Released April 2013

# Better Indigenous policies: the role of evaluation

A recent Productivity Commission policy roundtable examined the challenges in Indigenous policy evaluation and the actions needed to ensure that evidence gained from evaluations is used in policy-making and program implementation.

The roundtable, held at Old Parliament House in Canberra on 22–23 October 2012, brought together key thinkers in Indigenous policy. Participants included representatives of Indigenous and non-government organisations, government officials, academics and consultants. A brief summary of the roundtable discussion follows.

## Mechanics of Indigenous evaluation

- While the amount of data comparing Indigenous and non-Indigenous Australians have grown substantially, there is a tension between the political imperative to develop data to measure achievement of the COAG ‘Closing the Gap’ targets and the broader need to inform policy and program evaluations.
- There is a lack of basic information about how many local, state and territory, and federal programs are operating in communities. In remote Indigenous communities, tens of programs may be operating, across three levels of government and across multiple sectors such health, education and employment. There was a need for a complete register of programs, to provide a holistic picture of what is going on in a community.
- Available statistics do not meet the needs of Indigenous people, who are increasingly seeking community-level information to inform local decision-making.
- Conventional evaluation methodologies used by government often fail to include Indigenous people’s expectations, perspectives and participation in the delivery of services. Many participants emphasised the importance of incorporating Indigenous perspectives into evaluation frameworks, with Indigenous people assessing the usefulness of the evaluation for their own communities.
- It takes time to build relationships and trust in order to access relevant quantitative and qualitative information to undertake meaningful evaluations. Some participants argued that there is an over-emphasis on quantitative data in evaluations, given the problems with availability of data at the community or program level.
- Indigenous groups need support to build capacity to compile and use customised data to meet their needs.



- The term ‘evaluation’ can have different meanings, ranging from mechanisms to provide accountability (for example, for spending government money), through measures encompassing process evaluation and/or impact evaluation<sup>1</sup> of programs, to broad reviews of system architecture. However, participants generally agreed that evaluation should have a role in holding governments to account for outcomes. >

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Evaluations and monitoring should be built into policy design and be adequately resourced, including access to key data at policy commencement and conclusion.

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1. Summative or ‘impact’ evaluations are usually undertaken after completion or during the later stages of a program, while formative or ‘process’ evaluations are usually conducted during the implementation stage.

## Institutionalising better evaluation practices and use of evidence

- Participants agreed that there is a lack of rigorous impact evaluation of Indigenous policies and programs. Significant gaps exist in the Australian evidence base, due to lack of mandated evaluations.
- Evaluation plans and funding for evaluation should be included in the design of programs, and evaluations should be made public.
- Any restrictions on access to existing data relating to Indigenous policies and programs should be eased.
- Evaluations should be done while there is an opportunity to change a program or policy, not after a program or policy has ended and a new one has begun. Participants acknowledged that evaluations are

often ‘backward looking’ and that good evaluations take time. Matching evaluations to political–government schedules is complex and must be handled strategically.

- As it can take a long time to build evidence, the program logic should be clear during policy development and open to change as monitoring and evaluation inform continual learning.
- Piecemeal evaluations cannot address systemic issues. Political commitment to a broad policy review is required to address fundamental issues with ‘government governance’: the way governments work with, and in, Indigenous communities.

### Lessons from overseas

#### New Zealand

Helen Moewaka Barnes from the Whariki Research Group, Massey University (Auckland) described how Maori evaluation approaches have been developed in parallel with Maori models of wellbeing. Evaluation processes were premised on the right and need for Maori to be involved through collaborative and consultative processes at all stages: from policy design, through implementation, to evaluation. She noted that the effective application of a range of Maori theory and practice frameworks contributed to Maori engagement with and acceptance and use of evaluation.

#### Canada

Frances Abele, Carlton University (Ottawa) emphasised that program evaluation is an integral, mandatory function in all departments of the Canadian federal government, and established, extensive and comprehensive evaluation systems and policies are in operation. In addition, the Canadian Office of the Auditor-General can analyse public expenditure and provide commentary on policy implementation (although usually on a thematic basis, rather than program by program). Royal commissions have also played a role in large-scale policy evaluations.

## Where to from here?

Participants identified a number of fundamental system design issues that need sustained political leadership to drive change. There was a general call for a high level review of the way in which Australian governments interact with Indigenous people, to address issues such as:

- the lack of basic information about existing programs, including their objectives and associated ‘program logic’, at the local, state and territory, and federal levels
- the lack of a coherent framework for the evaluation of Indigenous policies and programs, and a need to embed (and fund) evaluation plans in the design of programs
- the need for genuine partnership, between governments and Indigenous communities and organisations, in the development and evaluation of programs and policies
- the influence on Indigenous policies and programs of various aspects of ‘government governance’, such as government silos, program duplication, red tape, lack of government staff competencies, piecemeal and short-term funding, and lack of flexibility
- a failure to adopt known success factors and follow lessons painfully learned over many years of policy experimentation.

### Better Indigenous Policies: The Role of Evaluation

- > Productivity Commission Roundtable Proceedings
- > Released April 2013

# Report on Government Services 2013

The 2013 Report on Government Services compares the performance of government services across Australian jurisdictions.

The Report on Government Services is produced annually by a Steering Committee of senior officials from Australian, State and Territory governments for the Council of Australian Governments (COAG). The Steering Committee is chaired by the Chairman of the Productivity Commission.

The Report promotes awareness about the performance of government services, and helps drive improvements in design and delivery. The services covered are particularly important for the more disadvantaged members of society, who benefit from better access to services and improved delivery. There are also economic benefits from improving the efficiency of these services – governments spent over \$170 billion on the services covered in this year's Report, equivalent to around 11.8 per cent of Australia's national income.

The 2013 Report is the eighteenth edition of the publication. Enhancements in this edition include further development of the overviews for each of the broad service sectors. High level overviews of performance are now included in the areas of: child care, education and training; justice; emergency management; health; community services; and housing and homelessness.

Some chapters of the Report focus on the performance of agencies that provide services to specific groups in society – for example, the chapters on aged care services; services for people with disability; and early childhood education and care. The Report also aims to present information on the performance of services provided to the following special needs groups: Indigenous Australians; people living in communities outside the capital cities; and people from culturally and linguistically diverse backgrounds. However the Steering Committee notes the paucity of data on outcomes for these groups in some service areas. >

## Services covered in the 2013 Report on Government Services

### Childcare, education and training

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

### Health

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

### Housing and homelessness

- Housing
- Homelessness services

### Justice

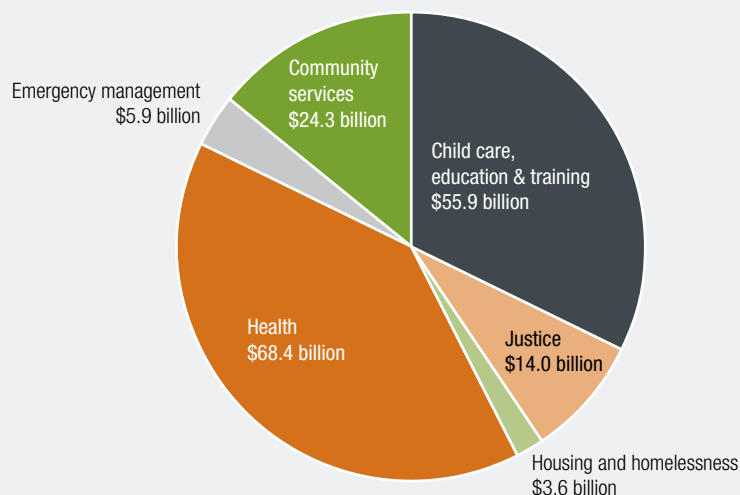
- Police services
- Courts
- Corrective services

### Community services

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

### Emergency management

- Fire and ambulance services

**Figure 1: Estimated government recurrent expenditure on services covered by the 2013 RoGS**

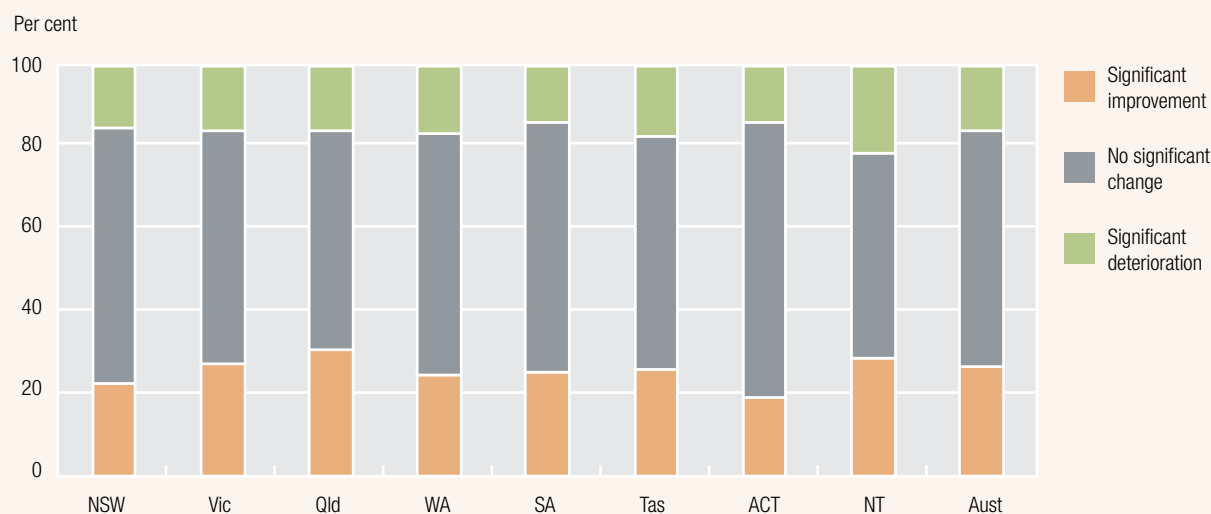
Data sources and caveats: see *Report on Government Services 2013*, figure 1.1.

## Report on Government Services 2013 – selected indicators

### I. Health

#### Mental health outcomes of consumers of State and Territory community-based specialised public mental health services, 2010-11

An indicator of government's objective to improve the effectiveness and quality of service delivery and outcomes and promote recovery from mental health problems and mental illness

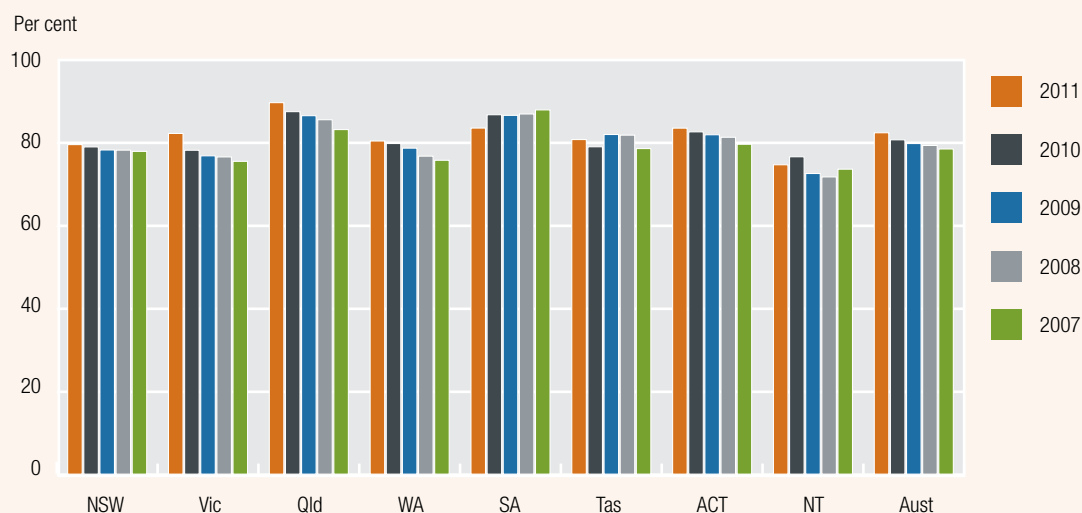


Note: Data comprise people receiving relatively long term community care from a State/Territory mental health service. Data include people who were receiving care for the whole of the reference year, and those who commenced community care sometime after 1 July who continued under care for the rest of the year. The defining characteristic of the group is that all remained in ongoing care when the year ended (30 June). Outcome scores were calculated as the difference between the total score recorded on the first occasion rated and the last occasion rated in the year.

## 2. Vocational education and training

### Load pass rate, all students

An indicator of government's objective for students to achieve success in VET

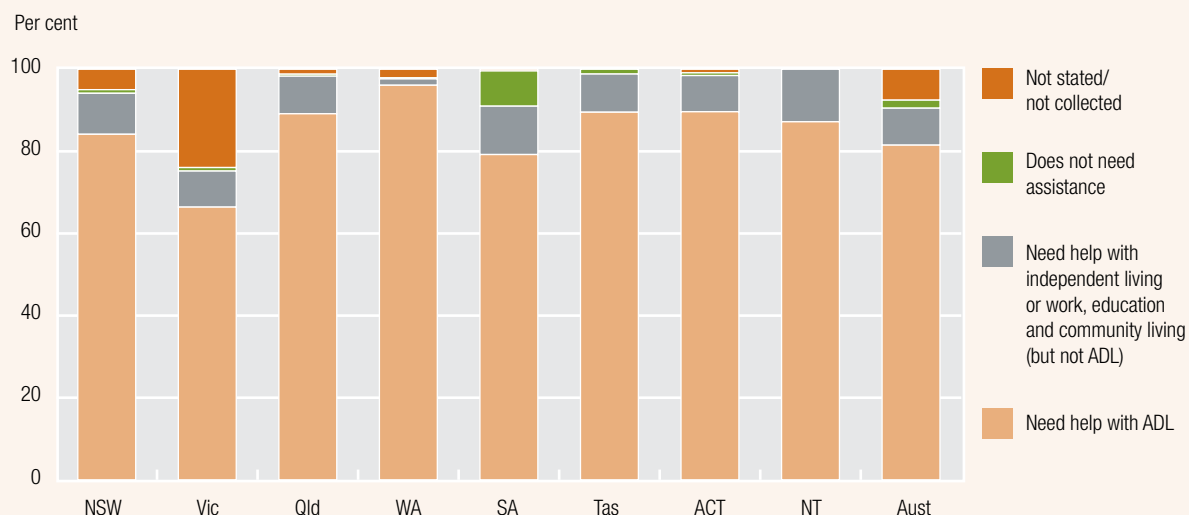


Note: Data are for government funded hours.

## 3. Community services

### Users of specialist disability services by need for help with Activities of Daily Living, accommodation support, 2010-11

An indicator of government's objective to use available resources to provide services to people on the basis of relative need, where need for services is assumed to vary according to the need for help with the Activities of Daily Living



Note: Need for help with Activities of Daily Living relates to the level of support needed in self care, mobility and communication. It does not necessarily relate to the level of support needed to find or maintain employment or with other activities.

Data sources and caveats for all three charts are available from the website for the Review of Government Service Provision.

The Report on Government Services 2013 is available in hard copy and on the Review's website <http://www.pc.gov.au/gsp>. Fact sheets, providing information on the performance indicator framework from each of the service areas, are also available from the website.

### Report on Government Services 2013

- > Released January 2013
- > Contact: Lawrence McDonald 03 9653 2178  
lmcDonald@pc.gov.au

# Commission News

## Peter Harris appointed as new Chairman



As announced by the Treasurer in November 2012, Peter Harris commenced his appointment as Chairman of the Productivity Commission in March 2013, following the retirement of former Commission Chairman, Gary Banks.

Peter has previously served as Secretary of the Commonwealth Department of Broadband, Communications and the Digital Economy, and the Victorian Government agencies responsible for Sustainability and the Environment; Primary Industries; and Public Transport. He has worked for the Ansett-Air New Zealand aviation group and as a consultant on transport policy. He has also worked in Canada on exchange with the Privy Council Office (1993-1994). His career with the government started in 1976 with the Department

of Overseas Trade and included periods with the Treasury; Finance; the Prime Minister's Department and Transport; and he worked for two years in the Prime Minister's Office on secondment from the Prime Minister's Department as a member of then Prime Minister Bob Hawke's personal staff.

## New Commissioned projects

### Major project development assessment processes

The Australian Government has requested the Productivity Commission undertake a study to benchmark Australia's major project development assessment processes against international best practice. The study will consider the extent to which major project development assessment processes across all levels of government affect the costs incurred by business, deliver good regulatory outcomes for the public and provide transparency and certainty to promote business investment.

### Regulator engagement with small business

The Australian Government, with the agreement of Council of Australian Governments' (COAG) Business Regulation and Competition Working Group, has requested that the Productivity Commission undertake a benchmarking study into regulator engagement with small business. The purpose of the research study is to identify leading practices in regulator engagement and determine whether there are opportunities for adoption of these practices to reduce the compliance burden on small business, while sustaining good regulatory outcomes.

> More details including contact information and key dates for all current Commission projects appear on page 24 and are available at [www.pc.gov.au](http://www.pc.gov.au)

## PC Productivity Update

### New Commission publication

PC Productivity Update is a new Commission publication that analyses the latest official data on multifactor productivity and reports on the Commission's most recent research into productivity issues. Australia's productivity performance has a major influence on real per capita incomes. Productivity growth underpins living standards, enhancing the nation's ability to fund services and address challenges such as an ageing population. Productivity Update is intended to be accessible to all interested parties from analysts and policy practitioners to the general public. It will be published on an annual basis, and released early each year.

## Stop Press

The Productivity Commission has been asked to undertake a research study assessing geographic labour mobility within Australia and its role in a well-functioning labour market.

The study will examine patterns of mobility, impediments and enablers, and their effect on the ability to meet Australia's continually changing workforce and employment needs. More information about the study will be posted on the Commission's website as it becomes available.

# Recent releases

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## May 2013

**National Access Regime**  
*Draft Report*

**Compulsory Licensing of Patents**  
*Inquiry Report*

**On Sustainability: An Economic Approach**  
*Staff Research Note (website only)*

**On Efficiency and Effectiveness: Some Definitions**  
*Staff Research Note (website only)*

**The Productivity Reform Outlook – Creating an Expectations Effect, in Support of Continuous Reform**  
*Chairman's speech*

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## April 2013

**Better Indigenous Policies: The Role of Evaluation**  
*Roundtable Proceedings*

**Forms of Work in Australia**  
*Staff Working Paper*

**Report on Government Services 2013: Indigenous Compendium**  
*Steering Committee for the Review of Government Service Provision Report*

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## March 2013

**Trends in the Distribution of Income in Australia**  
*Staff Working Paper*

**Barriers to Effective Climate Change Adaptation**  
*Inquiry Report*

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## February 2013

**Major Project Development Assessment Processes**  
*Issues paper*

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## January 2013

**Report on Government Services 2013**  
*Steering Committee for the Review of Government Service Provision Report*

**Regulator Engagement with Small Business**  
*Issues Paper*

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## December 2012

**Compulsory Licencing of patents**  
*Draft Report*

**Regulatory Impact Analysis**  
*Research Report*

**Mineral and Energy Resource Exploration**  
*Issues Paper*

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## November 2012

**National Access Regime**  
*Issues Paper*

**The Future of the Multilateral Trading System**  
*Pascal Lamy  
Richard Snape Lecture 2012*

**Productivity Policies: The 'To Do' List**  
*Chairman's Speech*

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## October 2012

**Annual Report 2011-12**  
*Annual Report Series*

**Electricity Network Regulatory Frameworks**  
*Draft Report*

**Default Superannuation Funds in Modern Awards**  
*Inquiry Report*

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## September 2012

**Strengthening Trans-Tasman Economic Relations**  
*Discussion Draft*

**2012 Indigenous Expenditure Report**  
*Steering Committee for the Review of Government Service Provision*

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## August 2012

**Regulatory Impact Analysis: Benchmarking**  
*Draft Report*

**Review of Overcoming Indigenous Disadvantage: Key Indicators Report**  
*Steering Committee for the Review of Government Service Provision*

**Compulsory Licensing of Patents**  
*Issues Paper*

**COAG's Regulatory and Competition Reform Agenda: A High Level Assessment of the Gains.**  
*Research Paper*

> All publications can be downloaded from the Commission's website [www.pc.gov.au](http://www.pc.gov.au)

# Current commissioned projects

23 May 2013

## Major Project Development Assessment – *Commissioned Study*

Issues paper December 2012

Draft report July 2013

Final report December 2013

Contact: Clare Sibly 03 9653 2118

Email: [majorprojects@pc.gov.au](mailto:majorprojects@pc.gov.au)

[www.pc.gov.au/projects/study/major-projects](http://www.pc.gov.au/projects/study/major-projects)

## Regulator Engagement with Small Business – *Commissioned Study*

Issues paper January 2013

Draft report July 2013

Final report September 2013

Contact: Ineke Redmond 02 6240 3310

Email: [small.business@pc.gov.au](mailto:small.business@pc.gov.au)

[www.pc.gov.au/projects/study/small-business](http://www.pc.gov.au/projects/study/small-business)

## Mineral and Energy Resource Exploration – *Public Inquiry*

Issues paper November 2012

Draft report May 2013

Final report September 2013

Contact: Bill Henderson 02 6240 3216

Email: [resourceexploration@pc.gov.au](mailto:resourceexploration@pc.gov.au)

[www.pc.gov.au/projects/inquiry/resource-exploration](http://www.pc.gov.au/projects/inquiry/resource-exploration)

## National Access Regime – *Public Inquiry*

Issues Paper November 2012

Draft report May 2013

Final report October 2013

Contact: Andrew Barker (03) 9653 2170

Email: [accessregime@pc.gov.au](mailto:accessregime@pc.gov.au)

[www.pc.gov.au/projects/inquiry/access-regime](http://www.pc.gov.au/projects/inquiry/access-regime)

## Geographic Labour Mobility – *Commissioned Study*

Terms of Reference received 21 May 2013.

More information about the study will be posted on the Commission's website as it becomes available.

Contact: Anthea Long 03 9653 2162

[www.pc.gov.au/projects/study/labour-mobility](http://www.pc.gov.au/projects/study/labour-mobility)

Log on to the Commission's website [www.pc.gov.au](http://www.pc.gov.au) for full details of all current projects.