



Australian Government
Productivity Commission

A GUIDE TO THE **PRODUCTIVITY COMMISSION**



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The Commission's Role

What is the Productivity Commission?

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. Its role, expressed most simply, is to help governments make better policies, in the long-term interest of the Australian community.

As its name implies, the Commission's focus is on ways of achieving a more productive and efficient economy — the key to higher living standards.

The Productivity Commission was created as an independent authority by an Act of Parliament in 1998, to replace the Industry Commission, Bureau of Industry Economics and the Economic Planning Advisory Commission. However its roots go deeper, to the establishment of the Industries Assistance Commission in 1974 (which itself replaced the Australian Tariff Board) and, later, the Industry Commission in 1989.

Why emphasise 'productivity'?

If we fail to grow our productivity over lengthy periods our national income will also not grow. The American Nobel Laureate economist Paul Krugman has observed that, in the long run, almost nothing counts as much for a nation's material wellbeing as its rate of productivity growth. While productivity primarily improves through investments and decisions made by employers and employees, government policy can alter the incentives for firms and individuals to make those decisions.



Core Functions

How does the Commission contribute?

The Productivity Commission is an advisory body. It does not administer government programs or exercise executive power. Its contribution hinges on the quality of the independent advice and information it provides to governments, and on the communication of ideas and analysis.

The Commission is an agency of the Australian Government, located within the Treasury portfolio. However its activities cover all levels of government and encompass all sectors of the economy, as well as social and environmental issues.

The core function of the Commission is to conduct public inquiries at the request of the Australian Government on key policy or regulatory issues bearing on Australia's economic performance and community wellbeing.

In addition, the Commission undertakes a variety of research at the request of the Government and to support its annual reporting, performance monitoring and other responsibilities.

The Commission also acts as secretariat to the intergovernmental Review of Government Service Provision, under the auspices of the Council of Australian Governments. And it has a role in advising on the competitive neutrality of Commonwealth Government business activities.

THE COMMISSION'S FOUR MAIN 'OUTPUT' STREAMS

1

Public inquiries & research studies requested by the government

2

Performance monitoring & benchmarking and other services to government bodies

3

Self-initiated research & annual reporting on productivity, industry assistance and regulation

4

Competitive neutrality complaints

Key Features

Operating principles

There are three features of the Productivity Commission's structure and operations which underpin the effectiveness of its contribution to public debate and policy formulation.

The Commission is independent

The Commission operates under the powers, protection and guidance of its own legislation. Its independence is formally exercised under the Productivity Commission Act through the Chair, Deputy Chair and Commissioners, who are appointed by the Governor-General for fixed periods.

The Productivity Commission has its own budgetary allocation and permanent staff, operating at arm's length from other government agencies. While the Government largely determines its work program, the Commission's findings and recommendations are based on its own analyses and judgments.

The Commission reports formally through the Treasurer to the Australian Parliament, where its inquiry reports are tabled. However, with the statutory requirement to promote public understanding of policy issues, its reports and other communications activities are also directed at the wider community.

Its processes are transparent

The Commission's advice to government, and the information and analysis on which it is based, are all open to public scrutiny. Its processes provide for extensive public input and feedback through hearings, workshops and other consultative forums, and through the release of draft reports and preliminary findings.

It adopts a community-wide perspective

The Commission is obliged under its statutory guidelines to take a broad view, encompassing the interests of the economy and community as a whole, rather than just particular industries or groups. Environmental, regional and social dimensions of its work are also carefully considered, informed by public consultation.

THE COMMISSION'S LEGISLATIVE 'INSTRUCTIONS'

- improve the productivity and economic performance of the economy



- reduce unnecessary regulation



- encourage the development of efficient and internationally competitive Australian industries



- facilitate adjustment to structural change



- recognise the interests of the community generally and all those likely to be affected by its proposals



- increase employment and promote regional development



- have regard to Australia's international commitments and the trade policies of other countries



- ensure Australian industry develops in ecologically sustainable ways



The Public Inquiry Process

Public Inquiries

Where policy issues to be addressed by the Commission require extensive public consultation and exposure — either because they may have a significant impact on different groups within society, or are otherwise contentious or complex to assess — they are typically handled through public inquiries.

Once the Australian Government agrees on the focus and scope of an inquiry (often in consultation with other governments and community groups), the Treasurer sends a 'reference' to the Commission. The terms of reference outline in writing what the inquiry covers and how long the Commission has to report. In order to allow participants time to prepare submissions and respond to a draft report, including through public

hearings, most inquiries specify a duration of 12 months. But more pressing matters can be dealt with in 6 months or less.

Public inquiries give the opportunity for different points of view to be heard and considered, and are widely advertised. Participating in an inquiry means having a say in Australia's public policy formation, and the success of an inquiry can depend upon the active involvement of the community.

People can register their interest in an inquiry by various means, including online, and can monitor other participants' reactions in submissions which are also posted on the Commission's website. Transcripts of public hearings are available online.

PUBLIC INQUIRIES RANGE WIDELY, RECENT EXAMPLES INCLUDE:

- Mental Health (2019)
- Economic Regulation of Airports (2019)
- Murray-Darling Basin Plan: Five-year assessment (2018)
- Superannuation (2018)
- Competition in the Australian Financial System (2018)
- Shifting the Dial: 5 year Productivity Review (2017)
- Marine Fisheries and Aquaculture (2017)
- Data Availability and Use (2017)
- Human Services (2017)
- Migrant Intake into Australia (2016)



The Public Inquiry Process

The Commission is often required to provide the Government with policy options representing alternative means of addressing the issues, as well as a preferred option. It may also make recommendations on any matters it considers relevant to the inquiry, consistent with its statutory policy guidelines.

Final inquiry reports must be tabled in Parliament within 25 sitting days of the Government receiving the report.

It is up to governments to make decisions in response to the Commission's recommendations. This is usually accompanied by debate in Parliament as well as within the wider community. Governments are not obliged to follow the Commission's advice, although in practice more recommendations have been accepted than rejected. Even when the Commission's recommendations are not adopted, government policy-making is usually well-served by the information gathering, public participation and scrutiny of different proposals and ideas that the inquiry process stimulates. Sometimes proposals that were not accepted initially have been implemented after an interval.

Other Commissioned studies

In some cases, the Government may ask the Commission to conduct research on a topic which, while important, is seen as requiring less formal public consultation than a full public inquiry. In recent years, commissioned research of this kind has become more common, swelling the number of commissioned projects being undertaken at any one time.

Some recent examples of such commissioned research studies include: Review of the National Disability Agreement; Transitioning Regional Economies; National Disability Insurance Scheme (NDIS) Costs; Consumer Law Enforcement and Administration; Public Safety Mobile Broadband; and Service Exports.

STAGES IN THE INQUIRY PROCESS

The Australian Government decides to initiate an inquiry

The Treasurer sends a reference to the Commission

The Commission advertises the inquiry and calls for parties to register their interest

The Commission visits interested parties, distributes an issues paper to focus attention on the matters it considers relevant and invites written submissions

Depending on the reference, hearings or other consultative forums will be held

The Commission publishes a draft report or position paper and invites further submissions

Hearings are usually held on this preliminary report

A final report is sent to the Government. Briefings are held and the report is considered by relevant Ministers

The Treasurer tables the report in Parliament. The Government may announce its response at that time or at a later date

Annual Reporting

The Commission is required under its Act to report annually not only on its activities, but also on industry and productivity performance generally, as well as on the effects of industry assistance and regulation. Its Annual Report Series comprises:

- The ***Annual Report***, which is tabled in Parliament, reports on the Commission's operations and performance across its various activities.
- The ***Trade & Assistance Review*** reports on trade policy and assistance developments and contains the Commission's latest estimates of government assistance to Australian industries.
- The Commission also reports on trends in the productivity of the economy — each edition unpacks the latest ABS productivity statistics.



Performance Monitoring

The Commission provides secretariat and research support to the inter-governmental Steering Committee for Review of Government Service Provision. With the Commission's support, the Steering Committee undertakes three streams of reporting for the Council of Australian Governments.

Report on Government Services

The annual Report on Government Services (RoGS) provides information on the equity, effectiveness and efficiency of a range of government services, including health, education, justice, housing and community services. The RoGS encourages improved service delivery, by providing governments, taxpayers and users of services with meaningful, balanced, credible, comparative information.

To compliment the performance reporting in the RoGS, the Secretariat from the Commission undertakes 'What Works' reviews. These review global evidence on what works (or does not) to achieve particular outcomes for government services.

Overcoming Indigenous Disadvantage Report (OID)

The OID is a regular report on outcomes for Indigenous Australians, across a strategic framework of indicators. This report's long-term objective is to inform Australian governments and Indigenous people about whether policies and programs are achieving positive outcomes for Indigenous people.

Indigenous Expenditure Report

The Indigenous Expenditure Report provides estimates of expenditure on services to Indigenous Australians. These expenditure estimates, when combined with other information (such as levels of Indigenous disadvantage) are intended to contribute to a better understanding of the adequacy, effectiveness and efficiency of government services provided to Indigenous Australians.

- **Further information and copies of Steering Committee reports are available from the Commission's website at www.pc.gov.au/gsp.**



Self-initiated Research

The Commission has a statutory mandate to conduct a program of research to support its inquiries, annual reporting and other responsibilities, including promoting community awareness and understanding of various productivity and regulatory issues.

A key part of the Commission's research program are reports which provide evidence on topical policy issues and help to outline future directions for reform.

For example, a paper on An Ageing Australia looked at over-the-horizon policy options that may be consistent with demographic change, for example, indexing retirement benefits to longevity. Another paper examined the links between housing assistance and participation in employment. And another continued investigation of issues relating to the ageing of Australia's population, this time focussing on the housing choices made by older Australians.

A recent research paper on inequality provided a stocktake of the evidence measuring the prevalence of, and trends in, inequality, economic mobility and disadvantage across Australian society. And research on rising protectionism considered challenges, threats and opportunities for Australia.

The Commission's program of research is guided by government statements on policy priorities and parliamentary debate and committee work, and by drawing on consultations with various interest groups. The supporting research program emphasises the sustainability of productivity improvements, including environmental and social aspects.





Australia's Productivity Record

The Australian economy has grown continually (and generally strongly) for 25 years. Between 1989–90 and 2015–16, real GDP increased by an average of 3.1 per cent per year. The long period of economic growth has seen Australia's real per capita GDP grow by 55.4 per cent over the entire period.

In the 1990s, strong GDP growth was underpinned by a home-grown productivity surge. Market sector labour productivity growth accelerated from an average of 2.4 per cent per year in the five years to 1993–94 to 3.9 per cent per year over 5 years leading to 1998–99. Likewise MFP growth also gathered speed, increasing from 1.0 per cent to 2.6 per cent per year.

While macroeconomic stability played a part, it has been widely recognised that the strong productivity performance was largely due to wide-ranging microeconomic reforms. Productivity grew rapidly through the 1990s in some of the industries targeted by reforms — telecommunication, finance and insurance and utilities (electricity, gas, water and waste services) — and in other industries, such as wholesale trade, which took advantage of new technologies. Increased domestic competition, openness for foreign competition and investment and increased flexibility in labour and capital markets were key components of reforms dating from the mid-1980s.

Since the mid 2000s, productivity growth has slowed. While labour productivity growth remained positive (at 2.2 per cent over 2007–08 to 2015–16), MFP stagnated from 2003–04 to 2007–08, and has only recently shown some growth to average 0.2 per cent in this most recent period. The slowdown occurred across most industries in the market sector.

A severe drought affecting agriculture and the water supply (leading to construction of desalination plants) explained part of the slowdown in productivity growth in the earlier part of this period. The boom in mining investment also played a role, as the acceleration in mine construction outpaced the growth in production.

As investment slowed after 2012 and production has caught up, mining productivity has improved. Measured productivity in a number of industries, including utilities such as sewerage treatment, has been impacted by the need for more expensive technologies to combat environmental degradation.

Reinvigorating productivity growth is essential for realising Australia's long-term economic potential and, to achieve that, further microeconomic reform is needed.

Competitive Neutrality Complaints Office (AGCNCO)

The Australian Government Competitive Neutrality Complaints Office, a separate unit within the Productivity Commission, operates as the Australian Government's competitive neutrality complaints mechanism. It provides independent advice to the Government following its investigation into complaints about unfair competition from government businesses as a result of them not complying with their competitive neutrality obligations.

The Office receives and assesses complaints, proceeds with complaints that warrant investigation and provides independent advice to the Treasurer on each matter. The Government is not obliged to accept this advice.

Any individual, organisation or government body with an interest in the application of competitive neutrality may lodge a complaint, although they are encouraged first to discuss their complaint with AGCNCO staff.

Some examples of investigations undertaken by the AGCNCO include those into; Australian Hearing; forestry; the Sydney and Camden airports; Defence Housing Australia; and NBN Co.

The Australian Government's approach to implementing competitive neutrality is set out in its 1996 Competitive Neutrality Policy Statement and also in Competitive Neutrality Guidelines for Managers. These publications and information on the AGCNCO are available from its website at www.pc.gov.au/agcnco.

International Linkages

The Commission has international linkages to research and other organisations through appointments of Commissioners and staff, research alliances and participation in various discussion forums.

For example, the Commission has linkages to the OECD through its work on productivity, quantifying restrictions on trade in services, regulatory analysis, and participation in the APEC– OECD Cooperative Initiative on Regulatory Reform. Trade and regulatory issues have also been the focus of links with the World Trade Organisation.

Commissioners and staff members are also actively involved in maintaining international linkages. The Commission has also provided support for capacity building in various countries, including China, India, Indonesia and Chile.

The Commission also regularly responds to requests from visiting officials and delegations for briefings on the Commission's work and its role in policy advisory processes and for discussion on policy issues. Recent briefings have been held for representatives from Argentina, New Zealand, the United States, Iraq, Iran, India, Colombia, South Korea, Greece, Indonesia, Cambodia, Japan, the Philippines, Thailand, Mongolia, the WTO and IMF.

The Commission's research on productivity and quantification of barriers to trade is drawn on internationally, with its analysis of regulatory policy and applications also attracting particular interest.



Contact

Media, Publications and Web

media@pc.gov.au

Publications and Web
03 9653 2244

Media enquiries
02 6240 3239

Canberra Office

4 National Circuit
Barton ACT 2600

GPO Box 1428
Canberra City 2601

Tel 02 6240 3200
Fax 02 6240 3399

Melbourne Office

Level 8, Two Melbourne Quarter
697 Collins Street
Docklands Vic 3008, Australia

Locked Bag 2 Collins Street East
Melbourne VIC 8003

Tel 03 9653 2100
Fax 03 9653 2199

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