
Public inquiries in policy formulation: Australia's Productivity Commission*

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Introduction

It is a privilege to have been invited to this International Workshop to share Australia's experience in using public inquiries in policy formulation and, in particular, to describe the role and operations of the Productivity Commission.

Australia has a long history of using public inquiries and reviews as an aid to policy formulation, including through the role played by my own organisation and its predecessors over the years. This is generally seen in Australia as having yielded a more rigorous information base for governments and the community, and as having contributed to better policy outcomes.

The process spectrum in policy development

All Governments face well-known difficulties in developing policies and undertaking policy reforms. These include incomplete knowledge and data; a, changing policy context; complex inter-relationships between different issues; and, not least, political constraints and pressures from interest groups. Success in surmounting such difficulties to achieve policy outcomes that promote a country's overall economic performance and community wellbeing, depends in large part on the processes and institutions through which policy is developed and implemented.

It is well-established that sound policy development generally requires a sequence of steps, commencing with an examination of the nature and causes of a policy problem, and the rationale for government action, and concluding with a preferred policy measure, based on an assessment of its likely costs and benefits relative to

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those of other feasible options (see box 1). The extent to which such requirements are met in practice varies greatly, and depends in large part on the institutions or administrative settings within which policy decisions are formulated.

Box 1 Best practice policy development: key steps

Developing the best policy approach to a particular social, environmental or economic issue requires systematic processes to ensure that the ultimate decision is as well informed as possible and therefore unlikely to have adverse or unintended consequences. The key steps are:

- Understand the nature of the problem or issue and its causes.
- Determine why some form of policy intervention is called for and thus specify the policy objective.
- Outline the range of possible policy options (including non-regulatory approaches).
- Assess their relative efficacy in addressing the problem, and their impacts (costs and benefits) across different parts of the economy and sections of the community.
- Choose the option that maximises net social benefits, taking all impacts into account.
- Develop an effective implementation strategy to avoid undue transitional costs, and monitor the outcome.

In terms of their degree of transparency and independence, policy development processes range from:

- decisions based largely on the views of a minister or government
- within-ministry development of policy options (with limited public exposure), sometimes using consultants to provide specialist advice
- parliamentary committees appointed to investigate specific policy issues, and with the power to call on the public to provide evidence
- taskforces of eminent people or experts, often relying on secretariats chosen from a related ministry to provide administrative and analytical support
- ‘fully-independent’ public inquiries, where the government sets the task but stays at arms length from the conduct of the review and the formulation of its policy recommendations.

Processes involving little public consultation or expert advice from outside government are common. They have the advantage that policy decisions can be made quickly. This is useful for matters requiring urgent resolution, particularly where the answers are relatively clear. However, there can be significant drawbacks, including the obvious risks of bad policy decisions due to limited

expertise or lack of information, or the dominance of narrow interests. There is also a risk that policies made with little or no public consultation may be difficult to sustain politically, because there was no mechanism to gauge potential community concerns or condition public expectations. (A case in point is Australia's 25 per cent across-the-board tariff cut in 1973, which was announced without warning and ultimately led to the re-imposition of import quotas to protect sensitive industries.)

Parliamentary committees are used extensively in Australia. One of their principal advantages is that they generally provide ample opportunities for the public to have a say. However, parliamentary committees can also have the disadvantage that their recommendations may be driven largely by political considerations. In Australia, it is not uncommon for a parliamentary committee to issue two reports — one from members who represent the ruling party, and another from those in other parties. This problem can be exacerbated by the modest research and analytical resources that typically support a parliamentary inquiry (although this could be overcome).

Taskforces of experts can reduce the risk of governments making ill-informed decisions. They may also provide for public consultation and gather information about how current and potential future policies affect different groups.

Australia's experience with such processes has been mixed. Some have provided reports of high quality, which have led to major policy changes. (Examples include the 'Campbell Inquiry' into financial market regulation in the 1980s and the 'Hilmer Inquiry' into competition policy in the 1990s.) Such reviews have been characterised by eminent and expert leadership, well-resourced and 'neutral' secretariats, and adequate time frames.

The experience with other taskforces has been less beneficial. In many cases a requirement to report within a short period has made it difficult to undertake adequate public consultation and analysis. As a result, it is not unusual for a taskforce to recommend that specific issues be examined in more depth in a future review. Also, taskforces have encountered problems where they have relied on a secretariat drawn from the department responsible for the policy area under review. The department's own interests and views can predominate.

'Independent' public inquiries, by definition, need to be structured such that those involved can undertake their own analysis, reach their own conclusions about the best way forward, and not have a vested interest in the advice provided to government. They should also provide ample opportunity for public input to the formulation of policy recommendations. This combination of independence and public consultation has major advantages. It can lead to better inputs to policy making, because there is an opportunity for various points of view to be heard and considered, not just those who have the most influence within government.

This, in turn, can lead to recommendations that are more soundly researched and evidence based, and policy decisions that are more likely to be in the interests of the community at large, rather than favouring a particular group.

Such a process can also heighten public awareness of the relevant issues and the potential benefits of reform, and thus build support for reform. This can help governments to implement reforms that might otherwise be effectively opposed by a vocal minority that stands to lose certain privileges or benefits. Public consultation also provides governments with an opportunity to gauge at arms length the likely reactions of the community to different policy approaches. This can help governments anticipate public reactions and be better placed to resist demands for a policy reversal.

Public inquiries also have some limitations. Perhaps the most important relate to the time and resources (costs) required, which tend to be higher than for other policy-development processes. For example, ample time needs to be provided for the public to prepare written submissions, and for the inquiry team to meet with a sufficiently representative sample of the community. Thus, public inquiries tend to be better suited to more important issues with much at stake in policy reform, and where a policy decision does not need to be made quickly.

The use of public inquiries in Australia dates back to at least 1819, but there has been a significant increase in their use since the mid 1970s. Various types of public inquiries have been used, including Royal Commissions appointed for the purposes of addressing a particular issue, like taskforces, but where more formal powers of obtaining evidence are required. The Productivity Commission is unusual in having an ongoing statutory role, and is the focus of the rest of this presentation.

The Productivity Commission

The Productivity Commission was created as the Australian Government's principal advisory body on microeconomic policy and regulation. Its role, expressed most simply, is to help governments make better policies in the long-term interests 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 Commission is only an advisory body. It does not administer government programs or exercise executive power. Its role is to provide independent, evidence based advice and information to government, and the wider community. The Commission carries out this function primarily by conducting public inquiries at the request of the Australian Government. However, the Commission also advises and

informs in various other ways, including through performance monitoring and benchmarking, self-initiated research, and as a ‘watchdog’ on good regulatory practice (box 2).

Box 2 The Commission’s five main ‘outputs’

1. public inquiries and research studies requested by the Australian Government
2. performance monitoring & benchmarking, and other services to government bodies
3. regulation review
4. competitive neutrality complaints advice
5. supporting research & annual reporting on productivity performance, industry assistance and regulation.

The Productivity Commission was established in 1998, but its origins go back to the Industry Commission (established 1990) and the Industries Assistance Commission (1974) and, ultimately, their forebear, the Tariff Board (1921).

The Commission’s structure and operations are based on three important principles:

- independence
- transparency
- communitywide perspective.

Together, the features make the Commission an unusual organisation, both in Australia and internationally, and they are fundamental to its role and operations.

Independence

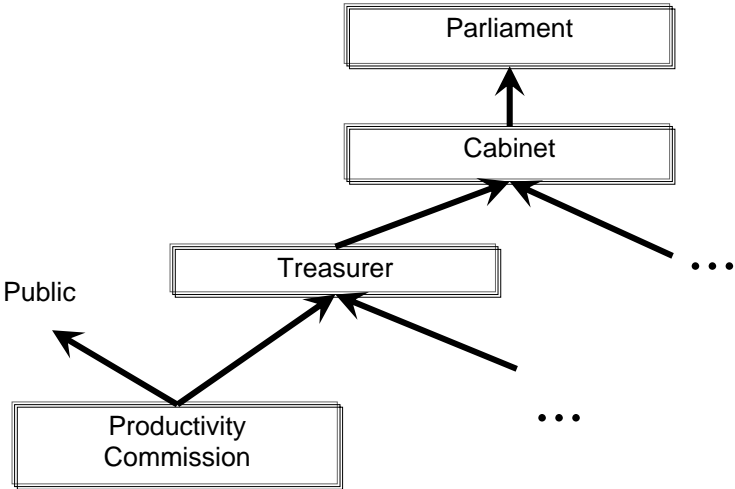
The Commission operates under the powers, protection and guidance of its own legislation (the *Productivity Commission Act 1998*). This gives it an ‘arm’s length’ relationship with the Australia Government, which can tell it what to do — by directing it to undertake specific inquiries — but not what to say in its reports. The Commission’s independence is exercised through the Chairman and Commissioners, who are statutory officers appointed for fixed terms by the Governor-General (effectively Australia’s head of state), and cannot easily be removed.

The Commission currently has eight Commissioners in addition to the Chairman, and around 200 staff. The Commission’s legislation allows it to have between four

and eleven Commissioners, who can be appointed for renewable terms of up to five years.

The Commission reports formally through the Treasurer to the Australian Parliament (figure 1). However, a requirement in the Commission’s legislation to promote public understanding of policy issues in improving Australia’s living standards means its reports are also directed at the wider community.

Figure 1 How the Productivity Commission ‘fits’ within government



It has proved important that administrative responsibility for the Productivity Commission and its work program has rested with the Treasurer, who has economywide responsibilities. The Commission’s experience in the 1980s within an industry portfolio, was that the minister and department did not make best use of its potential, and did not always facilitate the best use of its reports.

Transparency

The Commission’s advice to government, and the information on which it is based, are open to public scrutiny. Its processes provide for extensive public input through hearings, workshops and other consultative forums, and through the release of draft reports containing preliminary recommendations. This allows anyone with an interest to have a say, to respond to the views of others, and to comment on the Commission’s preliminary findings before it submits its final report and recommendations to government.

Communitywide perspective

The Commission is obliged under policy guidelines in its legislation to take a broad view, encompassing the interests of the economy and community as a whole, rather than just particular industries or groups. The Commission is also required to have regard to a range of more specific considerations, including the facilitation of adjustment to change, the need to promote employment and regional development, and the social and environmental implications of its recommendations.

So, for example, the Commission's reports on tariff assistance to textiles and clothing have considered the implications for consumers and user industries, and the employment effects have been assessed across all industries. (The result has been that the Commission has generally recommended lower tariffs to improve the welfare of the community as a whole, even though this would reduce activity and jobs in the TCF sector.)

Main elements of the Commission's inquiry process

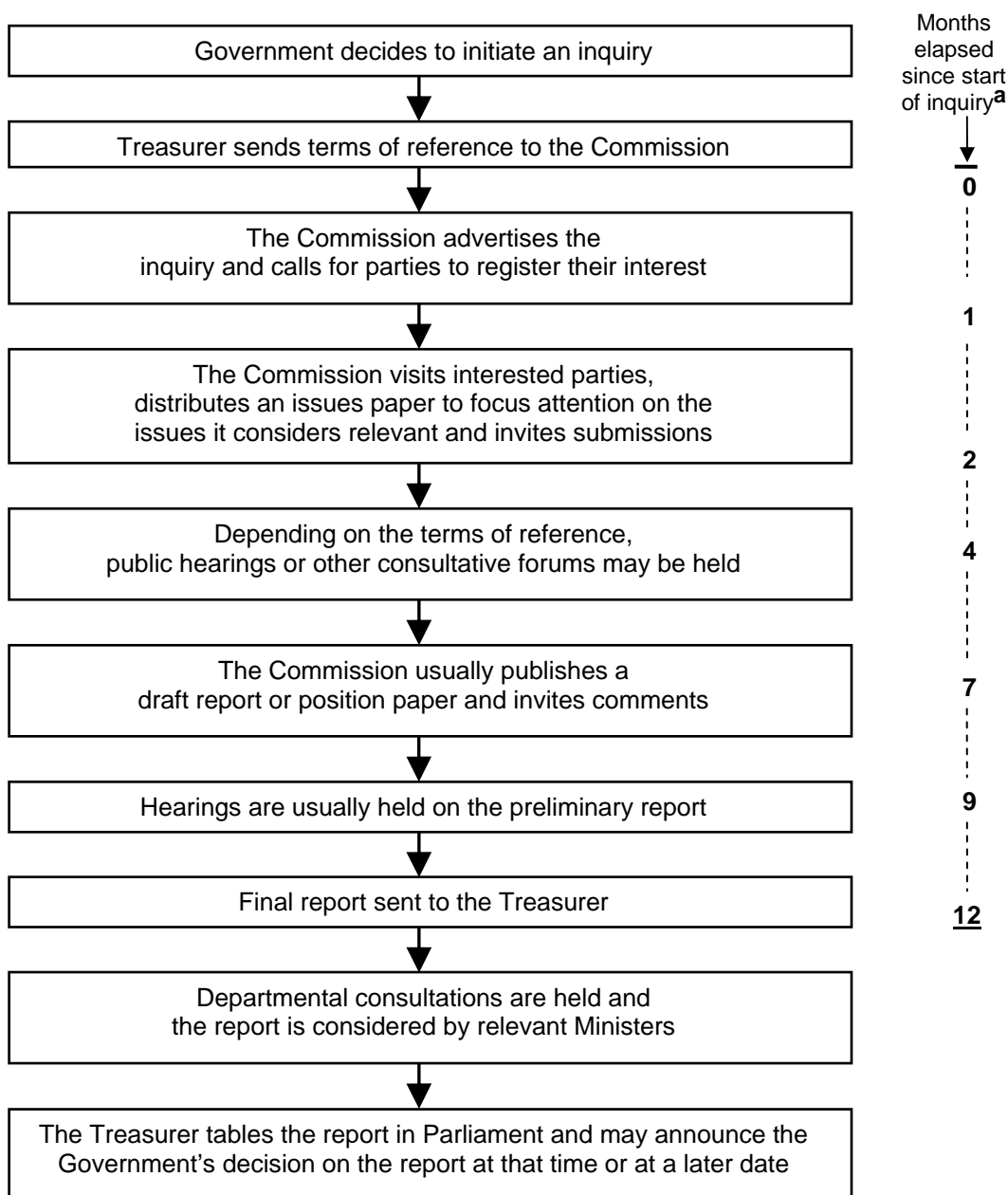
There are a number of distinct steps that are normally followed in a Productivity Commission inquiry. These are summarised in figure 2.

Initiation of an inquiry

Firstly, the Australian Government must decide that an inquiry should be undertaken by the Productivity Commission. Such a decision may be made in response to concerns raised about particular policy or regulatory issues by businesses, regional governments (state, territory or local) or other community groups. Alternatively, it may be to assist the Australian Government with its own policy agenda.

The matter to be investigated would normally be national in scope, rather than regional, and be the kind of issue where public processes together with in-depth research are needed. The Commission tends to be chosen over other arms-length mechanisms when the topic is suited to the Commission's economic expertise, where 'due process' is important, and where there is sufficient time to allow for public consultation.

Figure 2 Stages in the Commission’s public inquiry process



^a Indicative timing for a 12 month inquiry. Actual timing depends on factors such as complexity of the topic examined, number of interested parties, and their geographic dispersion.

Within the Australian Government, the Treasurer is responsible for directing the Productivity Commission to undertake inquiries. In carrying out this responsibility, he typically consults with other Government Ministers where the issues are relevant to their portfolios. For similar reasons, regional governments and community groups are often also consulted. Many inquiries undertaken by the Commission cover issues that involve the states or territories, or affect them. For example, our

recent inquiry into road and rail freight infrastructure pricing originated within the Council of Australian Governments, a forum comprising leaders of state and territory governments and the Prime Minister.

Once the focus and scope of an inquiry has been decided, the Treasurer sends ‘terms of reference’ to the Commission. These outline in writing what the inquiry must cover and how long the Commission has to report. In order to allow participants time to prepare submissions and respond to a draft report, terms of reference typically specify that the inquiry will have a duration of 9 to 12 months. (The terms of reference for the most recent inquiry into assistance to the Textiles, Clothing and Footwear sector is provided in the appendix).

Inquiries conducted by the Commission can cover any sector of the economy; focus on a particular industry or cut across industry boundaries; or involve wider social or environmental issues. This diversity is evident in table 1, which lists a sample of past inquiries by the Commission.

Table 1 A sample of past inquiries by the Productivity Commission

• Post-2005 assistance for Australia’s automotive and textile, clothing and footwear industries	• Access arrangements for essential infrastructure
• Broadcasting legislation	• Australia’s gambling industries
• Pro-competitive regulation of telecommunications	• Impacts of native vegetation and biodiversity regulation
• Job Network services for the unemployed	• Review of disability discrimination legislation
• Impact of competition policy reforms on rural and regional Australia	• Cost recovery arrangements for government agencies
• Affordability of first home ownership	• Road and rail freight infrastructure pricing
• Price regulation of airport services	

Up to three Commissioners are appointed by the Chairman to oversee an inquiry. One (the ‘Presiding Commissioner’) is nominated to take the leading role. One or more can be appointed as ‘Associate Commissioners’ from outside the Productivity Commission, in order to bring specialist expertise. (Such appointments lapse at the conclusion of the inquiry.)

Public consultation

A key feature of Productivity Commission inquiries is extensive public consultation. As noted previously, a high level of public consultation can: lead to better-informed analysis and recommendations; raise public awareness of the

relevant issues and potential benefits of reform; and provide governments with an opportunity to gauge at arms length the likely reactions of the community to different policy approaches.

A wide variety of industry and community groups typically participate in the Commission's inquiries. For example, our inquiry into road and rail freight infrastructure pricing (PC 2006d) involved 124 submissions, 3 roundtable meetings involving over 50 people in total, 15 participants in public hearings, and 67 visits to interested parties; and our inquiry into policies around waste generation (PC 2006c) involved 273 submissions, 93 participants in public hearings, and 37 visits to interested parties.

The various consultation processes used by the Commission are outlined below.

Informing 'stakeholders' about the inquiry

Shortly after receiving terms of reference, the Commission sends a circular to organisations and individuals who may have an interest in the inquiry. This can include government agencies, industry associations, individual businesses, unions, community groups, and academics. The circular informs parties that the inquiry has commenced and invites them to register their interest. Advertisements are also placed in newspapers across the country inviting people to register with the inquiry. Those who register an interest are placed on a mailing list and receive updates on the inquiry as it progresses. An inquiry page is also established on the Commission's website (www.pc.gov.au) as soon as possible, to publicise the inquiry, encourage participation, and keep the public informed of developments.

Conducting industry visits

The Commission usually conducts a limited initial program of visits to selected participants early in an inquiry, including to government agencies, to gauge what are likely to be the key issues needing consideration, prior to preparing an Issues Paper (see below). Meetings with a wider range of parties will usually occur as an inquiry progresses.

In the Commission's experience, visits to interested parties and the relatively informal discussions they entail, can be just as valuable as formal submissions and public hearings. They provide early, and usually more frank, signals about what is important to those concerned. They can also allow such views to be quickly tested with other interested parties. In addition, they often give leads about information sources or useful contacts that might otherwise not have been discovered. It is important though that meetings of this kind do not substitute for public submissions,

which give everyone the opportunity to see what others were saying and to respond if necessary. The transparency of public submissions also reduces any concerns that there are ‘hidden agendas’.

Issues paper and submissions

A key step in the early stage of an inquiry is the drafting and release of an ‘issues paper’. This is used to focus public attention on the issues the Commission considers relevant, and to guide submissions. The issues paper is distributed to those who register an interest and is placed on the Commission’s website.

A submission can range from a short letter outlining views on a particular topic to a substantial document covering a range of issues. A typical inquiry will receive 100-200 submissions. These are all made available for others to read — including by placing them on the inquiry website — except, in rare circumstances, for material deemed deserving of confidentiality (to protect privacy or commercial interests).

Public hearings and other forums

The Commission also facilitates potentially wide public input to its inquiries by holding public hearings. These are held in various locations across the country, depending on the topic and level of public interest.

At a public hearing, participants must indicate that they will be truthful in their remarks (as in a court). They are invited to make comments and answer questions about their submissions. The discussion is recorded and transcribed into a written document available to the public, including on the inquiry website.

In some cases, the Commission may use other consultative forums, such as workshops or roundtables. These are less formal than a hearing and provide an opportunity for different groups to debate an issue, rather than submit comments separately to the Commission. However, in most cases, the terms of reference for an inquiry require public hearings to be held.

Public comment on draft analysis and recommendations

The testing of preliminary thinking through a draft report is fundamental to the Productivity Commission’s processes. It maximises the opportunity to detect error (factual, analytical or judgemental) and it provides a ‘no surprises’ environment which can enhance a final report’s acceptability and enable government to discern the political implications of implementing it.

An inquiry report typically outlines background facts and trends, the analytical framework used and key issues, as well as setting out policy options and providing recommendations. The Commission may make recommendations on any matters it considers relevant to the inquiry, but it must take into account the policy guidelines in its legislation.

The Commissioners assigned to the inquiry guide the structure and content of the report, with staff conducting the detailed analysis and undertaking much of the initial drafting. When the Commissioners are satisfied with the draft, it is discussed at a meeting of the Productivity Commission as a whole — comprising the Chairman and all Commissioners — and the draft is refined in light of their discussion.

The Commission then publishes the draft report and encourages public scrutiny and comment. Copies are sent to parties who made submissions and to others who request a copy. The report is also placed on the inquiry website, and a media release is issued to publicise the report. Media coverage often follows, including interviews with Commissioners.

The Commission invites the public to comment on its draft reports through further submissions and a second round of hearings. This feedback is also made public.

The Government usually refrains from commenting publicly on the Commission's findings at the draft report stage. This gives it an opportunity to gauge the reactions of the community to different policy approaches. It also reinforces the benefit of the Commission taking account of public comments on its preliminary thinking before finalising its recommendations to the government.

Draft reports are revised and developed in light of comments received in submissions and hearings, with the results discussed at a meeting of the full Commission. A final inquiry report is then produced and sent to the Australian Government through the Treasurer. The Commission may again brief government officials on the report, particularly on changes from the draft version.

Government response

Final inquiry reports must be tabled in Parliament within 25 sitting days of the Treasurer receiving the report. At this point the report becomes public. The Commission sends copies of the report to inquiry participants and places it on its website for public access.

The Treasurer may announce the Government's decisions on each of an inquiry's recommendations when tabling the report, or defer this for further consideration. In

any case, it is up to the Australian Government to decide whether or not to accept and implement the Commission's recommendations. This decision is typically preceded by consultations with relevant departments and Ministers in the Australian Government and, where relevant, State and Territory Governments. The Commission does not normally comment publicly on the final report and government response, consistent with its advisory role and its independence from the policy-making process.

Common questions about the Commission's role and activities

The Productivity Commission has no exact equivalent in other countries and therefore a number of practical questions about its role and operations often arise in discussions with foreign delegations. Some of the more common ones are addressed below.

How does the Commission maintain its independence?

As noted previously, the Productivity Commission operates under the powers, protection and guidance of its own legislation. The Commission's independence is formally exercised through the Chairman and Commissioners, who are appointed for fixed terms by the Governor-General (effectively Australia's head of state), and can only be dismissed in prescribed circumstances.

In more practical terms, it has adequate budgetary funding — received as a block amount annually — to discharge its functions as it sees fit, including having control over its own staffing and use of any consultants. (The Commission does not receive funds for specific projects from private sources, which could be seen as compromising its ability to be objective.)

However, the Commission's independence is not unfettered. The Australian Government determines the policy questions on which the Commission provides advice and prepares the terms of reference for its inquiries. Thus, the Government can ensure that the Commission's formal advice does not stray into certain aspects of a policy issue that it believes should not be addressed. For example, the terms of reference for the Commission's inquiry on telecommunications competition regulation explicitly excluded consideration of the structural separation of the dominant service provider. And an inquiry into the private health insurance industry and its regulation excluded consideration of reforms to the wider health system.

Does the Commission's independence cause difficulties for government?

A potential risk for government in sending references to the Commission, especially on issues where the political stakes are high, is that it may not always like the answer. To be true to its charter, the Commission needs to look at issues on their merits, against economywide tests, without being influenced by the politics. It should of course provide relevant and practical options for governments to consider, but needs to be clear about the basis for its preferences. This inevitably means that the Commission's advice will not always be accepted, or at least not immediately. Political commitment to the Commission's role and functions therefore requires a degree of forbearance by government in the face of advice that may sometimes be contrary to its wishes.

The Commission also needs to exercise its independence responsibly, if it wishes to be respected and influential over time. For example, as noted, the Commission does not comment publicly on government responses to its reports. And its self-initiated ('supporting') research is developed following consultation with government, among other stakeholders, and avoids 'sensitive' projects which the government might justifiably consider should only be undertaken with its formal agreement (as an inquiry).

In many respects, the Commission's independence has been of benefit to the Government, as it can use the Commission's work authoritatively to support its case for policy changes or reforms. There are numerous examples of the Commission's findings being actively used by governments in this way, but some of the more recent include the Commission's reports on the Economic Implications of Population Ageing (2005), Australia's future Health Workforce (2005) and the benefits from the National Reform Agenda under the Council of Australian Governments (2006).

How influential are Productivity Commission inquiries and reports?

It is hard to be conclusive about the impact of the Commission's work on policy making and reform in Australia. After all, governments are not obliged to follow the Commission's advice, since it is only an advisor. There are also many other sources of advice to government, and there can be lags between when the Commission reports and the ultimate policy decision is made. This makes the attribution of reform to earlier advice difficult. And of course, views by different parties on the performance of the Commission can be conditioned by how those interests have been affected by its advice and analysis.

One simple indicator of the Commission's usefulness to government is the extent of acceptance of its findings and recommendations. A review of the Commission's inquiry experience since its inception in 1998 shows that governments typically adopt a substantial majority of recommendations and generally endorse its other findings (PC 2006a). Further, the nature and extent of subsequent references to Commission inquiry reports suggests that those reports materially contribute to policy debates in Federal, State and Territory Parliaments, as well as more generally within the media and general community.

Even when the Commission's recommendations are not adopted, government policy-making is often better 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. This may be triggered by a change in government or in the economic climate, or just greater public acceptance of new ideas with the passage of time.

Accordingly, it would be misreading the Commission's role to interpret rejection of its advice in particular cases as indicating that the institution added no value to the policy-making process. A government must make policy decisions based on a range of considerations, including its judgment about what will be acceptable to the public and about the appropriateness of the timing. The Commission's advice is but one input among many to the eventual outcome. Because it is independent and directed at the long-term public interest, it nevertheless plays a significant role in helping governments understand the tradeoffs in different policy choices. (A recent example is the Commission's 2000 report on the regulation of broadcasting in Australia, which set out a coherent reform framework to maximise the sector's contribution to the community and economy into the future. While not all recommendations were implemented, the ensuing debate drew heavily on the Commission's report.)

Perhaps the strongest vindication of the Commission's role is that successive governments from both major political parties in Australia have renewed and expanded the institution's mandate over the last three decades, including very recently in the area of regulatory monitoring and review.

Further support for the Commission is found in the preparedness of the different levels of government in Australia, through the Council of Australian Governments, to request that the Commission be sent references on cross-jurisdictional policy issues, such as Australia's health workforce, road and rail freight infrastructure pricing and, most recently, benchmarking the performance of regulatory regimes across Australia.

What is the Commission's relationship to other bodies?

Given the importance of its independent status, the Commission conducts its public inquiries on its own account; never in conjunction with any other organisation. However, it develops strong consultative relationships with relevant bodies in the course of its inquiries, and when conducting its self-initiated research.

Within government, the Commission interacts regularly with the Australian Treasury over its work program. It also provides periodic briefings on its activities to state and territory governments across Australia. In one strand of its work it acts as an independent Secretariat for an annual review of government services (measuring their efficiency, effectiveness and equity) conducted under the auspices of the Council of Australian Governments.

The Commission maintains informal contacts with international agencies such as the OECD, WTO and World Bank, and some of its staff have been employed by these bodies. Nationally, there are also close informal links with a number of academic research bodies (such as the Melbourne Institute of Applied Economics and Social Research) and occasional partnerships are entered into on particular research topics (outside the formal inquiry stream), such as with non-government organisations involved in the care of the elderly.

What is the skill mix of the Commission's inquiry staff?

The Commission's primary function is to analyse issues from an economic perspective, so most of its inquiry staff have university training in economics. Many are probably also best described as 'generalists' who have the ability to apply economic concepts to a wide range of policy issues. We do, however, also have a number of staff with specialist expertise in particular areas, such as economic modelling. Many staff also have qualifications in other disciplines, such as law or science.

The Commission also has access to expertise in disciplines other than economics through staff secondments and the use of part-time Associate Commissioners for specific projects. For example, the Associate Commissioner appointed to our gambling industry inquiry (PC 1999) — Robert Fitzgerald — had extensive experience as a lawyer and in social policy, which was important to consider the social impacts of gambling. And the Associate Commissioner currently attached to the Commission's review of regulatory burdens on the primary sector — Dr Matthew Butlin — was formerly a senior executive in the mining sector.

What sort of analysis is undertaken by the Commission?

The Commission's contribution to policy development is primarily one of bringing economic analysis to bear on policy issues, whether they be economic, social or environmental in nature. Our work deals with concrete policy problems and issues, and we are expected to provide practical recommendations. That means we are primarily engaged in applied economic analysis, rather than theoretical work.

The analytical approaches we use are based on the neoclassical framework. But the Commission also keeps up with the latest developments in economic thinking. This occurs naturally through ongoing research, and inflows of newly trained staff. In addition, the Commission occasionally conducts forums on significant emerging strands of analysis (such as a conference on New Growth Theory in the 1990s, attended by Prof. Paul Romer, and a recent roundtable on Behaviour Economics, attended by Prof. Bruno Frey from the University of Zurich and Prof. Eldar Shafir from Princeton University.)

Economic modelling is an important tool for the Commission — helping to understand the often complex ramifications of policy changes across the economy, including the distributional effects. The development and maintenance of economic models, including general equilibrium models, is thus an important research function in its own right. This sort of analysis was pioneered by the Commission's predecessor, the Industries Assistance Commission, in the 1970s. Today we retain an 'in-house' GE modelling capacity, but also draw on and contract work from universities (especially Monash University's Centre for Policy Studies).

The Commission has close relations with the Australian Bureau of Statistics, which is the primary source of much of the data it uses. Where readily available data is inadequate, the Commission will sometimes undertake its own surveys. A recent example is a major national survey of gambling behaviours. In another example, businesses will soon be surveyed about compliance costs of government regulation in different jurisdictions.

Summing up

Public inquiries can have considerable benefits for developing advice on policy matters of medium and longer-term national significance. In Australia, the institutional characteristics of the Productivity Commission — independence, transparency and a communitywide perspective — have been important factors in making public inquiries a useful part of the policy-making process.

As a result of the system of open inquiries, evidence-based analysis and public reports, Australia's policy makers and community have been better informed about the future consequences of policy initiatives under consideration. This has helped make it possible for Australian governments to progress a variety of significant policy reforms, despite vocal opposition from some quarters.

While Australia's experience demonstrates that institutionalised transparency can help governments undertake beneficial reform and make better policies, its transformative influence within government and the wider community is a gradual process. It took Australia four decades to get tariffs down and more than a decade to start overcoming the sources of underperformance in economic infrastructure services. And neither reform program is yet complete.

That said, reforms once made in Australia have tended to be long lasting, having stronger foundations of support and acceptance within the community precisely because the basis for reform was transparent. In particular, the programs of tariff liberalisation and other pro-competitive reforms have generally been maintained by successor governments to those which first introduced them, to the benefit of the Australian community.

Appendix Sample terms of reference

POST-2005 ASSISTANCE ARRANGEMENTS FOR THE TEXTILES, CLOTHING AND FOOTWEAR INDUSTRIES

I, PETER COSTELLO, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, refer post 2005 assistance arrangements for the textile, clothing and footwear industries to the Productivity Commission for inquiry and the provision of an information report. The Commission is to report its findings by 31 July 2003 and is to hold hearings for the purpose of the inquiry.

Background

Current TCF Assistance Arrangements

The Government's current assistance arrangements for the textile, clothing and footwear (TCF) industries comprise:

- the Textile, Clothing and Footwear (Strategic Investment Program) Scheme (SIP);
- a commitment to hold tariffs for TCF products at 2001 levels until 2005:
 - at that time tariffs are legislated to reduce from 25 percent to 17.5 percent for clothing & finished textiles; from 15 percent to 10 percent for cotton sheeting and fabrics, carpet, and footwear; and from 10 percent to 7.5 percent for sleeping bags, table linen and footwear parts
- the Expanded Overseas Assembly Provisions Scheme, specific TCF policy by-laws and market access initiatives.

Other policies that have the potential to impact on the industries include:

- Australia's commitment to free and open trade and investment with APEC members by 2010, its WTO obligations in respect to subsidies and our broader trade liberalisation objectives;
- bilateral trade negotiations and possible Free Trade Agreements;
- the Government's industry and innovation support programs; and
- the market access policies and support programs of other economies towards their domestic TCF industries.

Scope of industry and current performance

TCF manufacturing covers all stages of production of textile, clothing, footwear and leather products, from processing of raw materials such as cotton, wool, leather and synthetics, to the production of final goods. Linkages extend upstream to the supply of natural fibres and downstream to service areas including design, pattern making, retailing and major consumers such as furniture manufacture, engineering and health.

Substantial budget support has been provided to the TCF industries over many years to assist firms in undertaking structural change. The TCF (SIP) Scheme currently provides funding of \$678 million over 5 years to 2005 to encourage increased investment and innovation with the objective of achieving international competitiveness. The effective rate of assistance for the TCF sector declined from 85.5 percent in 1989/90 to 25.6 percent in 1999/2000. The effective rate for manufacturing as a whole declined from 16.3 percent to 5 percent over the same period.

The TCF industries directly employ 64,000 people, representing 7 percent of the manufacturing workforce and account for around 4 percent of manufacturing turnover. Exports excluding wool scouring, leather tanning and dressing currently stand at \$1.1 billion, with New Zealand as the largest customer. Over the ten years to 1999/2000, turnover in the sector contracted by almost 16 percent and employment declined by 37 percent. Productivity as measured by turnover per employee increased by almost 48 percent.

The pressures for structural change have intensified in recent years due to a range of factors including import competition, technological change and shifts in household expenditure. Firms in the various TCF subsectors have responded by rationalising and modifying their operations through vertical integration, contracting out lower value added activities, and developing higher value and more sophisticated products and applications. Others have sought to maintain their competitiveness with more export activity, increased investment in capital equipment and technology and innovative design. There has also been an increased emphasis on services such as design, logistics and brand management and the establishment of new markets including exporting. Successful firms have emerged with strong brands and technologies. The factors driving this success have included strategic approaches to marketing and investment, managerial skills, innovation and supply chain integration.

Scope of Inquiry

Drawing on the Background, the Commission should consult with a cross section of the industries and other members of the community. In undertaking the inquiry, the Commission should bear in mind the Government's desire to:

- encourage the sector to adjust into activities where it will be internationally competitive with lower levels of Government assistance; and
- improve the overall performance of the Australian economy.

The inquiry should:

Evaluate Current Arrangements

- Evaluate the effectiveness, efficiency and appropriateness of current assistance programs in meeting the Government's goal of achieving structural change and a more internationally competitive TCF sector by 2005, including a consideration of outcomes at the sub-sector level.

Assess long term viability and opportunities

- Identify and analyse major impediments to the long term viability of the TCF sector. These would include factors such as cost structures, and market and firm characteristics such as import competition, corporate structure, existence of critical mass, management and workforce skills, the purchasing strategies of major retailers, the ability of the sector to attract investment, and international trading arrangements including market access issues.
- Identify major opportunities for the sector and its strengths and weaknesses for securing these opportunities.
- Identify policy options, including tariff options, consistent with the Government's international obligations, such as those under WTO and APEC, which would encourage the sector to adjust to a more viable and sustainable competitive position.
- Analyse the short and long term implications of each policy option for the structure, performance and competitiveness of the sector, investment, employment, consumers, resource allocation, flow on effects for other industries, general growth prospects and appropriate role for government. Particular attention should be given to the impact of policy options on those regions where TCF accounts for a high level of regional industry concentration.
- Examine relevant workplace issues including the more effective use of flexible modes of employment, labour mobility in and out of the sector, especially in regional Australia, and the scope for innovative workplace reform including policy options to improve the competitiveness of the sector.

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- Report on the likely impact on the TCF industries of international trade developments, including, but not limited to, the Doha round of trade negotiations and proposed Free Trade Agreements.

Consideration by the Government

The Government will consider the options of the Inquiry and will announce its response as soon as possible after receiving the Inquiry report.

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