



Australian Government
Productivity Commission

APEC High Level Conference on Structural Reform Tokyo, September 2004

Building a Domestic Constituency for Structural Adjustment

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Productivity Commission, Australian Government



Outline

- The Productivity Commission – a model
- Productivity – outcomes and causes
- Examples of structural change – a policy story
- Lessons in managing structural change



About us

The Productivity Commission, an independent Australian Government agency, is the Government's principal review and advisory body on microeconomic policy reform and regulation.

Its role: to achieve better informed policy decisions.

Three core design features

■ Independent

- *operations determined by Act of Parliament*
- *Statutory appointees*
- *arm's length*

■ Transparent

- *open and public processes*
- *encourage and facilitate public participation*
- *published outputs*

■ Community-wide perspective

- *'in order to achieve higher living standards for all members of the Australian community'*



How we help Government

- Broadly based and objective analysis on policy options
- Testing policy ideas
- Educating the community about the need for reform



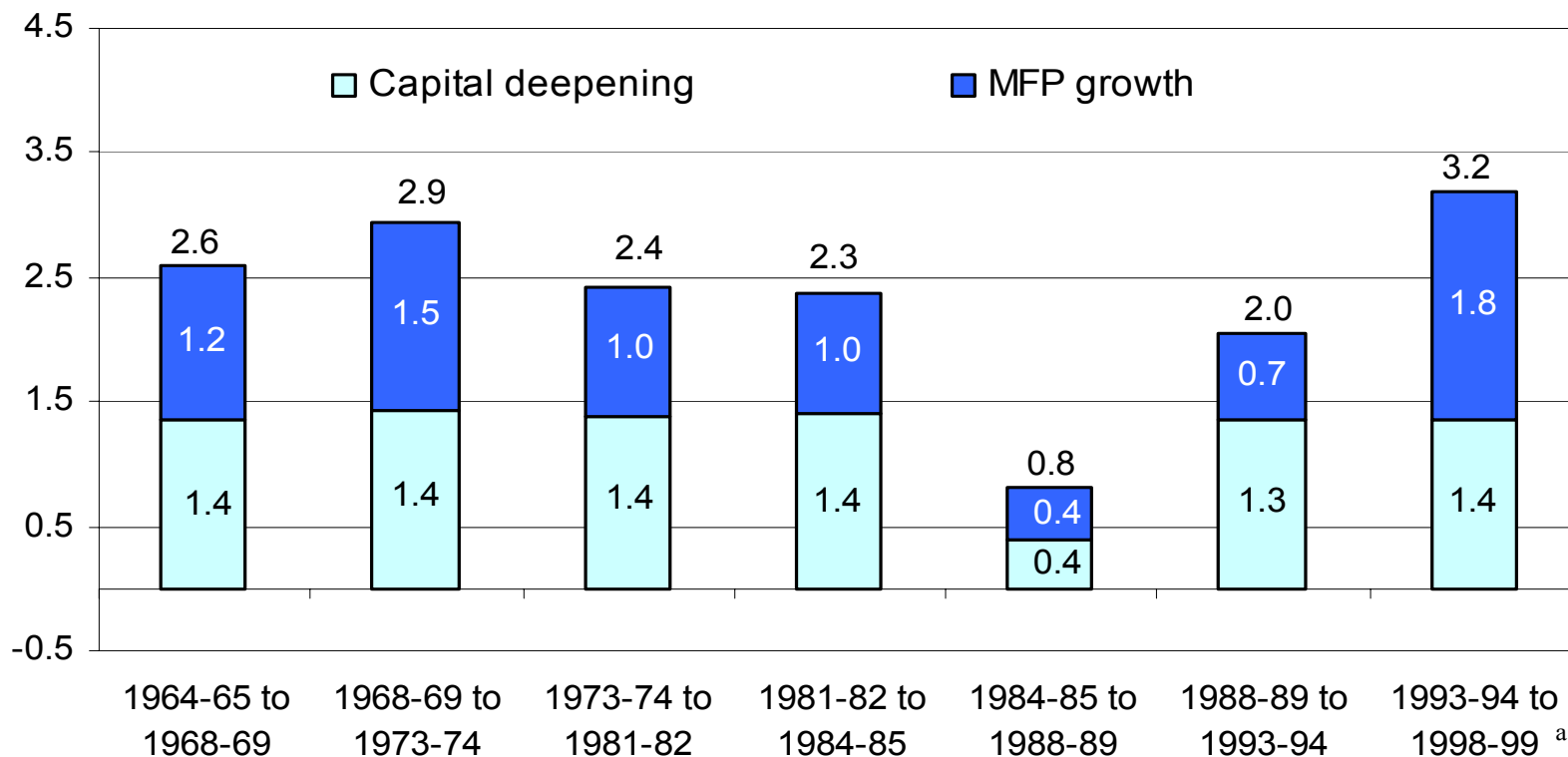
Recent commissioned work

- Inquiry on First Home Ownership
- Review of Gas Pipelines Access Regime
- Review of the Disability Discrimination Act
- Impacts of Native Vegetation and Biodiversity Regulations
- Rules of Origin under the Australia-New Zealand Closer Economic Trade Agreement
- Review of Textiles Clothing and Footwear Assistance
- Review of Automotive Industry Assistance
- Independent Review of Job Network
- Price Regulation of Airport Services

Underlying rates of productivity growth over productivity cycles



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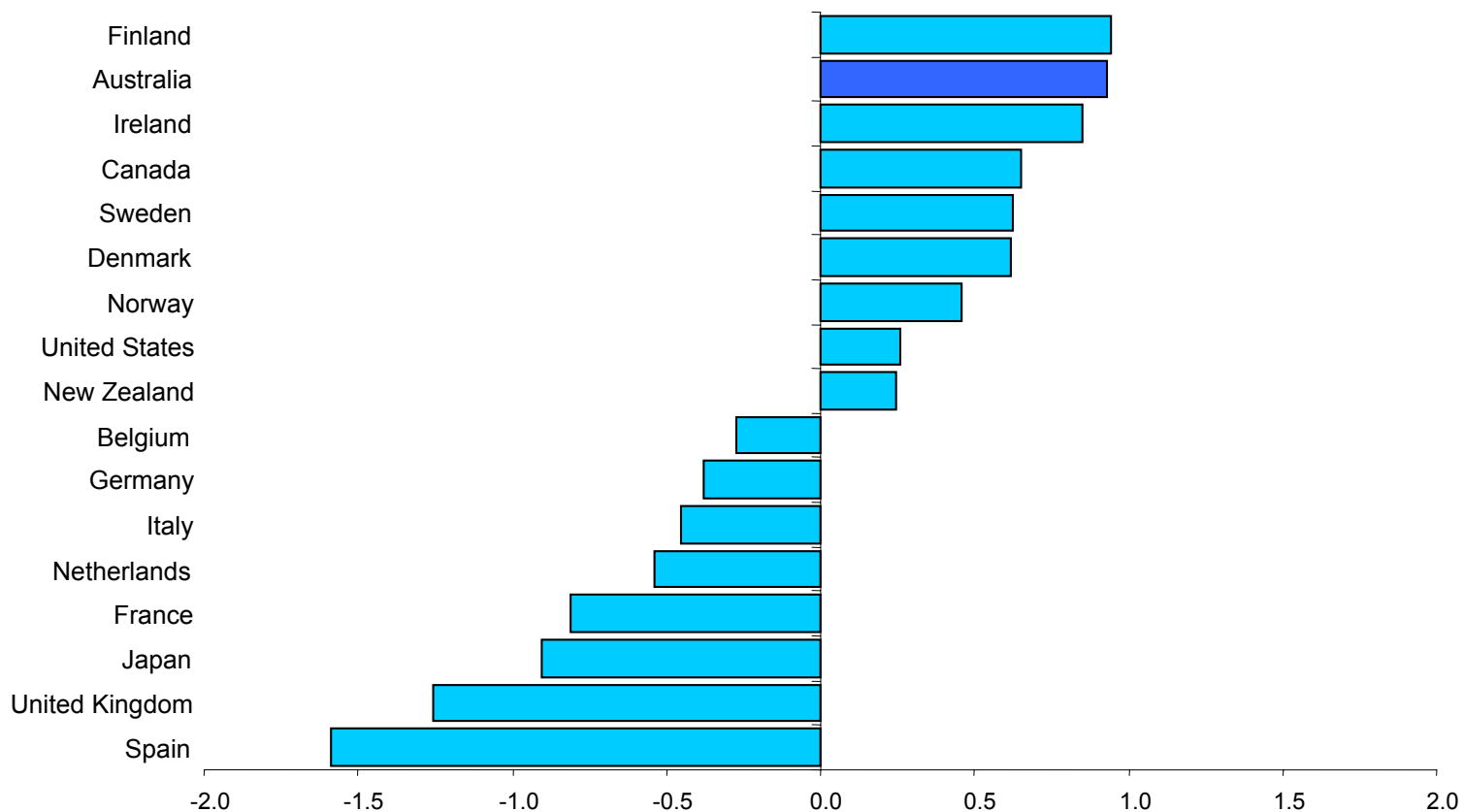


Source: ABS 5204.0 (+ Productivity Commission estimates)

Acceleration in trend multifactor productivity growth in the 1990s in OECD countries



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Source: OECD 2001, *Beyond the Hype*

Sources of the productivity revival



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- Competition as a driving incentive
 - *import and domestic (trade liberalisation, NCP)*
- Improvement in economic infrastructure
 - *efficiency and effectiveness of transport, communications (GBE reform, NCP)*
- Adoption and 'smart' use of ICTs (competition, access, flexibility)
 - *logistics (ICTs and transport), links to product markets through 'value chain'*
 - *distribution — gains in wholesale trade*
 - *finance and insurance (regulatory reform)*



Range of policy change

- Financial markets
- Trade and assistance
- National Competition Policy
- Labour markets

Sources of structural change



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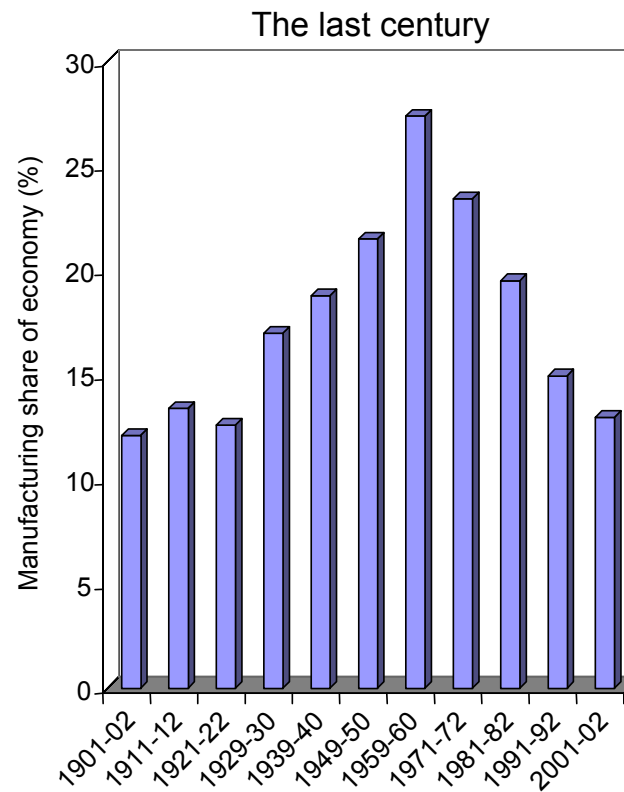
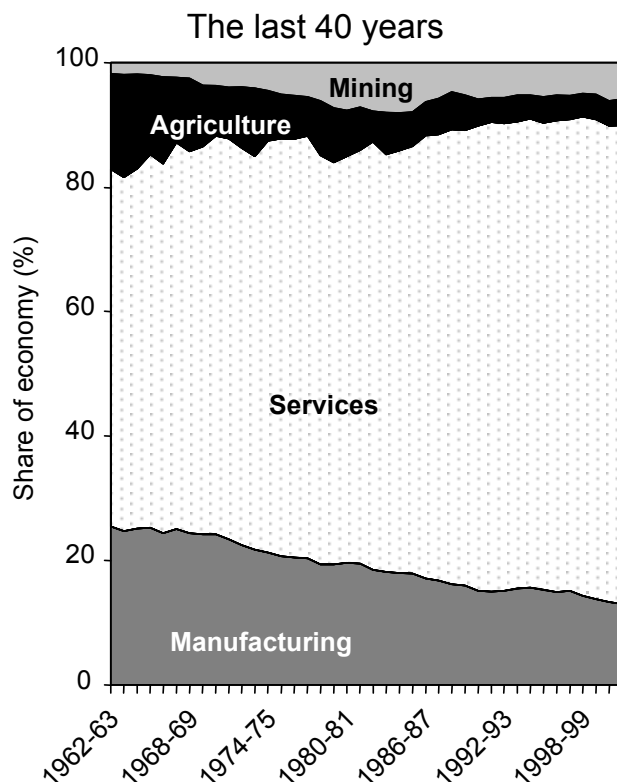
- Demography
- Technology
- Incomes
- Policy

Examples of structural change (i)



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Manufacturing has declined in *relative* terms

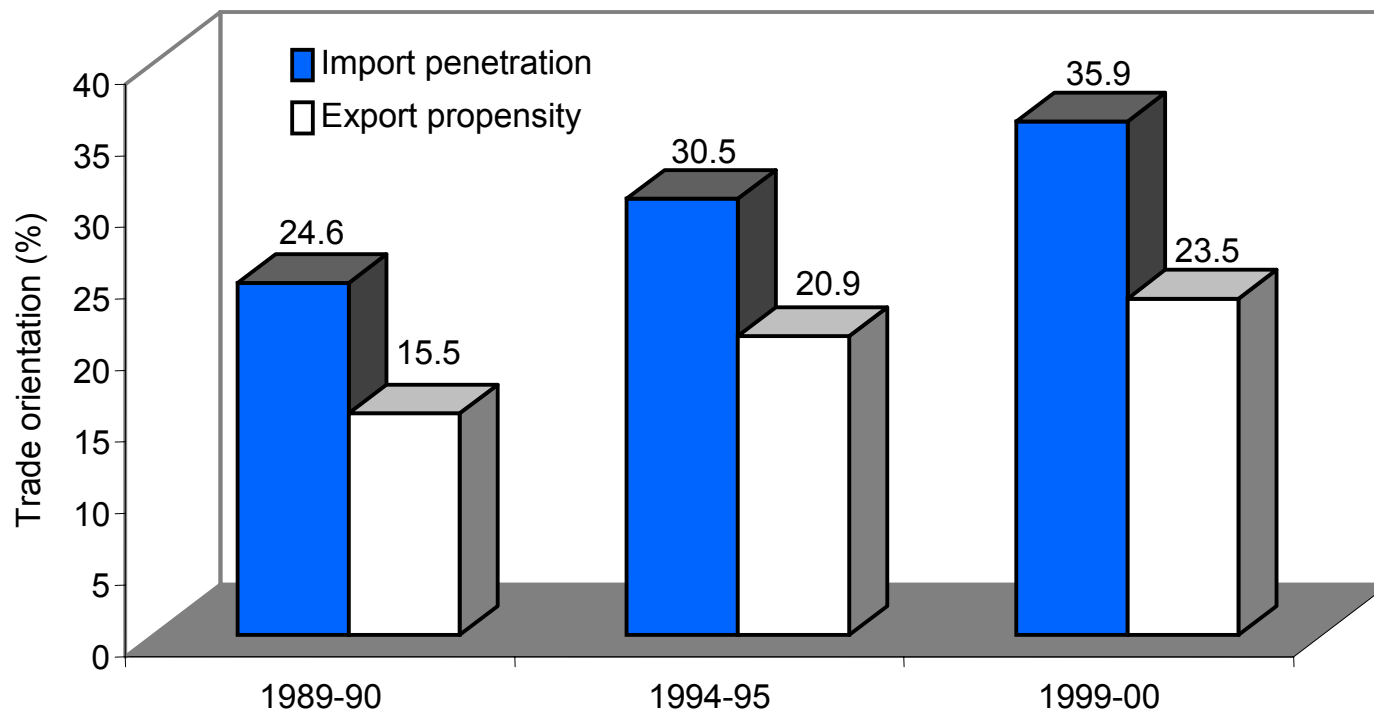


Examples of structural change (ii)



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More open to trade



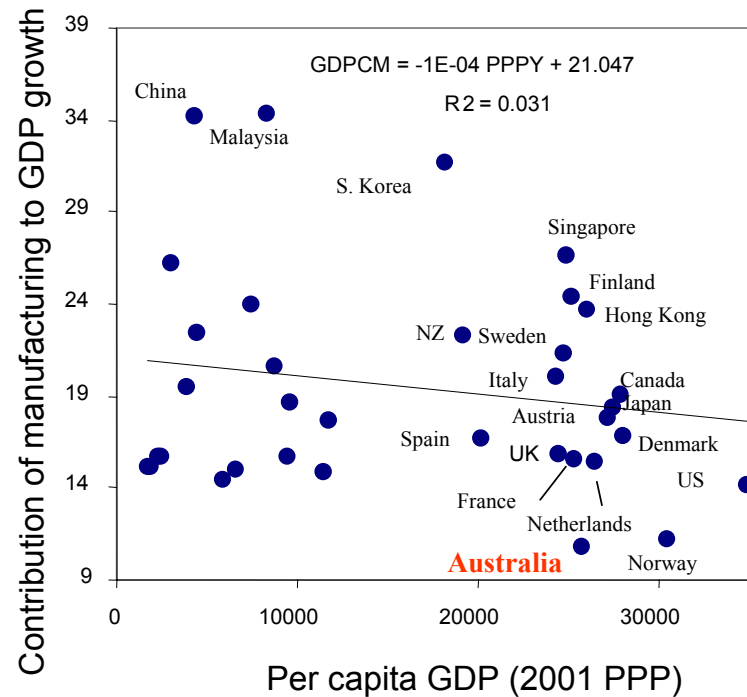
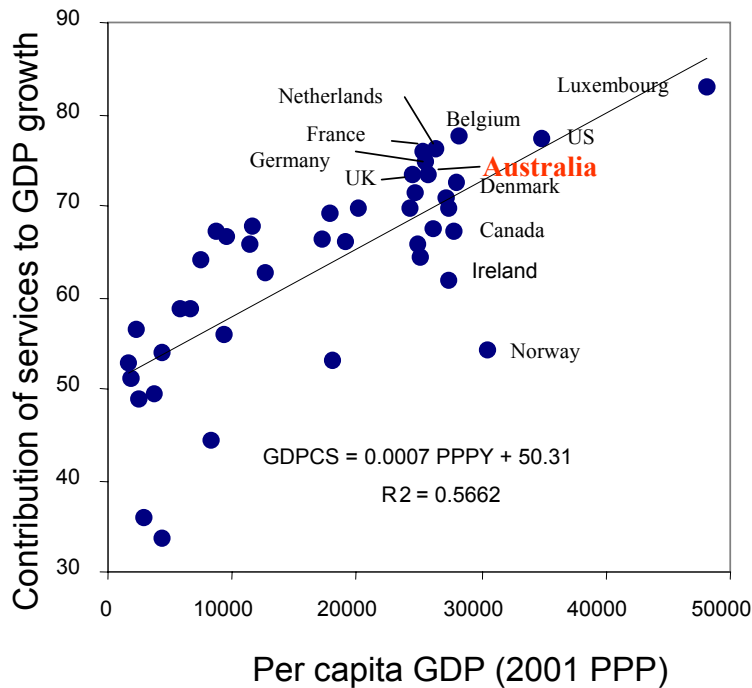
Examples of structural change (iii)



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Manufacturing & GDP growth

Per capita income & sectoral contributions to GDP growth, 1975-76 to 2000-01

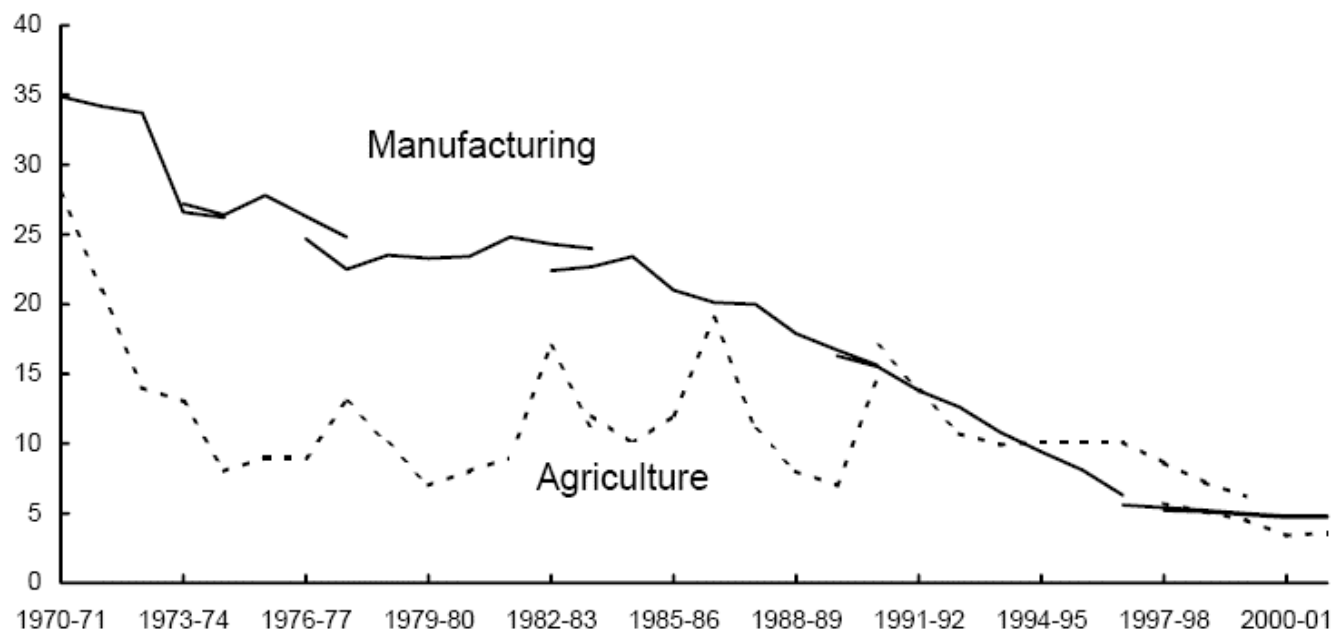


Policy and structural change - tariff reductions



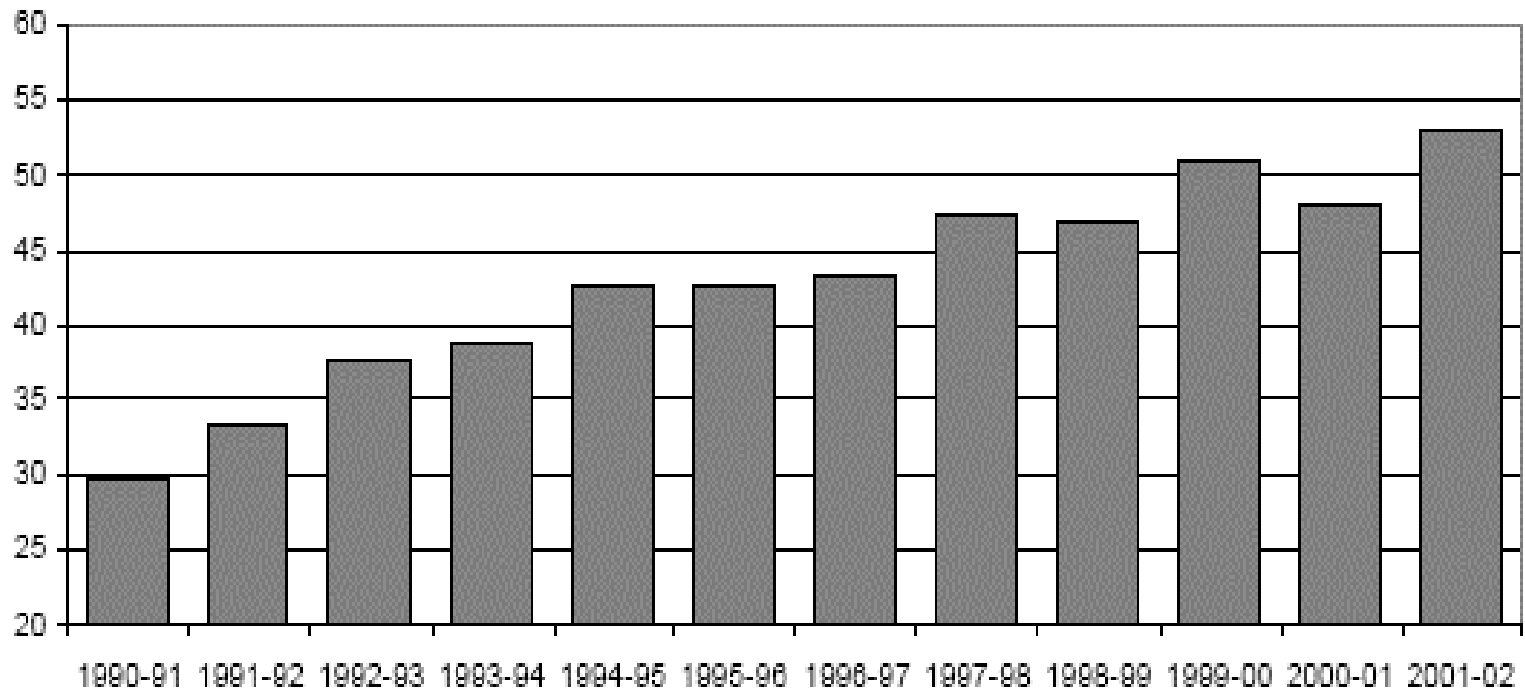
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Average effective rates of protection to manufacturing and assistance to agriculture, 1970-71 to 2001-02



TCF reform example

Import share of the Australian TCF market, 1990-91 to 2001-02



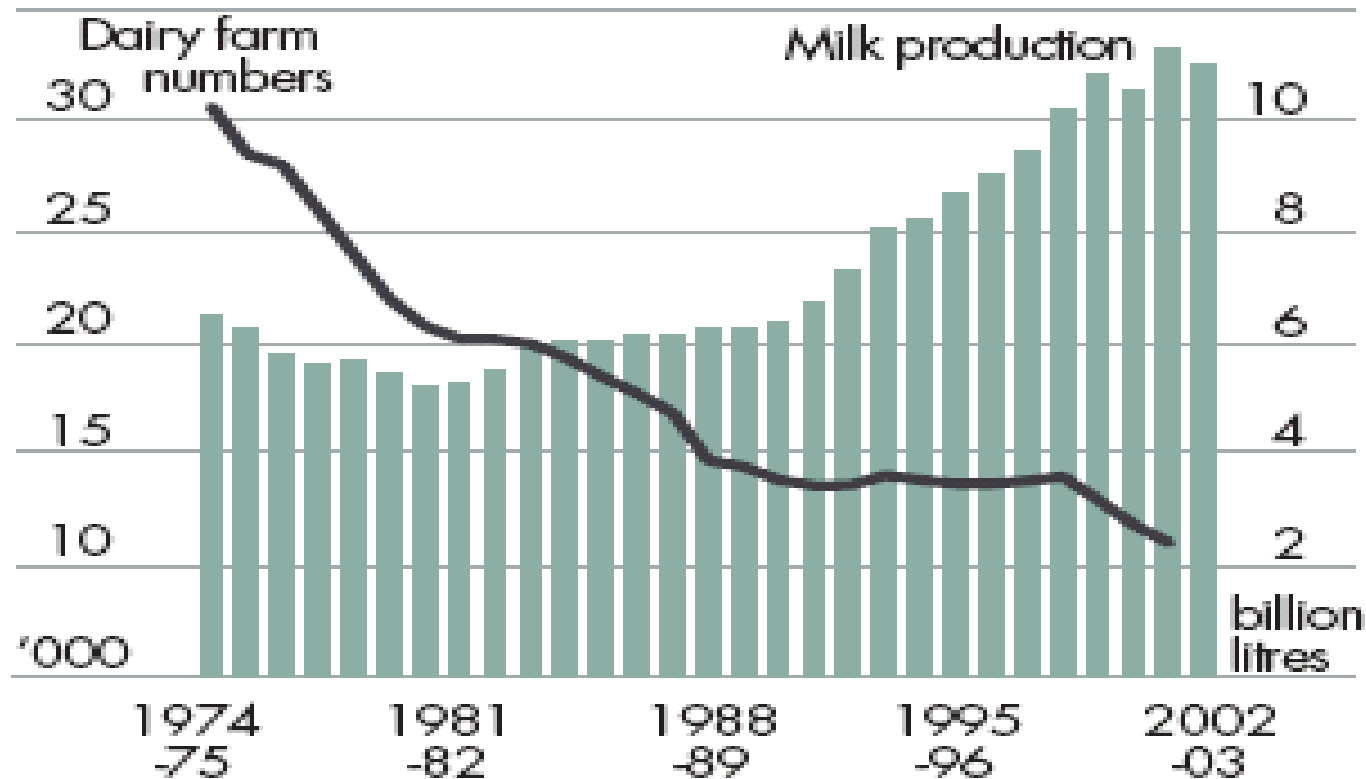
TCF inquiry recommendations



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- Tariffs are not the answer
- Economy-wide costs of permanent protection greater than the benefits
 - *costs on consumers*
 - *costs on other industries*
- Temporary assistance should be provided for labour adjustment

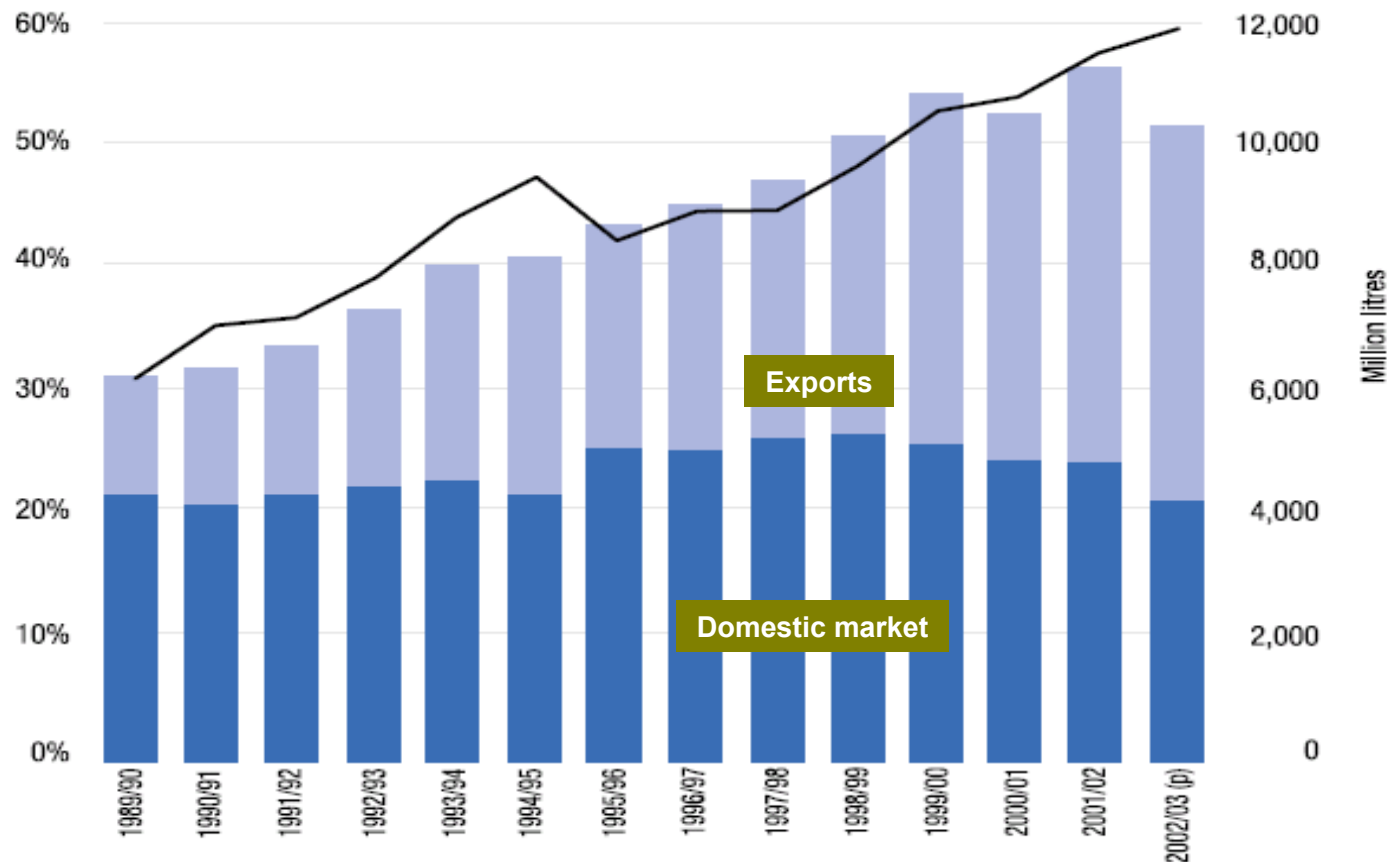
Dairy reform example (i)



Source: ABARE 2004



Dairy reform example (ii)



Source: Dairy Australia 2003

Lessons in managing structural change



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- Effective policy evaluation processes are fundamental
- Independent review processes can facilitate acceptance of the need for reform
- Broad-based reforms can reduce adjustment costs
- Rely on generally available adjustment measures, wherever feasible
- Incremental reform can facilitate adjustment
- Other industry-specific adjustment assistance needs case-by-case evaluation
- Ex-post evaluation can help keep reforms on track



‘IMF’ suggestions?

- Start reforms during the recovery from an economic downturn
- Use budgetary surpluses to buy reform
- Start with reforms that have more immediate benefits
- Secure outside support



Conclusion

- Domestic liberalisation
- Capacity to change
- Transparent processes



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Welcome to the Productivity Commission, the Australian Government's principal review and advisory body on microeconomic policy and regulation.

We conduct [public inquiries and research](#) into a broad range of economic and social issues affecting the welfare of Australians, including: competition policy, [productivity](#), the environment, economic infrastructure, labour markets, [trade and assistance](#), structural adjustment and microeconomic reform.

The Commission also supports the:

- [Steering Committee for the Review of Government Service Provision](#)
- [Office of Regulation Review](#)
- [Australian Government Competitive Neutrality Complaints Office](#)

Gas Access Regime Inquiry Report Released

The inquiry report, [Review of the Gas Access Regime](#), has been released by the Australian Government.

Native Vegetation Inquiry Report Released

The inquiry report, [Impacts of Native Vegetation and Biodiversity Regulations](#), has been released by the Australian Government.

Financial Performance of GTEs

The financial performance of Commonwealth, State and Territory government enterprises is examined in the newly released paper, [Financial Performance of Government Trading Enterprises 1998-99 to 2002-03](#).

Recently Released Inquiry Reports

[Review of the Disability Discrimination Act 1992](#), [National Workers' Compensation and Occupational Health and Safety Frameworks](#) and [First Home Ownership](#)

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