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INSTITUTIONS TO PROMOTE PRO-PRODUCTIVITY POLICIES: LOGIC AND LESSONS

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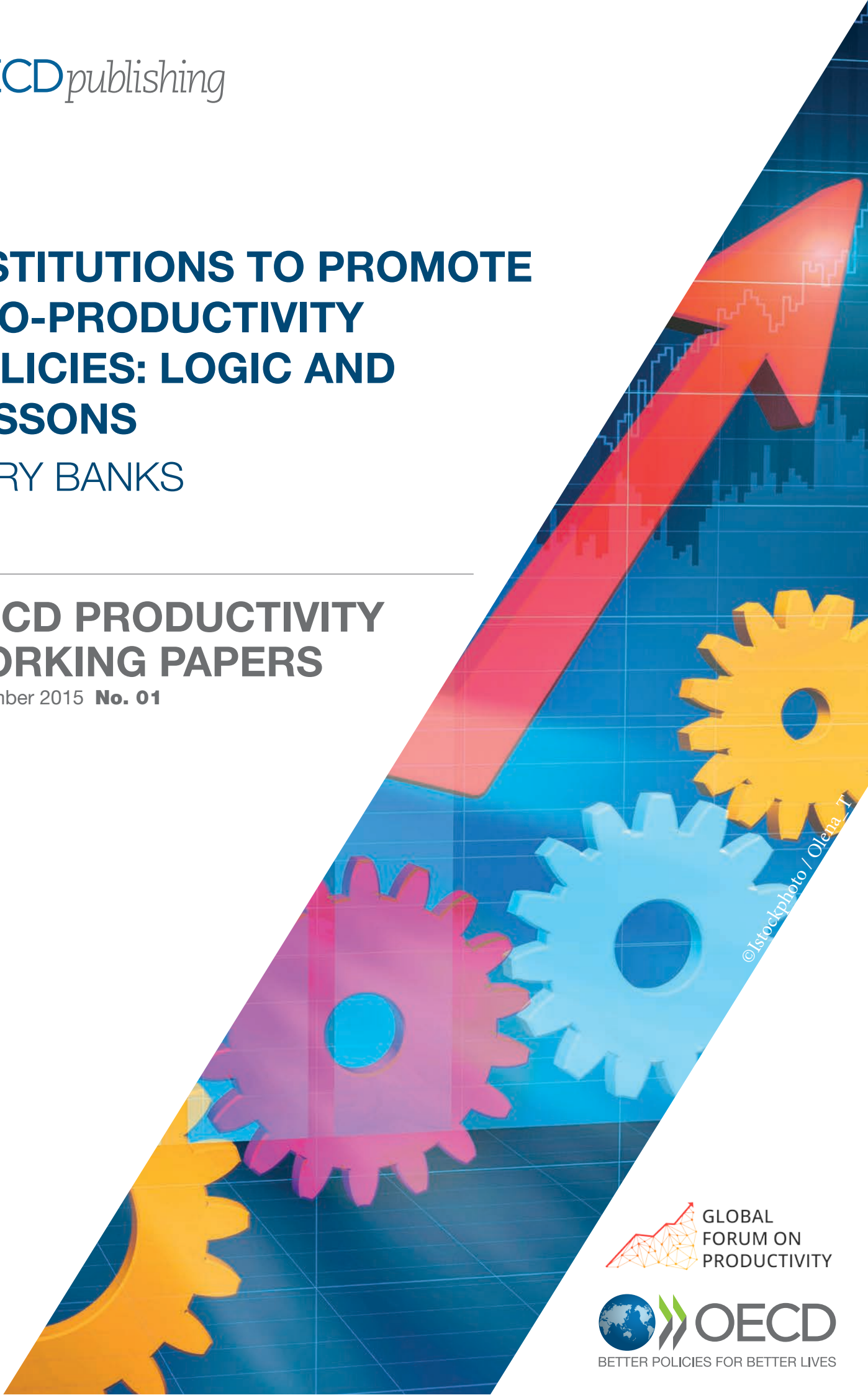

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ABSTRACT/RÉSUMÉ

Institutions to Promote Pro-Productivity Policies: Logic and Lessons

In order to promote productivity, and thus boost living standards in the long run, public policies need to focus on improving incentives, capabilities and flexibility within an economy. Such policies can be difficult for governments to devise and even more difficult for them to implement, given pressure group politics and fragmented administrative structures. A strong case exists for establishing public institutions that not only help governments identify the right policies, but that can also help them counter pressures against reform and inform the community about what is at stake. Necessary design features for such institutions include independent governance, transparent processes, solid research capacity, an economy-wide frame of reference and linkages to policy-making mechanisms within government.

This paper provides a taxonomy of relevant institutional forms evaluated against these criteria. While the contribution of most organisations to 'pro-productivity' policies is incidental to their primary function, some have been expressly designed for this purpose. The extent of their contributions in practice has depended on the detail of their governance and operations, the tasks they have been assigned and how well governments have handled their reports. While there is no 'one design fits all' solution, there is considerable scope for most governments to strengthen institutional capability in this area. There is also potential for governments to learn from each other about the relative merits of different approaches, and for existing institutions themselves to build capability by drawing on the experience of others.

JEL Classification: H1; K2; L5; O4; P5

Keywords: institutional design, productivity commissions, promoting productivity.

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Les institutions de promotion des politiques de productivité : logique et enseignements

Dans l'optique d'une meilleure productivité et par conséquent, d'une hausse des niveaux de vie sur le long terme, les politiques publiques doivent porter prioritairement sur l'amélioration des mesures incitatives, des capacités et des marges de manœuvre dans l'économie. Les pouvoirs publics peuvent trouver difficile de concevoir de telles politiques et encore plus difficile de les mettre en œuvre, vu la politique des groupes de pression et la fragmentation des structures administratives. La mise en place d'institutions publiques qui aident les pouvoirs publics non seulement à identifier les bonnes stratégies, mais également à lutter contre les pressions exercées à l'encontre des réformes, et qui expliquent les enjeux à la collectivité, se justifie tout à fait. Ces institutions doivent présenter un certain nombre de caractéristiques : indépendance de leurs structures de gouvernance, transparence des procédures, des capacités de recherche solides, un cadre de référence macroéconomique et une imbrication dans les mécanismes décisionnels du gouvernement.

Le présent document propose une classification des structures institutionnelles concernées, évaluées à l'aune de ces différents critères. Si le concours de la plupart de ces structures aux politiques de productivité est accessoire par rapport à leur fonction première, certaines ont été conçues expressément à cette fin. L'étendue de leur contribution concrète dépend des modalités de leur gouvernance et de leur fonctionnement, des missions qui leurs sont confiées et du traitement que les pouvoirs publics réservent à leurs rapports. S'il n'existe pas de « solution passe-partout », il y a amplement matière à renforcer la capacité institutionnelle de la plupart des gouvernements dans ce domaine. Ces derniers ont également la possibilité d'apprendre les uns des autres les mérites respectifs de chaque logique, cependant que les institutions existantes ont la possibilité de renforcer leurs capacités en s'appuyant sur l'expérience de leurs homologues.

Classification JEL : H1; K2; L5; O4; P5

Mots-clés : structure institutionnelle, commissions de la productivité, politique de productivité

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By Gary Banks[1]

Introduction

Long experience within the OECD and more widely tells us that 'institutions' – organisations, processes and rules that shape decisions within the public and private sectors – are fundamental to economic progress.

We also know that policy decisions that are well informed by evidence and analysis, and underpinned by community understanding, are more likely to be successfully implemented and to achieve good outcomes than those that are not (OECD, 2010). This is especially true for the many 'structural' or 'microeconomic' policies that bear on both the productive performance of an economy and the distribution of income, and that are therefore often subject to strong sectional influences and opposition to reform.

Achieving a sound basis for productivity-enhancing policies – particularly for reforms to existing policies – requires a capacity within government to generate and apply information relevant to the task. Institutions that contribute, whether directly or indirectly, are present to varying degrees in most OECD countries. This paper provides a framework for evaluating the potential contribution of different institutional forms. Lessons are drawn in particular from organisations having a more systematic and direct mandate concerning productivity-related policies.

Why is 'productivity' so important?

Technicalities aside, the concept of 'productivity' simply relates to the amount of output that can be produced from available inputs, whether at a firm, industry, sectoral or economy-wide level. Productivity growth involves getting more output from given inputs, or achieving the same output with fewer inputs.

Productivity thus is primarily to do with the efficient functioning of the supply side of an economy. It should not be seen as an objective in its own right. Productivity growth only matters to the extent that it can support higher standards of living for the community.

However the reality is that societies can really only increase per capita incomes in two ways: by producing more valued output per member of the population on average, or by obtaining higher relative prices on world markets ('terms of trade') for what is produced. In practical terms, it is the former route that is most directly amenable to public policy. And while having a higher proportion of the population participating in work is clearly part of the story here, this obviously has limits. The more fundamental and

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1 Paper presented at the OECD Global Dialogue on the Future of Productivity in Mexico City, 6-7 July 2015. Professor Gary Banks is Chief Executive and Dean of the Australia and New Zealand School of Government (ANZSOG) and Chair of the OECD's Regulatory Policy Committee. He was inaugural Chairman of the Productivity Commission in Australia from 1998–2012. This paper draws in part on previous published work and has benefitted from comments on draft versions by OECD and other colleagues, including at the Mexico City meeting. Particular thanks are due to Sean Dougherty and Richard Clarke for early discussions and input. Responsibility for the contents remains with the author.

enduring contribution to per capita income growth comes from rising 'productivity': getting more value out of a country's human capital and other resources.

Policies to enhance the supply-side performance of economies have arguably become more important for most OECD countries under the global financial crisis's legacy of historically low interest rates and high debt, which have reduced the scope for macroeconomic interventions to stimulate productive investment. Yet, as the G20 Brisbane Declaration of 2014 confirmed, there is much structural reform to be done in all countries if the potential to achieve targeted gains in GDP is to be realised (IMF, OECD and World Bank, 2014)

How is it influenced by policy?

Productivity growth in aggregate has two principal sources: (a) cost-reducing and value-increasing changes within individual firms or other organisations producing goods and services (loosely 'innovation'); and (b) the displacement of poorly performing firms or industries by better performing ones (known to economists since Schumpeter (1942) as 'creative destruction'). These changes normally take place in the natural course of events in market economies. But they can be assisted or impeded by public policy.

Government policy measures can exert an influence on organisational performance at three levels (APC, 1999):

- the incentives facing firms and organisations to be cost conscious and productive – for example through industry assistance programs (including for R&D) and regulatory provisions that affect the degree of competition that firms face;
- the flexibility for firms to make changes to products and processes in response to market pressures and opportunities – typically through regulations about what and how things can be done, including rules around employment and how employees can be utilized in the workplace, and
- productive capability – for example, through education and training programs that enhance the skills and knowledge of workers and managers ('human capital') or through the public provision *of infrastructural services such as energy and telecommunications.*

These are not entirely separable areas of policy influence. For example, high cost or poorly performing infrastructural services that reduce the productive capability of firms in a particular industry, may result from distorted incentives or lack of flexibility within the public utility sector. Also, the contribution of policies in each of the three areas to overall performance will depend to some extent on policies in the others. For example, the upgrading of education and training systems could be to little effect if managers faced undue regulatory restrictions on how they could deploy people. Finally, it should be noted that policies in these areas may not just affect the productivity of individual enterprises, but also the ability of otherwise uncompetitive firms to continue operating, thereby detracting from the productivity of whole industries or sectors.

It follows that pro-productivity policies will generally be of two kinds: those that address failures or deficiencies in *markets* (research, training, infrastructure provision) and those that address impediments in the policy, regulatory and governance frameworks of *governments*.

What makes 'pro-productivity' policies so challenging?

In both cases, determining the policy design that is most effective for a given country at a given time is rarely straightforward. For example, the classic market failure case of spillovers that lead to less private

R&D than is socially optimal can be addressed in a variety of ways, from intellectual property regulations and general taxation concessions to targeted subsidies and public provision. And each form of intervention can itself take a variety of forms. Understanding which measures work best – inducing the largest social benefit – and in which circumstances, calls for skilful *ex ante* analysis and *ex post* review. Similarly, policy designs in the areas of economic or human capital can rarely be lifted 'off the shelf' and can be challenging for a government to get right from an economy-wide perspective.

However the 'technical' challenges are frequently overshadowed by the *political* challenges, especially when it comes to reforming policies that act as impediments to productivity growth (OECD, 2010). While some of these may simply be the unintended by-product of policies directed at other societal objectives (*e.g.*, environmental protection or job security) many will have got there as a result of political pressure to restrict competition or otherwise support particular industries or groups within society. Resisting such pressures can be difficult politically, despite the costs they impose on the wider community. Once the measures are in place, however, removing them is more difficult still.

This is an age-old conundrum. It has been analysed in the academic economic literature since at least Pareto's *Cours d'Economie Politique* and more systematically by Downs (1957) and Olson (1965). But the following diagnosis by a renowned political analyst from a much earlier era conveys its essence:

> *There is nothing more difficult to carry out ... than to initiate a new order of things. For the reformer has enemies in all who profit from the old order and only lukewarm support from those who would benefit from the new.* (Machiavelli, The Prince, 1513)

The political pressures facing any government contemplating structural policy initiatives that promote overall economic performance are typically highly uneven. This is not just because such policies or reforms may involve some losers, but because those who expect to lose tend to have more at stake individually than those who gain. Further, the losses to them will generally be more tangible, predictable and immediate than for the potential beneficiaries. Accordingly, the incentive for such groups to become informed and to organise themselves collectively to resist such policies are commensurately greater. (Indeed such coalitions are typically responsible for getting policies of this kind introduced in the first place, and retain an ongoing interest in them. Import protection regimes are a well-documented example.)

Moreover, in resisting reforms, vested interests will (ironically) often have the sympathy of 'the crowd', particularly where the costs or other trade-offs for the average citizen are not well understood. As a consequence, political representatives will often perceive it to be easier and electorally more rewarding to cater to vocal minorities than to resist them in the interests of the (silent) majority (Bishin, 2009). As Mancur Olson demonstrates in his *Rise and Decline of Nations* such 'distributional coalitions' accumulate over time in stable democracies, and it can take a crisis to disrupt their influence sufficiently to accommodate necessary policy change.

These asymmetric external pressures can be compounded by structures within government itself. Government administrations are generally organised in such a way as to facilitate communication with, and ensure necessary attention to key parts of society or the economy. So in most countries there are separate ministries for primary, secondary and tertiary industry, transport and other infrastructure, small business, labour, regions, environment, etc.

This promotes informational flows useful to policy development in these areas. But it can also create a symbiosis between a sector's interests and those of the department responsible for it, leading to a degree of 'sponsorship' in decision making. Even without this, such arrangements can produce fragmented information systems which focus on parts of the economy rather than the whole. While central agencies such as Finance and Treasury Departments can be expected to provide broader perspectives, they may not

be called on for particular policy decisions and their limited resources will often need to be deployed elsewhere (e.g. on budgetary matters).

These administrative features can make it hard to gain an economy-wide perspective within public administrations on structural policy choices, compounding the lop-sided external pressures governments face.

Institutional requirements in the broad

If the technical complexities and political asymmetries that confront productivity-enhancing policies and reforms are to be overcome, institutional arrangements need to yield information about the wider benefits to the community of such policies. This is not just to inform government decision-makers about what policies may be more beneficial and build the 'technical' case for reform, but also to alert the potential winners about what is at stake for them, and to reassure the wider community in the face of vocal sectional opposition.

To serve this purpose, institutions would need

- the capacity to generate such information, and
- to be 'plugged in' to policy-making processes bearing on productive performance, or at least to be in a position to influence decision-making in those areas.

Three further features that would also seem to constitute *de minimus* requirements are:

- a mandate to focus on the economy-wide impacts of relevant policies and to identify changes that would generate gains for the community as a whole;
- sufficient independence to ensure that research, findings and recommendations are not susceptible to undue influence by special interests, and
- operating procedures and outputs that are open to public consultation and scrutiny.

These five criteria are not absolute. Each could be met to varying degrees, and in various ways. For example, how 'independent' an institution might be depends among other things on how it is constituted, how senior appointments are made and for how long, and who funds the body and in what way.

By the same token, the effectiveness of any institution will depend on its relationship to other relevant institutions, how its agenda is determined and the extent to which its work is integrated into decision-making processes. A body that produces excellent research, but effectively does so in isolation and on topics of interest mainly to itself (as can occur within academic settings) will obviously be less directly influential than one whose work responds to government priorities, or whose reports are formally considered within government as a matter of course when decisions are being made.

More generally, an institution devoted to providing policy-relevant information, depends for its effectiveness on the existence of policy-making processes that are *receptive* to such information – in other words, regimes that could be characterized as 'evidence-based'. The characteristics of such regimes are well known and have been laid out in various reports by the OECD and member governments, as well as in the political economy and public administration academic literature (for an early example, see Knight, 1960).

Evidence–based policy can be defined in general terms as a process of decision making within government that: (i) begins with a policy issue or problem being properly articulated and its causes diagnosed; (ii) with the scope for government to make things better assessed, and (iii) feasible options then being evaluated – each of these elements being informed by public consultation and tested publicly for

robustness and practicality – prior to a political decision being made that overlays such 'technical' information with the values and judgments of elected representatives. (See Banks, 2009 for a discussion related to Australian experience).

Ultimately of course all policy decisions are political. The purpose of such a regime is simply to ensure that political decisions can be more adequately informed by an understanding of what is at stake for the wider economy, and the trade-offs that may exist with different policy choices. For reasons just noted, policies bearing on productivity are particularly prone to informational failures and biases, providing a rationale for institutional arrangements that can serve to counter these.

A typology of existing institutions

A variety of organisations exist among OECD countries and more widely that play, or could potentially play, such a role. Indeed, the OECD Secretariat itself does so at an international level and can influence the course of domestic policy in member countries, as can the World Bank and IMF. While the focus here is on 'home grown' institutions within each country, these may have their own connections with the OECD or other international bodies and usefully draw on their work.

In what follows, a number of institutional categories nationally are identified and briefly evaluated in terms of their potential to meet the informational needs of pro-productivity policies against the criteria outlined above. (A summary 'score card' is provided in the concluding section of the paper.) Examples of specific entities in different countries that fit within each category are given, drawing in part on responses to an OECD survey of member governments, although there is no attempt to be comprehensive.

Privately funded 'think tanks' and research centres

In many countries there are non-government 'think tanks' that devote themselves to policy research and advocacy in the public interest, including promoting pro-productivity policies. Many are privately funded, but to be considered here should not represent sectional interest groups. Many have an ideological bent, however, or a pro-market or interventionist orientation. They may be separate entities or form part of a larger institution such as a university.

Examples of such bodies include, in the United States, the Brookings Institute and Peterson Institute for International Economics; in Canada, the Fraser Institute and the Institute for Research on Public Policy; in Europe, the UK Centre for Economic Policy Research and Institute of Economic Affairs, and the Centre for European Policy Studies in Brussels; in Mexico, the Institute for Competitiveness; in Australia, the Centre for Independent Studies, etc.

Against the *de minimus* requirements outlined above, privately funded think tanks typically measure up very well in terms of their analytical capabilities (subject to resource constraints), moderately well in terms of their independence and public interest orientation, but less so in terms of public engagement and the transparency of their activities, which can limit their wider role in building political support for good policy and neutralising the influence of special interests.

However, their main limitation as a vehicle for advancing pro-productivity policies is their distance from the policy process itself. They are rarely commissioned by government to undertake specific studies or give advice on matters under consideration, and their outputs may not relate to policy-making processes actually underway. Their distance from government will be more or less marked for those institutions associated with particular political ideologies, depending on the party in power.

Nevertheless, the ideas generated by think tanks can prove influential over time and through the agency of other bodies or individuals within government. Particularly in countries with congressional

political systems, such organisations often provide a 'home' for out-of-office government officials and politicians who, on returning to government, can be well placed to advance or implement their proposals.

Publicly funded think tanks and research centres

A number of governments have established or provide core funding for not-for-profit think tanks that operate at arms-length from their administrations. Examples include the Korean Development Institute, Grattan Institute in Australia, Chinese Academy of Social Sciences, Kiel Institute in Germany, the Malaysia Productivity Corporation, Philippines Institute for Development Studies, etc. Such bodies operate in a similar fashion to private think tanks, but are more likely to have a direct relationship with government and to be responsive to their agendas, which facilitates greater ongoing influence.

Depending on the nature and extent of their financial arrangements and other links to government, however, their willingness to be forthright when assessing the policy status quo may be affected, particularly in public reporting, which itself may be circumscribed.

Foreign trade tribunals

As noted, import competition is a key driver of productivity within an economy. It places direct pressure on firms producing tradeable goods and services (which loom large in most economies) to match international performance or be driven from the marketplace. Policy arrangements that restrict trade accordingly can constitute a major impediment to productive performance within an economy – both directly and indirectly – making trade liberalization one of the more important pro-productivity policies (OECD, 2007). It is also an area of policy that has been particularly prone to the political pressures described previously, leading a former US Secretary of State to remark that "nothing is more domestic than international trade policy" (Schultz and Dam, 1977).

In a number of countries, governments have created tribunal-like institutions to provide transparent and independent advice relating to import barriers and other trade assistance, the rationale being that protection for one industry will generally impose costs on others who should be given the right to have a say, as well as to meet international obligations regarding due process in relation to 'safeguard' and 'anti-dumping' actions. Examples include the United States International Trade Commission, Canadian International Trade Tribunal, India's Tariff Commission, Australia's Anti-Dumping Authority, etc.

Such bodies normally have statutory independence. They can also have a significant research capacity. (For example, the USITC has constructed a quantitative model of America's economy.) They generally pass the test of transparency in their operations, many conducting public hearings and making their findings publicly available. However, while most formally has only an advisory role, in effect their recommendations can amount to regulatory determinations.

More importantly, their ability to take economy-wide effects into account in their findings is generally circumscribed by legislative requirements to focus on the circumstances of particular industries – normally to assess and remedy 'injury' or promote 'fairness' – rather than be concerned with impacts on consumers or even downstream firms (Long et al., 1989; Stoeckel and Fisher, 2008). This has also tended to foster a protectionist culture within such institutions. And in any case, their remit is generally confined to 'border' measures, when many of the remaining impediments to import competition now occur through (regulatory) measures that are 'behind the border'.

Competition authorities

An even larger number of countries have government bodies to regulate competition *within* their markets, for the purpose of limiting the incidence or exercise of monopoly power and preventing restrictive

trade practices generally, as well as to protect consumers from unfair commercial dealings. Among the many such institutions that exist are: the Federal Trade Commission in the USA, Mexico's Federal Competition Commission, the Australian Competition and Consumer Commission, Japan's Fair Trade Commission, UK Competition and Markets Authority, etc.

These generally have their independence formalised under a dedicated statute, and have control over the allocation of their own resources. Many have a substantial research capability. They have varying degrees of transparency in their operations, however, and their functions are primarily regulatory, with determinations based on legislated objects and criteria. Thus the extent to which their regulatory activities are 'pro-productivity' depends in large part on how these criteria are framed. (For example, a merger regulation regime that could not take imports into account when assessing impacts on market competition could work *against* productivity improvement.)

While the regulatory role of such bodies is generally confined to industry structures and behaviour associated with market power, some have a wider role in supporting market competition, including utilizing their research resources to analyse regulatory impediments to competition. Some can also play an educative role drawing on such research. And they may on occasion provide advice regarding decisions that bear on wider competition issues. However this is not common.

Government auditing bodies

Auditing bodies are essential to the integrity of government expenditure systems and have a core place in most jurisdictions' administrations, both national and provincial. Their essential role is verifying that funds are properly disbursed and accounted for. They therefore have requirements to ensure their independence, particularly from government, they are generally beyond the norm. (For example, in many jurisdictions, the person heading such a body must be appointed by the head of state and for a period as long as ten years, and is thereafter disqualified from government employment.)

While their role essentially has to do with 'good book-keeping' and is therefore of limited relevance to policy, such institutions have increasingly extended their reach in the area known as performance auditing, in which assessments are made about the cost-effectiveness of spending programs and even taxation regimes. For example, the Government Accountability Office in the United States has undertaken major studies of manpower and structural adjustment programs; the Australian National Audit Office has examined processes for large scale government procurement activities, etc.

Given the magnitude of government expenditure, including in areas that can impact on industry productivity and the efficiency of resource allocation (industry assistance and procurement), such activities can play a useful role in influencing pro-productivity reforms. While their engagement with the public tends to be limited, their reports are made publicly available and their findings and recommendations generally have wide credibility and are treated seriously by government.

Regulatory 'gatekeepers' and oversight bodies

An increasing number of countries have established bodies within their government administrations to vet regulatory proposals and ensure that procedural requirements have been satisfied (such as 'better practice' principles, including the production of regulation impact statements), as well as monitoring regulatory performance. Some have a significant research capacity, particularly in cost-benefit analysis, and a remit to conduct studies about regulation generally. Examples include COFEMER in Mexico, the Office of Best Practice Regulation in Australia, the Administrative Evaluation Bureau in Japan, Better Regulation Executive in the United Kingdom, the Office of Information and Regulatory Affairs in the United States, etc.

Since regulations are the instrument through which most of those policies that detract from productivity are put into effect, such bodies have the potential to play an important role – moreover, one that is usefully exercised at the 'coalface', when specific policy initiatives are actually being considered. However it would be fair to say – with empirical support from a recent comprehensive survey conducted by the OECD (*Regulatory Policy Outlook*, 2015 forthcoming) – that this potential is far from being realised in most countries.

That said, it is hard to generalise, as such institutions vary greatly in their governance, degree of independence, assessment criteria, resourcing, public profile and power to affect change in regulatory proposals. In most cases, their contribution is conditioned by the wider settings of regulatory policy itself, over which they have limited influence, and in particular the extent to which 'good process' is established as a requirement with high-level political support. In most countries this waxes and wanes over time.

Departmental research bureaux

A capacity for 'in-house' research can be found in most government ministries or departments and this can have a significant bearing on the quality of their policy analysis and advice, including in areas bearing on a country's productive performance. In some cases, distinct research units have been created with a remit to conduct research of relevance to portfolio responsibilities as well as on specific areas of interest at any given time. Examples include in Australia, the Bureau of Agricultural and Resource Economics in the Agriculture Department, Bureau of Transport and Regional Economics in the Transport and Infrastructure Department; in Malaysia the Economic Planning Unit within the Prime Minister's Department; in Vietnam the Development Strategy Unit within the Planning Ministry, etc.

Considered in terms of the criteria previously discussed, these bodies generally have strong analytic capability (this being central to their *raison d'etre*). However they vary greatly in the extent to which they meet other criteria, with most by their very nature not satisfying the independence test. At best they may bring an economic efficiency perspective to their departments; at worst, they may serve to justify policies that focus on particular sections of the economy or community. The extent to which they engage the community in their work, or even make their research publicly available, is also variable.

Central Bank research units

The research units within central banks play a similar role to the departmental units, and involve a concentration of highly skilled economic researchers. However, being housed in what are typically independent statutory authorities with well-defined responsibilities in relation to the connections between monetary policy, inflation and economic activity generally, they have a stronger focus on the economy as a whole. While they typically do not engage much with the public in their work, their findings have high public credibility, reflecting both research quality and independence.

Their research work primarily influences bank decision-making about monetary instruments, but it can also reach a wider audience, both through publications and the speeches of senior representatives.

Such bodies may also conduct research on productivity performance and its connections to policy, as an adjunct to their own primary responsibilities in the monetary sphere. In some cases this is an explicit part of their remit. (As noted, under current macro settings it is apparent that growth prospects are becoming more dependent on the functioning of the supply sides of economies.)

However their institutional purpose and focus are such that in most countries they are generally somewhat removed from and have no ongoing advisory or informational role with respect to most of the policy areas that impact on productivity performance.

Strategic bodies within government

A number of countries have created institutions within their public administrations with the explicit role of providing longer term strategic policy advice. These recognise and can provide a means of addressing the 'fragmentation' problem noted in relation to most administrative structures. Their role is purely advisory, however, in contrast to central agencies such as Treasury or Finance that have executive or regulatory powers. A number of the bodies in this category were created to replace institutions that traditionally had a more 'dirigiste' economic planning role.

Examples include *France Stratégie*, the Development Centre of the NCDC in China and the National Institute for Transforming India (which recently replaced the Planning Commission and also has some characteristics of a public think tank).

While there is variation in the roles and functions of such bodies, they generally measure up well in terms of providing a national and longer term focus, and their research capacity is generally relatively strong. They also have relatively close links to the policy apparatuses of government. The transparency of their research and advice, and degree of public engagement tend to be limited, however, which also applies to their independence (at least in formal terms).

Advisory councils

Standing bodies exist in a number of countries to enable a government or political leader to tap expert or practical advice and information. Such bodies also in some cases act as a means of building consensus around key policy directions. They can have a general remit, or a focus on particular sectors or activities (e.g. financial services or exporting). They often have a secretariat based within a ministry, although some have their own budgets and separate staff resources.

One important category has a *tripartite* or broader representational form, comprising government, business, unions and other community groups. An example of such a body in Australia was the Economic Planning and Advisory Council, which existed in the 1980s and 90s; also active in this period was the Economic Council of Canada (Long et al., 1988). Both had a strong research capacity and addressed key policy issues related to economic performance and societal wellbeing. Their reports were publicly available and generally widely cited. Both bodies made a significant contribution to consensus building about problems and solutions in the policy areas they considered (for example, infrastructure, social housing, urban planning, etc.). However, in the end, both were seen to have outlived their usefulness by governments of the day and, lacking statutory entrenchment, could be readily abolished.

Examples in other countries include the Industrial Competitiveness Council in Japan, National Competitiveness Council in the Philippines and National Economic Advisory Council in Malaysia. (For a survey and assessment of institutions in South East Asian economies against similar criteria to those developed here, see a forthcoming report for the OECD by Woods, 2015)

A significant contemporary example, which has recently acquired a statutory basis, is the National Productivity Committee in Mexico. It was initially established by executive decree in May 2013, as part of a wider reform program, with the objective of advising on and building consensus for policies to enhance the country's productivity performance. It is chaired by the Finance Minister, with a secretariat housed in the Finance Ministry. Various other ministries are involved, plus representatives from business, labour associations and the education and training sector. It has identified a number of 'cross-cutting' policy areas, such as labour training and innovation, in which coordinated actions were seen as crucial to raising the economy's productivity. The OECD has noted 'early signs that it is working well, helping to analyse

problems and build consensus for reform, notably in the area of public sector management.' (Dougherty, 2015)

A principal strength of such tripartite bodies is their capacity to build awareness of current policy problems among key stakeholders and the potential gains from change. As demonstrated in Australia and Canada, they can also foster wider community understanding and support for reform. While in these respects their representational structure has important advantages, it can also be an obstacle to getting agreement on robust policy solutions, particularly in areas in which productivity-enhancing reforms can involve significant distributional impacts, such as in labour market regulation or industry assistance programs.

Another form is typified by the President's Council of Economic Advisers in the United States and the Council of Economic Experts in Germany. Such bodies comprise policy experts or people involved in business or community-based organisations. They are distinguished by having direct access to political leaders and an ability to address the issues of the day. However they vary in the extent to which they have technical support or would be required to offer a common position on matters under consideration. And their role can be more like a sounding board or discussion forum than an adviser based on policy research. Their wider engagement and educational function also varies greatly, from an 'in confidence' role to a public reporting function as well.

Dedicated public inquiry and review bodies

An important institutional form in identifying and advancing pro-productivity policies, particularly structural reforms, comprises those bodies specially commissioned by government to conduct policy reviews. These are normally required to engage in public consultation and provided with research and other resources to perform their task. However they vary greatly in the detail of their governance and operations, as well as in their influence and effectiveness. For present purposes, it is useful to divide them into arrangements that are *ad hoc* and time limited in nature, and those which have an ongoing role within government.

1. *Ad hoc 'taskforces'*

Most governments at one time or another have commissioned special reviews or inquiries to obtain information and advice 'externally' on certain policy issues. They may do this for a variety of reasons, including a need for specialist expertise, the need for an independent perspective, or the greater scope within such arrangements for engaging with the public on an issue that warrants it. In some cases, they may also be used as a means of deferring decisions or justifying certain contentious actions.

The remit of such review groups or 'taskforces' may be very broad (e.g. enhancing productivity or competition) or limited to a specific policy area (e.g. taxation or industrial relations). And they may be asked to provide advice in a 'new' policy area (like climate change or cyber security) or in relation to reforming an existing policy.

Aside from Royal Commissions – a special category in their own right, and one that is not well suited to the sort of research and advisory role considered here (Prasser and Tracey, 2014) – they typically do not have statutory backing for their independence and powers, usually being appointed on executive authority. But they normally have public terms of reference. And appointments to head such taskforces are usually made from outside government. Their secretariats often consist of departmental officials, however, who may be specially seconded for the task.

The variety of forms, functions and topics addressed by such bodies internationally has been great, as have been the circumstances in which they were called into being, such that any robust assessment of their

contribution would need to look in detail at specific examples. However, in the broad, such institutions as a class measure up well against the criteria previously identified, which is unsurprising given that they are designed for policy evaluation or review.

They generally have a mandate to provide advice about policy improvement in the public interest; their processes are public to varying degrees, and they are generally resourced to perform research and conduct public consultation. Also they are often headed by influential and respected people who can play an educative role with respect to the wider community as well as the government.

For example, Canada has engaged 'review panels' over the years to conduct public inquiries in a variety of policy areas, including some related to productivity. The panelists are appointed based on their expertise by the relevant federal minister in consultation with cabinet. They have normally had up to two years to complete their reports, which involve public input and public recommendations. Examples include the Competition Policy Review Panel headed by LR Wilson, whose report, *Compete to Win* was issued in 2008. (It recommended, unsuccessfully, the creation of a standing 'Canadian Competitiveness Council'—see Wilson et al., 2008). A second notable example is the 2010-11 panel on innovation led by Thomas Jenkins. To take a second country example, in the United Kingdom there have been some influential reviews in the past decade on topics such as transport infrastructure (headed by Sir Rod Eddington) and regulatory enforcement (under Philip Hampton). 3

It is beyond the scope of the present paper to attempt a comprehensive listing, let alone analysis, of such reviews and inquiries. However, their contribution can be illustrated by two examples from the Antipodes that have been well documented.

- The '*Hilmer Review' of National Competition Policy* (1995): this was a wide-ranging public inquiry headed by a specially appointed panel of eminent Australians and supported by a secretariat located within the Prime Minister's Department. Its task was to conduct a public review and report to governments (national and state) on policy settings needed to enhance competition within the national economy for the benefit of the public. Its recommendations for specific policy changes and ongoing review processes across the Federation, were largely taken up by the cross jurisdictional 'Council of Australian Governments'. This led to a major program of reforms over the next decade yielding substantial productivity gains and allocative improvements. (For a detailed assessment see PC, 2005; Corden, 2009)
- *New Zealand's Taxation Working Group, 2009-10:* this was established largely as an initiative of the bureaucracy and academia, though with government support, and was headed by a leading academic economist from Victoria University. It also co-opted other relevant experts, including from the private sector. Its remit was to make recommendations to enhance the efficiency and equity of New Zealand's tax system in budget-neutral ways. Its report provided options to this end which were influential in subsequent reforms by New Zealand's Government and highly regarded internationally. These reforms also went well beyond what Australia was able to achieve through its own review process at the time, reflecting differences in governance, public engagement and Ministerial leadership (Gemmell, 2010).

In both countries, arms-length reviews or inquiries of this kind have played a role in advancing structural reforms in a range of areas. In fact, in the case of Australia, it is hard to think of any significant structural reform initiative that was not preceded by a public review process of one form or another.

Among other countries, examples of *ad hoc* institutional arrangements for policy review with a productivity focus include:

- *Denmark's Productivity Commission*, established in early 2012, comprised a group of senior representatives of business and academia, with its own secretariat. It was established by the government with a broad mandate to analyse the causes of poor productivity performance in that country and to make recommendations to improve it, both in the public and private sectors. It was required to consult widely and issue interim papers for public discussion. Its first report was broad in scope, with subsequent ones tackling particular areas seen as key to raising productivity, including a final major report in late 2013 on the tertiary education sector. The Commission's reports have been influential. Its findings and recommendations continue to be widely debated and discussed in Denmark, as well as in other Scandinavian countries facing similar issues.
- *Norwegian Productivity Commission.* This body was set up by the Norwegian Government in 2014 in response to a perceived need to reverse the slowing of productivity growth relative to labour costs. It is funded by the Finance Department and has a secretariat drawn from various ministries. It was inspired by the Danish equivalent, and the chair of Denmark's body was also appointed to the Commission, which is chaired by a respected Norwegian academic economist. Its work is to occur in two phases. The first, reflected in a report that was released in February 2015, involved a detailed analysis of Norway's productivity performance and contributors to its relative decline (NPC, 2015). The second, current phase is focussing on more specific policy actions that are needed. The Commission is required to consult publicly and has been given a year to complete each phase of its work.

Wide-ranging reviews have also been conducted in Australia (IC/PC 1996), New Zealand (Brash et al., 2010) and other countries. They have the important advantage of being able to look at the 'big picture' and draw out common issues and directions for reform. Their disadvantage, given the breadth of their reporting, is their more limited scope to undertake detailed analysis for complex issues that warrant this and, just as importantly, to engage stakeholders sufficiently to achieve 'buy in' to specific reforms in more contentious policy areas. However in their ability to survey the policy landscape, they are well suited to identifying priorities and devising an agenda for detailed follow-up examination. The Nordic bodies are unusual in having had a dual remit of this kind.

It should also be noted that not all reviews, whether broad or narrow, have succeeded in advancing the cause of good policy. In Australia, for example, out of a multitude of policy reviews and inquiries over the years, only a minority could be said to have been successful in terms of both the quality *and* influence of their reports. (Lessons from that experience are set out below. See also Banks, 2014a.)

2. Standing bodies

In a few jurisdictions, institutions have been created by government with an *ongoing* remit to undertake research and policy reviews related to enhancing productive performance.

The oldest such institution is the Productivity Commission in Australia (APC) which, with its predecessors the Industries Assistance Commission and Industry Commission, has existed since 1973. Another notable example in Australia at the state level is the Victorian Competition and Efficiency Commission, though smaller in size. It has been undertaking a regulatory gatekeeping as well as inquiry role, but with little capacity to conduct research (Evans, 2009). This body has been slated for abolition by the incoming Labor Government in Victoria. In contrast, the Queensland Government has just created its own Productivity Commission. It is located in the Treasury portfolio and encompasses the functions of the pre-existing Office of Best Practice Regulation. Other bodies at the State level with related functions (in addition to regulatory powers) include IPART in New South Wales and West Australia's Economic Regulation Authority.

New Zealand established its own Productivity Commission in 2010, based closely on the Australian model (NZPC, 2010, 2014). This body has already made a significant contribution and acquired a strong

reputation for the quality of its research and consultative processes in New Zealand. For a few years in the 1980s New Zealand also had a statutory agency called the Economic Development Commission with a similar role (Long et al., 1989).

Given expressed interest by the OECD in this model, and the consideration being given to it in some member countries, this paper will now look more closely at the role and influence of the Australian institution and lessons from its operations that may be found useful by other countries. (For more detail, see Banks and Carmichael, 2007, and other papers by the author listed below.)

Case study: Australia's Productivity Commission (and predecessors)

The Productivity Commission is the lineal descendant of the Australian Tariff Board, an institution established by the Commonwealth Parliament in 1922 to provide a transparent, arms-length mechanism for resolving competing claims about import tariff levels (Rattigan, 1980). For the next four decades this body effectively operated as an instrument for implementing the prevailing protectionist policy orthodoxy, via 'made to measure' tariffs designed to enable local industries to compete. In the mid-1960s, however, under the combined influence of a new Chairman and new tools of analysis, it began to adopt an increasingly rational approach to assessing economic efficiency. Its new stance was embraced by the incoming (Labor) government in 1972, whose leader recognised that the fiscal requirements of an ambitious social policy agenda would depend on creating a more productive economy (Rattigan ,1980). He commissioned a review of the Tariff Board's role in advancing this, with that body subsequently being transformed into a new institution, the Industries Assistance Commission. This institution was explicitly designed to act as a counterweight to the political pressures for government preferment and against productivity enhancing policies and reforms. (Crawford, 1973; Rattigan, Carmichael and Banks, 1989).

The IAC was given a remit to cover all forms of assistance to industry in all sectors. It retained the formal provisions of its predecessor relating to independence and transparency, but the Tariff Board's ambiguous statutory guidelines were replaced by an explicit requirement to promote national economic performance.

To briefly elaborate, the core design features of the institution in its various forms since 1973 (PC, 2003) are:

- *Independence*: the Commission has operated under the guidance and protection of its own legislation. It has had an arm's length relationship with the government of the day, which can tell it what to do (topics for public inquiries) but not what to say. Its role is purely advisory, with no judicial, executive or administrative functions. Members of the Commission are appointed for fixed periods of up to 5 years, and cannot be removed except in prescribed circumstances (akin to the judiciary).
- *Transparency*: Inquiry tasks are specified in publicly available terms of reference. There is an obligation to hold public hearings and release draft reports before any recommendations to government are finalised. Also the Commission is obliged to submit an annual report covering its operations and activities, and providing analysis of productivity related issues. All such reports, while going to government in the first instance, have to be tabled in Parliament or released publicly within defined timeframes.
- *Economy-wide criteria*: Guidelines in its legislation have required the Commission to have regard to the performance of the economy as a whole, and the interests of consumers and citizens generally (with specific dimensions being added in successive variants).

The Commission has generally been funded at a level sufficient to support its functions, having until recently a staff of around 200 and a substantial research capacity. It has also had control over how its budget is allocated.

Under these provisions, the policy autonomy of successive governments has been preserved, while giving them access to evidence-based advice about reforms needed to promote a more productive economy. In introducing the original legislation to support the Productivity Commission, the Government observed:

> *Sound policy must be based on a full appreciation of the facts. A primary role of the PC will be to identify impediments to improved productivity…. It is only with this sort of information and economy-wide focus that governments can make sensible and considered choices as to future policy – choices that will ensure better and more sustained growth prospects for all Australians.* (Miles, 1996)

The main difference between the three organisations is in their policy coverage, which has been progressively extended to include structural issues in environmental and social as well as economic domains.

Table 1. A selection of Productivity Commission reports

Trade liberalisation/industry assistance	Environmental issues
• Australia's general tariff arrangements • Review of automotive assistance • Multilateral liberalisation of services trade • Economic effects of bilateral trade agreements • Public support for science & innovation	• Rural water use and the environment • Energy efficiency • Waste management • Conservation of historic heritage • Water quality in the Great Barrier Reef
Productivity studies	**Social issues**
• Productivity analysis for key industries • ICT use and productivity • Microeconomic reforms and Australian productivity: exploring the links • Can Australia match US productivity performance?	• Australia's gambling industries • Indicators of indigenous disadvantage • Review of Disability Services • Aged care policy • Housing affordability
Infrastructure reform issues	**Regulatory reviews**
• Review of third party access regimes • Price regulation of airport services • Telecommunications regulation • Road and rail freight infrastructure pricing • Public infrastructure funding	• Broadcasting • Impact of biodiversity regulations • Liner cargo shipping • Regulation of the taxi industry • Review of mutual recognition • Performance benchmarking of business regulation
Labour market issues	**Other studies**
• Review of the Job Network • National workers' compensation and OHS arrangements • Non-traditional work in the Australian labour market • Container stevedoring work arrangements	• Report on Government Services • Potential benefits of the National Reform Agenda • Stocktake of Microeconomic Reform • Trans Tasman Economic Relations

Throughout their combined life, the Commissions have been engaged in two primary (and related) streams of activity:

- *Public inquiries and studies requested by government*: these have generally been reserved for policy issues that are complex and/or contentious, where there is a significant potential payoff to good policy warranting an intensive public process of investigation and review. Examples include assistance to key industries, labour market regulation, environmental controls, access to essential infrastructure, consumer protection regulation, research policy, professional services regulation, etc. Inquiries commence with Terms of Reference issued by the national government (the origin of which may include state governments and wider consultation among stakeholders), and follow a process of discussion papers, formal public submissions and hearings or roundtable discussions. A draft report is prepared for public scrutiny, followed by a final report to government. By convention, this requires a government response (though not necessarily acceptance) and in any case must be released publicly within 25 'sitting days' of Parliament.

Box 1. Stages in the Public Inquiry process

Government decides to initiate an inquiry

↓

The Commonwealth 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 issues it considers relevant and invites written submissions

↓

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

↓

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

↓

Hearings are usually held on the preliminary report

↓

A final report is submitted to the Treasurer

↓

Departmental consultations are held and the report is considered by relevant Ministers

↓

The Treasurer tables the report in Parliament and may announce the Government's decision on the report at the time or at a later date

- *Supporting research*: an ability to initiate its own in-depth research has been important to the rigour, coherence and ultimate credibility of the Commission's policy analysis and advice. Its research activities have included the development of analytical frameworks in key areas, and quantitative economic models in particular (Dee, 2005), as well as analysis of trends within the economy and their causes – notably in relation to productivity performance. Such research has been an input to public inquiries and has also served to inform policy makers and the public about the trade-offs in reform. In particular, research that has demonstrated large potential gains has been influential in building public support for change (Stoeckel and Corbet, 1999). A subset of this

work is the development and annual reporting of benchmark indicators of the relative performance of government services across the Australian Federation (Banks and McDonald, 2012).

Influence and impact

The Commission's role is advisory and it provides only one source of advice to government among many. Accordingly, its influence has depended firstly on it being given the opportunity to have a formal input (through an inquiry or study commissioned by government), and then on the quality of its contribution. It is generally accepted in Australia that the Commission has performed well in both respects, and that it played a key role in a program of microeconomic reforms in the 1980s and 1990s that boosted productivity and raised per capita incomes significantly (Parham, 2004, Stoeckel and Fisher 2008**,** Banks and Wonder, 2010).

A basic indicator of the organisation's influence over the years is the extent to which governments have accepted and implemented its recommendations.

- In the case of *industry assistance* matters, the bulk of its recommendations have been accepted, with tariff and other assistance having declined greatly over time (and with little relationship to formal trade negotiations). Even in cases where its recommendations were not initially accepted, they were often implemented by a subsequent government, or when economic or political conditions appeared more favourable.
- In other *economic* areas, the success rate has also been high overall, with governments generally implementing recommended improvements to the governance of public utilities and infrastructure regulation which have respectively become more efficient and more conducive to private investment.
- In the area of *social and environmental* policies the record has been more mixed, reflecting the greater significance of policy considerations beyond productivity or efficiency improvement. However, the Commission is generally acknowledged to have had a major influence on the quality of public discussion in policy areas reviewed, and on policy outcomes in the cases of aged care, housing, disability support, gambling, native vegetation regulation and a number of other areas.

Quantitative estimates of the gains from reforms in such areas suggest big returns on the 'investment' by government in the Commission and its staff. For example, in the infrastructure space alone, higher productivity and lower prices attributable to reforms advocated by the Commission (alongside and in part informing the Hilmer Review) have been estimated to have raised Australia's GDP by some 2.5 per cent (PC, 2005). The full pro-competition reform program has been variously estimated at generating gains upwards of double this magnitude. And there are many *ex ante* estimates of sizeable gains from reforms in individual policy areas such as water reform, and in human services, where the Commission estimated gains equivalent to or exceeding those from the 'first wave' of microeconomic reform (PC, 2010).

Perhaps the strongest indication of the perceived value of the Commission in the development of public policy has been the support the institution has received from successive governments and the fact that its remit has been extended over time under both sides of politics.

Box 2. Government assessments of the Commission's contribution

When introducing legislation into Parliament in 1989 to establish the Industry Commission, the then Labour Government stated:

> … the Industry Commission will further the important role that the Industries Assistance Commission has played in the structural adjustment process in Australia. It will build on the Industries Assistance Commission's earlier work which was instrumental in awakening the community to the costs of many industry assistance policies. As an institution, the Industries Assistance Commission has been an important force in economic policy in Australia, building community awareness of the need for Australian industry to be outward looking and internationally competitive. … By providing independent and expert advice to the Government and through its public inquiry processes, the Industry Commission will facilitate the ongoing structural change that is needed in the economy. (Morris, 1989: p. 2424)

In 2003, the Prime Minister of the Liberal Coalition Government commented on the Commission's long-term contribution to trade and industry assistance policy formulation in the following terms:

> The dynamic supporting trade liberalisation in democracies will only succeed if communities in each country believe it's in their interests to liberalise. In the Australian context, the work of the Productivity Commission and its predecessors … has been fundamental to building and maintaining Australian public understanding of the benefits of greater openness to international competition … (Howard, 2003)

In that year, the Treasurer stated:

> … the Productivity Commission has provided a vital, independent source of public information and advice to government on policy reforms needed to underpin Australia's long-term prosperity. (Costello, 2003)

That said, the Commission has not always found itself in favour, either with the government of the day or with the political opposition, and certainly not with certain special interest groups. And the degree to which it has been utilized by government has varied over time. While its remit has expanded and the range of inquiry topics has widened, separately commissioned ad hoc reviews have also proliferated in more recent years, including in 'core business' areas of the Commission, such as industry policy and competition policy. The Commission's longevity and renewal nevertheless suggest that its perceived overall benefits to government have outweighed the discomfort occasioned by its reform advocacy from time to time. But it is also a reflection of the support it has acquired within sections of the community, which in turn can be attributed to its inclusive processes and reputation for evidence-based policy in the interests of the community as a whole.

Some lessons

Pros and cons of ad hoc versus 'standing' institutions

In principle, standing institutions have a number of advantages relative to ad hoc review bodies. They can build in-depth knowledge over time about different policy domains as well as about how best to undertake reviews, including consultative mechanisms and research methods. For example, a standing institution can invest in its own modelling capability to an extent that would not be feasible for a body assembled for a single short-term review exercise. It can also ensure that such analytical infrastructure is fit for purpose, rather than having to rely on existing offerings from academic or consulting bodies. Moreover it can develop ongoing relationships with other research institutions that complement its expertise (e.g. in the area of large-scale surveys).

Another advantage of a standing body is the ability to monitor developments over time, and conduct better informed ex post evaluations of particular policy initiatives. It can also be used to identify issues and explain trends in productivity in a timely way as an ongoing part of its activities.

Such an institution can also develop a deeper culture of independent inquiry and transparency through the repeated exercise of its functions. Staff come to identify with the institution and its mission in a way that is hard to achieve during a short-lived secondment to a specific review. Also, a standing body, if well constituted and led, can over time acquire a reputation and gain public credibility that again is more difficult to accomplish within a short-term exercise.

The potential disadvantages of a standing body relative to ad hoc taskforces etc, include the larger set-up costs, less flexibility and greater perceived political risks for the government of the day. The very existence of such a body can be seen as placing pressure on government to be in 'reform mode', which may not always be wanted. And, even if the terms of reference for its inquiries are closely specified, there is always the prospect of it finding fault with aspects of a government's own policy regime, providing potential ammunition for political opponents. There is also the possibility of a degree of 'mission creep' emerging within a long-lived institution.

Thus, while many governments have examined and see value in the Australian arrangement, only one or two appear to have actually implemented it domestically. The New Zealand case could be regarded as special, given that country's close association with and broader institutional similarity to Australia. Nevertheless, the NZPC was created as a new institution at a time of budgetary restraint, which is a significant achievement. While established by a conservative coalition government, it also received the support of the main opposition party of the left.

In a very recent initiative (July 2015), the Chilean Government has announced the establishment of its own Productivity Commission, as a 'permanent, consultative body that will advise the government on matters relating to productivity and economic growth'. The new standing body has been created by Presidential Decree, but with the intention in time, subject to its performance, of giving it statutory backing, like the Australian and New Zealand institutions. It comprises eight commissioners appointed for three year terms, one of whom serves as president. Their work is to be supported by a staff of research and inquiry professionals. The new body will largely have control over its own budget and operate within its own premises. It will 'carry out analyses and make recommendations relating to the design, implementation and evaluation of policies and reforms to directly stimulate productivity in Chile' (Bachelet, 2015) and its reporting is to be based on consultative, transparent processes.

Some lessons common to both

In reviewing the experience of public reviews and inquiries in Australia -- whether ad hoc in nature or those undertaken by the Productivity Commission and other standing bodies -- a number of success factors emerge (Banks, 2014a). In brief, these include:

- *selecting the right topic and asking the right questions:* Such reviews necessitate considerable time and resources if they are to be done well – both of which are normally in short supply. They are therefore best reserved for issues that are both technically complex and politically contentious, and where there is much at stake for the economy in 'getting it right'. (Examples include regulatory frameworks for infrastructure services, land use planning systems, sectoral assistance regimes, labour market issues, welfare programs, research support, etc.) It is also important to the public credibility of a major review or inquiry that its terms of reference are not unduly constraining, enabling key dimensions of a topic to be covered.

- *getting the timing of the review right:* As the old saying goes 'the right thing at the wrong time is the *wrong* thing'. Some inquiries are better done in good economic times than bad, and vice versa. (For example, a 'burning platform' such as a fiscal crisis, can prove opportune to launch trade liberalization or other deregulatory initiatives – recalling Churchill's dictum 'never waste a good crisis' -- whereas a 'normal' recession may not be.) And how a review is positioned within the electoral cycle can be crucial to the take-up of its recommendations. The worst timing for an inquiry to issue its report is in the lead-up to an election, whereas that is generally the best time to *launch* an inquiry, so that it can report early in an electoral cycle when the politics are likely to be more conducive to a good hearing.
- *appointing appropriate people under appropriate governance arrangements:* Choosing the wrong person to head an inquiry – typically a confidante of a minister or someone who is known for strong opinions on a topic -- can be fatal to the inquiry's public credibility and thus to its value as a vehicle for reform (Banks 2012c). The minimum requirement for such appointments could be described as 'competence without conflicts'. Desirable additional qualities are integrity, openness of mind and independence of character. But it is also important that governance arrangements are supportive of independent decision making. Funding, secretariat location and reporting arrangements with respect to the commissioning ministry all have a bearing on this and need to be made clear from the outset.
- *adequate transparency of process:* To be effective, a public review needs to be just that. There should at least be sufficient time for consultation with stakeholders early in the process to understand the issues, and later to gain feedback on preliminary findings and recommendations. The latter is important not only because of its important role in 'stress testing' policy proposals and reducing the scope for unintended consequences, but also, as noted above, to help condition the political environment for subsequent policy initiatives.
- *Effective handling of the report by the government*: Even where the above conditions are satisfied, poor handling of a report by government, or poor implementation of its recommendations, can undermine a review's contribution. (This is generally acknowledged to have been a significant factor in relation to Australia's *Future Tax System* Review of 2008-09.) For example, pre-emptive comments about recommendations that would not be favoured, 'cherry picking' from an integrated package of reforms, or simply failures in 'salesmanship' can all lessen the chances of securing a successful policy outcome.

And of course there will always be situations in which the political obstacles to reform are too great to be surmounted, even with the help of an ideal process or strong arguments and evidence, at least in the short term. (However, such reform proposals can sometimes be resurrected and implemented in more propitious times.)

Lessons from standing bodies

The oldest standing body is Australia's Productivity Commission, including its predecessor commissions dating back to 1973. During this time, as noted, there has been a rich history and experience, with a number of changes being made along the way to its constitution and operating procedures and conventions (as well as to its name). Some lessons from that experience of potential relevance to other countries follow, some of which are supported by the more recent experiences of the NZPC, VCEC and other bodies mentioned previously.

A key lesson has been the critical importance of statutory backing for a body with an ongoing role in this area, given the need for independent assessments and preparedness to give advice to government that may not always be wanted or welcome. There have been multiple occasions in the Commission's long history when it was so unpopular with certain interest groups that the government of the day could well have found it politically expedient to abolish it. Having its own legislation need not have precluded this,

but it necessitated making a case that would gain wider support. In contrast, a lack of such statutory protection has made it relatively straightforward for the current Victorian Government to abolish its counterpart, the VCEC.

By the same token, the Commission's legislation contains a range of criteria and procedural requirements to ensure that its work could not be at variance with a government's broad objectives. Legislative change in relation to its decision criteria served to transform the contribution of the IAC relative to the Tariff Board and provided the basis for the institution's subsequent extension.

The statutory appointments of Chairman and Commissioners over the years have worked best where those concerned have been people of 'real world experience', but without representational interests or being seen as 'political'. As noted previously, appointees need to be people who will be accepted as being not only competent but independent. The demise of VCEC was arguably assisted by increasingly political commissioner appointments.

The survival of the Commission has also had something to do with the ability of the organisation and its leadership to use the body's independence in a responsible way. For example, following some early rejections of its advice, it began to ensure that its recommendations were not only rigorously based but practically implementable, including by providing fall-back options in addition to the perceived 'first best'. And in relation to its power to self-initiate research, care has been taken to consult on topics and stick to 'findings' rather than formal recommendations.

The Commission's experience also highlights the importance of such a body being located within a portfolio with broad (economy-wide) responsibilities, both to ensure it gets appropriate work to do, and to have a 'champion' within the administration for its recommendations. The organisation suffered in both respects when located in the Secondary Industry portfolio, whereas it got a second lease of life on being moved under Treasury. Treasury or Finance are also more suitable portfolio homes than departments of the Prime Minister or Premier, which tend to be more exposed to the politics. (A move to Premier's Department from Treasury preceded the demise of VCEC.)

This also underlines the importance of the administrative arrangements to oversee such an institution, and taking forward its reports and recommendations. In Australia, the Commonwealth Treasury has played a key role, with principal responsibility for preparing and consulting on terms of reference, and in many cases the cabinet submissions, relating to the Commission and its work. At an informal level, there have been collegiate relations among senior staff and opportunities to discuss policy issues and the forward work program, while respecting the difference between the Commission's independent (and public) advisory role and the executive functions of the Treasury.

Although views differ, the Australian experience with the Commission suggests that there are benefits in the government ultimately reserving to itself the power to initiate public inquiries and studies (containing formal recommendations) on structural policy issues. While the Industries Assistance Commission (1973-1990) could self-initiate inquiries, this was confined to tariff matters where the convention already existed that government automatically sought its advice. Once the institution's remit was widened to encompass the examination of policy impediments more generally, the government naturally wanted to be able to decide on the priorities for its work. Allowing such a body a roving brief to comment on any policy area as it saw fit could be expected to precipitate its demise. Having the government 'ask the questions' also has the advantage that these will be on matters of particular interest to it, and it will be obliged to listen to the answers. This means that the public is also likely to take the body's work – and the opportunity to make submissions or comment on draft reports – more seriously.

A capacity for independent and rigorous research has been fundamental to the credibility of both the APC and NZPC, given the contested space in which they have often operated. The larger scale of the Australian body has enabled it, among other additional activities, to sustain an in-house modelling capacity. This has proven invaluable in some inquiries.

While economic modelling can be commissioned externally, there are advantages in such a body at least having expertise to monitor and if necessary replicate the work of consultants to ensure its quality. While research studies self-initiated by the Commission could not be a substitute for a full public inquiry, they have served to fill gaps in policy discussion, raise the profile of issues needing attention (like the causes of productivity decline or consequences of demographic ageing) and pave the way for future reform efforts, including through subsequent public inquiries.

It is accordingly important that such an organisation be adequately funded. But it is just as important that its funds come from government rather than industry, and preferably through block appropriations rather than on a project-specific basis. In the case of the APC, such funding arrangements not only underpinned its effective independence, but enabled it to manage workload across different areas more effectively. (In contrast, requirements for departmental and other research bureaux to obtain external funding have contributed to a loss of credibility and influence in some cases.)

The release for public comment of draft reports containing preliminary findings and recommendations has been central to the contribution of the APC and similar bodies to public understanding of the issues, as well as to 'stress testing' their analysis and findings. Most of the APC's inquiries and reviews have benefited greatly from the feedback received on draft reports, with final reports generally being modified as a result. The public discussion that has ensued along the way, has also provided governments with insights about the political implications of different policy choices, including how implementation or adjustment issues might best be handled.

Overall conclusions and implications

Policies that promote productivity can be difficult for governments to devise and even more difficult for them to successfully implement, given uneven political pressures and fragmented administrative structures. There is accordingly a strong case for establishing public institutions that not only help governments identify the right policies, but that can also counter one-sided political pressure against reform and help educate the community about what is at stake. To make this sort of contribution, institutional arrangements need to exhibit design features that include independent governance, transparent processes, solid research capacity, a frame of reference focused on improving economy-wide outcomes and linkages to policy-making mechanisms within government.

This paper has provided a taxonomy of relevant institutional forms. How these measure up against the various basic requirements is depicted in summary form in the table below. (The star ratings in the table are based on the author's subjective judgment about the features of the 'average' institution in each category. Some organisations would do better than others.) Importantly, while only a few institutional forms would appear to satisfy the criteria to a high degree, in combination they may play a more significant complementary role, depending on the extent to which government seeks to utilize them. As noted, no institutional arrangement can make much difference if the government is not supportive of, or at least receptive to, an evidence-based approach to policy development.

Table 2. An Institutional 'Score Card'

An Institutional 'Score Card'

	Linkages	Mandate	Skills	Independence	Transparency
Privately funded Think Tanks	★	★	★★★	★	★
Publicly funded Think Tanks	★★	★★	★★★	★	★★
Trade tribunals	★★★	★	★★	★★	★★
Competition Authorities	★★	★★	★★	★★★	★
Audit bodies	★	★★	★	★★★	★★
Regulatory gatekeepers	★★	★★	★★	★★	★
Departmental bureaus	★★★	★	★★★	★	★
Central Bank research units	★★	★★	★★★	★★★	★
Advisory Councils	★★★	★★	★★★	★	★★
Ad Hoc Taskforces	★★★	★★★	★★★	★★	★★
Standing Inquiry Bodies	★★★	★★★	★★★	★★★	★★★

The contribution of organisations in most of these categories to better policy-making with respect to productivity and efficiency is incidental to their primary function. However some institutions have been expressly designed for this purpose. These include advisory councils, *ad hoc* taskforces and, less commonly, bodies with standing research and inquiry functions. The extent of their respective contributions has depended on a range of factors, including the detail of their governance and operations, the tasks they have been assigned and how well governments have handled their reports. In addition, as noted, the timing of their reporting can be crucial.

While there is unlikely to be a 'one design fits all' solution, there would seem to be scope for most governments to build or strengthen institutional capability that suits their circumstances and meets the broad requirements outlined here.

- One option, for example, is to extend or adapt the role of an existing institution that already has some desirable features, such as an independent tariff tribunal, audit body or economic regulator (as in Australia) or advisory council (as in Mexico).

- Another is to begin by appointing a special taskforce to conduct an arm's length review of the policy landscape, with a view to identifying more specific priorities for early action or in-depth review (as in Denmark or Norway).
- A third option is to create an institution with legislative foundations and remit, but to make these subject to a 'sunset clause' after a specified period (say three to five years). Within this period, the body could be commissioned to undertake a broad review and more detailed investigations in areas identified as priorities. A 'hybrid' model of this kind could bring the added advantages of a standing body, without posing some of the perceived political risks for government. Moreover, an independent review of the institution's operations and impact prior to the end of its term could be used by the government of the day to determine whether to renew its mandate for a further period (or indefinitely, as in Australia and New Zealand).

There is accordingly also considerable potential for governments to learn from each other about the relative merits of different institutional approaches, and for existing institutions themselves to build capability by drawing on the experience of others. The OECD is well placed to facilitate such mutual engagement and learning, which could ultimately see member governments becoming better equipped to secure the pro-productivity policies that are crucial to sustained improvements in living standards.

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