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A Productivity Commission: A Proposal for an Australian-style approach to creating a Policy-Reform Process for the UK

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Abstract

The UK now faces many fundamental political-economy choices. These cover: dealing with the implications of Covid for healthcare and social care; making post-Brexit decisions about trade policy and industrial policy; achieving net-zero carbon emissions; responding to the North-South divide and dealing with inequality; rethinking the UK's policy for primary, secondary and tertiary education; and constructing a policy to shape the country's research and development agenda. All of these choices have implications for how the UK's low level of productivity might be raised. This paper argues that there is a need for a national policy review institution – a Productivity Commission - to provide guidance for these choices. This would be a statutory body, one that could both analyse reforms and make policy recommendations to Government, according to their implications both for the UK's national interest, and for different groups within the country. A valuable model is provided by Australia's Productivity Commission, an institution with a long history of making recommendations on a wide range of microeconomic and social-policy issues. I spell out how this institution came to be established, why it has been so important in Australia, and what we can learn from this Australian experience. I examine what the policy guidelines for such an institution might be and show how such a body might be established in the UK.

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“The Productivity Commission has a long list of things to do. My answer to what we can do about productivity is: go get the list and do them.” (Statement in June 2012 by Glenn Stevens, then Governor of the Reserve Bank of Australia, quoted in Banks, 2012.)

1 Introduction

The UK now faces many fundamental political-economy choices. These cover: dealing with the implications of Covid for healthcare and social care; making post-Brexit decisions about trade policy and industrial policy; achieving net-zero carbon emissions; responding to the North-South divide and dealing with the problem of inequality; rethinking UK’s policy framework for primary, secondary and tertiary education; and constructing a policy to shape the country’s research and development agenda. All of these choices have implications for how the UK’s low level of productivity might be raised. Recently, output per hour worked in the UK has been about 15% below the average for the rest of the G7 advanced economies, and Italy has been the only G7 economy with lower productivity growth than the UK (Office for National Statistics, 2020, and Wolf, 2021).

In these circumstances, I believe that there is a need for a national policy review institution - a Productivity Commission - to provide guidance for these choices. Such an institution would be something new for this country. It would not just be a think tank. It would examine potential reforms and would consider both national implications, and implications for different groups within the UK. It would have statutory independence. It would make policy recommendations which would be considered by Government; in its statute of establishment there would be a requirement that all reports must be received by Government and tabled in Parliament.

In the absence of such a body, recent public debates about potential reforms affecting productivity, including debates in Parliament, have proceeded in a largely polemical manner. These subjects are much too important for merely polemical discussion. Detailed economic and social analyses, built on evidence-based foundations, are necessary for the country to achieve good policy outcomes. That is why a Productivity Commission is needed.

Such a body would have a remit well beyond that provided by the Competition and Markets Authority, or the National Infrastructure Commission, or the Board of Trade. The UK once had a National Economic Development Council, located in the National Economic Development Office (NEDO), established by the Macmillan government in the 1960s. However NEDO was largely ineffective and was abolished by the Major government in 1992. The Industrial Strategy Council, established in 2015, might have provided what was needed. However, that was a non-statutory advisory group, commanded few resources and was

prevented from making public policy recommendations to Government, and it, too, was abolished recently.

There is a valuable guide available for the UK: Australia's Productivity Commission. This is an institution with a long history of making recommendations on a wide range of microeconomic and social-policy issues (Productivity Commission, 2020). Reform issues are referred to it by government, and it considers the implications for the country at large and for particular groups – both winners and losers. It considers how losers might be compensated. It then makes Reports to government containing policy recommendations. The Australian Productivity Commission has statutory independence. By legislation, its Reports must be tabled in Parliament and considered by Government. It conducts public enquiries when preparing Reports; initial drafts of Reports are released and further comment is invited. This leads to transparency and also to public engagement. The Commission has research capacity, and modelling capability, which underpin its reports, and strengthen the respect in which it is held.

In what follows I describe how the Australian Productivity Commission came to be established and why its importance has stretched well beyond economic concerns into broader matters of social policy. It has become a central participant in the political economy of the reform process itself. I argue that the UK might gain a great deal by copying this Australian model. I discuss how such an institution might be established and the way in which it would operate.

Of course, nothing can come exactly off the shelf from Australia and be institutionally grounded in the UK. Nevertheless, the time and circumstances seem right for this kind of experiment here. Contributions to a conference held on 1 April by The Productivity Institute, and the National Institute for Economic and Social Research, suggested that there is a gap in the UK's institutional space, especially since the UK's Industrial Strategy Council has been so recently abolished. See <https://www.niesr.ac.uk/events/economics-and-politics-productivity> and, in particular, the Keynote Address by Tim Besley. It seems clear that a Productivity Commission might fill this gap.

2 The Importance of the Productivity Commission in Australia

The Australian Productivity Commission (henceforth “the Commission”) was established in 1998. It is the Australian Government's principal review and advisory body across a very wide range of economic and social policies. It has statutory independence, and is charged with making public reports to Government, reports which the government is bound by legislation to consider.

The standing of the Commission depends upon the transparency of its processes, the ability and capability of its employees, its public reporting obligations, and its community-wide (i.e. broader-than-economic) perspective. Even although it is not a policymaking institution, it has been able to achieve the same kind of widespread public respect as that accorded to the Reserve Bank of Australia (the country's Central Bank). This is because it carries the full investigative and policy-advising influence of an institution which derives its authority from Parliament. Its standing has also been enhanced by the fierce independence and non-partisanship shown by its Chairs.

These things alone have not prevented governments from pressuring the Commission, and that is why public buy-in and reputation is important. The capacity of media and analysts to draw on its findings, no matter what governments think of them, is one more thing which helps to sustain the institution. The inclusion of the public in its hearings and proceedings is another.

3 Building a Productivity Commission: the Australian Experience

History has mattered in Australia, in two important ways. (See Rattigan, 1985, and Productivity Commission, 2003.) First, the Productivity Commission was constructed by repurposing an existing institution, Australia's Tariff Board, a body which was previously responsible for administering Australia's highly protectionist, and inefficient, trade policy. Second, the analytic skills of those working in that earlier body were crucial in enabling the new body to become successful quickly. These skills were forged in cooperation with academic economists in Australia's Universities.

The Construction of the Productivity Commission out of Australia's Tariff Board.

The Productivity Commission grew out of a recognition in the 1960s, 70s and 80s that Australia's economic performance was being hampered by high levels of tariffs and by other forms of industry protection.

Protectionism had been established as a policy in Australia immediately after Federation in 1901, when the Australian colonies came together to form a nation. This policy was consolidated after World War I. It was seen as a way of sheltering firms from foreign competition and so enabling them to pay higher wages. That, in turn, was seen as a means of attracting more people to leave the UK and settle in Australia, helping the country to build its strength (Brigden *et.al.* 1929, Reddaway, 1937). From the 1920s onward, a Tariff Board provided policy advice to the government on how high the levels of protection should be (Anderson and Garnaut, 1987, Productivity Commission, 2003, Banks, 2010). That body

was established as a statutory authority in order to shield its advice from political pressure. But, despite this supposed shielding, the Tariff Board came to provide support for the country's highly protectionist policy stance, because that is what Australian citizens seemed to want.

Over the next 50 years, Australia became one of the most protectionist countries in the world. Behind this protectionist barrier, endorsed by the Tariff Board, a Commonwealth Court of Conciliation and Arbitration was established to set minimum wage levels by occupation, and nominal wages were raised across the nation (Australian Trade Union Archives, 2020). It is by no means certain that real wages rose above where they might have been, but the system gave the appearance of holding up wages. The Tariff Board became an important institution in this distinctive political-economy setup, since a reverse expectation was also created: if you pay high wages, we will give you protection from import competition. This was a central part of what has become known as the "Australian Settlement".¹

The Tariff Board was charged with recommending assistance to 'economic and efficient' industries. It was required to hold public hearings on the matters referred to it by Government and to provide its advice to government in public reports. Nevertheless, although its statute required it to report on 'the operation of the Tariff and the development of industries', its annual reports offered little insight into how economic and efficient industries might best be identified, or into the economic consequences of the protection that it recommended.

In fact, the Tariff Board's recommendations reflected a 'needs-based' approach: protection was 'tailor made' for each industry, according to cost disadvantage, in order to enable it to compete against international competition (Corden, 1962). Such protection gave rise to an inward-looking, uncompetitive and high-cost industry, shielded from foreign competition. In the decades which followed World War II, this came to be particularly true in the production of automobiles and in the textiles, clothing and footwear (TCF) sectors. Such a policy increased the prices of goods to consumers and to other industries. The resulting set-up damaged the competitive position of the country's export industries and provided few incentives to channel resources towards internationally competitive activities. Labour

¹ This phrase was coined by the journalist Paul Kelly in his 1992 book *The End of Certainty* (Kelly, 1992). Kelly identified five policy "pillars" of this settlement: White Australia (a racially exclusive immigration policy); Protection (protective tariffs on imported manufactured goods); Wage Arbitration (of a compulsory kind); State Paternalism (interventionist social and economic policies); and Imperial Benevolence (faith in the defence capacity of the British Empire). These pillars profoundly influenced the way Australia developed over the coming decades and were only dismantled towards the end of the last century.

market regulations came to support inflexible work practices, impeding the efficient deployment and use of labour, further raising industry costs. With this came low levels of innovation and skill development in internationally competitive activities. This inefficiency in the private sector went hand in hand with high-cost utility services supplied by government-owned infrastructure monopolies. These included electricity, gas, water, ports, and rail utilities, and the provision of postal and telecommunication services. Regulated markets, particularly in the areas of agriculture, mining, and professional services, further constrained the allocation of resources and restricted trading opportunities. The Tariff Board played a key role in sustaining this highly inefficient economic system.

Paradoxically, by the 1960s, it was the Tariff Board itself which drew attention to the economic costs of protection, of inefficient utilities, and of over-regulated markets. The new Chairman of the Board, Alf Rattigan, became acutely aware, soon after his appointment in 1963, of the adverse economic consequences of the 'needs-based' approach to protection, precisely because of the detailed investigations which the Board had been carrying out in the course of providing its recommendations for high levels of protection. In 1967 he outlined a new approach, designed to ensure that the Board's recommendations were consistent with the overall goals of national economic policy (Rattigan, 1986). This new approach began with a systematic public review of the structure and levels of protection, which led to an understanding of which industries were highly protected and thus most in need of tariff reductions.

Over the next 30 years, the Tariff Board gradually reinvented itself. Changes in the institution's name reveal the changing beliefs of those who worked within the institution and a widening of its scope of activity. Initial moves came under the Whitlam Labour government in the early 1970s when the Tariff Board was renamed the Industries Assistance Commission, and then in 1990 it became the Industry Commission. Finally, the Productivity Commission was set up, created by Parliament to be an independent authority, in the *Productivity Commission Act of 1998* (Australian Government, 1998, Productivity Commission, 2003). As this happened, the institution gradually moved away from supporting protectionism towards advocating trade liberalisation, on to advocating the more general liberalisation of the domestic economy, and finally on to considering how things could be improved across a very wide range of social policies.

Initially, in the 1960s and 1970s, these changes were enormously controversial and strongly resisted; protection continued to have strong general public support. Criticism was fanned by those in the many protected industries who saw themselves as likely to lose, and the protected industries became major donors to all political parties. However, high trade barriers, and the various regulatory and institutional impediments that were rife in the Australian economy, became widely viewed in informed circles as delivering poor economic

performance relative to Australia's international peers. Gradually public education, in which ideas about productivity played an important role, gradually moved elements of public opinion in the same direction, at least the large parts of informed public opinion that were not compromised by vested interests. By the late 1970s, it became difficult to sustain a protectionist argument in transparent debate.

And so, when the Hawke-Keating Labour government came to power in 1983, it could rely on support in informed public opinion for a broad range reforms to trade policy, designed to improve international competitiveness, raise productivity, and so achieve higher incomes and living standards. These trade-policy reforms were initially opposed, opportunistically, by conservative political forces in the Liberal Party in Parliament. That party had been in power from 1949 until 1983 (apart from a brief period of Labour government in the early 1970s), and had previously been highly protectionist in outlook. However, by the 1980s, the traditional opposition to trade liberalisation had become divisive within the Liberal Party, and by 1990, elements favourable to reform were in the ascendancy. In March 1991 this faction supported the last, and largest, step taken in the reduction of protection.

The moves made by the Hawke-Keating government to open up the Australia economy involved the reduction of tariffs, the abolition of the remaining import quotas, the removal other assistance to industry, and the liberalization of Australian capital markets (Garnaut, 1994, 2001). The Productivity Commission had played a significant part in preparing the intellectual and political ground for these reforms. And, at each stage, as action happened, the outcomes were guided by the reports and actions of the Commission, acting within its statutory obligations (Productivity Commission, 2003, Jones, 2016). Early steps were taken in 1983, including the removal of quotas on steel and whitegoods and the removal of tariffs and quotas on TCF. These moves were carried out case by case, in most cases after a report by what was then called the Industry Commission. Two across-the-board cuts in tariffs came later: a reduction of the maximum tariff to 10 percent 1988, in response to an Industry Commission Report, and then, in 1991, a reduction in all tariff rates to a maximum of 5%.

The end point of this process was in 1996 not 1991, because the measures announced in the 1991 statement were implemented as phased reductions between 1992 and 1996. (See Garnaut, 2001.) As a result of this step-by-step process, beginning in 1983, the reduction in protectionism was a gradual one. Looking at a chart of the average effective rate of protection, it falls steadily, almost a straight line, between 1983 and 1996 (Productivity Commission, 2003, p.54).

These reductions in protection were accompanied by other necessary reforms (Garnaut, 1994). First, the currency needed to be devalued, so as to improve the competitive position

of both export-oriented industries and import-competing ones. This had happened by 1986. Second, it was essential to ensure a climate of wage restraint, to prevent the currency depreciation leading to inflation. This was achieved by the “Accord” between Government and Trade Unions, which was initially established in 1993 and was maintained throughout the period of Labour Government until 1996. And finally, the government’s budgetary position needed to be stabilised, so that resources could be devoted to retraining those whose jobs would be displaced by the reduction in protectionism. This was achieved during the first few years of the Labour government.

Cooperation with Academic Economists

In the early days of change at the Tariff Board, Chairman Rattigan was assisted by a group of able academic economists, all of whom had strong international connections. These included Sir John Crawford, a distinguished civil servant, academic and policy entrepreneur², who had studied at Harvard University and the US Department of Agriculture before the Second World War, Max Corden, located at the Australian National University (ANU), who had studied for a PhD at the LSE with James Meade in the early 1950s, and a group of economists at Monash University and the ANU, some of whom had studied for PhD theses at Harvard in the late 1960s.

In the early 1960s, Corden developed the concept of effective rate of protection, a measure of *net* protection which made allowance for the fact that some industries which appeared to be highly protected were, in fact, disadvantaged as a result of protection accorded to imported inputs into production (Corden, 2005). After his review of strategy in 1967, Rattigan and his staff began to use this evidence-based knowledge in order to make practical policy recommendations for the phased reduction of tariffs, starting in industries where the effective rate of protection was highest.

From the late 1960s to the mid 1970s, Rattigan supported a project in collaboration with Melbourne and Monash Universities and the ANU, and led by Alan Powell, Peter Dixon and

² Crawford’s experience in government economic service, and in trade policy reform, went back a long way. In 1943 he became Director of Research in the Department of Postwar Reconstruction. After the war his influence expanded in 1945 as Director of the Bureau of Agricultural Economics, then Secretary of the Department of Commerce and Agriculture, and later Secretary of the Department of Trade. In this last capacity he was a key architect in the reshaping of Australia’s trade relationships with both the United Kingdom and Japan, supervising the negotiation of trade agreements with both countries. The first of these, concluded in 1956, greatly modified the 1932 Ottawa Agreement and its Imperial Preference arrangements, leaving Australia free to forge its own trade policy and eliminate the preference awarded to British goods. The second, the Australia-Japan Agreement on Commerce of 1957, provided for the expansion of trade with Japan, and gave most-favoured-nation treatment to imports of Japanese goods.

Fred Gruen, to build a policy-relevant computable general equilibrium (CGE) in order to examine Australian trade policy. This model built on a PhD thesis done at Harvard by David Evans, under the supervision of Wassily Leontief, and a later thesis done there by Peter Dixon. The project to build this model led to the path-breaking ORANI model, a CGE system which could be used to study the sectoral effects of trade policy changes, the first version of which was published in 1977.

This work by Corden and the CGE modellers was buttressed by Sir John Crawford, who, since 1960s had been the Director of the Research School of Asian and Pacific Studies at the ANU; it was he who brought Corden from Melbourne University to the ANU to work on trade policy. In the 1964 Crawford became Deputy Chairman of a Committee of Enquiry, led by industrialist Sir James Vernon, that was established by Prime Minister Menzies to enquire into economic policy options. The Committee called for a rationalisation of Australia's tariff policy along the lines advocated by Corden. The government rejected its recommendations. Nevertheless, the policy advice contained in Tariff Board reports increasingly took the form advocated by Corden and Crawford. Later on, it was Crawford who produced a report for Prime Minister Whitlam in 1973 which led to the relabelling of the Tariff Board as the Industries Assistance Commission (Crawford, 1973). Then, in the late 1970s, Crawford, who by then had been both Vice Chancellor and Chancellor of the ANU, was asked to lead another inquiry, this time for Prime Minister Fraser. He was required to examine, again, how protection might be reduced and to look at the processes of structural adjustment in the economy that such trade liberalisation would necessitate.

As part of the work for his Inquiry, Crawford asked Peter Dixon to use the Commission's ORANI CGE model to map out the adjustment process across a number of sectors of the economy (Dixon et. al. 1979). In parallel with this, Max Corden wrote a paper called "Tell us where all the jobs will come from" showing how - if macroeconomic policy was properly managed - opportunities would emerge to replace the activities at risk as a result of trade liberalisation (Corden, 1979). Soon afterwards, Corden and Dixon (1979) used the ORANI model to produce numbers to guide public debate about how macroeconomic recovery could be promoted without worsening the trade balance. They suggested that two instruments were needed, both a reduction in costs and an increase in demand.³ Using the

³ This 'two targets need two instruments' idea was first set out James Meade's book *The Balance of Payments*. (Meade, 1951) It had been widely understood in Australia ever since the appearance Trevor Swan's paper called "Longer- run Problems of the Balance of Payments" which was published in 1963 but which had been in circulation in Australia since the mid 1950s (Swan, 1953). This story about that understanding will be analysed in a book which I am writing about the way in which Australian policymakers have used economic knowledge to guide them in their work. (Vines, forthcoming). The book will draw on extensive archival material in the Australian National Library, including the papers of Trevor Swan and Sir John Crawford.

ORANI model, they showed that a reduction in costs, via a cut in the cost of employing labour, would stimulate export and import-competing industries, whilst an increase in aggregate demand would stimulate industries producing non-traded goods. The results for the 100 ORANI industries showed that achievement of the package would give a strong stimulus to almost every part of the economy.

This modelling work was of very high quality. In their summary of the influence of CGE modelling on Australian policy reform, Powell and Snape (1992) commented that

“CGE modeling became influential not just because the tool had caught the imagination of some of Australia’s best economists but because it was the right tool for the policy problem at hand. ... CGE analysis would not have survived in policy circles if the quality of the research product had been below the very demanding standards set by Dixon’s group.”

In fact, Australia led the world in establishing this kind of modelling capacity. In his review of Dixon, *et. al.* (1982), the book in which the ORANI model was set out and explained, the internationally-acclaimed Australian econometrician Adrian Pagan described the development of ORANI as a project that had become “a legend in its own lifetime”. He wrote that “nothing of its scale has yet appeared overseas, leaving it very much a ‘first’ for Australian research” (Pagan, 1983, p. 189).

Crawford’s Inquiry was well ahead of the game. It was still four years until the reformist Hawke-Keating government came to power, although, significantly, Bob Hawke was a member of the Crawford Inquiry team (by virtue of his position at the time as President of the Australian Council of Trade Unions). The inquiry by the Crawford team, and in particular the Commission’s modelling work, strengthened the private sector’s confidence in the reforms which the Tariff Board was advocating (Garnaut, 2016).

CGE modelling goes on being developed in University Departments in Australia.⁴ The Productivity Commission continues to use CGE models in support of its enquiries, and a

⁴ This research work on CGE models is now located at the Centre of Policy Studies (CPS) at Victoria University in Melbourne.

The CPS group has gone on thriving in the university sector because it has worked out how to produce publishable research financed by groups who want to use that research in policy discussions. Almost everything done by the CPS group is directed at answering policy questions for research funders who are located in government departments, not just in Australia but around the world. In Australia, the ORANI model and its successors have been used in: wage hearings before the Arbitration Commission (the successor to the Commonwealth Court of Conciliation and Arbitration described above); analyses presented to the Australian parliament of tax proposals such as the consumption tax (or GST); major environmental reports such as the Garnaut Climate Change Report; analyses for state governments of federal-state economic relations; and numerous applications for private and public organizations concerned with a wide range of micro-economic reforms.

It is nevertheless notable that the CPS group has obtained very little funding from the Australian Research Council. (Communication with James Giesecke, Director of CPS, March 2021.)

continuing capacity to do such modelling work has been one of the Productivity Commission's important strengths as an institution. Indeed Peter Dixon who has led that work is now a member of a panel of experts that is advising the UK Department of International Trade on the development of CGE modelling in this country.

4 A Broadening of Objectives: the Australian Experience

As time progressed, Australia's trade policy reforms increased competitive pressures within the whole economy, both specifically on firms which had been sheltered from foreign competition, and more generally throughout the wider economic system. In the manufacturing sector (to pick the most obvious example), the pressure which resulted from the tariff reforms helped to build a constituency for broader reforms, once producers in the manufacturing sector realized that they would not be able to get any tariff reforms reversed, as they might previously have done. This led, in turn, to the adoption of institutional and regulatory reforms promoting more efficient delivery of infrastructure services (including, for example, in electricity and communication) and to greater flexibility in Australia's previously rigid and highly centralized labour-market arrangements.

The Productivity Commission was ideally placed to give advice on how to carry out these wider reforms. This was because it had already developed significant skills in economic analysis and modelling through its work on trade policy. And so the Productivity Commission gradually became a body making reports not just on trade policy but on policy towards public utilities, on policy about the labour market, on regulation, and on microeconomic policy more generally.

The first of these next-steps reforms involved considering how domestic product and factor markets might be liberalised, so as to further improve the efficiency and productivity of the Australian economy. An important example is a study in 1995 which examined the implications of Australia's National Competition Policy (NCP) and related reforms and the government revenue implications that were likely to flow from these (Gretton, 2013). That exercise was concerned with the potential impacts of policy change, that is, it was an *ex ante* study, and it helped in the planning of the policy actions that were actually implemented. Then, in 2005, the Commission was asked to report, *ex post*, on the benefits that had accrued from the NCP and related reforms, providing, amongst other things, an emphasis on the distributional effects of change. As a result, there was a discussion of

There is a striking parallel here with related issues in the UK which led, after the global financial crisis of 2008, to the establishment of the Rebuilding Macroeconomics Programme at the National Institute for Economic and Social Research in London

whether these distributional effects provided grounds for further reforms (Productivity Commission, 2005).

When both the trade policy reforms and the competition policy reforms were in place, economic policy discussion in Australia then turned to important longer-run structural questions relating to an ageing population, to the nature of global competition, and to ongoing technological change. Again, the Productivity Commission played a key role. It was asked to undertake a study of the potential benefits of what was called the National Reform Agenda, an agenda which encompassed not just competition policy but also human capital issues pertaining to education, health and workforce participation. An initial report described the scope of such an investigation and focused on what might be achievable at the 'outer-envelope', through the implementation of best practice benchmarks (Productivity Commission, 2006). A further broad study then examined what might actually be done (Productivity Commission, 2010a). These broad reports were, in turn, followed by a more specific set of studies. One of these concerned the impacts of selected regulatory reforms on vocational education and training (Productivity Commission, 2012). Another examined the efficiency of healthcare provision, and identified opportunities for improving the operation of Australia's health care system (Productivity Commission, 2015). This last study is of particular interest for the UK, given the importance, which the Covid crisis has identified, of changing the way in which health care, and care for the aged, is provided in this country (Policy Reform Group, 2020).

This wider work led, in turn, to the Productivity Commission being asked to consider an even broader range of social and environmental issues, including immigration, health care, disability services and age care. Furthermore, sometime after the reforms were instituted, a follow-up report examined the implications of many of the reforms on rural and regional Australia, in response to concerns that these reforms had been unduly harmful to the communities living in those areas. That led to further changes in policy (Productivity Commission, 1999).

The Commission has also, on occasion, been used to provide reports in areas that might be seen as well outside the traditional economic sphere. For example, enquiries have examined gambling, and the social harms associated with problem gambling. Another study investigated child care. In doing these things the institution was able to challenge the perception that it was a bastion of 'heartless neo-liberals', or, to use the term then widely used in Australia, an institution full of 'economic rationalists'. This is part of the reason that the Commission is held in such high regard by the Australian public.

A detailed account of the story which I have just sketched is provided in the thought-provoking history of the Productivity Commission published in 2003 (Productivity Commission, 2003).

5 The Role of a Productivity Commission in the Policy Review Process: the Australian Experience

I now turn to describe in more detail the role which the Productivity Commission has played in the process of policy review within Australia. This process has been strikingly unusual, precisely because of the existence of the Commission.

The process works like this (Productivity Commission, 2003, Banks, 2010, Dee, 2010b). Often, but not always, when a reform is being considered, the government calls for a public inquiry, to be organised by the Commission. The Commission is instructed to investigate in detail the policy changes needed, and the industry-assistance options available, in the case being considered.

The methodology adopted in each of the Productivity Commission's investigations first entails delineating potential or actual policy changes and tracing the immediate (or direct) effect on economic outcomes, including things such as price, productivity and workforce participation. To do this the Commission sets about holding a public enquiry. Then, in parallel, the Commission draws conclusions about the economy-wide impacts of the proposed reforms on national output and incomes, and on different sectors of the economy, using the Commission's ORANI model, and subsequent developments of that model. Each study thus deliberately involves a combination of qualitative forms of investigation with quantitative economy-wide modelling of impacts.

The Commission's investigations lead, in due course, to the Commission presenting a Report to government. But Commission has established a practice of first issuing Draft Reports, after its initial inquiries and public hearings, and inviting further comment, before it presents its Final Report to Government. This practice has been important. On many occasions it has resulted in better recommendations, because it helped to bring to the surface counter-arguments which the Final Report could then address.

The Commission's Reports are tabled in Parliament, and discussed by Parliament. The government is bound by legislation to consider these Reports. It can decide to implement them. Or, instead, it can equally determine not to do so, although it must then explain to Parliament why it has reached such a decision.

Banks (2014) highlights the fact that, by proceeding in this way, the Productivity Commission has sought to inculcate into the Australian economic policy-making tradition a culture of respect for evidence-based policymaking.

The Productivity Commission's process of conducting investigations and issuing Reports has become a tried and tested part of Australian civil society. History mattered here too. Before the moves towards trade-policy reform began in the 1960s, the Tariff Board had established, over a period of 40 years, its own process of holding public enquiries and a tradition of making reports that were as free as possible from political interference. (See Rattigan, Chapter 1.) And the Tariff Board had already, by the late 1970s, integrated the use of economic models into its investigation processes. This accumulation of capabilities and experience was passed on to the institutions which followed the Tariff Board, namely the Industries Assistance Commission, the Industry Commission, and the Productivity Commission. As a result, these successor institutions were all able to hit the ground running.

As Tim Besley said on 1 April 2021, at the conference which I referred to earlier, accumulation of expertise is important, and quick wins matter. Besley was talking about the Infrastructure Commission in the UK. The Australian Productivity Commission has been able to benefit from this, as a result of things which it inherited.

The Commission has also been able to act strategically. Through its public-inquiry process, and its research activity, it has been able to identify, and draw attention to, a number of apparent 'gaps' in the economic reform process, and the potential for further reform. In a noteworthy speech given in 2012, Gary Banks, then Chair of the Commission, identified an important To Do List of productivity reforms. It was that list which then Reserve Bank Governor Glen Stevens was referring to in the quotation cited at the beginning of this paper.

Recently, following a widespread sense that more is possible, the Australian Government has asked the Productivity Commission to go much further. The Commission has been asked to undertake a regular series of inquiries into Australia's productivity performance, and to do this on a continuing, rolling basis. It has been mandated, as part of these enquiries, to set out ongoing recommendations about the productivity-enhancing reforms that Australia needs. These enquiries are to be undertaken at five-yearly intervals, in the words of the then Treasurer, to "provide an overarching analysis of where Australia stands in terms of its productivity performance" (Morrison, 2017). The first of the reports on these inquiries, published three years ago in 2017, is a remarkable document, both in its scope and detail (Productivity Commission, 2017).

6 Creating a Policy-Reform Process in the United Kingdom

The Productivity Commission was established in Australia at a time of crisis. Following Rahm Emmanuel, one might say that Australian policymakers didn't let that crisis go to waste. The UK is now, so obviously, in a position of crisis. It seems likely that similar institutional inventiveness might be helpful here, too.

But why all the fuss of establishing a Productivity Commission? Surely the Productivity Commission is just like a government think tank? And isn't much of what it might do in the UK already carried out in the Cabinet Office and the Treasury?

Such a response fails to understand the significance of the policy-reform process which the Australians have created, in two distinct ways.

The Australian Productivity Commission is not a think-tank. It is a statutory body charged with making public Reports to Government, ones which the government is bound by legislation to consider but can equally determine not to act on. The fact that the Commission is charged with carrying out public enquiries, and that it issues Draft Reports subject to public discussion, leads to public engagement with the recommendations that it makes. This exposes the merits of policy actions to expert and public scrutiny and arguably increases policy efficiency. That is far from what happens in the case of reports by government agencies and think tanks. And the fact that these recommendations are evidence-based, and backed up with detailed modelling work, informs public discussion and strengthens the weight which the Australian public attaches to the advice which the Commission provides. It is noteworthy that, partly because of this, expert advice in relation to economic policy has not been treated dismissively in Australia in the way that has happened recently in the UK.

In addition, analysis carried out by the Productivity Commission is not like the analysis that is carried out in the UK's Cabinet Office or Treasury. First, this analysis is open to expert and public scrutiny. That is very different from what happens to the analysis carried out in those two Departments of State; analysis which is, by its very nature, confidential, since it is carried out in order to provide advice to Ministers. Second, the Productivity Commission has statutory independence, which safeguards the independence of its work. Third, this independence enables it to contribute to informed and strategic thinking. At present, much too little strategic thinking is being done in the UK.

It is worth noting that the Productivity Commission produces at the beginning of each year, in late January/early February, an annual Report on Government which "provides information on the equity, effectiveness and efficiency of government services in Australia"

(Productivity Commission, 2021). This provides a wealth of useful data on the performance of Australia's state and territory governments in delivering on their 'core' functions of education, health, housing, child protection, justice and law enforcement. Many public policy analysts and commentators find this incredibly useful. It would be valuable if this happened in the UK.

Going beyond the *process* of policy reform, there is at present much in the *content* of policy reform with which a UK Productivity Commission might usefully engage.

First, the UK will face profound structural economic challenges, and consequential policy choices, as a result of Covid 19. The current Chair of the Australian Productivity Commission, Michael Brennan, has recently provided a thought-provoking account of how Australia might respond to the challenges of Covid (Brennan, 2020). This provides a useful guide as to what will be necessary in the UK.

Second, the analyses of Brexit which have so far been carried out suggest that Brexit will have significant economic effects. It will transform how the UK will trade globally into the future, and this will have very considerable effects on the overall structure and performance of the British economy. The post-Brexit troubles which have emerged, since 1 January, in the UK's trading relationship with Europe suggest that UK's post-Brexit trade policy is far from settled. The UK's choices on trade policy will be, in many ways, just as significant as those made in Australia from the mid-1980s onwards. Australia's Productivity Commission played a guiding role during this long-lasting drama. It might be helpful if there was a respected institution which could do the same thing in the UK's post-Brexit policy drama, which will surely also be long-lasting.

It is worth adding that, a decade ago, Australia's Productivity Commission produced an extensive and thorough report on bilateral and regional trade agreements, comparing the implications of alternative trade liberalization strategies (Productivity Commission, 2010b). That report included an analysis of the benefits such agreements, as compared with the unilateral liberalisation of trade. The relative merits of these two different approaches to trade policy are now being examined in the UK in the post-Brexit shakedown of trade policy that is now beginning to happen.⁵ The UK would be well-served by having these issues analysed in the way that the Australian Productivity Commission has done in Australia. Such

⁵ For a discussion of how unilateral trade liberalisation might be combined with continued access to the EU Single Market, see Bennett and Vines (2020, 2021a, 2021b)

analysis would, of, course, be rather different, since Australia was not in the process of leaving the world's largest trading block.⁶

It is worth noting that the Productivity Commission publishes an annual Trade and Industry Assistance Review which quantifies the impact of assistance to particular industries on consumers and other businesses (whether through the Budget or through measures such as the remaining tariffs, anti-dumping provisions, *etc.*). These studies provide an object lesson for how such much-needed investigations might be carried out in the UK. The Australian Productivity Commission uses this annual Review to draw attention to topical issues related to government support to and regulation of industry.

Third, it is clear that, in these post-Covid, post-Brexit circumstances, there will need to be a significant revamp of industrial policy in Britain. In the General Election held in 2019, large numbers of people in the North of England voted Conservative for the first time because they had faith that the Conservative Party would deliver on its agenda to rebalance the economy, create growth and spread opportunity across the Northern parts of the UK. A strategy to deliver this has so far yet to emerge. (See Treasury 2020, 2021a, 2021b.) A national policy review institution, like the Australian Productivity Commission, would have merit in providing UK legislators, and the UK community more generally, with careful evidence-based analyses of the relevant policy options for rebalancing the economy between North and South. It would show how impediments to efficient, productivity-improving investment might be removed, it would set out a list of new, internationally competitive, employment opportunities, and it would analyse the role that adjustment policy might play in any such rebalancing. That would greatly assist with the necessary discussion of the hard choices which the country will need to make.

And fourth, there is climate change and the move towards net zero emissions. The lack of clarity in relation to UK's climate policy is all too evident, as illustrated by the confusion as to whether a new coal mine will open in Cumbria. And policies in relation to - for example - electric cars and the supply of power needed to drive them, and the conversion of domestic central heating to non-fossil-fuel power, still remain obscure.

There are many other issues - including inequality, education, and research - on which big policy choices will be needed in the years ahead, on which expert advice will be necessary, and on which public engagement is essential. There is – indeed - much that a UK Productivity Commission could do.

⁶ It was, however, in the process of absorbing the economic impact the loss of established UK markets for its agricultural products when the UK joined the European Economic Community, or EEC, and come under the umbrella of the Common Agricultural Policy, or CAP.

A UK Productivity Commission might also be helpful in another rather different way, one that is not immediately obvious. It might help Ministers in their policymaking on a much more day-to-day basis. As someone with Australian experience, I have been amazed at the seemingly never-ending drama about whether guards should be removed from trains on the South Western Railway. The dispute about this matter was partly about the productivity gains from such cost-reducing reform, but also about safety issues and community expectations. The dispute went on and on. For a time, there seemed to be no obvious way in which it would ever come to an end, although it did help bring to an end the career of Chris Grayling, the Secretary of State for Transport. This is precisely the kind of dispute which, in Australia, could be deemed of national interest and referred to the Productivity Commission for a public enquiry. If a reference were made, that body would weigh safety and productivity aspects with broader community concerns, and it would be trusted by the public to do so. The Commission's Report would – in all likelihood – be generally respected as fair and proper, enabling Government to initiate closure of the dispute. Would that such an outcome were possible in Britain!⁷

The Productivity Commission has thus been able to help in Australia in two very different sorts of ways. It has provided input into discussions of the questions about longer-term economic structure, productivity and living standards. And, in addition, it has also helped with the resolution of rather little, particular, disputes. Some of these issues had become politicised and Australian governments have found it helpful to refer them to the Commission, to take the political heat out of them. Once the Commission has made its recommendations, the government has to consider whether to take up the recommendations, but they have to explain to the public if they will not do so, given that the Commission's reports are all public.

The fact that the Commission can be called upon to do this last kind of work is of relevance to this proposal. It has helped to ensure that politicians do not seek to undermine the independence of the Commission as an institution. They know that, when the chips are down, it might well be useful to them.

⁷ Examples of this kind of activity by the Australian Productivity Commission are not easy to find because the Productivity Commission typically does not get involved in industrial disputes. These are more the province of the Fair Work Commission, the body which has succeeded the Commonwealth Court of Conciliation and Arbitration mentioned above, and which deals with such disputes. Nevertheless, one example is the enquiry by the Commission into Retail Tenancy Leases which arose as a result of tensions between shopping centre landlords and their tenants (Productivity Commission, 2008).

7 Establishing a Productivity Commission in the United Kingdom

There are a number of features which an independent national policy review institution - a UK Productivity Commission - would need to have. These include statutory independence, a community-wide perspective, and transparent processes. Each of these attributes would need to be established through government legislation.

Statutory independence would allow the institution to scrutinize government policy without undermining the sovereignty of Parliament. As in Australia, the institution would have an advisory role but it would be the Government that would take decisions on what to do about any recommendations. The authority of the institution would rest with Parliament through the institution's enabling legislation and the provision of its longer-term funding. In Australia, the Productivity Commission sits organisationally under Treasury and the Treasurer is responsible for dealing with Productivity Reports. There are arguments for other arrangements, but protecting the budget is of high importance.

The institution would have a statutory mandate to adopt a community-wide perspective. In its inquiries, it would consider questions such as: are the country's resources being put to the best use?; are regulations unduly increasing costs to businesses, households or government?; would a particular policy be beneficial to the community as a whole?; and what are the distributional effects of policies? It would also place sectional interests in the context of national interests.

Finally, reviews could, and would, be undertaken through a transparent process. Public hearings would be held to facilitate public participation. Regular reports would be required and published.

Australian experience suggests that an institution of the kind described here might grow most naturally out of an already-existing body.

The Board of Trade, located within the Department for International Trade, might seem like a place to start, given its long history. But at present this body is both inadequately effective and excessively politicised. The Industrial Strategy Council might have been a basis on which to build, but that body no longer exists. That leaves the National Infrastructure Commission. That already has some resources, and is a successful institution. A Productivity Commission would need a much wider remit than this body currently has. It would also need a much larger amount of resources, sufficient to carry out public enquiries, detailed investigations and modelling work.

What might a Productivity Commission actually do? What would its functions be? Some useful guidance is provided by the Act of the Australian Parliament which established the Australian Productivity Commission. It is helpful to quote the relevant section of that Act. (See Australian Government, 1998.)

“The functions of the Commission are⁸:

- (a) to hold inquiries and report to the Minister about matters relating to industry, industry development and productivity that are referred to it by the Minister; and
- (b) to provide secretariat services and research services to government bodies as directed by the Minister; and
- (c) on and after 1 July 1997, to receive and investigate complaints about the implementation of competitive neutrality arrangements in relation to Commonwealth government businesses and business activities and to report to the Minister on its investigations; and
- (d) to provide advice to the Minister about matters relating to industry, industry development and productivity, as requested by the Minister; and
- (e) to undertake, on its own initiative, research about matters relating to industry, industry development and productivity; and
- (f) to promote public understanding of matters relating to industry, industry development and productivity; and
- (g) to perform any other function conferred on it by this Act; and
- (h) to do anything incidental to any of the preceding functions”.

The general policy guidelines in performing these functions as given in the Act are:

“In the performance of its functions, the Commission must have regard to the need:

- (a) to improve the overall economic performance of the economy through higher productivity in the public and private sectors in order to achieve higher living standards for all members of the Australian community; and
- (b) to reduce regulation of industry (including regulation by the States, Territories and local government) where this is consistent with the social and economic goals of the Commonwealth Government; and
- (c) to encourage the development and growth of Australian industries that are efficient in their use of resources, enterprising, innovative and internationally competitive; and
- (d) to facilitate adjustment to structural changes in the economy and the avoidance of social and economic hardships arising from those changes; and

⁸ Paragraph (c) below refers to an Australian matter which is of no particular concern to the UK.

- (e) to recognise the interests of industries, employees, consumers and the community, likely to be affected by measures proposed by the Commission; and
- (f) to increase employment, including in regional areas; and
- (g) to promote regional development; and
- (h) to recognise the progress made by Australia's trading partners in reducing both tariff and non-tariff barriers; and
- (i) to ensure that industry develops in a way that is ecologically sustainable; and
- (j) for Australia to meet its international obligations and commitments.

An institution with these functions would bring very great benefit to the UK.

8 Conclusion

Why at this time of crisis, should one expend political energy on creating a new body like this? This is an important question, especially given that, in the current political climate in this country, all public sector bodies, and quasi-public sector institutions, seem vulnerable to pressures that undermine both their independence and their resilience. Furthermore this is a time when there is widespread disrespect for facts and hard analysis.

I have suggested that a Productivity Commission might be useful in two rather distinct ways. It would clearly help the country and its citizens consider longer-term strategic options. And it might also be useful in focusing discussion of immediate contemporary challenges on the longer-term economic, and social, consequences of whatever policy choices are made.

It is important to highlight the institutional features that have made the Productivity Commission a success in Australia. Of course, we would not obtain the exact same institution in the UK but we would want to achieve institution with similar features. Key amongst these features are:

An Economy-wide view so that winners and losers are all revealed. Industry-by-industry ad hoc analyses are conducted in an economy-wide and community-wide context. Setting out contestable empirical evidence of winners and losers helps to identify and weaken vested interests and mobilise coalitions for reform.

Transparency in the analysis so that clear public-enquiry processes are allied to the use of detailed empirical analysis by the Commission, supported by CGE modelling work, all done with a "no-black-box" requirement. Reports are tabled in Parliament by law so that they cannot be buried.

An Independent stance which the Commission strives to protect and maintain.

Once a Productivity Commission was established in the UK, its economy-wide view, its transparency, and its independent stance would safeguard its effective operation. It would become an important part of the civil society of this country.

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