

## **Submission: Reform of Australian Government Administration: Building the world's best public service**

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This submission is prepared by a retired Commonwealth SES officer and focuses particularly on the issue of public sector structure for best policy formulation.

An issue not canvassed in the discussion paper is the need for policy to be developed from a national interest perspective rather than a departmental client group perspective. It is inevitable that departmental structures that link to a segment of the community (whether industry grouping or segment of service delivery) will inevitably become a lobby for the expansion of activity and/or expenditure in that segment. In other words departments can be captured by the groups for which they develop and implement policy. This tendency is exacerbated by the growth of interest group lobbying. A policy outcome developed in the best interest of a client group is not necessarily and will often be not in the national interest.

Best policy development requires a dispassionate appraisal of government objectives, impact on the targets of that policy and impact of policy alternatives on the broader community. Many policies have unintended consequences on a range of industry and other groups in the community. A single department developing policy to achieve a particular objective for their client group has no clear responsibility to consider wider impacts of policy – hence the many rear guard actions through Departments of Treasury and Finance, for example, to head off good intentioned but, from an economy wide perspective, ill formed policy.

These problems can become particularly significant where a sector is facing structural change because of changing economic conditions, competitive environment or technological change. The industry Minister and the affected local members will demand of public servants policies to offset the pressures leading to the structural adjustment pressures. The public servant is also confronted with vigorous lobbying from industry, affected unions and regional groups. As a specialist in, say, the motor vehicle industry the public servant knows that if his industry disappears so does his job. In such circumstances it is most unlikely that policy is developed from the national perspective.

The problem of piecemeal policy development is further illustrated by a general economic issue of the moment recently identified by the Governor of the Reserve Bank. He reminded us of the impact of the likely continued strong growth of and investment in the resources sector on the wider economy. Through exchange rate and other economic linkages this will lead to major pressures for structural change. Industries producing traded goods and not benefiting from the resources boom will shrink at least in relative terms. Imports will become cheaper and industries will close factories or relocate offshore. Policy developed for any of the adversely affected industries which offsets their decline will only exacerbate the economic circumstances of other exposed industries. Piecemeal policy development in this circumstance would only see a round of “innovative policy development” with much “stakeholder consultation” all to absolutely no purpose. All the policy activity would be equivalent to a policy which simply taxed the resource industries – a simple but also wrong policy.

It was concerns for the problems of policy development outlined above that the Whitlam Government set up the then Industries Assistance Commission from which has evolved the current Productivity Commission. This organization has strived to provide an economy wide perspective to policy development. It has allowed the policy proposals of Departments, industry, lobby groups and other parties to be exposed to public scrutiny and analysis. Even so, there have been episodes where Commissioners were appointed to inquiries to “soften” predicted outcomes and in a notable recent case the motor vehicle industry policy review was passed to another entity as all parties knew what an economy wide assessment of policy would produce as best policy advice.

A problem with the discussion policy is the notion that the world has become more complicated and therefore policy responses need to become more sophisticated. It is more likely that lobbyists have become more skilled in dressing up their demands for special favors. What public servants really need is a solid grounding in microeconomic and macroeconomic analysis to identify the implications of the demands placed upon government and the likely effects on the broader economy and community. If such analyses were more regularly undertaken then Ministers would be in a better position to say NO before much time is devoted to detailed policy development. The review should seriously consider, therefore, whether there is in fact too much policy development without sufficient analysis and independent scrutiny. An ongoing problem is the need to be seen to be doing policy even if doing no policy is better advice in a particular circumstance!

At another level, also causing much waste, is the tendency to announce policy without sufficient background analysis. The lack of detailed benefit-cost analysis often leads to waste and eventual administrative and political embarrassment. It is imperative that such analyses be subject to independent scrutiny as client-based policy areas will through departmental enthusiasm and peer group pressure often produce optimistic economic benefits and limited economic costs.

As a principle, the Government should accept the standards which it sets for the corporate sector (for example in respect of the content of public disclosure documents and associated due diligence and expert reports) when it makes announcements about major policy initiatives. For public servants this would allow for a formal approach to policy analysis and disclosure which would be at the highest order of quality.

The Advisory group in its final report should address:

- the issue of piecemeal vs economy wide policy development;
- the problem of public servants being captured by interest groups;
- the increasing role of lobbyists and their interaction with public servants;
- the need for a formal process for the proper analysis of policy initiatives; and
- the ongoing need for an organization such as the Productivity Commission to ensure rigorous policy advice independent of client based policy development.