Economic policy making in a more uncertain world

Richard Snape lecture 2025 – transcript

Tuesday, 20 May 2025

Danielle Wood (Chair)

Welcome everyone to the 2025 Snape lecture. For those that don't know me I am Danielle Wood, Productivity Commission Chair, and it is lovely to have an almost full house here in the Commission's offices in Melbourne.

We are of course on beautiful Wurundjeri Country and I want to pay my respects to Elders past and present.

We are opening proceedings tonight with a Welcome to Country from Wurundjeri man, Colin Hunter Jr Jr, who is a committed cross-cultural educator for corporate, not-for-profit and university sectors and we are very lucky to have him give the Welcome to Country this evening. Join me in welcoming Colin.

Colin Hunter the fourth

Thank you very much, good evening and welcome. It is my honour and privilege to be here tonight. My name is Colin Hunter the fourth. I would like to start off by acknowledging that this evening we are on Wurundjeri Country, home of my ancestors and also home to everybody here today.

I wish to pay my respects to both Elders past, present and emerging. Elders from all nations, especially all Aboriginal and Torres Strait Islander community members joining us here today. Wurundjeri is part of the Kulin nation and Wurrung language group. Wurundjeri Country extends from the inner city of Melbourne across to the Great Dividing Range, west to the Werribee River, south to the Mordialloc creek, and east to Mount Baw Baw.

A big thank you to everybody who has made this event possible this evening. Wominjeka – welcome – I hope everyone has a wonderful night ahead.

Danielle Wood (Chair)

Thank you so much Colin and a lovely reminder of the generosity of the Welcome to Country.

So to the Snape lecture. Last year we made the decision to revive the lecture which had been dormant since 2017. We did that partly because we think it is important that the PC contributes in a variety of different ways to contemporary debates and partly because we wanted to recognise the Commissions proud history. And given the lecture was to recognise Professor Snape and his contribution to the Commission and his role in trade policy, it has proved particular timely as trade policy has in those few years, gone from largely settled battle to the centre of some of the world's most consequential economic debates. So we are delighted to be able to contribute to the discussion tonight. We are especially delighted that we are doing so in the company of Richard's family, his children, Richard and Fiona Snape and Fiona's husband Peter, and their daughter Louisa. Thank you so much for being here, we really value being able to continue to recognise Richard's contribution.

Professor Snape is one of the Productivity Commission's most distinguished alumni and former Deputy Chair of the Commission. He made major contributions to Australia's intellectual frameworks and thinking about trade policy in his roles as a professor at Monash University, through his work at the tariff board at the Industry Assistance Commission, in expert committees advising the Whitlam and Fraser governments and internationally through his work at the World Bank, the WTO and others. We are pleased to celebrate his legacy tonight. And the person who is going to lead us through the shifting sands of trade policy tonight is none other than Dr Jenny Gordon.

Dr Jenny Gordon is an honorary professor at the Centre for Law and social policy research at the Australian National University. She is also a non-resident fellow at the Lowy Institute, Australia's leading think tank on foreign policy. She serves on the Asian Development Bank Institute's advisory committee and is a non-executive director for NCEconomics. In 2024 Jenny was a visiting fellow at the Mossavar-Rahmani Centre for Business and Government and Blavatnik School of Government and Business at Oxford University. She was a member of the Australian International agricultural research monitoring evaluation and learning advisory panel from 2020 to 2024. And in 2023 she served as a co-chair of the task force on peace, stability and governance for the T7, organised by the Asian Development Bank Institute.

She was also a chief economist at DFAT and a chief economics from Nous Group, the Centre for International Economics and the Reserve Bank of Australia. More important than any of that, Jenny spent 10 years here with the Australian Productivity Commission as the principal advisor of research from 2008. While here, Jenny worked on the PC’s first five-year productivity review, shifting the dial that some of us have been dusting off of late. She led the PC’s inquiries into the not-for-profit sector and regulatory reform and had major roles on our enquiries in aged care, childcare and migration among other things.

Jenny also has a PhD in economics from Harvard University, so no pressure at all, we are very much looking forward to you making sense of the current policy confusion for us. She will speak for about half an hour, we have time for questions from those in the room so please have your questions ready and please join me in welcoming Jenny.

Dr Jenny Gordon

Thank you very much Danielle and Colin for such a wonderful Welcome to Country. First of all, I would like to acknowledge the traditional owners of the land on which we meet, the Wurundjeri people of the Kulin nation and pay my respects to Elders past, present and emerging.

It is a real honour to present this lecture and following such a distinguished list of previous speakers. Richard obviously we have his history but I think what is really interesting is that connection with academia. The Commission still keeps that connection, you get people like

Catherine, out of Melbourne University, and others. It is an important one. I think we need to think about the connection between academia and Australian economists because back in the 60s and 70s, Australian economists made a real mark on economic theory and it is no small part because Australia had a different position in the world. We were a small country and most of the economics was coming out of the US, which considered itself a single country and didn't worry too much about the rest of the world. This is happening again, so I think we are back to where we sort of started from. Once again, we need to fight that open and free trade battle that we have. But this time and what I want to talk about is I'm not going to focus just on trade theory, because we really have far more foundational policy challenges that have led to the situation we are in now. That is what I want to talk about. And in my talk I want to make three points.

First, is we really need to protect reform and multilateral institutions that maintain our international rules-based order.

Second, we need to acknowledge that we cannot focus economic policy mainly on markets. We have to understand and where possible, quantify the feedback loops and their intersects. I have a framework I'm going to talk to tonight that has four important feedback loops around the objectives of productivity, social stability, national security and environmental sustainability. These objectives can be self-reinforcing and there is a virtuous feedback loop that they can also become vicious feedback loops.

The third point I want to make is that policy-making in this chaotic environment is not easy. There is no overarching theory that neoliberal economics has offered us before, that made life easier. We need good processes bringing economic tools and thinking to help properly diagnosed the causes and work through policy options that will address not just the symptoms but these causes.

I offer an additional three Ps to Ken Henry's – Productivity, Participation and Population – which are Partnership, Pragmatism and Practice as a way forward. Jake Sullivan was the national security adviser and he was pretty good at explaining the crisis, shifting global economy left many working Americans and their communities behind, financial crisis shook the middle-class, a pandemic exposed the fragility of our supply chains, a changing climate threatened lives and livelihoods. Russia's invasion of Ukraine underscore the risks of overdependence.

Good symptom identification but not so good at actually the diagnosis of the real causes. So for Australia, our concerns about inequality and supply chain security were accelerated by the pandemic and China's trade sanctions. And now we have tensions between the US and China and Donald Trump's transactional approach which is shaking our economic and security foundation.

There are fundamental imbalances that are really coming to the fore. These are imbalances between global savings and investment, domestic income and wealth distribution, sources of environmental degradation and the destination of their costs, the shifting relative military and economic power. And we need to worry about these imbalances.

The US bipartisan, and it is bipartisan, it is China's fault, and under Trump the world had been ripping the US off, that narrative has proved politically useful distraction from addressing their growing domestic imbalances. As well as excusing the ever-growing US fiscal deficit, they have just passed that appalling budget, by the way. Last week Moody's was the last of the big three ratings agency to downgrade the US Treasuries risk rating. On many fronts, Trump's policies are eroding US exceptionalism, not least their own policies but US ID cuts. They are starting to face the financial market discipline that other countries have long faced but there seems to be bipartisan agreement that the problem is trade induced structural change, not that people want the government to manage the consequences of structural change.

Other countries as well have kicked the can down the road on hard policy problems and Australia is no exception. Structural change is a challenge facing all countries, not just from opening markets to external competition on trade investment opportunity but from technology, automation, digitisation and AI, which I will say more about later. But also from shifting demand as incomes rise and demographics change. And obviously, from the consequences of climate change.

We usually think about structural change as shifting industry shares. But it can be useful to think about structural change in society, reflected in changing norms. In international and national institutions and the processes that they can enforce rules and in the environment, climate change is a form of structural change. Governments need to prepare for and manage the consequences of structural change and they need to do this in this ever more fractures world, where might is right is becoming the dominant paradigm.

If we think about the old challenges, it was really market value versus government failure and a big debate about whether the government was going to fail or whether the market was going to fail. We have these debates about that. But markets sit within household production. And household production sits within society and that sits within the environment and neoliberal economic policies focused on that little dot, the markets bit of the problem. We need to think about the interconnections between them.

So our past challenges were really the first objective, facilitate equilibrium in the macroeconomy, it remains incredibly important and that is about consumption investment. The second was facilitating equilibrium in the micro economy, making sure markets cleared, unemployment, made for market clearing, and product markets so we can end up with a mismatch. The third was correcting market failures. I kind of like to summarise them as three, you are all familiar with them, market power and natural monopoly, externalities and public goods and then asymmetric information.

Policy design tended to treat house production, society and environmental services as independent of market activity and we all know there is a lot of substitution and more care work and government production has been moving into markets and as markets do more of that, it becomes more important that they function in the best interest of society and not just for the owners of capital. Shareholder value has dominated economics for the last fifty years. We need to think about that a little bit differently.

So neoliberal policies assume markets are efficient in adjusting to structural change. Workers in capital have moved to where the opportunities were. As we've discovered in some of the PC work, capital might but workers often did not. Markets were indifferent to the consequences of change. They also responded to the application of power and distribution to rights to over resources, and in the way market players influence the rules.

Markets in crisis turn out to be not so good at addressing growing imbalances in wealth and income distribution, and who bares the cost of climate change and who benefits. And nor did the interconnected nature of global commerce turnout, as Bill Clinton hoped, to ensure global peace.

So we have new challenges, and rather than a market focused, new challenges we really need to think about the institutions. Like markets, institutions sit within a system of household concerns, political pressures and environmental pressures. If we think about the system in this dimension, it forces us to focus on different imbalances.

First, we really need to think about the saving investment imbalances that can be explained by demographics and income levels, but what we did not see was the growing problem that US exceptionalism created by allowing the US to run that ongoing fiscal deficit combined with the attractiveness of its investment market.

The US external deficit was facilitated by China's continuing high savings rates in large part a response to low social insurance and a government focused on investment as a driver of growth. These are really coming home to bite in ways we didn't expect.

Second, we did not see a rise in the willingness to use economic relationships as weapons to extract noneconomic concessions. The US has long his financial sanctions against bad actors but the cost of complying with these sanctions were rising for other countries, while the ability to find workarounds was also increasing. There is a great book called Backfire, well worth reading for those wanting to look at the impacts of sanctions. China increasingly is using its economic heft as we found out during the pandemic to influence, if not coerced, the behaviour of its trading partners.

Third, we were mostly blind to political impacts of structural change and the impact of technology, where agglomeration economics concentrates the costs and the benefits of change. The US rustbelt opioids crisis, the depths of despair fed US populism. Migration flows in Europe encourage the rise of right-wing parties and was probably a driving factor in Brexit. In China, the limits to their infrastructure-driven, export-driven growth strategy saw an expansion of the CCP using technology for social control and the crackdown of the private sector to reassert CCP's influence.

Fourth, we did see climate change coming, but we could not get collective action to do anything about it. And now insurance companies are making real the cost of our inaction. We also allowed multinational corporations to play off countries and governments, even governments not captured by corporate interests have been influenced by the demands of multinational corporations. So this is well worth, because this has sort of gone by the bye and we've always sort of thought they were good players and good actors, but multinational corporations have been quietly, and sometimes not so quietly, exercising power since their inception. Globalisation offered them a large canvas to work with. It's rather scary that the top 1% of companies control 97% of corporate assets, clearly power accumulates power. In some countries, the rising power of large corporations is looking more and more like crony capitalism, where governments are captured by corporate interests. Anybody watching the Trump's administration on cryptocurrency is a recent example of special interest advocacy dominating good policy process.

Investment state settlement disputes, which our bilateral regional trade agreement was very critical of, as we should've been, are being used to chill environmental reforms. Clive Palmer has $420 billion of claims outstanding on the Queensland and WA government under ISDS provisions. Profit shares have hit a record high. The corporate and top personal tax rates have been progressively reduced. The pressure on governments to match what really are beg-thy-neighbour approaches of Ireland and other tax havens. Policymakers and regulators face well entrenched resistance to policies that might affect short-term profits, even if they raise long-term growth. And that makes the task of better policy-making much more difficult to achieve.

So new problems need new models and have to take into account not just productivity but the overlapping feedback loops of social stability, national security, and environmental sustainability, and how they interact with each other. For example, productivity depends on technological progress, scale, agglomeration economies and incentives inherent in competition. And also on the free inputs from the environment as well as from macro economic stability. These drivers of productivity linked to national security through trade and investment, international collaborations on RND, access to talent through two-way migration, and the effect of the external balance on political relationships that we are seeing in spades with the US and China. Trump is citing national security as grounds for tariffs, but the Australian economy, the direct effect of tariffs is quite small but our big concerns are how China and other countries in the region will respond.

The industry assistance commission played an important role in the development of CGE modelling. Why? Because it could show really clearly how tariffs work through the economy and who actually ended up paying. Their analysis was influential because it made the costs of tariffs transparent. So today we need new models that will help us track a far more complex dynamic system, that links productivity, to social stability, national security and environmental sustainability because they all matter for wellbeing. Today we need models or approaches that make the accounting more transparent on the cost of populist policies, stopping governments doing stupid stuff has to be a priority. It is a harder task to design alternative policies that will correct the underlying problems, a task made even more harder in this chaotic world.

So important intersects don't really matter until they do. But it is often those intersects that end up causing crises. Slow burn intersects are the easiest for politicians to ignore and the hardest to build an evidence-based case that we need to intervene before the problems become overwhelming. Crises, financial collapses, depression, civil unrest, revolutions, and war are the outcomes of unchecked vicious feedback loops. Yes, a crisis should not go to waste in reforming policy and I really hope we are not heading for one though it will create opportunities, but the human cost of crises are too great to see that as the best solution.

So what are some of the slow-burn feedback loops that we should be thinking more about? The ones that matter most Are those that intersect across the four areas that matter for wellbeing, summarised on my slide are the intersect between trade and investment flows that promote productivity growth, but the potential for weaponisation of these flows. The effect of inequality on political sentiment and the rise of populism, and the decline in trust of government and the bad policies we get out of that. The drag on productivity growth from the degradation of the environment and the need to use more built inputs to replace previously free inputs. There is a nice PC paper on that if you want to look it up. And then the risks that climate refugees will pose to national security.

We can and should be monitoring policies for whether they are contributing to feedback loops that make problems worse, not just in their specific wellbeing contribution, but through the intersects with other things that matter for wellbeing. Australian policymakers are not blind to growing problems like housing affordability, geographic concentration of unemployment, widening educational attainment, dependents on China and commodities, risk of supply chain disruptions and the need to decarbonise, but the roots of these problems in the slow burn feedback loops makes them hard to fix. More attention might have avoid more problems, they cannot be assumed away, so we should not invest not just in fixing the root causes but in avoiding added positive feedback loops.

So the Washington consensus promoted convergence, this chart is a really nice one that shows the share of the global population living in poverty and its fallen steadily since the 1880s, most notable is the large population of Asia in red but in 1975, the vast majority lived below the poverty line. Now the vast majority live above the poverty line. Africa, which is the blue, has yet to really follow the same trajectory.

The Washington consensus, the 10 rules for economic growth, worked well in Australia. The Hawk-Keating reforms showed that and worked for a number of countries in Asia. Success of this economic policy advice is seen in the overall convergence in per capita income across countries from the 1990s to 2020. The stability of international rules based order provided the foundation for global expansion in trade and investment that delivered this result. Pre-pandemic, the US was reacting to the rising economic power of China by forming partnerships to exclude China. The transpacific partnership under Obama was in this vein. Trump wants trade war was along this line. Biden's continued Obama’s efforts with the Indo Pacific economic framework never had the power of the TPPT that is now CPP – too many initials.

And then you have the ban on exports of high-end chips to China, and the tariffs on China EV in solid technologies. And now we have Trump too. 145% tariffs on China, yes, they’ve been reduced to 30%. If you do the effective tariff rate calculation, it doesn’t change it that much, it changed from 17.8% to 16.4% as an effective tariff rate. But that level has not been seen since the 1930’s Smoot–Hawley Tariff. They came down pretty quickly, due to the great depression and the like.

The slowdown in US support through international commerce, started after the GFC. Whether that was causal in slowing down growth in international trade investment or whether opportunities had peaked for multinational corporations is an open question, likely a bit of both. But since 2020, the pattern has been rising divergence, as poor countries get further behind, and the US has soared ahead. The massive stimulus in developed countries in response to COVID-19, particularly the US along with supply chain disruptions since the pandemic, and Russia's invasion of Ukraine, lead to an inflationary surge. This inflation, and the high interest rates adopted by central banks to bring it under control, added to populist pressures, but the declining support for the international rules-based order was already well underway, and not just for the US.

So how did we get here? After the post Britain World War II, the Bretton Woods institution were designed to deliver stability but did not work that well on some imbalances. We relied on US leadership to fund a large share of these institutions equalling out. The US often exempted themselves from the rules but they offered something in exchange, that is going away under Trump. Nixon tested the relationship floating the US dollar and triggering global inflation in the 1970s, anybody wants to read about that, 'Our Dollar, Your Problem ', Ken Rogoff's latest book is great. But post-Asian Financial Crisis, the US said to the IMF 'you need to get financial stability requirements on all the countries'. But by 2007, the US was one of the only countries not to have had their IMF review. The accumulation of risk in the US-backed mortgage security market might have been identified if they had faced an earlier review, that possibly the GFC may have been avoided. The G7, G20, and UN agencies have been unable to achieve cooperation on management of global commons, most importantly the greenhouse gas emissions. We've had some wins but cash-strapped governments and loss of public support for causes such as emission reductions and biodiversity preservation mean these wins have often been undermined.

And finally, multinational corporations have used the pull power of location decisions to exercise power over government policy, and has led to a race to the bottom on a range of things, including regulations, so you get lower tax revenues, more pollution, and the undermining of international approaches. As Australia is prosperity relies on trade, and our ability to grow is boosted by the ability to attract foreign investment, we have a big interest in a stable, rules-based international order. We lack the hard power economic heft to drive this, so we need to form partnerships that together can be influential.

So what not to do? This slide shows consequence of bad policy. One of the challenges for people who care about policy effectiveness and efficiency is that policies are hard sell, populist policies like tariffs are an easy appeal. The chart on the right is the UK after Brexit. It was sold on restoring British sovereignty over policy and it has been very economically costly, and not addressed the fundamental problems The chart on the left is the US dollar index and the ten-year US Treasury yield. These move together until liberation day, April 4th, then they went apart, and this is the loss of US exceptionalism. This is the first time US Treasuries and the US dollar have not benefited from the flight to safety. This is going to be really interesting how this plays out.

So what policy options have been offered instead? The new Washington consensus was Jake Sullivan's, it focused on industry policy. And in the US, the very poorly named Inflation Reduction Act was really aimed at promoting green technology development and the CHIPS Act was aimed at promoting onshoring high end chip manufacturing back to the United States. This policy involved a lot of subsidies and tax concessions for domestic production. Industry policies are now being promoted as a cure all to boost productivity growth, boost supply chain security and create well-paid blue-collar jobs but is unclear how well this is working. I think the jury is out on industry policy, there are some good components for it but I think there are some things we do know stop what we do know is that industry policy aimed at manufacturing won't bring back well-paid blue-collar jobs in any volume. It might bring short-term construction jobs at best. Countries with large domestic markets have more scope to reach economies of scale and economies of aggregation. Australia is small. We don't – we need trade. Supported industries have to be exposed to competition to avoid too much market power. For small markets we have a real problem in trade-off between market power and economies of scale. Domestic production is unlikely to guarantee supply chain security, unless all links in the supply chain are onshore. The fewer supply sources, the more vulnerable to domestic supply risk disruption. It is hard to design incentives in the Goldilocks zone. Governments tend to overpay or risk the policy not delivering on supply.

And finally, as the PC has long argued, there is a very real risk of program capture by vested interests. What are the risks for Australia? We need policies that deal with reduce our imbalance and mitigate the consequences of other imbalances. Our risks lie in our imbalances as a commodity exporter, our security relies on the US, while our economic reliance is on China. The growing economic and social insecurity of our population, particularly the young, and the impacts of climate change and poor environmental management. Our situation makes us prone to external risks, as well as those from within. The external risks are US protectionist precious and the consequences for China and the region, the breakdown of WTO adherents and the escalation of trade wars beyond the US, concerns about the reliability in the US security alliance, concerns about the stability of global financial system. Erosion of cooperation to manage the global commons and this is not just the atmosphere, this is also oceans and space. And obviously, to manage pandemics.

Our domestic risks mostly relate to the need to address income and, more importantly, opportunity the inequality. The structural fiscal deficit means there is no money to throw at the problem, reforms are badly needed. But there are risks that come from our external positions that we can do something about. These include our reliance on commodities and China as a market, which needs a long-term approach, and the reliance on liquid fuels for transport, where electrification of the fleet offers a solution. There is not a lot Australia can do alone to address international risks but there is a lot more we can do if we can form coalitions of interest with other countries, where together there is sufficient economic heft to be influential. To be taken seriously, we have to demonstrate that we can address our own problems and are willing to do so. We have done this before. We were instrumental in forming a group because of our experience with agricultural policy reform meant that we were influential and we were able to argue very successfully for reductions on agricultural tariffs in the Uruguay round.

So, what should Australian governments be focusing on? Markets need rules to work. Government's job is to make rules that balance competing interests in a way that reflect the values of society. The balance involves trade-offs between consumers and producers, employers and workers, investors and management, resources now or in the future. Regulator's job is to enforce the rules that come out of this balancing act at least cost, which will involve trading off the costs of making a mistake with the cost of enforcement. Not least the speed at which decisions are made. As we live in a world of change, the balance will keep shifting and regulations and regulators will need to shift to maintain that balance.

So this is rethinking productivity. Productivity growth has stalled, PC has just put out there five important areas, we are not alone, that is the US manufacturing productivity, people talk about US productivity but it has actually stalled. Productivity remains, as Paul Crosman said, is almost everything. I mentioned Ken Henry's productivity population and participation. It's a useful identity to predict economic growth. The 2016 PC report on migration concluded that we needed a bipartisan population strategy that requires planning to ensure the infrastructure keeps pace with population growth. Failure to do so has led to an imbalance with consequences for social stability. Participation is mostly dictated by demography but a healthy, better educated population where families have social support encourages higher rates of participation. And according to the AI aficionados, need to rethink what we mean by participation. If they are right and the AI driven robots do all the work, then participation will be about participation in the community, in household production and in creative pursuits. Of the three Ps, productivity is the most amenable to policy but it is proving hard to influence using standard neoliberal economic tools and this is because in part, measured productivity is only small part of overall productivity.

The policy needs to target wider measures of productivity. There is much that our measures miss and they do not reflect the quality of life, the value that comes from relationships and belong to a community. Improvements in the care economy that make people feel more valued and improved their sense of agency, raises well-being. If wellbeing is the metric rather than a volume measure of output, then we need to be reported productivity improvement in some areas.

Our productivity measures only partly reflect standard of living. GDP is only a proportion of goods and services that we consume. We consume environmental services, clean air, water, green spaces, low noise places, we consume household and volunteer goods and services, as well as providing our labour to fix them. And we can improve YouTube videos help improve the quality of some of these, I know my baking has improved. As more of these services are produced in the market economy and they grow as a share of economic activity, distracts from productivity because they are labour-intensive and yet, really, it is a different balance.

Our productivity measures only partially reflect improvements in quality. The artisan baker problem I think from the manufacturing productivity report exemplifies this measurement problem. Our measures also reflect the bread got a lot better. Basically. Our measures also reflect the education level of the work force, so for example, productivity falls when a childcare subsidy attracts marginally less productive workers into the labour market. We had to explain that to Sussan Ley, she didn't buy when we did the childcare report.

Finally, our measures ignore the free inputs provided by the environment. Reaching the limits of the oceans waste disposal capacity, the declining refill sites left near cities, exhaustion of soil nutrients in agricultural land and mining the richest and closest mineral deposits first all detract from market proactively over time. There are also free inputs we get from social stability, reflected in lower transaction costs in regulatory compliance. Driving is a lot safer if we all follow the same set of rules. Try driving in India. Increase productivity through minimising environmental degradation, promoting social stability, investing in raising participation in unpaid household and community work, as well as in paid work, and improving people's ability to contribute are not reflected quickly in measured productivity statistics. The impacts are long-term. And because we have been going in the wrong direction, there is an underlying detraction from measured productivity. These outcomes improve current as well as future well-being and I think this should be an important part of the Productivity Commission's agenda.

So economics in uncertain times, there is no easy answer to driving proactively growth in developed economies. The old Washington consensus is a good prescription for developing countries if they can establish sound government, a rule of law free of corruption, but the old consensus ignored slow brown problems. Ideally we could build on the old Washington consensus by addressing this slow-burn problem and deliver a wider productivity growth and one less prone to capture by a small share of the population. At an international level, Australia could promote cooperation in managing global commons and balancing environmental services now the future. Cooperation in making multinational corporations pay for their use of environmental services and a country's services, its knowledge, human and built capital. And show leadership and a commitment to maintaining a balance at home by managing the impacts of structural change on communities, investing in social stability and preventing unsustainable use of the environment.

Policy reform is hard, it requires honest conversations with the public rather than misleading quick fix policy offers. This makes economic policy-making more about process than finding an answer in theory and assuming that the underpinning assumptions will hold. This does not mean that economic models are useless or empiric analysis are necessary, rather it means they are part of that policy process and sometimes, very influential. CGE Modelling was terrific for analysing the impact of tariff reform, privatisation was great for breaking stranglehold of union and entrench management to expose government entities to market discipline. Contracting out service delivery was great at improving cost-effectiveness, and giving cash subsidies directly to consumers improved their agency but hoping that those recipients can impose market discipline and removing risks for government was optimistic.

We need to abandon our assumption that the assumptions that underpin our economic models hold. We need to be constantly testing, whether our models, our theory of change are still working and to be able to adapt, adjust and reverse course. This requires a more humble approach to economic policy-making, which is why I offer an additional three Ps.

They are 'Partnership', to get cooperation to an agreed set of rules and processes such as the enforcement of rules and institutions back at the core. This is partnership out an external level, countries in our region and others that want to promote global system to support economic growth and development. But it is also partnership at home. In the policy-making process and its implementation through greater engagement with civil society, greater openness to ideas and public discussion of the policy options and more resistance to special interests.

'Pragmatism', to make compromises. Lose now to win in the future, when on one dimension even if you lose on another, the theory of why democracy matters can provide a guide. Parties don't want to entrench power unless they can do it quickly enough to ensure that they are always the ones re-elected. We need to design a system that avoids entrenchment of the incumbents. They will differ across issues, pragmatism is about working with partners on things that matter to them but ensuring they see the trade-offs that others need to make.

And finally, 'Practice', to allow for experimentation and correction. Identifying consequential feedback loops can be hard, is not easy to model complex systems in a changing environment. We need to monitor and adjust continually, rather than resist change and allow pressure to build that forces a change. We need to be more tolerant of mistakes but able to correct them quickly.

The Productivity Commission processes have always given the PC a greater insight into values and exposure to models and empirics well beyond the economic dimension. It is time to put this approach on steroids, not just to provide a policy solution to government but to argue the case for ongoing policy, learning processes. This will need the PC to work with line agencies to train them on what to monitor and how to build in self correction mechanisms. It will require helping regulators work out how to assess the cost of not making a mistake, relative to the cost of stopping things happening in fear of mistake. It will require having an ongoing conversation with the Australian public and educating the media about policy feedback loops and why they matter.

The Productivity Commission is a resource for government to identify and argue for policy that addresses vicious feedback loops, and slow-burn intersects. Governments look to a three-year election cycle, businesses look to quarterly profits and stock prices, there is a desperate need for louder voices that care for the longer term.

In these chaotic times having a policy process in place that follows the three Ps and the extra three Ps is a good second best and essentially what we need to get to the first bank policy. Thank you very much.

[APPLAUSE]

Danielle Wood (Chair)

Thank you hugely for that, Jenny. I'm always amazed to weave so many different issues in a short space of time and I really liked the challenge you put out for us at the end. We have 15 minutes for questions, unfortunately only from people in the room, sorry to people on the livestream. We have a roving microphone. You have certainly given us plenty to work from. Ian?

Ian

Jenny, thanks for that terrifically stimulating address. Very thought-provoking.

My mind turned to institutions in two respects. Firstly, as we've been watching with some distress what's happening to institutions in the United States under an attack sold by the administration. Mercifully, that's not happening here. But firstly, what hope have we got of re-establishing a new approach these things for our economic institutions that we think are under attack from a democratically elected administration.

Turning to Australia though, most of us will know we are right here in the PC, one of the things that I think has delivered very good economic policy for us over half a century or more, have been strong independent institutions which have essentially had the trust of the Australian people. But they have been designed on the basis of traditional consensus, traditional way of thinking about economic policy in particular, but my question to you is this, have you given some thought to how we would redesign institutions to encapsulate your three Ps, for a start. But also to recognise these overlapping feedback loops that you talk about, but our institutions are much more encapsulated, much more hermetically sealed in many cases by virtue of their acts of Parliament? So have you given a thought to how we change that?

And let me also take an opportunity to say that I think, I know, that the bank, for instance, has been dealing with the last one of your pragmatic elements right up close, that the bank has a different view of what the non-accelerating inflation rate and unemployment, but I'm proud to say that the bank including today made a decision based upon us being potentially wrong about that, and in fact we've achieved an outcome I think which I think flies in the face of what our own theories would have told us. So how do we build into our institutions that type of flexibility, as well as the broader linkages you refer to?

Dr Jenny Gordon

Good, challenging questions are start with. Certainly, I think on a lot of the policy areas, we have this task force approach occasionally, we pull together a task force and they come up and do a review and then they come up with recommendations for government. Then they are disbanded. One of the things we could be doing that starts to break down the silos, one of our big problems is silos, I was chatting to a member of staff this afternoon here and talking about how it is budgetary, 'don't you touch my budget!' Even if you are saying 'it is going to save you money over here, so why can't we do that?' It's like, keep your hands off my budget. The taskforce is interdepartmental at a reasonably high level and not at a junior level. IDCs interdepartmental committees are highly useless because they send junior staff with red lines, and the junior staffers jobs just to listen to the redline and make sure they don't step over it. But what you actually need is negotiation, so you need to change the premise. But then they also need to move into implementation. They can evolve the staff and reduce the number of people involved, and then you can keep going until the reforms have been sufficiently bedded down and you have ways of doing it. It may be that those task force last forever, and doing that pragmatic practice system, and they are on important things.

A couple of decades ago, we had a lot of wicked problems, we have got a lot of wicked problems, but we need that integrated approach and then you can move onto things to say what is the government arrangement you want. Well, you make the secretaries committees responsible so that they have to report on what their agency is doing to deliver on that set of agreed task force objectives. So that they hold their departments to account.

You need a structure, a governance structure that has buy in into cooperative action. So one of the challenges is that our system has evolved to be very silo-ised, so we need to create new structures to break down those silos that have dictate from the top and you need to do it slowly, so you start off by doing, picking a problem task force area and rolling it out, learning from the model, getting the model better, practice and learn. And pragmatism about what can it cover and what can it not cover. And say well, that worked. What is the next big one? And slowly what you might see is a change to the structure of government over time. And that is the only way I can see we can progress towards that.

What is the role of the PC? It is in that early stage in the task force, either to kick up and say we've got to do something about this, here is the cost. This is the point about tariffs, why it is so important, because it says in mining, you realise what this is cost you, in agriculture, you recognise what is costing you. We need that analysis again to say these policies are really costing us so we need to be putting that on the table. And saying these are costly. Somebody should be doing something about it.

We need to do something about media. I don't know what. We need to somehow get a far more sophisticated conversation going that is not just about the politics of things. And the personality of the people in the politics of things. We need to have policy conversations. But their timeframes are different, and the independence of agencies, I think, we've got a chance to really make that case. Trump is helping in some ways because the mess he is making of everything is a warning bell to countries to go, don't go down that pathway! I don't know if I've answered your question, but there's some thoughts.

Danielle Wood (Chair)

Just on the PC, thinking about some of those points, something we are doing is to try to do less of the handover the report and step away. So we're sort of building structures that we can continue to talk to departments and agencies about the recommendation, what implementation looks like. I think there have been a few examples where we have put someone from the PC team into the department post report to help implement. So you get that continuous line of sight from the original policy work and implementation.

Dr Jenny Gordon

At one point I made a recommendation, I can't remember what it was part of, to saying the British have this kind of economist pool they lend out to different agencies and I said the PC should have this economist pool that is like a resource, and then you’ve got them inhouse and you train them, and then they can go out to the line agencies to follow on from the enquiry, and then you take them out –

Danielle Wood (Chair)

I can see Hannah having a heart attack over here! [laughter]

And we do a lot more secondments and things. Certainly, then what I had experienced 20 years ago.

Dr Jenny Gordon

Back in my day it was "don't you take my good people!"

Danielle Wood (Chair)

I think we are a lot more open and flexible now. Catherine?

Catherine

Thanks so much Jenny. I can't think about all those intersections at the same time, but one of them, the fact that trade relationships can be used as a power tool, thinking about corporations also using their clout as a power tool, but in terms of countries using tariffs or bans on products as a tool, could you talk what sorts of concessions in this new world, what sorts of things should we expect that people are attempting to extract using their trade bands or tariffs, and up to what point do we think they are going to be able to extract concessions?

Dr Jenny Gordon

If you've ever had a look, the US trade representatives have an annual report where they list a long list of claims that businesses want from other countries. I thought that's where Trump was going to go when he started doing that tariff designs and it got too hard obviously and let's do it and the back of the envelope calculation and come up with a number that makes no sense whatsoever. I tried to make sense of it, but it just does not make sense. It was one of those things, unfathomable.

But obviously for Australia, our concerns are around pharmaceutical companies that say we don't like what you do, and Trump's latest one where he signed saying, pretty much, tried to force the pharmaceutical companies to lower their prices and raise their prices on everybody else. It's quite challenging, the sort of thing where it is, it was good that the government came out and said very strongly that we are not going to back down on that. And I think there are a number of areas like that were domestic policy really needs to strengthen.

The ISDS stuff, the use of that, if the US can tear up its trade agreements, we can tear out our ISDS provisions in our trade agreements. I think we're working with other countries is really important to try and get enough countries to stand up and go we are not going to go down that pathway. So we have to be clear on what we're doing and what we are going to stand up for, we can't let the US pick us off one by one. Because it's that continuing agreements and then the next country, well, they did this for us. It's why the US was never going to give us concession on the steel and aluminium tariffs, because that's what happened last time, when they gave Australia concession, every other country went to the US, and Trump learnt from that. We need to do the same kind of thing. We need to say, where are your redlines? Indonesia, what are your redlines? And then can we get together collective set of redlines to say we are not going past those, regardless of whether it's China asking us and we will back each other up.

So one of the things, the China trade sanctions on us, you did not see a Coalition of Chilean and Argentinian and South African and Californian winemakers go, well, we won't sell red wine to China anymore. And that is the sort of stuff, not that the wine matters so much, but that's the sort of thing we need to think about. How do you start working about on business level to say to other business producers, can we, how do we form collective groups? And being done in the private sector as well as government facilitation. It is a big job for Austrade to refocus their efforts on that rather than just thinking about Australian exporters which is largely where their focus currently is.

Danielle Wood (Chair)

Stephen?

Stephen

Can I say, pick up on a couple of things you've had, the changes due to war, setting up institutions you mentioned earlier on, and your throwaway line, in some ways Trump helps. Should we reframe how we think about the current period and think about Trump is actually being, all the institutions we've come to rely on in the postwar period, they are basically won't working well before Trump, Trump one, Trump is going to finally kill them. We need to think about going forward the role of Australia and our partners in creating new institutions with our partners and how do we play the game? China is thinking down this direction, and thinking 'right, we can fill the void', chatting to South America. You've even got India starting to say maybe we can get rid of agricultural tariffs, which would be amazingly dreadful. So you've got this disruption, how do we get the new institutions we want out of that?

Dr Jenny Gordon

Rather than saying let's throw out the old institutions and get new ones, it's best to reform the ones we've got. If the US is pulling out its influence, it's going to be so much less, it's a matter of other countries saying, 'we're still in this'. You will see this in the WTO where they have an alternative dispute resolution mechanism amongst a bunch of other countries including China, but we need to put that to use on steroids. That's what I think is really forcing us to do. It's an opportunity in many ways to remake the system that was under increasing pressure.

We got through Nixon, taking the dollar out of the gold standard, it was ugly. Basically Latin America halted, that was probably one of the biggest problems apart from the CIA medalling and all sorts of things over there. But we need to think about how we do that. You need DFAT to have a much more economic focus and sophistication in the way they think about these institutions and I would like to see that strengthened a lot. Because we need to play a leading role so that means that there needs to be more input into the foreign policy portfolio than just the kind of foreign policy experts, we actually need economic experts who are thinking about what our role is in the global economy and how important this is for our economy and we need that coming through.

So the PC is very domestic focused but Treasury does have an international area of economists. But again, we need to have that much more collegiate approach within the Australian government.

The Reserve Bank, looking at the US dollar, financial stability, it is scary. Just that, the potential for undermining of the global financial system, I mean, the Brits have got their kind of alternative, you see three-way trade transactions, you start seeing swap lines evolving, and where we sit in that but how does that interact with the other things that are going on? And it comes back to that pragmatic point which is you can't win everything so which ones are you going to win? You don't just negotiate on this, you negotiate on all of this as Australia. So some we might say that is not what we prefer but we are going to get wins over here so we will keep ticking away on what we prefer over here but we are willing to compromise. And that is the kind of thing we have to bring more and more into the thinking.

Danielle Wood (Chair)

That is a lovely way to end. I'm going to have to wrap it up, I'm sorry, I can see questions everywhere. The good news is we have some drinks and canapes down the end of the hall so there is plenty of time to continue to ask your questions, but can you please join me in thanking Dr Jenny Gordon for a very thought-provoking talk. I will say goodbye to everyone on the livestream, thank you for joining us. For those in the room please do stay for drinks and we hope to see you next year for the 2026 lecture. Thanks again to the family. Thank you.

[END]