

# **Purity, pragmatism, and plenty of grey: how the PC seeks to influence policy<sup>1</sup>**

## **Corporate Members' Briefing Luncheon at the South Australian Centre for Economic Studies, Adelaide University 9 February 2026**

### **Danielle Wood, Chair, Productivity Commission**

I would like to start by acknowledging the traditional owners of this land, the Kaurna people and pay my respects to elders, past and present. And I extend that respect to any Aboriginal and Torres Strait Islander people in the room today.

A big thank you to Jim from SACES for the invitation to be here, and to and Fiona and Joanne for their warm welcomes. It's been wonderful to follow the journey of the formation of Adelaide University and to see the really optimistic and positive vision being laid out. As an alumna I feel like I have a stake in that vision ...

I'm going to reflect on another institution today – the one that I lead.

When I first started in this role, people often told me, 'You've got the most important job in Australia' – a statement both terrifying and energising.

And while clearly served with an extra dollop of mayo, there is an important kernel of truth in it.

The Productivity Commission is an important institution, and it is undoubtedly an important time for it. Productivity is in the doldrums. Governments are grappling with several major challenges at once – the climate transition, digital transformation, population ageing, and levels of geopolitical uncertainty not seen in decades.

I believe we are lucky to have an institution like the PC whose entire role is to provide independent, evidence-backed advice on policy choices to set the nation up for long-term success. From trade liberalisation to the NDIS to AI regulation – the PC has had real impacts on the lives of Australians.

But governments have more sources of policy advice than ever. They're increasingly using independent reviews and inquiries to look at specific policy issues. There's a growing number of think tanks competing for influence. And, as generative AI lowers the costs of data analysis and writing, I expect the number of glossy industry and advocacy reports will balloon. The PC certainly can't rest on its laurels.

I've now been Chair of the PC for just over two years. Long enough to have a good sense of its role in the policy landscape. So today I want to share some insights into how we approach our work.

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<sup>1</sup> I would like to thank Productivity Commission staff and Commissioners for the conversations and insights that helped inspire this speech. A particular thank you to Elizabeth Baldwin for help drafting them into something (hopefully) readable. All inaccuracies and exaggerations my own.

In particular, I will reflect on how we think about some of the difficult 'grey' issues that face any organisation looking to influence public policy choices. I suspect none of them will be a surprise to Fiona, Jim and the SACES crew or the South Australian Productivity Commission staff here. But I think as public institutions we have a duty to be clear about the way we approach these issues in our work.

## **A short trip down memory lane ...**

Let's start then with a quick romp through history.

How did an organisation like the PC – funded by government to provide independent policy advice – come to exist? The more I host international delegations the more I appreciate that we are a rare beast by international standards.<sup>2</sup> Indeed, many of our international visitors claim to possess 'PC envy'.<sup>3</sup>

The Productivity Commission began its life as the Tariff Board, which was established in 1921.

Over the years, the organisation's name changed, and so did its remit. The Tariff Board was rebranded as the Industries Assistance Commission in 1974, charged with examining all forms of government assistance – not just tariffs. The Industries Assistance Commission then became the Industry Commission in 1990, with a remit to report on a wider range of economic issues.

The creation of the Productivity Commission, by legislation in Parliament, in 1998 brought a broader role still. Our work today covers the breadth of social, economic, and environmental policy – from heavy vehicles, to health services, to healthy ecosystems.

Our Act enshrines our independence – the licence to speak home truths to governments, even when they might ruffle some political feathers. Too often, policy debates are dominated by a few loud voices with a lot on the line. Our job is to stick up for the collective interest.

We're not alone in this aim, inside or outside government. But we're also privileged in the time and resources we have to analyse and consult deeply on these issues. And our independence means we can ultimately stick our neck out and make our views public.

The expansion of our role over time, and our continuing independence, is a credit to successive governments. It takes a degree of political maturity to sustain an institution like the PC. By nature, we will sometimes push for things that are not currently on the agenda of the government or are not aligned with its immediate political interests.

This can be inconvenient. A Cabinet minister once reportedly rejected plans for an Industries Assistance Commission inquiry into his sector because he 'liked a quiet life'.<sup>4</sup>

Nevertheless, the fact that numerous states have created their own productivity commissions – with South Australia out of the blocks early – suggests that governments recognise the value of high-quality and robust advice and perhaps even some market testing of more difficult issues.

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<sup>2</sup> A small number of countries have 'PC like' organisations including Chile, Denmark, and Ireland. Renda, A and Dougherty, S 2017, *Pro-Productivity Institutions: Learning from National Experience*, OECD Productivity Working Papers.

<sup>3</sup> Vines, D 2021, *A Productivity Commission: A Proposal for an Australian-style approach to creating a Policy-Reform Process for the UK*, INET Oxford Working Paper No. 2021-13, Institute for New Economic Thinking, Oxford.

<sup>4</sup> Cited p. 264 in Button, J 1998, *As It Happened*, Text Publishing, Melbourne.

## The challenge: maximising the PC's policy impact

We don't take our privileged position as the government's 'think tank in chief' lightly. In everything we do, we are focused on our impact: on how we improve the chances that our work will translate into better policy for Australia.

Much of our approach is evident. The PC is an organisation with transparency in its DNA. We publish all our reports. Submissions to our inquiries are public except in a limited number of circumstances.<sup>5</sup> Our governance and work practices are set out in our Act. Our aspirations for how we meet the Government's Statement of Expectations are articulated in our Statement of Intent, published on our website.

But what I want to talk about now is some of our less visible practices. The fact is that even the most evidence-driven organisation has to grapple with some big questions of strategy and values. These judgement calls are often hidden but are critical for informing the work we do. Today I want to turn the spotlight on them.

### Spotlight 1: Our frameworks

Every PC report – yes, even the ones that are 1,000 pages long! – starts with a blank page. As any writer will tell you, there's little that's more daunting. So how do we get from the blink of the lonely cursor to the final report?

If you listen to some commentators, you'd think we start with the conclusion already determined. Some argue that we're beholden to neoliberal ideology – blindly pro-markets, fans of economic growth whatever the cost. Others claim our thinking has been captured by a 'woke agenda' and will fall in line with whatever the PC – 'politically correct' – police decree.

Sometimes we're accused of both in the same week, which you'd have to agree is impressive!

I hope that our thinking is more flexible than either caricature of ideological purity. Most of our projects are, in my predecessor Gary Banks' words, a voyage of discovery – where we end up depends on what we learn along the way.<sup>6</sup>

We had our origins in advocating for free market reform, and of course we still draw on those frameworks. I'm happy to nail my colours to the mast: I think markets do a great job in a lot of situations and government interventions often come with more costs than their proponents would credit.

Sometimes this means steering against the current of ever-more regulation. We've urged caution on legislating a right to work from home, for example, because the evidence shows that employers and workers have a strong incentive to find the 'sweet spot' of hybrid work, without the need for potentially costly interventions.<sup>7</sup>

But our frameworks have changed with the times.

More of our work deals with service sectors where quality is incredibly important, but hard for people to judge or respond to. In these sectors we can't rely on the market to deliver the minimum standards that Australians are entitled to. So, for example, our report on Early Childhood Education and Care recommended expanding regulators' resourcing and compliance powers to enforce quality standards.

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<sup>5</sup> Such as where the submission contains potentially defamatory, discriminatory, or commercial-in-confidence material.

<sup>6</sup> Banks, G 1998, *Why have a Productivity Commission?*, Productivity Commission.

<sup>7</sup> Productivity Commission 2026, *Working from home can work itself out*, Submission to the Senate Education and Employment Legislation Committee inquiry into the Fair Work Amendment (Right to Work from Home) Bill 2025.

The need for broader frameworks ultimately reflects the evolution in our work, from our early focus on trade, industry policy and economic regulation to a greater focus on social, environmental and First Nations policy. Different challenges need different tools.

We have responded by diversifying our talent pool. In recent years, the Commission has started employing more people from outside the economic profession, to broaden our portfolio of skills and ways of thinking. We are proud that we exceed the Australian Public Service Commission's target of 5% First Nations employment and are ambitious to build further.

Another crucial part of our process is extensive consultation, with both sector experts and consumers.

The reflections of consumers, carers and practitioners were a central part of our assessment of the National Mental Health and Suicide Prevention Agreement. We conducted meetings, site visits, submissions, public hearings, and an online survey. We heard that there were problems with costs and waiting times, gaps and shortages in services, inadequate crisis support, and discrimination when accessing services. Consumers didn't feel their voices were heard in the formulation of the Agreement. We recommended an overhaul of the Agreement, including formalising forums for listening to consumers.

Our Statement of Commitment and Reconciliation Action Plan guide our work, ensuring that all of our projects are informed by Aboriginal and Torres Strait Islander ways of knowing, being and doing. We've committed to ensuring the discussions we have with Aboriginal and Torres Strait Islander people are relational, reciprocal and culturally centred.

## **Spotlight 2: Big bang or incremental reform?**

Another important judgement is when to push for 'big bang' reform – total system overhaul – versus incremental shifts in the right direction.

Big bang reforms are difficult for governments to land: they take political capital, time and sometimes major budget commitments. They're also very hard to implement. The National Disability Insurance Scheme was a landmark reform that has been life-changing for many Australians with disability. But it's also been mired in challenges from the start. It's no wonder. Overseeing new markets, safeguarding system integrity, regulating service quality, fairly assessing eligibility, ensuring fiscal sustainability, and navigating federal–state dynamics – any one of these tasks is a tough ask, let alone all six at once!

Often these types of recommendations are about shifting the 'Overton window' and building support – and system capability – for a fundamental shift over time.

Our history is filled with examples of the slow policy burn. The Asprey tax review recommended a goods and services tax in 1975; Australia got one in 2000. The Human Rights and Equal Opportunity Commission recommended that Australia introduce paid maternity leave in 2002; it was finally rolled out in 2011.<sup>8</sup>

At the other end of the spectrum, we have the incremental reforms or 'quick wins' that are smaller and easier to implement. The PC has previously advocated for the abolition of nuisance tariffs – tariffs that raise minimal government revenue but create significant administrative costs for business and government.<sup>9</sup> The

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<sup>8</sup> The Human Rights and Equal Opportunity Commission's report itself followed decades of research and advocacy. Human Rights and Equal Opportunity Commission 2001, *A Time to Value: Proposal for a National Paid Maternity Leave Scheme*. O'Neill, MS and Johns, RE 2009, 'The history of welfare and paid maternity leave in Australia', presented at the *International Employment Relations Association Conference*, International Employment Relations Association.

<sup>9</sup> Productivity Commission 2022, *The nuisance cost of tariffs*, Research paper, Canberra.

Albanese government has removed almost 1,000 of these tariffs.<sup>10</sup> Not nation changing but an important step in freeing business from painful paperwork.

Many of our recommendations sit somewhere in between mouse and elephant – often as medium-sized steps towards new ways of doing things. Our recently proposed corporate tax package involves a ‘tax mix switch’ – reducing the reliance on corporate income tax and introducing a cashflow-based tax, which provides much stronger incentives for investment. Not only would the switch provide a sizeable growth kicker – we model a 0.5% uplift in GDP – but it could be a stepping stone to a bigger switch away from investment-sapping corporate income taxes.

The right choice – small, medium or jumbo reform option – will vary by issue. But my firm view is that across the portfolio of the PC’s work we add most value when we provide a mix of these types of recommendations over time.

### **Spotlight 3: How to weigh the fiscal cost of reform?**

The PC generally leaves fiscal policy commentary to others. But we can’t ignore the reality that the Commonwealth and most state governments face medium- and long-term budget challenges.<sup>11</sup>

This means any tax or spending proposals that hit the bottom line come with tricky trade-offs.

Many productivity-enhancing reforms fall into this category. Historically, the federal government has incentivised the states to make major regulatory and competition reforms – from National Competition Policy in the 1990s to the National Productivity Fund today. Similarly, major tax reform has historically come with a high price tag attached as politics has necessitated overcompensating the people losing out.<sup>12</sup>

How should a policy agency think about budget impacts?

At a minimum, we should always recognise that budget costs are ‘real’. Raising taxes to pay for government spending is not a costless exercise. Most taxes create economic drag – deadweight loss because they distort the decisions of people and businesses.

We generally try to include credible estimates of the cost of recommendations that will hit the budget, so public debate on trade-offs can be grounded in facts. Weighing up policy reform options will always involve gnarly comparisons of apples and oranges. The least we can do is make sure the apples and the oranges have price tags.

Sometimes we grapple with budget constraints even more fulsomely – as we did recently in proposing reforms to corporate tax. We started with the objective of revenue-neutral reform to recognise the budget realities – the tax mix switch mentioned earlier was calibrated to achieve revenue neutrality at maturity, including the dividends from higher investment and growth.

Interestingly, in response to our draft proposal, some argued that even suggesting revenue-neutral reform was ‘borderline-impossible and extremely silly’.<sup>13</sup> Most of the suggested alternatives to our proposal cost the budget at least \$10 billion and sometimes many times more.

Being unshackled from budget constraints might be a fun way to make policy recommendations, but it is not a recipe for impact.

<sup>10</sup> Chalmers, J, Ayres, T and Farrell, D 2025, *Another 500 nuisance tariffs slashed to cut costs and boost productivity*, Media release, 28 August.

<sup>11</sup> Productivity Commission 2025, *GST distribution reforms: Issues paper*. Treasury 2023, *2023 Intergenerational Report*.

<sup>12</sup> Wood, D 2023, *Tax reform in Australia: an impossible dream?*, Grattan Institute.

<sup>13</sup> Holden, R 2025, ‘Cash flow tax plan would tie Australia’s company tax with Colombia’, Australian Financial Review, 3 August.

Governments have to make hard trade-offs. There may be a range of worthy proposals that jump cost-benefit hurdles. These have to be traded off against each other.

I don't think it realistic that a policy reform agency runs a de facto expenditure review committee. We don't have the information nor the resources to benchmark our proposed reforms against the multitude of other claims on government resources. We leave that to governments grappling with our proposals.

And we wouldn't want to lose one of the strengths of an independent PC – the freedom to step back from the short-term budget hamster wheel to look at reforms that involve a short-term spend for a long-term gain.

To take one example, in our recent productivity work, we recommended governments invest \$1.5 billion over five years for public health prevention and early intervention programs, things like home visiting to reduce child maltreatment, or skin cancer awareness programs. We estimate this investment could save governments at least \$2.7 billion over the longer term.

But while we're not bound to ride the budget hamster wheel, we can't ignore it completely either. We aim to have high confidence in the benefits of our more costly recommendations. And those should be balanced over our portfolio of work with recommendations that reduce spending or generate an economic dividend, and therefore higher tax collections.

## **Spotlight 4: Purity or pragmatism?**

A fourth judgement is the extent to which our advice should be 'pure' in a policy sense versus grounded in political reality.

'Certainly, the impotent are pure' is the famous quip from Whitlam. So what to choose – ideals or influence?

The PC's independence is there to support us in focusing on ideals. From trade policy to climate action, the PC has a proud history of putting what, in our assessment, are the 'first best' policy responses on the table.

And there are good reasons for this.

It is important for governments and the public to hear the best version of a policy. First best can be a lode star to orient policy makers and the public in the mess of politics and compromise that inevitably accompanies major changes in policy.

Another reason is that PC reports have a long shelf life – and I don't just mean the libraries of bound green tomes that decorate our offices.

A policy that is politically unviable when a report is released might not be a few years later.

Politics is unpredictable. A flap of a butterfly's wings in South America can open an Overton window somewhere unexpected in Australia. We do our future readers a disservice if we overengineer our recommendations to the politics of the day.

But sometimes if our advice focuses *only* on first best, we are unhelpful as well as impotent. If we solely advocate for policies that governments have ruled out, we lose the chance to put forward deliverable changes that would improve the status quo.

One way we have sought to thread the needle on these two paths is to do both. To put forward in clear terms the first best response while also suggesting alternative incremental improvements.

In our 2022 housing review, for example, we recommended governments phase out first home buyer grants. These grants and concessions can inflate demand for houses, and often just support people who would have bought a home a year or two later. That's not a good use of billions of budget dollars.<sup>14</sup>

But recognising their enduring political popularity, we also suggested ways governments could get better bang for their buck if they kept the schemes: tightening up the income testing to better target home buyer assistance, addressing overlap between state and federal schemes, and committing to regular evaluations.

Part purity, part pragmatism, but always with an eye to making policy better.

## Spotlight 5: Where to sit on the Scoville scale?

Most of the PC's work is commissioned by the government. Although we interact with the public service, parliamentarians and their offices on ideas and terms of reference, they are ultimately decided by the Treasurer and the relevant Minister (sometimes in conjunction with the states).

Our independence means we respond to the questions that we are asked with our best evidence-backed advice.

The PC also has power to conduct its own research: to ask our own questions.<sup>15</sup> We typically use this type of research to balance our workload depending on the volume of commissioned work at any given time.

We are sometimes criticised for not choosing to focus on particular, charged issues: industrial relations, the cost of the climate transition, and fuel tax credits are all recent examples.

The reality is that choosing research topics has always been a balancing act.

Our research should be helpful – it should advance our legislative purposes including to improve the overall performance of the economy to achieve higher living standards. That means picking off important topics that affect the lives of all Australians.

But we can't tackle everything. It would be a waste of our limited resources to spend our time on a research study with recommendations that are extremely likely to be, in political terms, dead on arrival – when there are dozens of other projects we could have chosen that might have had a better shot at life.

And to be frank, it would be a crazy brave and probably short-lived PC that chose to use our research powers to jump on the most contentious or charged political issues.

That's why the PC has never done that.

Despite, the 'in the good old days' nostalgia of some, in my observation the PC's research program has become bolder and more policy relevant over time.

When I started as a graduate in the PC's early days, most research questions were studiously chosen to avoid commenting on policy.<sup>16</sup> Research papers generally only had description and frameworks without recommendations.<sup>17</sup> Their authors typically did not consult externally on their papers.

<sup>14</sup> We estimated the value of state and territory grants and concessions was \$2.7 billion in 2020-21: Productivity Commission 2022, *In need of repair: the National Housing and Homelessness Agreement*, Study report, Canberra.

<sup>15</sup> *The PC Act 1998* states that the PC can undertake, on its own initiative, research about matters relating to industry, industry development and productivity, s. 6 (3).

<sup>16</sup> Chair Gary Banks described the purpose of the PC's research program as filling in the gaps and drawing attention to issues that would then be studied in future inquiries: Banks, G 1998, *Why have a Productivity Commission?*, Productivity Commission.

<sup>17</sup> Even research on some more controversial policy topics like private hospitals and genetically modified foods focused on frameworks for thinking about issues without straying into judgments: Productivity Commission 1999, *Private hospitals*



To the extent there was policy advocacy ‘off the bat’ it was in the Commission’s historic home turf of trade policy and microeconomic reform and communicated through pronouncements in its annual reports.<sup>18</sup>

Our current practice is to try to pick topics that can help advance policy conversations. In particular, our research strategy explicitly asks that we pick off topics that are:

- ‘big’ (either in an economic, social or environmental sense)
- well-suited to our heavily evidence-based approach, and
- where we are likely to be able to value add over and above the work being done by other groups and institutions.

Our recent work on housing construction productivity is an example of the type of project we aim for. One that helps advance the debate through new analysis – in that case, showing the decline in housing construction productivity – and pointing to potential causes to foreshadow where more work is needed.

## **Spotlight 6: Quiet mouse or media tart?**

Another privilege granted by the PC’s independence is the scope to make our views on policy issues public. The main way we do this is our reports. But we are increasingly active in promoting these reports and their recommendations in the public square.

In its earlier years, the PC somewhat shied away from media attention. A former Commissioner once told me that they preferred to be on a plane when a report was released to have good excuse for avoiding journalists’ calls.

This has very much changed. PC Commissioners now discuss reports in the media, write opinion pieces and post on social media. We also produce videos and podcasts to promote reports. Last year we published 16 op-eds and received 13,000 media mentions.

This choice is a deliberate one – it makes it easier for governments to pick up recommendations where some of the hard work explaining the problem and bringing people along on solutions has already been done.

A more ‘grey’ area is the extent to which we engage in public commentary outside of our report releases. We are frequently called on to comment on a diverse range of policy and economic issues. This is not surprising: both our remit and our back book is large.

So when to use the soapbox and when to keep quiet? The answer for me lies in thinking about what helps advance better policy.

I see no upside in opining about policy issues where the PC hasn’t done any work or thinking. Policy is a complicated game, and frankly the one thing the world needs less of is ‘hot takes’ from people who haven’t done the hard yards.

Nor do I think the PC or its goals would be well served by us providing a rolling commentary on economic or social issues that do touch on past reports.

However, occasionally a contribution from the PC can help advance policy conversations. Sometimes the weight of the PC’s work means we might have a cautionary or encouraging note to add to ‘live’ policy discussions. A recent example is our reminders about the costs and risks of industry policy, in the context of announcements under the Government’s Future Made in Australia program.

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*in Australia*, Research Paper, Canberra; and Dolling, A and Peterson, D 2000, *Genetically modified products: A consumer choice framework*, Staff Working Paper, Productivity Commission, Melbourne.

<sup>18</sup> Productivity Commission 2003, *From Industry Assistance to Productivity: 30 Years of ‘the Commission’*, Canberra.



Public interventions of this type are not something we do lightly. But where we have done the work and believe it is the right way to boost the chances of better policy outcomes, we will continue to have things to say.

## **Judged for our judgements: The PC's approach on climate policy**

I would like to talk now about the PC's policy work on climate change because it is an area that spans a lot of the tricky judgement calls I've discussed. It is also probably the area of policy where our judgements have been most contentious.

The PC has a long history of work on climate policy. Indeed, our first report on the topic dates back to 1992 when we were still the Industry Commission.<sup>19</sup> That report, commissioned by Treasurer Paul Keating, looked at the costs and benefits of climate action. It found that a cost benefit assessment was inherently difficult. It concluded:<sup>20</sup>

... governments need to make subjective decisions about what action is appropriate, on the basis of such information as is available and their attitudes, on behalf of their populations, to risk and uncertainty.

Since then, almost all of the PC's work has focussed on the how. We have taken as given the stated intentions of successive governments to reduce emissions and asked: what is the lowest cost way of achieving that?<sup>21</sup>

Unsurprisingly to economists, the PC has always favoured economy-wide market-based mechanisms, a carbon price, as the lowest cost of way of getting there. It feels almost nostalgic to go back and look at the earnestness with which we debated whether a tax or an emissions trading scheme would be the 'best' mechanism.<sup>22</sup> They both look pretty damn attractive in the rear-view mirror.

That of course is not where we ended up. Instead, successive governments have pursued a suite of measures to reduce emissions in different sectors – the renewable energy target followed by the capacity investment scheme in electricity, the safeguard mechanism for industrial emissions, fringe benefits tax discounts and the vehicle efficiency standards for electric vehicles, and a range of policies for heavy vehicles, agriculture and the built environment.

This raises a serious question for the way we frame our advice: do we keep pushing for first best in a world where there is no apparent appetite to pursue it?

We have taken what I think is the pragmatic path and the one most likely to produce a good policy outcome. To continue to remind policy makers of the first best, while making recommendations on how to improve what's there.

In our most recent report on productivity and the net zero transformation that meant:

<sup>19</sup> Industry Commission 1992, *Costs and Benefits of Reducing Greenhouse Gas Emissions*, Report no. 15, Canberra.

<sup>20</sup> Ibid, p. 7.

<sup>21</sup> Cornwell, A, Travis, J and Gunasekera, D 1997, *Framework for Greenhouse Emission Trading in Australia*, Industry Commission Staff Research Paper, Canberra.

Productivity Commission 2011, *Carbon emission policies in key economies*, Research report, Canberra.

Productivity Commission 2023, *5-year Productivity Inquiry: Managing the climate transition*, Inquiry report no. 100, vol. 6, Canberra.

<sup>22</sup> Cornwell, A, Travis, J and Gunasekera, D 1997, *Framework for Greenhouse Emission Trading in Australia*, Industry Commission Staff Research Paper, Canberra.

- recommending a post 2030 mechanism for reducing emissions in electricity
- supporting an expansion of the safeguard mechanism for industrial emissions
- advocating for a price on carbon for heavy vehicles via a reduction in fuel tax credits
- recommending the abolition of duplicative and high-cost carbon reduction policies like the fringe benefits tax exemption for electric vehicles.

Most importantly, we also proposed a way to create greater consistency in the prices and shadow carbon prices emerging in these sectoral policies over time – bringing us closer to first best.

It's a set of policies I believe would be a level shift in the costs of meeting the government's emission reduction goals.

The PC's climate work has been criticised on two fronts. First that we don't pay enough attention to climate externalities, for example in critiquing subsidies to green industries.<sup>23</sup> This is demonstrably false.<sup>24</sup>

Second, others have argued that we are too passive in taking the government's stated emission reduction goals as given. Indeed, some have gone as far as to suggest that the PC should advocate for the end of climate policy in the way it once advocated for the dismantling of tariff barriers.<sup>25</sup>

This is both unserious and unhelpful.

There are of course costs and benefits on both sides of the ledger on climate action.

Actions to reduce emissions constrain choices and increase the costs of production, impacting on economic activity and measured productivity growth. But climate change comes with significant economic, environmental and social costs. Ones that are much clearer now than when the Industry Commission first reviewed the evidence in 1991.

These are already being felt in Australia and will get dramatically worse without global action.

Australia's targets are our contribution to the international effort to reduce enormous potential future costs. Australia's general approach has been to set our level of ambition in light of international agreements – to do our share.<sup>26</sup>

There are important judgments that sit behind this choice, about how we value future generations, and the ripple effect of our actions as a medium power. But personally, I find it hard from a moral or an economic perspective to disagree with it.

Stoking the climate wars – continuing to push the 'if' not the 'how' – is far from brave truth telling. The ongoing policy uncertainty created by decades of these circular arguments has, and continues to, increase the costs of action.<sup>27</sup>

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<sup>23</sup> Cooper, J 2024, 'Why the Productivity Commission is wrong about green subsidies', *Australian Financial Review*, 30 July.

<sup>24</sup> Wood, D and Robson, A 2024, 'Productivity Commission shines light on economic costs just as Whitlam wanted', *Australian Financial Review*, 1 August.

<sup>25</sup> Pearl, D 2025, 'How Australia's economic institutions flunked 2025', *The Australian*, 26 December.

<sup>26</sup> Albanese, A, Chalmers, J and Bowen, C 2025, *Setting Australia's 2035 climate change target*, Media release, 18 September. Morrison, S and Taylor, A 2021, *Australia's plan to reach our net zero target by 2050*, Media release, 26 October. The independent Climate Change Authority is required under legislation to provide independent expert advice on Australia's emissions reductions targets, considering the Paris Agreement, and other matters including principles of environmental effectiveness, economic efficiency and equity: Climate Change Authority 2025, *2035 Emissions Reduction Targets Report*.

<sup>27</sup> Investor Group on Climate Change 2024, *Joint statement on the need for climate and energy policy certainty*, Media release, 18 July.

Similarly, there is no bravery in being in denial about the counterfactual. The fact is that Australia needs to build a whole lot more generation capacity to replace ageing coal assets.<sup>28</sup> That's before we even get to meeting growing demand from energy hungry data centres. Whatever your favourite type of energy, this will be a costly exercise.

The best evidence suggests renewables with battery or gas firming is a cheaper way to provide new power over the next 25 years than new coal or nuclear energy.<sup>29</sup> But letting the market decide with appropriate signals for emissions and reliability would be expected to yield the best outcomes over time.<sup>30</sup>

The more things change ...

## **An independent PC for 2026 and beyond**

So, with that, let me circle back to the beginning.

Like Taylor Swift, the Productivity Commission has been through many eras since its establishment more than 100 years ago.

Today, the policy challenges we grapple with are broad. Trade policy, industry assistance and regulation haven't gone away as issues (indeed they are alarmingly in fashion!) but we've added a host of complex and thorny social and environmental issues. This may be unsettling for some who would prefer the economy (or at least its policy debates) preserved in aspic. But this this is the reality of policy in 2026.

We've evolved with the times. The PC today looks different to the Industry Commissions of times past. Our frameworks are more varied, our staff are more diverse, and we are more vocal in the public sphere.

But some things haven't changed. Our commitment to evidence-based research, our independence and our mandate to push for policy in the best interest of all Australians.

With some luck, we can continue that mission for another century still.

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<sup>28</sup> Wood, T, Reeve, A and Yan, R 2024, *Keeping the lights on: How Australia should navigate the era of coal closures and prepare for what comes next*, Grattan Institute.

Treasury 2025, *Australia's Net Zero Transformation: Treasury Modelling and Analysis*.

<sup>29</sup> Australian Energy Market Operator 2024, *2024 Integrated System Plan: A roadmap for the energy transition*.

<sup>30</sup> Nelson, T, Conboy, P, Hancock, A and Hirschhorn, P 2025, *National Electricity Market wholesale market settings review*; Productivity Commission 2025, *Investing in cheaper, cleaner energy and the net zero transformation*, Inquiry report no. 113, Canberra.