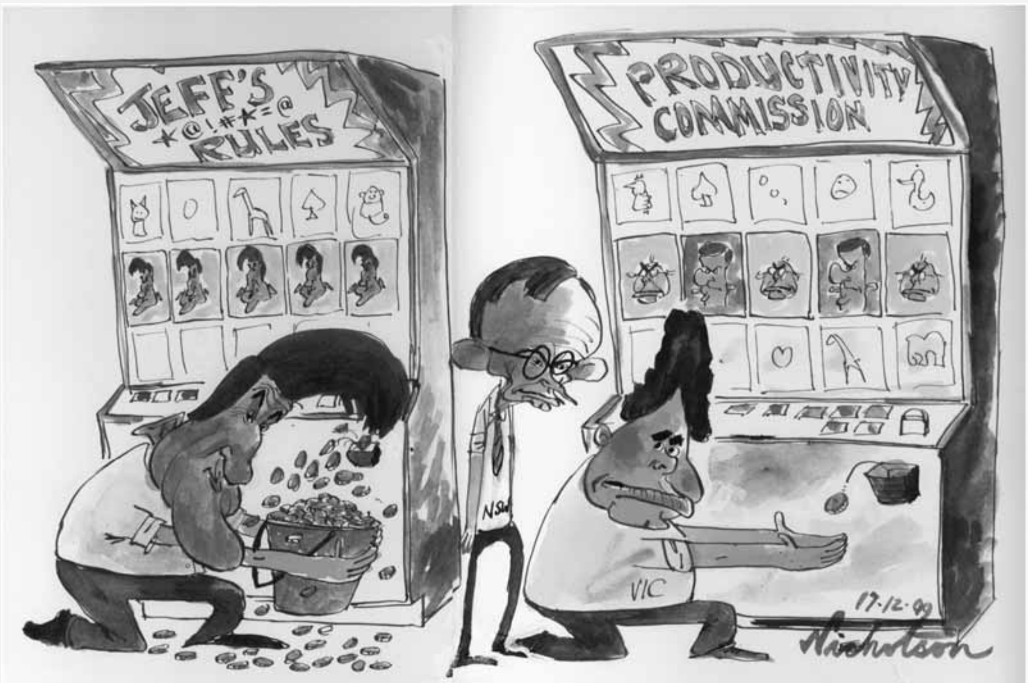
PART 3

SOCIAL POLICY: SOME KEY REFORM ISSUES

Over the years, the Commission has increasingly been tasked with investigating key areas of social and environmental policy. One strand of work has been the provision of data for COAG on the efficiency and effectiveness of government services, and monitoring outcomes for Indigenous people. The diversity of the Commission's involvement is reflected in the following speeches, which also cover policy challenges in health, education and gambling.



Cartoon by Nicholson from *The Australian*. www.nicholsoncartoons.com.au

Health costs and policy in an ageing Australia*

Australia has traditionally been regarded as having a relatively cost-effective health system. Per capita spending has been below the OECD average, and well below that of the United States in particular, for comparable or better health-system outcomes.

But there is a question as to whether this is likely to remain the case. Over the past decade, Australia's health expenditure has grown by about 70 per cent in real terms, with private sector growth outpacing that in the public sector in more recent years (though public expenditure is still two-thirds of the total). This rate of growth has exceeded that of the economy as a whole, leading to a 1.5 percentage point rise in the health sector's share of GDP to its present 9 per cent (AIHW 2007).

All components of health spending have grown. While inpatient and outpatient services still dominate total spending, there has been an acceleration in expenditure on pharmaceuticals and therapeutic appliances since the late-1990s.

This aggregate growth has been matched or exceeded by other countries, however, so that international relativities have not changed much (figure 1). For example, we remain a somewhat bigger spender than the United Kingdom and a much smaller spender than the United States.

This indicates that trends across countries are being influenced by similar forces. But it also suggests that some countries may have systems that can do better than others. Most are likely to be severely tested by developments in demography and technology in coming decades. It is important to understand how these forces are likely to play out, and their implications for health policy, given the size of the healthcare sector and its importance to community wellbeing.

The health 'market'

At a broad level, we can conceptualise the market for healthcare like the markets for other services in the economy, as being shaped by both demand- and supply-side influences.

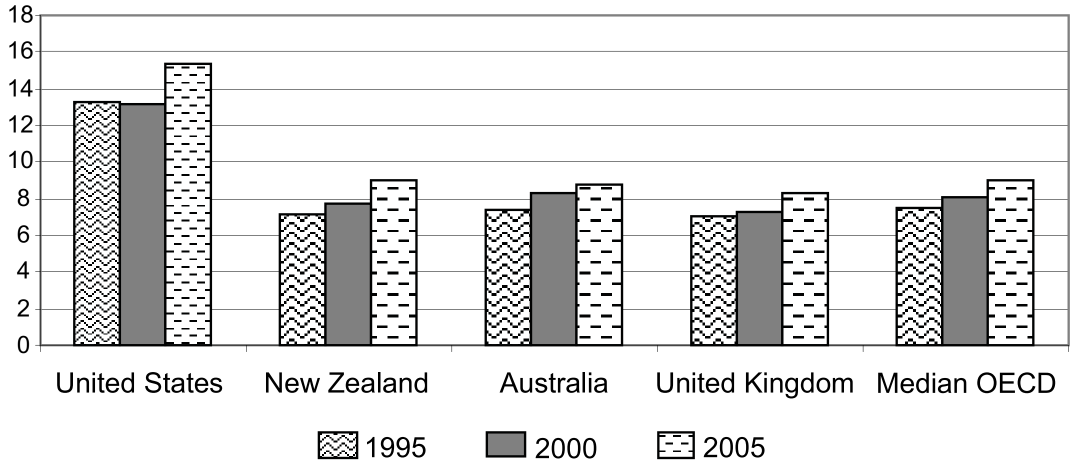
- On the demand side, the key determinants of expenditure growth are changes in the size and structure of the population, its overall affluence or purchasing power

* 'Public Health Oration', Menzies Centre for Health Policy, John Curtin School of Medical Research, Australian National University, Canberra, 26 June 2008. (Co-authored with Lisa Gropp and Ralph Lattimore.)

and — related to this — societal preferences or expectations and, of course, inherent healthiness.

- On the supply side, new knowledge and technical change have a strong bearing on the nature of health services provided, as well as on who and what can be treated. The implementation and diffusion of technology over time depends on the availability of, and access to, skilled people and capital resources.

Figure 1 **Health spending as a share of GDP (per cent)**



A creature of government

These dynamic influences are comparable to other markets. But unlike most other markets, there is a bigger role for governments and only a limited role for prices in balancing supply and demand over time. Much healthcare is funded by governments or insurers, rather than being bought directly by consumers, and the provision of healthcare is constrained by regulation and by the medical profession itself.

While there are some features in common with other markets, these are limited, and government policy is clearly influential in shaping healthcare expenditure. That said, the most critical underlying drivers of expenditure going forward will be further advances in medical technology, the ageing of Australia's population and the important interactions between them. These are complicated and contentious areas, posing significant challenges for public policy, and with much at stake for the community in 'getting it right'.

Technological change is a key driver of health costs

It is widely recognised that technology has a major impact on the health sector and on health outcomes, but there has been some debate about whether technological advances will, on balance, serve to reduce or increase overall health expenditure in future, especially in the context of an ageing population.

Assessing expenditure impacts is not straightforward, requiring an examination of the cost of the technology for each person treated; whether it is a new treatment; whether it replaces or supplements existing treatments; its uptake; and its effect on subsequent use of the health system.

Overall spending can increase — even if unit costs decline — when improvements in a treatment expands its use. New technologies can have beneficial flow-on effects in other areas of spending, however, such as by reducing rates of hospitalization or the duration of hospital stays, or by allowing the aged to remain in their own homes and thereby reducing aged-care costs. On the other hand — and probably only economists would point this out — if one disease is successfully treated, people may live on to develop other ailments, which can themselves require expensive treatment. (I hasten to add that this is not an argument for avoiding better treatments!)

Understanding technology's cost impacts

The Commission has measured the cost impacts of new technologies over a recent ten-year period (PC 2005d). The results of the main econometric analysis are depicted in figure 2**.** While the estimates depend to some extent on what is assumed about the sensitivity of demand to income growth, the results suggest that technology contributed around one-third of the increase in real health expenditure in the decade to 2003, with the (substantial) income growth experienced by Australians in this period being the other dominant contributor.

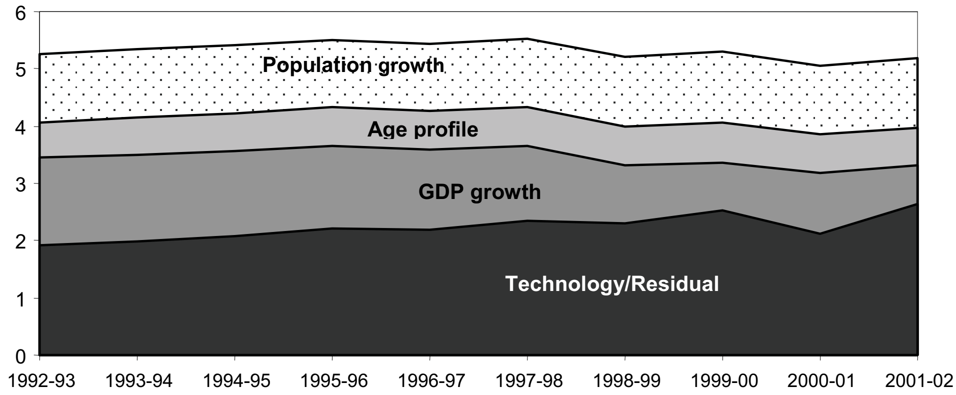
Some case studies that we conducted provided insights as to why new technologies were contributing to net cost increases. The story varied in relation to unit costs, with some rising and others falling, though on average they were greater. The decisive factor, however, was the expansion of treatment associated with new technologies.

The outlook for technology

So what does the future hold? It seems safe to anticipate that further technological advances will transform our ability to detect or successfully treat diseases, and thus bring considerable benefits to many people. But such developments are likely to continue to increase, rather than reduce, healthcare expenditure overall. As in the recent past, the reasons are the high costs of development (particularly of biological medicines), the expansion of treatment possibilities, and more ongoing treatment.

Further, as noted earlier, such technological advances will require complementary investments in skill development within the health workforce, together with changes in modes of delivery of care. These have additional cost implications, the size of

Figure 2 **Drivers of past health spending**
Annual growth rate (per cent) in real expenditure



which will depend on the adaptiveness of the healthcare delivery system, including in relation to roles within the health workforce.

Population ageing will compound future cost increases

So it seems clear that rising demand fuelled by income growth, and increased service possibilities from technological advances will continue to be important into the future. But an emerging additional influence is the ageing of Australia's population. This inevitable, pervasive force will fundamentally change the outlook, compared with any simple extrapolation of the past.

Impacts of ageing

That we are today living longer on average than our forebears is a symptom of success — a cause for celebration! But this phenomenon also poses considerable policy challenges for governments, particularly in the financing of healthcare.

In short, the pronounced ageing of Australia's population will reduce the (per capita) growth capacity of the economy — by shrinking the proportion of the population in the workforce — while simultaneously expanding the rate of government spending. The second Intergenerational Report (Treasury 2007) projected that the resulting impacts on the spending of the Australian Government would amount to around 5 per cent of GDP by the middle of this century. Throwing in the spending pressure for state governments will push this to around 6 per cent (PC 2005b).

Further substantial growth in health expenditure will be the dominant cause of this fiscal blow-out, with population ageing being a key underlying contributor.

This view about the impact of ageing on health spending in the future is not universally shared, including among health economists and government officials, so I would like to spend a little time outlining the basis for our conclusions.

Health costs rise (sharply) with age

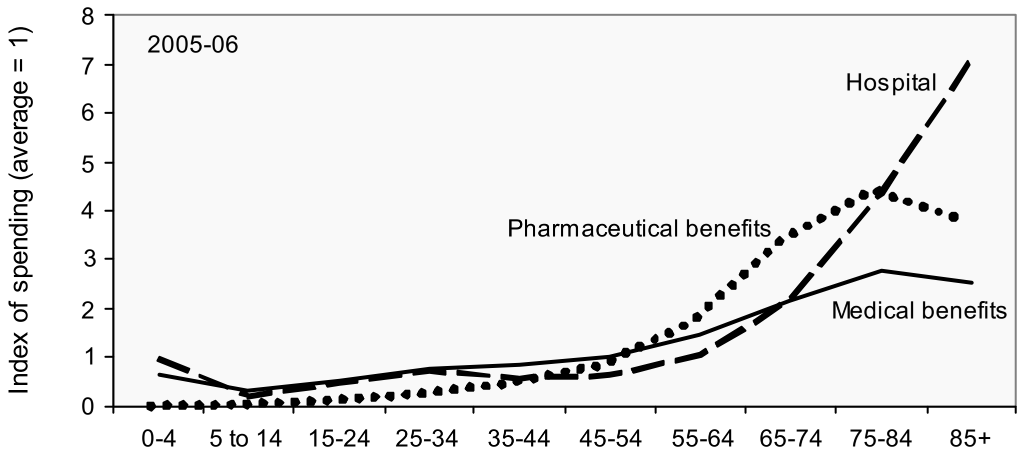
Perhaps the best starting point is what we already know empirically about how health costs vary by age groups. Cross-sectional data for public hospitals, the Pharmaceutical Benefits Scheme (PBS) and medical benefits are shown in figure 3. The escalation in costs for progressively older age brackets is striking.

For health services as a whole, average expenditure on those aged 65 and above in 2002–03, at around $5200 per person, was three times greater than for those aged under 65 (PC 2005b). And the ratio gets progressively greater for older age groups. When this age-cost profile is combined with the much higher projected demographic growth rates for older age groups to the middle of this century we start to get a sense of what lies ahead.

Counter arguments do not hold up

Against this interpretation, it has been argued that all such cross-sectional aggregate data is revealing is the higher incidence of deaths in older age brackets, and the relatively high proportion of lifetime health costs incurred in the period just before death. On this view, if people on average live longer, a large share of their health costs will simply be deferred, and lifetime costs won't increase much.

Figure 3 **Health costs rise steeply with age**



This hypothesis is logically appealing, but it is not supported by the evidence.

- While it is true that healthcare spending is relatively high towards the end of one's life, the bulk of costs still relate to people not at risk of imminent death.

- But even if a proximity-to-death phenomenon *did* explain most of the rise in age-specific expenditure, the projected ageing of the population would still lead to a major surge in future health spending as a share of GDP. The reason for this is that the ageing phenomenon is superimposed on the bulging demographic known as the post-war baby boom. As the boomers reach the end of their lives (in the period 2025–50) the incidence of deaths in the population will swell dramatically (PC 2005b). That in turn would see an escalation in healthcare spending in that period.

A second and related argument commonly made as to why population ageing would not greatly increase healthcare costs is based on the observed fact that older people are becoming 'healthier'. If this phenomenon continues, as it should, it is hypothesised that it will serve to flatten, over time, age-health cost profiles such as those shown in figure 3.

Again this argument is plausible. However, though the issues are complex, the weight of evidence (such as it is) is against it. While age-specific disability trends do seem to be improving (though the empirical evidence is not clear cut) there is an upward trend in various chronic health conditions. These include diabetes linked to rising obesity and age-related conditions, including diabetes again, Alzheimer's, hearing loss and Parkinson's disease. These are being managed by medical (and aged-care) interventions at significant cost.

The impacts of ageing could be understated

Recent trends suggest that ageing and technology are forming a potent expenditure cocktail that will, if anything, see a *steepening* of the age-cost profile over time. Indeed, the evidence suggests that this is already happening. For example,

- hospital 'separations' (figure 4) have been increasing faster for the oldest Australians (with the growth rate of private hospital usage exceeding that for public hospitals) (PC 2005b)
- this is reflected in the steepening age-profile of separations for both hip-replacement and cataract surgery in Australia
- in the case of hip-replacement surgery, the ageing-related growth is even more marked in US data (figure 5). This also reveals that in the 1980s, the incidence of hip replacements was similar across age groups, despite the need being greater for older people.

Projected health expenditure

In its own projections, the Productivity Commission has been relatively conservative. For example, we assumed an unchanging age-cost profile, together with a moderate projection of demographic structural change. Even so, it was projected that the combined health expenditure of governments in Australia would almost double by 2044-45, reaching just over 10 per cent of GDP (figure 6). While all components are projected to increase, the PBS share grows most — more than tripling — followed by hospital costs.

If the ratio of public to private health expenditure were maintained, total spending would amount to around 15 per cent of GDP by 2045 (greater than currently in the United States).

Indentifying the ageing-related component

The Commission unpacked the ageing component from population growth and demand/technology, to assess its separate contribution as an expenditure driver.

Looking firstly at the proportion of expenditure attributable to those aged 65 and over, we projected that this would rise from about 35 per cent today, to around 60 per cent by 2044-45; that is, to become well over half the health budget.

Of course, not all the increase in spending arises from ageing. So we conducted a thought experiment in which we froze the population age structure and allowed the other expenditure drivers to vary over time. Ageing alone is estimated to push up health expenditure from $170 billion to $210 billion by 2045, an increase of 25 per cent (figure 7). As a proportion of GDP, the increase is from 8.1 per cent to 10.3 per cent. Expressed differently, ageing is projected to account for one half of the total increase in (public) health costs as a share of GDP over the next four decades.

Figure 4 **Hospital separations are increasing fastest for older Australians**

Average annual increase (per cent)

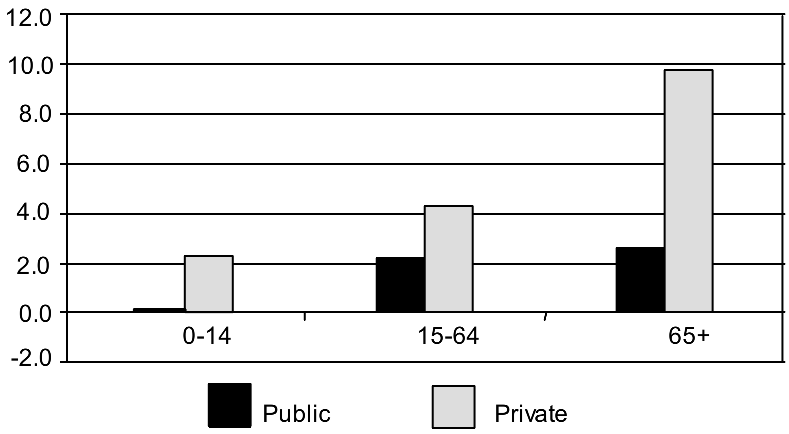


Figure 5 **Longer-term hip-replacement trends among America's aged**
Per 100 000 people

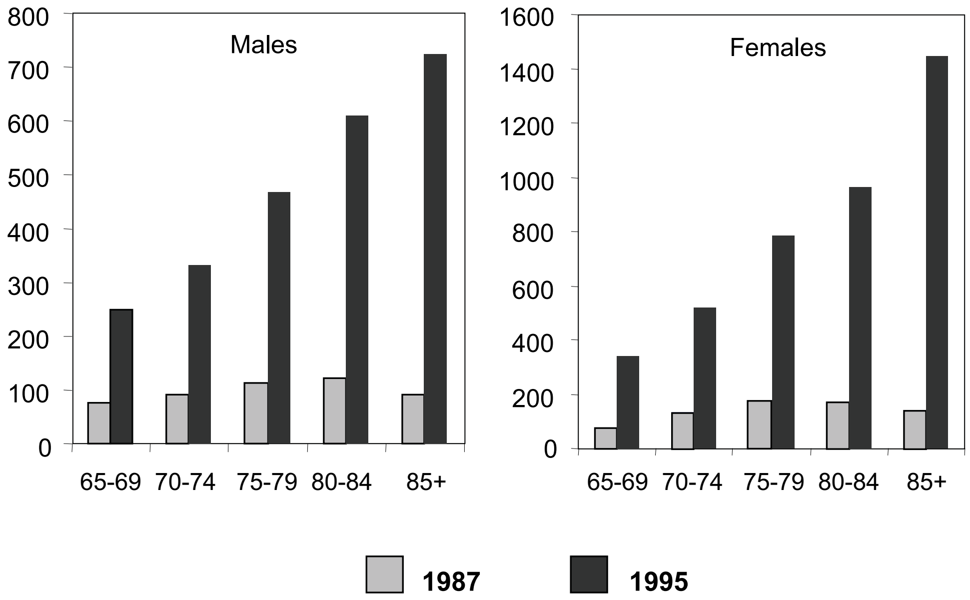
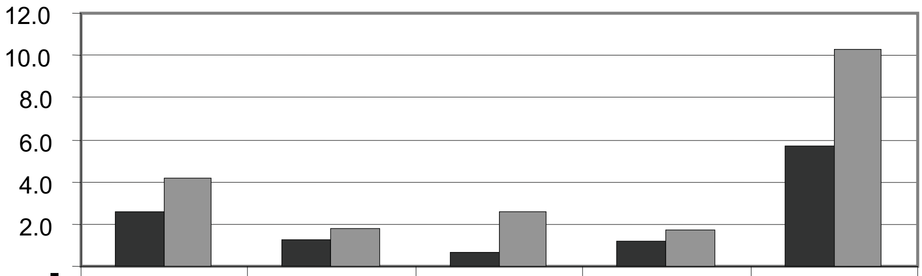
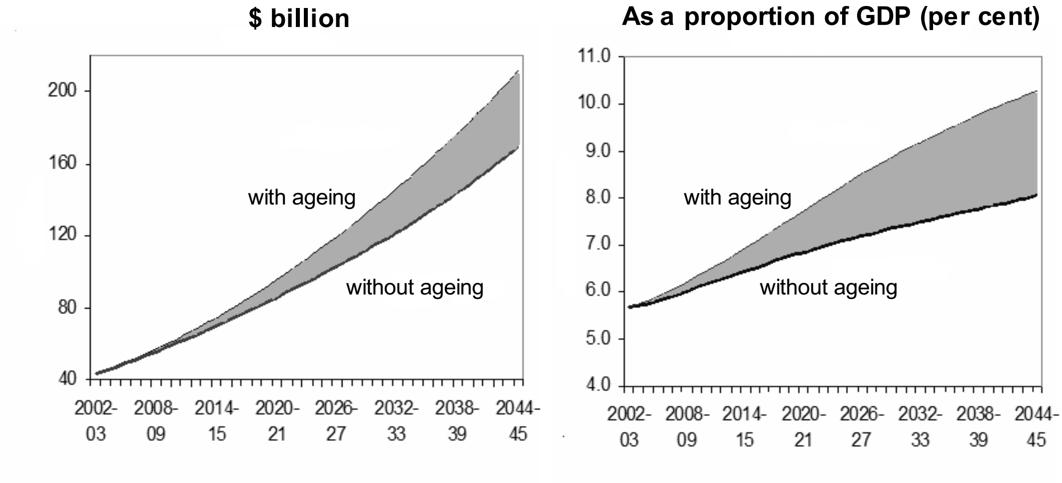


Figure 6 **Projections of government health expenditure**
Proportion of GDP (per cent)



	Hospital	Medicare	PBS	Other	Total
2002-03	2.6	1.2	0.7	1.2	5.7
2044-45	4.1	1.8	2.6	1.7	10.3

Figure 7 **What a difference ageing makes**
Projections of government health expenditure



Some policy implications

Projected health expenditure growth of this magnitude will clearly create a problem for governments, even if only because it will need to be financed. There are three broad policy choices.

Three broad options for governments

First, governments could take a *reactive* role, cutting services or inputs into the health sector (lower quality staff, older technologies, longer waiting periods, greater rationing of treatments). This might avoid a fiscal deficit, but it would soon create a *service* deficit — more insidious because it is less visible, with the potential to adversely affect people. It would also be pushing against the tide of demand for services generally.

At the other extreme, governments could adopt a *passive* role, simply accommodating expenditure pressures through public financing. This avoids any worsening of rationing, but as noted it creates a burgeoning fiscal deficit that must be financed. It can not realistically be financed by cutting back other budgetary demands — like aged care, education, infrastructure, and R&D. So addressing fiscal deficits implies the 'T' word — taxes now or later. Fully offsetting the health-induced fiscal pressure would require an increase in taxes of some 16 per cent. Apart from the politics (again) the costs and potential inequities of extracting more through our imperfect taxation system make this choice problematic.

The third, *proactive*, course — identifying areas for reform in the health sector that improve its financing or functioning — looks by far the most attractive.

Attaining the ideal: a 'market' analogy

When considering how to give effect to this proactive option it is useful to ask 'what would an ideal health system look like?'. Many would agree that both equity and efficiency would need to be integral, such that:

a) clinically required services would be available to all

b) only services for which the benefits exceeded costs would be provided

c) there would be no opportunities for producing more from existing inputs.

Fantasising for a moment that health services were like, say, the restaurant industry — supplied by a myriad of producers in approximately competitive markets and dealing with well-informed, demanding consumers — the above goals could be met by markets, supported by cash transfers to the disadvantaged (to meet goal (a)). Fully-informed consumers would buy services that were worth the cost (satisfying goal (b)). In such an ideal market, competition between private providers would drive them to be productive (satisfying goal (c)).

The reality, of course, is that health services are not like restaurants. And more 'market-like' systems, such as in the United States, produce outcomes that appear to be more expensive and less equitable than most universal systems. Even so, some of the features of markets that achieve efficiency and consumer empowerment might be emulated *within* a universal, largely 'free', publicly-financed health system.

Demand-side policies

A bigger role for 'pricing'?

Prices play a central role on the demand side of most markets. In health markets — whether private or public — full pricing for all services would never occur because consumers are willing to pay for insurance (through taxes or premiums) to avoid catastrophic risks. The issue is about the right level of insurance, and therefore, the right level of co-payments.

Co-payments can provide a valuable role in constraining inappropriate demand and, by marshalling private financing, relieving some of the fiscal strains for government from burgeoning healthcare costs. These days the choice is not really *whether* to have them — they are already here in GP services, pharmaceuticals and other services — rather, it is about the types of services to which co-payments should be applied, their level and their structure.

Figure 8 **Proactive policy choices**

Demand side	Pricing	Information and empowerment	Regulation
Supply side	Incentives	Decision-making processes	Health workforce
System wide	Roles of different funders	Coordination and interactions between parts of the system	Transitions: 'big bang' or incrementalism

‘Good’ co-payment design is not easy. And there are other potential problems with co-payments, such as diversion of demand to unpriced services. But there is also scope to extend their use, such as for services that are shown to have low cost effectiveness. The policy challenge is for us to learn more about where their further use could yield net benefits to the community.

Information and consumer ‘empowerment’

People’s lack of information and knowledge about health and treatment is the fundamental ‘market failure’ on the demand side that underlies many of the features of the public health system. But there is scope for policy to promote better informed consumers and thereby to achieve better outcomes at lower social cost.

One avenue is to provide information, and advertise information sources, that could enable consumers to be more discerning in their use of the health system. A second step might be to provide information on outcomes by hospital and doctor, and give consumers more choices about both. Choice of this kind, combined with funding premiums for higher-performing hospitals and recognition of higher-performing health staff can improve quality of services as well as empowering consumers.

Of course, such ‘league tables’ need to be designed carefully to avoid perverse outcomes such as discouraging surgeons from taking on high-risk patients. As in most areas of health reform, careful evidence-based change, supported by trials if possible, is the best way of proceeding.

Preventative action

A third step relates to encouraging changes in consumer behaviour to avoid or reduce health risks — ‘preventative health’. There is evidence that information can have powerful impacts. One of the biggest identified priorities in preventative health is curbing obesity, the incidence of which has grown rapidly over the past decade Obesity is a significant health and social issue. It is causally linked to higher prevalence rates of heart disease, stroke, diabetes II, kidney disease, arthritis and some cancers, as well as social marginalisation.

However, while achieving behavioural change to address this burden of disease is an appropriate goal, doing so effectively through information provision and social marketing alone is likely to prove demanding.

Regulatory options?

From a policy perspective, the obvious alternative approach is regulation. Many successful public-health interventions have in fact been based on regulation, rather than information provision. Well-known examples include safety-belt regulation and drink-driving penalties; smoking bans in workplaces; addition of fluoride to water; and removal of carbon monoxide from domestic gas supply.

However, regulation is potentially a more fraught route to societal improvement, to the extent that it overrides individual preferences. For example, rules about what foods can be advertised on television, made available in school tuckshops, or sold at supermarkets, involve progressive encroachment on an individual's right to choose. In some cases that may be warranted, in others not. The calculations are not straightforward and political judgement will inevitably be called upon.

Therefore, as in the case of public education campaigns, it will be very important to subject all new regulatory proposals to careful analytical scrutiny in advance and subsequent formal evaluation following implementation. This is rarely done well; and sometimes the latter is not done at all.

Supply-side policies

When people think of the health system, they mostly think about the supply side; doctors, hospitals, chemists and pharmaceutical components, health bureaucrats and systems for public financing. This preoccupation with the supply side is in itself an indication of the currently attenuated role of the consumer.

Incentives and productivity

In normal markets, the costs for consumers are the rewards for suppliers. That price nexus is all but severed in the heath system. Instead, the most important incentives provided to suppliers come from governments.

A well-functioning health system should have strong incentives to maximise productivity as well as to attain appropriate quality (as occurs routinely in the business world). In its recent report on the National Reform Agenda, the Commission found evidence of sizeable productivity gaps in the supply of existing services around the country (PC 2006b). We estimated that the gains from even partly closing these could amount to nearly $2 billion a year.

As noted above, information about performance, combined with a degree of consumer choice and financial incentives, can stimulate performance improvement by competing services.

Nevertheless, Australia does not appear to be as innovative in its use of incentives as the United Kingdom (which in many other respects has similarities to our system). In May 2008, the UK Government outlined a system of payments to hospitals that would be linked to patient satisfaction and health outcomes. The experience with this could provide valuable lessons.

Better decision-making processes

In part, higher productivity may be achieved by simply adopting better processes, such as avoiding wasteful cost shifting between parts of the health system funded by different parties, and the application of evidence-based treatment protocols to reduce adverse events and unnecessary clinical variation. Structural changes, such as re-organising the system to realise economies of scale and scope may also offer gains.

The desirability of good processes also extends to 'technology assessment', which provides the basis for approving the (subsidised) use of new technologies, including new PBS drugs.

Health workforce, regulation and remuneration

Australia's health workforce is highly regulated. Much of that regulation is appropriate. Occupational certification of surgeons, general practitioners and other health professionals is an effective way of signalling their competence to patients.

But there are also some rigidities in workforce regulation and fragmentation in processes that frustrate innovation, raise costs and put strains on a system where workforce shortages are growing across the country (PC 2005a).

System-wide issues

Health provision *is* a system. The effectiveness of policy change in one area depends on policy settings in others. Indeed, the health system is more even than the resources and structures devoted to healthcare. The complex causal factors behind persistent Indigenous disadvantage provide a vivid illustration of this. Having a good health clinic in a remote Indigenous community is unlikely to achieve better health outcomes if there are barriers to access, if housing is overcrowded, diets are poor, and substance abuse is widespread.

The notion of health as an interconnected system is becoming better understood, both in the extreme case of Indigenous health policy and in the mainstream. This is illustrated by the piloting of coordinated primary healthcare. This has been suggestive of significant benefits through more integrated service provision; though it also has revealed considerable underestimation of the administrative complexities entailed (Department of Health and Ageing 2007).

In its report on private health insurance, the Commission advocated a major public review of the health system as a whole, and it has since reaffirmed that view (IC 1997b, PC 2005e). The most effective way of implementing changes to achieve system-wide improvement is likely to continue to be through incremental steps, rather than any 'big bang' reform. The challenge is to ensure that it is consistent with a coherent strategy for the system as a whole.

Any national reform plan needs to be cognisant of the emerging cost pressures related both to the demand (ageing) and supply (technology) sides of the healthcare market. Those pressures are inevitable and of major dimensions. They are best addressed proactively and there appears scope to do that. However this brief excursion through various areas that are seen as prospective is suggestive of caution. Ultimately, health policy reform is about changes that can lead to improvements in people's wellbeing. While greater cost effectiveness and efficiency must be an integral part of this, mere cost containment should not be the goal.

Reviewing the service performance of Australian governments*

Assessing the performance of government in delivering services for which there is (or can be) no well developed market, and where criteria such as access and equity loom large, is no simple matter. Individually governments can set objectives and collect information which can at least reveal trends in their individual performance over time, but how do they know what is potentially achievable or, to use an overworked expression, 'best practice'?

Federations provide constituent governments with an important mechanism for doing just that — to compare performance and learn from what other jurisdictions are doing and how they are doing it. That said, the ability to realise the potential for inter-jurisdictional learning depends on having access to consistent and comparable data. That is where the Review comes in.

The Review of Commonwealth State Service Provision was established in 1993 by Heads of Government in recognition of two things: the importance of government-provided services to community living standards, and the scope for different jurisdictions to learn from each other in improving service delivery and achieving better outcomes. The Review embraces services that together add up to over $65 billion in expenditure (or around one-third of total government spending). That's equivalent to around 10 per cent of Australia's GDP.

The Review was established in an era of reform. It was congruent with the other reforms taking place in the public sector as governments became more focussed on getting greater value out of taxpayers' dollars — more focussed also on what sort of outcomes they were looking for and whether they were being achieved. Heads of government saw an opportunity to learn from each other in improving service delivery and getting better outcomes. But at that time much of the data that existed were fragmented and lacking in consistency. More systematic comparative data were seen as essential, and the Review was set up to provide it.

---

* Presentation to the 'Measuring and Managing Government Performance Summit', Canberra, 20 February 2002. (Co-authored with Robyn Sheen.) Gary Banks has chaired the Steering Committee responsible for the *Report on Government Services* since 1998.

The Review has been carefully structured

A Steering Committee comprising senior representatives from central agencies in the Commonwealth, states and territories has overall responsibility for the Review. It is they who make the decisions about what will be included in the Report and have responsibility for signing it off.

Supporting the Steering Committee are working groups for each of the 12 sectors. They comprise representatives from the 80 or so relevant line agencies in all jurisdictions and form the 'engine room' of the Review. Many working groups also have observers from various statistical agencies — like the Australian Bureau of Statistics and Australian Institute of Health and Welfare — who provide much of the data in the Report.

The Industry Commission was originally asked to chair the Review and provide its secretariat, and the Productivity Commission has continued those functions. In both of its roles — that is, Chair and secretariat — the Commission brings to the Review the advantage of its statutory independence, the transparency of its processes, and a community-wide focus. As Chairman of the Commission, it has been my responsibility to assume the role of Chair of the Review's Steering Committee.

Its guiding principles and scope

The Review's task is to provide objective information relevant to assessing government performance. The aim is to facilitate well-informed judgments and sound public policy on government service provision.

There are three broad principles underpinning the work of the Review: a focus on *outcomes*; a concern for *completeness*; and a preference for information that is *comparable* across all jurisdictions.

Since the release of the first *Report on Government Services* in 1995, the scope of the Report has expanded considerably as more data have become available. The Review covers sixteen individual service delivery areas, which can be grouped under six broader categories:

- *education* — schools and vocational education and training
- *health* — public hospitals, general practice and key health management issues (mental health and breast cancer)
- *justice* — police services, court administration and corrective services

- *community services* — aged-care services, services for people with a disability, children's services, and protection and support services
- *emergency management* — fire and ambulance
- *housing* — public and community, plus rent assistance.

I am often asked why we cover some areas of government service delivery but not others — for example, why not include employment services or transport? The focus of the Review is on social services rather than economic infrastructure, so areas like transport, energy or communications are ruled out. As for including other possible services in the social domain, the Review has generally given priority to those services which are provided by all states and territories.

The performance indicator framework

For each sector that the Review reports on, a performance indicator framework has been developed. Within this framework, performance is reported in terms of efficiency and effectiveness.

What do these two concepts mean?

- *Efficiency* relates to how well organisations use their resources to produce units of services. The generally used indicator of efficiency is the level of (government) inputs per unit of output.
- *Effectiveness* relates to how well a service achieves its desired outcomes. Effectiveness indicators in the Report include: access and equity; appropriateness; quality; and actual outcomes.

As anyone in the public sector will know, service provision can sometimes involve a tradeoff between effectiveness and measured efficiency. A change in service delivery may increase the level of resources per unit of output (resulting in what might look like a decrease in efficiency) but lead to better overall outcomes. For example, the accessibility or quality of the service may improve, resulting in a more than proportionate benefit to the community.

The Review itself does not seek to analyse such trade-offs. Its role is to present objective information that allows closer analysis of this kind, but not to make judgements about how individual governments are performing.

The performance indicator frameworks are developed by the individual working groups. While the ultimate aim is to provide quality data that are comparable and timely, reporting in all service areas has been a journey of (continuous) improvement, sometimes from very patchy beginnings. Great importance is placed on developing indicator frameworks that will provide a picture of what performance information is needed to assess whether objectives are being met — even if all of that information isn't immediately available.

Some misunderstandings and criticisms

There is a common misunderstanding that the Report is a benchmarking report, which in some respects goes to different conceptions about what benchmarking is. For example, some people see benchmarking as a way of identifying best practice, while others see it as setting a minimum standard to be achieved. The *Report on Government Services* does not in itself purport to establish benchmarks of best practice.

Having said that, the Report has become a useful vehicle by which governments can determine their own relevant benchmarks. They may need to make adjustments for those differences which the Review is careful to set out in its caveats, but the data provide a good starting point. They may go about this task by looking at their performance in comparison to other jurisdictions which are of like size, or deliver kindred services; or the Report may lead them to ask questions about where and how they can do things better and to consult more closely with other governments.

While most participants in the Review accept that performance reporting and transparency of government spending is important, there are still some pockets of resistance to supplying the necessary data. The school education sector comes to mind, but it is by no means alone.

The school sector has made some progress towards comparative reporting of learning outcomes over recent years. But there is still a significant gap between what the Ministerial Council for Education, Employment, Training and Youth Affairs has agreed to report and what is being delivered. And there is a substantial time lag between collection and publication of results.

Most service areas in different jurisdictions see themselves as special. But claims that 'we are too different' or that the services are 'not amenable to quantification' have diminished over time as people, sitting around the table, have come to understand the more basic similarities.

However, it would be fair to say that the Review and what it stands for have attracted some vocal critics over the years. Clearly the Review's activities in shining light on the efficiency and effectiveness of government services are not always welcome!

The most recent public example of that is in the area of Court Administration. For example, the Chief Justice of the Supreme Court of New South Wales recently had this to say about the Review:

> All aspects of this process are being pursued with a single ideology and a single methodology. A system of performance benchmarking is established, pursuant to which performance indicators are developed and published. In the case of the judicial system, the terminology is misleading, perhaps dangerously so. The courts do not deliver a 'service'. The courts administer justice in accordance with law. They no more deliver a 'service' in the form of judgments, than the Parliaments deliver a 'service' in the form of statutes. (Spigelman 2000, quoted in Drummond 2001)

I would agree that the Review's processes derive from a common purpose, but it has no ideological basis. With eight governments involved that would be an achievement indeed! And with 12 different service sectors sourcing data from a range of providers, you could only say it had a single methodology in the very broadest terms.

Also, there is no system of establishing performance benchmarks. It is up to governments and their agencies to decide whether they want to use the Report for benchmarking purposes, and how.

But I do agree that it would be inappropriate and dangerous to consider legal judgments as a service, at least in the conventional sense involving a client or customer relationship. I'm not sure that many of those who lose out from a judicial decision would consider themselves well served. In a much broader sense, however, the justice system certainly does provide a service to the community. As I've previously observed, society could not function effectively without it.

In practice, as everyone knows, the Review does not report on judgements. But it *does* seek to report on court administration — how well the courts go about their business. Anyone who has found themselves attending the pleasure of the court system will understand why that is a worthwhile task. The value of courts to society lies not just in the quality of the judgements that are ultimately made, but also in the processes that produce them. Justice greatly delayed, or achieved at excessive social cost, has a diminished value to society.

The Judges' objections

Objections from sections of the judiciary to such performance measurement appear to be of two principal kinds. The first relates to its possible implications for the independence of the courts; the second, to the feasibility of obtaining meaningful and comparable information.

There can be no question as to the critical importance of judicial independence. Judges must be able to make unconstrained judgements. In order to do that, they not only need separate powers and secure tenure, but also adequate incomes and administrative resources.

The resources made available to courts need to account for what New South Wales Chief Justice Spigelman has described as the 'inefficiency' of justice administration compared with some other systems of decision making (Spigelman 2001, p. 7). But that does not negate the value of comparisons of the efficiency of the system in different jurisdictions.

Moreover, as already emphasised, the Review is concerned at least as much with measures of effectiveness as with costs of provision. While the separation of powers is fundamental to judicial independence, it is difficult to see how requirements to report on such matters as court delays, finalisations or lodgements could involve a significant conflict. Indeed, without adequate transparency and accountability, the stature of the courts could ultimately be eroded.

Thus the Chief Justice of Australia, Murray Gleeson, has made the following observation:

> The current emphasis on court management is natural and appropriate. The operations of courts involve the expenditure of scarce public resources, and governments are entitled to reasonable assurance that those resources are being applied efficiently and effectively, and are dealt with in a manner that responds to the demands of accountability. Those demands are not inconsistent with the imperative of independence; although the appropriate resolution of the two might occasionally involve some difficulty. (Gleeson 2001)

Gleeson concludes his discussion with what could be cited as the credo for the Review:

> Managers have a lot to teach us about how to be more effective in the application of the resources we are given. We have a lot to teach them about the demands of justice, and due process of law. The public will benefit if we learn from each other. (Gleeson 2001)

The second concern voiced by some judicial critics of the Review relates to what is perceived to be a lack of comparability in data from different jurisdictions. As noted previously, *perfect* comparability is typically unattainable and that is not a good reason for forgoing the reporting process.

There is a tendency for those jurisdictions that do not show up too well in the Blue Book's numbers to 'shoot the messenger'. One test of whether such criticism is likely to be valid is to observe how those who fare better treat the same results. To give one relevant example, Victoria's Chief Justice has recently and publicly endorsed the Review’s performance indicators in arguing the need for additional appointments to the Victorian Supreme Court.

Courts need to be accessed by the poorest and most vulnerable people in our society, as well as by the richest and most privileged. That the services provided should be accessible, equitable and timely is broadly accepted — and embedded in the objectives. It is in everybody’s interest that there be transparency in the courts’ administrative performance, and accountability for the resources used. The ‘quality of mercy’ we rightly leave to the judges.

Indigenous disadvantage: assessing policy impacts*

Thanks largely to the economic policy reforms of the past twenty years, Australia has regained its position in the ten most prosperous countries in the world. Like other prosperous countries, we have policies and programs in place to assist the relatively disadvantaged within our society. In common with a number of those countries, the number of Indigenous people who are disadvantaged remains disproportionately high, despite longstanding policy attention. The contrast with our broader economic success is striking.

The widespread disadvantage among Indigenous people in Australia is reaffirmed in a new report released today. The report, *Overcoming Indigenous Disadvantage: Key Indicators* (SCRGSP 2003), forms part of a broader process of policy reassessment and reform that has the potential to redress this persistent failure in the midst of general economic success.

The report was commissioned by COAG and is the responsibility of a steering committee of senior officials from all governments within Australia, assisted by a secretariat drawn from the Productivity Commission. Its commissioning demonstrates a new resolve, at the highest political level, not only to tackle the root causes of Indigenous disadvantage, but also to monitor the outcomes in a systematic way that crosses jurisdictional and portfolio boundaries. In so doing, the report will also raise the transparency of governments' performance.

This report's purpose, therefore, is to be more than just another collection of data. It seeks to document outcomes within a framework that has both an agreed vision of what life should be for Indigenous people and a strategic focus on key areas that need to be targeted if that longer-term vision is to be realised.

The framework that distinguishes the report had its genesis in work undertaken by the Ministerial Council for Aboriginal and Torres Strait Islander Affairs. It has

* Melbourne Institute Economic and Social Outlook Conference 'Pursuing Opportunity and Prosperity', Melbourne, 13 November 2003. (Co-authored with Robyn Sheen.) Gary Banks was the initial convenor for the Working Group overseeing the *Overcoming Indigenous Disadvantage* report.

benefited from ongoing input from the Aboriginal and Torres Strait Islander Commission, the Australian Bureau of Statistics and the Australian Institute of Health and Welfare. It has also evolved considerably as a result of widespread consultations across the country, particularly with Indigenous people and organisations. It is fair to say that, while agreement on all aspects of the reporting framework would be too much to expect, it has received broad endorsement from all of these groups, and not least from COAG itself.

A strategic framework

This is obviously not the first report to assemble data on the social or economic status of Indigenous people. Its difference lies in the strategic framework within which the information is collected and presented. The reporting framework is based on a 'preventive model', which focuses on the causal factors that ultimately lead to disadvantage; areas where experience and logic suggests that targeted policies will have the greatest impact.

The vision

At the apex of this framework are three overarching priorities that were initially derived from COAG (see figure 1). They reflect a vision for Indigenous people that is shared by governments and Indigenous people alike:

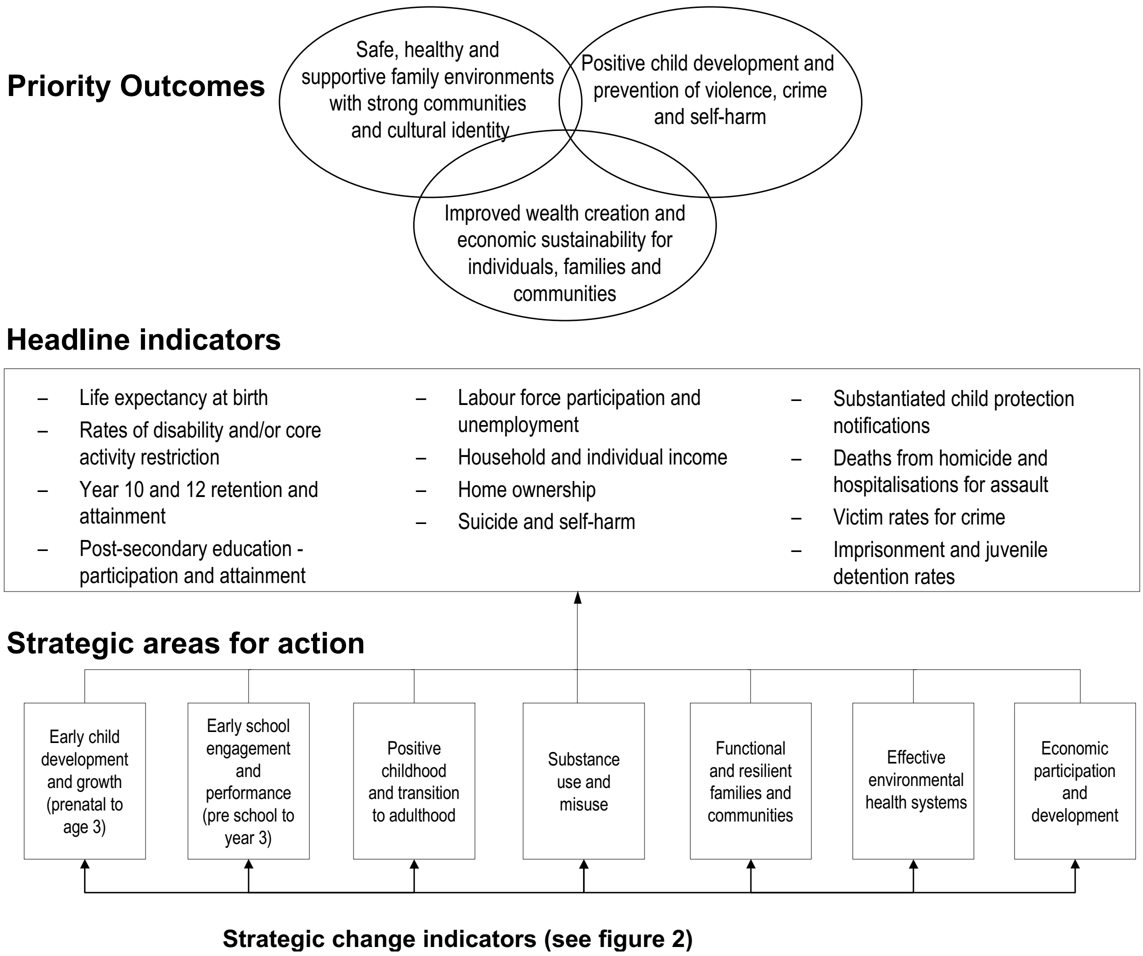
- safe, healthy and supportive families with strong community and cultural identity
- positive child development and prevention of violence, crime and self-harm
- improved wealth creation and economic sustainability for individuals, families and communities.

'Headline' indicators provide a snapshot

A first tier of 'headline indicators' has been developed to provide a snapshot of how actual outcomes for Indigenous people measure up against these overarching priorities. The choice of indicators, while subjective, has generally been accepted as meaningful by Indigenous people. Included are a dozen indicators of social and economic status of Indigenous people relative to other Australians.

The framework and report could rest there, as other reports have done. However, this would not do much for policy makers, or those who wish to monitor their impact. Headline indicators of this kind reflect desired longer-term outcomes and therefore are themselves only likely to change gradually. Because most of the measures are at such a high level and have long lead times (for example, life expectancy) they do not provide a sufficient focus for policy action and are only blunt indicators of policy performance.

Figure 1 **The strategic framework**



Indeed reporting at the ‘headline’ level alone can make the policy challenges appear overwhelming. The problems observed at this level are generally the end result of a chain of contributing factors, some of which may be of long standing. These causal factors almost never fall neatly within the purview of a single agency of government, or indeed a single government.

The innovation: 'Strategic areas for action'

For this reason, the framework also contains a *second* tier of indicators under seven 'strategic areas for action'. These have each been chosen for their demonstrated potential to have a lasting impact on (higher level) disadvantage, and for their potential to respond to policy action within the shorter term. They assist policy makers to concentrate on the causes of disadvantage, with the indicators providing intermediate measures of progress.

The strategic areas for action are not 'rocket science': they sensibly focus on young people, the environmental and social factors bearing on quality of life, and material wellbeing (see figure 2). They — and the indicators that relate to them — have been developed with advice and feedback from governments, experts in the field and, most importantly, Indigenous people and organisations. They meet COAG's need for 'indicators that are of relevance to all governments and Indigenous stakeholders, and that can demonstrate the impact of program and policy interventions'.

The report recognises that Indigenous people are as diverse as other sections of the Australian community. People in Arnhem land or central Australia have a quite different life experience to people living in say, Sydney or Perth. Wherever possible, within the data limitations, we have attempted to reflect such differences by presenting information by geographic region. Even then, it can miss variations. For example, Indigenous people living in remote coastal or island areas may have quite different circumstances to those living in remote inland areas.

It should also be emphasised that there are many good things happening at the local level, the results of which may not get picked up in national or even state data collections. And finally, of course, not everything that is important to Indigenous people can be quantified. In some cases, the report attempts to deal with this through case studies.

Figure 2 **Strategic areas for action**

Early child development and growth (prenatal to age 3)

- Rates of hospital admission for infectious diseases
- Infant mortality
- Birthweight
- Hearing impediments

Early school engagement and performance (pre school to year 3)

- Preschool and school attendance
- Year 3 literacy and numeracy
- Primary school children with dental caries

Positive childhood and transition to adulthood

- Years 5 and 7 literacy and numeracy
- Retention at year 9
- Indigenous cultural studies in school curriculum and involvement of Indigenous people in development and delivery of Indigenous studies
- Participation in organised sport, arts or community group activities
- Juvenile diversions as a proportion of all juvenile offenders
- Transition from school to work

Substance use and misuse

- Alcohol and tobacco consumption
- Alcohol related crime and statistics
- Drug and other substance use

Functional and resilient families and communities

- Children in long term care and protection orders
- Repeat offending
- Access to the nearest health professional
- Proportion of Indigenous people with access to their traditional lands

Effective environmental health systems

- Rates of diseases associated with poor environmental health (including water and food borne diseases, trachoma, tuberculosis and rheumatic heart disease)
- Overcrowding in housing
- Access to clean water and functional sewerage

Economic participation and development

- Employment (full-time/part-time) by sector (public/private), industry and occupation
- CDEP participation
- Long term unemployment
- Self employment
- Indigenous owned or controlled land
- Accredited training in leadership, finance or management
- Case studies in governance arrangements

Some 'headline' messages

So what are the facts as they emerge from this report? As noted, the 12 headline indicators provide a high level 'stocktake'. They confirm that disadvantage is broadly-based, with major disparities between Indigenous and other Australians in most areas.

This is most fundamentally reflected in the 20-year gap in life expectancy for Indigenous men and women, relative to the rest of the population. Twenty years is just short of the standard measure of a generation. It represents a tragic loss and a waste, for Indigenous people and for Australia as a whole.

This was brought home to me most forcefully when, at the conclusion of an insightful discussion with one of Australia's foremost Indigenous identities — a man about my own age — he said that on the basis of the averages, by the time the report was released he would not be around to discuss it further with us. (Fortunately, that has not transpired.)

The lower life expectancy of Indigenous people is bound to reflect a range of influences and patterns of behaviour that impact differentially on their health. But there are other contributors. The proportion of homicides in the Indigenous population is over 10 times that for other Australians. The suicide rate for Indigenous people was around three times higher than for the rest of the population, with an even greater disparity for 25 to 34 year olds.

The headline indicators relating to young Indigenous people are also cause for concern. While getting robust and meaningful data in areas of child abuse and neglect is hard, significantly more Indigenous children appear at risk. The statistics show higher rates of child protection intervention, particularly related to neglect. And, despite some improvement, Indigenous juveniles are still 19 times more likely than other young Australians to land in criminal detention. (By the time they grow up, the disparity falls only slightly, to 15 times).

Indigenous students are more likely to leave school when it is no longer compulsory, and have much lower levels of participation and attainment at senior school and post secondary.

The circumstances for Indigenous adults also involve major disparities with other Australians. For example, even with the many people engaged under the Community Development Employment Projects (CDEP) (effectively a form of voluntary 'work-for-the-dole') counted as employed, the overall labour force participation rate for Indigenous people is lower and the unemployment rate is nearly three times higher than it is for non-Indigenous people. It follows that

Indigenous people also have significantly lower incomes (at both the individual and household level). The difference is particularly marked in remote regions. And, while the incidence of Indigenous home ownership appears to have risen, it is still less than half that of non-Indigenous households.

Outcomes in the 'strategic areas for action'

These outcomes didn't happen overnight. They have been influenced by experiences in childhood, within families and communities and in the economic and physical environments of Indigenous people. And they are likely to differ in various ways for people in urban environments relative to those in more remote (including island) regions of Australia.

Young people

In the three strategic areas that focus on young Indigenous people, the potential for cumulative disadvantage is plain to see.

The first of these areas, *early child development to age 3*, is widely seen as pre-conditioning outcomes in later life, particularly in health and education. Whether there have been improvements is unclear from the data. What is clear is that there are some significant gaps. In particular:

- the Indigenous infant mortality rate is twice as high as for other Australian babies, reflecting in part, a higher incidence of low birthweight
- children under four appear to have a significantly higher incidence of infectious diseases requiring hospitalisation and, in particular, long-term ear infections and consequent hearing loss — a major inhibitor of early school performance.

The second strategic area, *early school engagement*, is critical to future educational performance, and all that follows from that, as well as for social development.

Unfortunately, crucial data on attendance were unavailable. School participation, a weak proxy used in this year's report, was found to be lower for Indigenous children. By year 3, Indigenous students already had significantly lower literacy and numeracy than other students. Among other things, this increases the likelihood of poor subsequent performance and early exit from school.

This was confirmed by indicators in the third area, labelled *positive childhood and transition to adulthood*, which revealed widening disparities in performance in years 5 and 7, and high drop-out rates once compulsory schooling ends in years 9 and 10. Indigenous people have argued persuasively that having more

Indigenous teachers and content in schools would make a difference in turning this story around. They have also suggested that this would yield benefits for non-Indigenous students. So far, however, Indigenous teachers are heavily under-represented in the mainstream system.

The transition from school to work is a critical phase for all young people. An educational attainment of Certificate Level 3 or above has been found to reduce significantly an Indigenous person's chance of being unemployed. However, Indigenous people aged 15 to 24 years were much less likely than non-Indigenous people to be in either school or work.

Families and communities

Families and communities are the bedrock of any society. Indigenous leaders have argued, and research confirms, that dysfunctional families can undermine the potential for individuals to enjoy good health, educational attainment and employment. That said, the functioning of families and communities is a subjective and 'private' matter, for which reliable data or meaningful indicators are inherently hard to obtain.

Some of the report's indicators are therefore least satisfactory in this area, and more work will be needed. For example, the indicator on long-term care and protection orders for children, is not an adequate reflection of actual levels of abuse or neglect. The indicator, 'repeat offending', was chosen because cycles of Indigenous imprisonment can have severe impacts on family life and communities. The data show that Indigenous people are not only massively overrepresented in prisons — four in five Indigenous inmates were found to have had previous stints in prison.

A strong theme running through our consultations with Indigenous people was that while spiritual and most cultural matters were not amenable to, or appropriate for, statistical reporting, access to traditional lands played such a fundamental role in their culture and community wellbeing that it needed to be reflected in the reporting framework.

Substance use and misuse

The interconnections between substance abuse, social problems and poor health are well established, and are manifest within the wider community. Among legal and commercially available drugs, the rate of (regular) smoking was more than twice as high for Indigenous people. In contrast, and notwithstanding perceptions to the contrary, survey-based data indicates that the incidence of excessive consumption of alcohol was not much higher overall, though more concentrated in remote communities. Nevertheless, nearly three-quarters of Indigenous homicides involved both the victim and the offender having consumed alcohol at the time —four times the rate for the rest of the population.

Marijuana is the most common illicit drug in Indigenous as well as non-Indigenous populations. Anecdotal evidence suggests that its use has spread quickly. The use of inhalants (glue, petrol) by children also appears much more prevalent in some Indigenous communities, but there is little or no data to verify this.

Environmental health systems

The conditions in which people live and work have a major influence on their wellbeing and social behaviour. Sanitation, drinking water quality, disease control and housing conditions are some of the factors that contribute to environmental health.

An indication of the relative living conditions of Indigenous people is that the incidence of diseases associated with poor environmental health is up to four times higher than for other Australians.

Overcrowding in housing is a particular problem, even allowing for cultural differences, and has been shown to have particularly adverse impacts on health, family violence and educational performance. Indigenous people were nearly six times more likely to live in overcrowded households than other Australians.

Economic participation and development

The strategic areas discussed above have a bearing on material as well as other aspects of disadvantage in the longer term. However, a separate set of indicators relating to the current economic participation and development of Indigenous people was seen as critical to focusing attention on what could be done in the shorter term. The extent to which people participate in economic life is closely related to their living standards and broader wellbeing. It also influences how they interact at the family and community levels.

Published employment data show much lower rates of full-time employment, and higher rates of unemployment, for Indigenous people. This is also the case to a lesser extent for long-term unemployment. However, the unemployment data for Indigenous people are not really comparing like with like, as they do not distinguish CDEP jobs from other jobs.

Under CDEP, Indigenous people undertake to have their Centrelink entitlements pooled to pay for their employment in projects managed by Indigenous community organisations. It is thus akin to a work-for-the-dole program. While data on CDEP are poor, the scheme clearly accounts for a substantial proportion of Indigenous employment. In remote regions (including the Torres Strait Islands), it accounts for the overwhelming majority of jobs. This is not surprising, of course, as in such areas there may be little market-based employment available to Indigenous people, at least at the wages prevailing in the pastoral and mining industries.

This strategic area also contains an indicator relating to Indigenous owned or controlled land, in recognition of its economic as well as cultural value. Most such land is in very remote parts of Australia and its potential productive value will clearly vary a lot from place to place. The scope to realise the economic potential of Indigenous land is inhibited in many cases by common property ownership and inalienable title — the effects of which have been well documented in the development economics literature. This need not be an insuperable barrier, as developments in other countries have shown, but it will generally need the creation of institutions that give stronger *defacto* property rights.

Finally, the report reflects the growing recognition of the importance of good governance to economic performance. However, capturing this in any meaningful quantitative sense is a major challenge. Initially, the report has focused only on training in the skills relevant to capacity building in administration. The incidence of such training among Indigenous people was found to be only one-fifth of that for other Australians. In addition, future reports will seek to provide case studies that can illuminate aspects of good governance within Indigenous communities and organisations that may have wider application.

Doing better

This excursion through the indicator results confirms the pervasiveness of Indigenous disadvantage. It is distressingly apparent that many years of policy effort have not delivered desired outcomes; indeed in some important respects the circumstances of Indigenous people appear to have deteriorated or regressed. Worse that that, outcomes in the strategic areas identified as critical to overcoming disadvantage in the long term remain well short of what is needed.

The report challenges us to do better. It also vindicates COAG's decision to give new impetus to the development and coordination of Indigenous policies and programs.

Harnessing the report's potential

The report's contribution to this important national endeavour is essentially *informational*. It does not (and cannot) provide policy answers. But it can (and hopefully will) help governments and Indigenous people to identify where programs need to deliver results, and to assess whether they are succeeding.

For it to be effective in this, it will be important that governments integrate elements of the reporting framework into their policy development and evaluation processes. One important national vehicle for this is the Action Plans that are being developed by Ministerial Councils in such areas as health, education, employment, justice and small business. The whole-of-government, outcomes orientation of the framework also complements the coordinated service delivery trials in eight different regions across Australia that were initiated by COAG.

Information of this kind can thus help governments to devise coordinated strategies and to monitor their impacts. But it can also help to clarify the problems or targets for policy action. It can provide an agreed basis for community awareness and debate. And it may help to engender broader support for new policy actions.

This report is merely a first step in that direction — a work in progress. Its immediate contribution is constrained by serious gaps and deficiencies in data. For example, we know that hearing impediments in young children can seriously undermine their ability to succeed at school, yet we have little basis for knowing whether this problem is getting better or worse. We know that attendance at school is critical to lifelong achievement, but we have inadequate data to monitor it. Substance abuse is blighting young lives, but we have little systematic information on it. Data on the extent of disabilities among Indigenous people is almost non-existent. The Review documents these and a range of other data priorities that will need to be addressed if the report is to realise its potential and meet COAG's needs.

Policy implications: some personal observations

As noted, the report seeks to inform us about emerging outcomes in the areas that count most for improving disadvantage over time. It is up to governments to devise and maintain the policies and programs that can improve matters. That said, the process of testing the indicator framework with relevant government agencies and (especially) Indigenous representatives, brought out a number of insights and lessons for policy makers that seem too important to ignore.

(In order to make clear that they do not form part of the official report, I label them 'personal observations'.)

The first thing I learnt from those consultations in which I was personally involved, was how little I knew. It was cold comfort to be assured that government officials designing programs were sometimes not adequately informed either. We heard several stories of solutions devised at the ‘top’ that didn’t work at the ‘bottom’, or where it counted. For example, we heard of Indigenous housing that failed to recognise basic needs and preferences of Indigenous people (too many doors, not enough communal space). We heard about related programs that were delivered in parallel without any apparent coordination between those involved.

Sometimes programs designed with the best intentions have actually had perverse results. For example, when in central Australia, we were told about a program to help young petrol sniffers that provided them with certain beneficial inducements to join the program. Sounded logical enough in conventional terms: but because the benefits were not provided to those who were not users, some young people allegedly became users to get on the ‘bandwagon’.

The implication is pretty simple. Good policy in this area, as in others, depends on acquiring a good understanding of its likely effects. That generally requires consultation with those affected. In my experience, the culture of most bureaucracies is not conducive to really effective consultation, the kind that involves some serious listening. Indigenous people are often best placed to know what is likely to work and can help governments think ‘outside the square’.

Where consultation has been well done, the measures have sometimes been highly innovative and effective. A small example that we first heard of when in Western Australia, is the ‘no school, no pool’ initiatives that have been implemented in a number of country towns with the involvement of community leaders. This uses the carrot of access to the town’s swimming pool to get children to attend school and keep themselves clean — apparently improving both their health and their educational performance (not to mention their swimming skills!). Another locally devised scheme is the Heavy Equipment Management and Training Project (HEMTP) in the Torres Strait Islands. This scheme, operating in partnership with the Queensland Government, provides cost-effective road building and maintenance to Torres Strait communities. The scheme combines formal training and on-the-job experience, creating opportunities for local employment and boosting the communities’ self-sufficiency in managing their own assets.

While some programs or services have not been adequately attuned to cultural differences, it has been argued that in some areas culture is being used as a cloak for double standards in service delivery. Education is again one cited example. In all jurisdictions of Australia, attendance at school is compulsory. But there is much anecdotal evidence that truancy is seen as okay for Indigenous kids, perhaps drawing on the reality that cultural or family obligations may require periods away from school. If Indigenous children do not attend school regularly, their ability to rise above disadvantage is fundamentally compromised. This is a serious issue for policy. It is therefore alarming that, as noted, we do not have consistent statistics on school attendance, despite the relative simplicity of collecting them. (The national data we do have — on participation — can actually hide the problem.)

I am not suggesting that the reasons for absenteeism by Indigenous children, or their poor educational performance, are simple or easily remedied by standard procedures. Indeed, I believe that the problems observed in this area are instructive of the need for differentiated approaches and have some wider implications. They are not new insights, but they bear repeating.

One is that equality of opportunity for Indigenous people is unlikely to be achieved merely through equality of treatment. A child with a dysfunctional home life, or who is suffering persistent mental or physical abuse, or who has little familiarity of the English language, cannot be expected to prosper at school (among other things) without extra help. Service delivery cannot be infinitely tailored to individual needs. But it can and should respond to more systemic problems through systemic solutions. Thus in the education field we are beginning to see more schools with Indigenous educators, cultural components in curriculum and even breakfast programs, among other initiatives. But are we doing enough? Casual observation suggests that we are not.

A second implication with wider relevance is that the solutions to poor educational performance do not depend on the actions of education portfolios or institutions alone. Community services, justice administration, health policy, and other government services can all have a bearing on outcomes. Governments are generally not well structured to deal with issues that transcend individual portfolio responsibilities. However, with prompting from some Indigenous leaders, there is now recognition that fragmented 'silo' approaches have not worked and that more coordination is needed. The COAG trials are an important attempt to achieve more coordinated action. It is essential that we learn from and build on this national initiative.

A third general message has perhaps been expressed most forcefully by Noel Pearson, when he observed in a recent speech that, 'man cannot live by service delivery alone'. The ultimate responsibility for ensuring that children are well looked after and attend school lies with their parents. The State cannot do it all, and it may be counterproductive to try.

The broader implication is that the quality of leadership and governance within Indigenous families and communities is likely to be central to overcoming economic and social disadvantage. A new emphasis on these matters in policy discourse is evident, and we are seeing some important initiatives within Indigenous communities. These include, in Cape York and other places, the forging of productive relationships with private industries, to develop opportunities for sustainable wealth creation and reduce reliance on public welfare.

The potentially corrosive effects of public welfare have long been recognised. How to design safety nets that do not undermine incentive and ultimately compound disadvantage represents a challenge that is wider than Indigenous policy. However, as Pearson has observed, in combination with the introduction of award wages in the pastoral industry that perversely cost many thousands of Indigenous people the opportunity to work for a living, 'passive welfare' has played a destructive role within Indigenous communities.

The CDEP program has attempted to address these problems by channelling welfare payments into the provision of work. Marcia Langton has noted that it had its origins in the Northern Territory in the early 1970s, at the suggestion of Indigenous people worried about the emerging social problems associated with their newly won entitlement to 'sit-down money'. As the scheme has evolved, it aims to provide meaningful employment and training for Indigenous people, that would not only have beneficial motivational and social spinoffs, but also increase the prospects of a progression to 'real' jobs.

I do not pretend to be in a position to make informed comment on how well CDEP has met these goals. What I can report is that there is considerable ambivalence and some criticisms within Indigenous communities (as well as by analysts such as Langton) about how the scheme is working in practice. In particular, there is little evidence of it serving as a conduit to mainstream paid employment for Indigenous people. The extent and scale of the scheme, and the significance of the welfare-related problems that it seeks to address, are such as to invite closer scrutiny through an independent public review. It would need to consult widely and go beyond the relatively narrow remit of the Australian National Audit Office's reports, to assess CDEP's rationale and options for improving the scheme or replacing it.

More generally, governments can never be sure exactly how policies or programs will play out or what side-effects they may have. But they can reduce the potential for unexpected outcomes by a careful policy-formulation process that is clear about objectives and that tests thoroughly the pros and cons of different measures, especially with those affected. And they can follow up once policies are in place to ensure that they are having the intended effects. Mechanisms then need to be in place to propagate successes and, equally importantly, terminate failures.

On the evidence of this report, governments have yet to meet these demanding standards in policies towards Indigenous people. However, to end where I began, there are important signs of a new commitment by all governments, based on a new appreciation of how important it is to do better in the interests of both Indigenous people and the wider community. I hope that this report will become a useful resource in this endeavour.

Strong Indigenous organisations show the way*

There is a good news story about Aboriginal and Torres Strait Islander Australians. But if the past is any guide, you may not get to read much about it or see it on television. That is partly because it deals with a pretty dry topic, 'governance'. But also because it does not fit with the image of dysfunctional Indigenous communities and organisations that most Australians have been led to believe is the norm.

It has been my privilege to be on the judging panel for the 'Indigenous Governance Awards' sponsored by BHP-Billiton and Reconciliation Australia. The Productivity Commission's research for COAG on Indigenous disadvantage has convinced me of the crucial importance of good governance, and the value of supporting a venture that seeks to promote it.

This is the third set of Awards and the second with which I have been associated. My experience has been the same on each occasion: I have been bowled over twice! Each time, around 50 Indigenous organisations across diverse areas and functions stepped forward to be assessed. The majority were worthy contenders with important stories to tell. The eight finalists, with which I became more familiar, distinguished themselves as exemplary organisations.

The best among these Indigenous bodies actually outclass most mainstream organisations or enterprises in Australia. They do everything that mainstream organisations should do to reflect good governance principles and practice. They have strong leaders, clear goals, accountable boards and effective administrations. And they have sound policies for making decisions, strategic planning and dealing with disputes. But they have something more: a profound connection with community and a cultural fit that makes the best of them truly remarkable organisations.

During the 2006 Awards, Mick Dodson and I visited WuChopperen Health Service in Cairns, an essential healthcare facility established in 1979 to serve Indigenous people in the region. Since that time it has greatly surpassed its humble beginnings,

* First published in the *Australian* on 28 August 2008. Gary Banks is on the judging panel for the BHP-Billiton/Reconciliation Australia Indigenous Governance Awards.

providing first-rate services in a first-rate clinical setting. It is an Indigenous-run organisation, with a strong Indigenous presence among its medical and other staff. From our initial meetings with the CEO and Board, to those at the end of the day with an assembled throng of stakeholders and clients, it was clear to us that this innovative, caring organisation was achieving excellence at many levels. What stood out was the passion and commitment to serve the community, allied to the highest professional standards and impressive attention to detail in service delivery. People said they felt 'at home', and it was obvious that they did. As one patient put it: 'They take the time to listen. We have a beautiful gem.' The judges agreed, awarding WuChopperen first prize.

Another organisation, Murriajabree, at Deception Bay just north of Brisbane, could not be more different. It has only existed for a few years and still occupies a modest house owned by its Chairman, Uncle Allan. It has only a few staff and most are volunteers. In a recent visit with Professor Mick Dodson, and fellow judge Heather Ridout (from AIG), it became clear that this little organisation, whose name means 'gathering together', was achieving something very special. Its mission, to meet the social and other needs of a diverse and hitherto fractured community, was pursued not only with (unassuming) professionalism and dedication, but also with a degree of inclusiveness and community involvement well beyond what could be imagined in any organisation as successful in getting things done. This was all encapsulated for me by one person's heartfelt comment that 'Murriajabree's boomerang is bringing us all in'.

I don't pretend that such organisations have done it easily — on the contrary — or that they will not face challenges in the future. After all, they are seeking to meet a range of objectives in situations far more complex than those faced by most mainstream organisations. Yet, like other organisations, they need adequate resources and the continuing commitment of talented individuals.

What these organisations and others like them have clearly demonstrated, though, is that Indigenous organisations are achieving excellence in governance, providing examples that others can learn from. But for that to happen, the experience of those organisations needs to be accessible and shared. Despite decades of Indigenous policy development, involving a myriad of programs, governments have not done enough to encourage good Indigenous governance. Yet it is the bedrock on which the success of many other actions and policies directed at overcoming disadvantage depend.

Recognition of the importance of good governance is at last gaining momentum, drawing inspiration from the Harvard Project on American Indian Economic Development. Its work is reinforced by the Australian experience that successful institutions generally have much in common, but are also closely attuned to local circumstances and contexts.

It would be gratifying to see this and other Indigenous good news stories actually making the news. I’m not saying that the media should dwell only on the positives and ignore the negatives. But the public needs a realistic picture of both. If we choose to recognise Indigenous success more, we may just see more of it.

Human capital, the universities and microeconomic reform*

Human capital: it is the sort of expression that can glaze the eyes of most people. But for economists, it is a useful way of characterising the productive capacity of an economy's most important resource, its people. We can think in terms of 'stocks' of human capital and about flows, or investment, in human capital — and how these are influenced by institutions and incentives.

Like physical capital, there are many types of human capital. But two broad ones deserve particular attention. These are, firstly, the ability to do things — 'specific' skills — and, secondly, the ability to think about what to do and how — analytical, discovery and communication skills — which we can call 'generic' skills. They're both important, but the second category is becoming increasingly so.

The link to innovation

Human capital is fundamental to the progress of societies and economies over the long term. As the new growth theory has demonstrated formally, knowledge generation and dissemination are inherent (endogenous) to the growth process itself. And human capital drives both the creation and the application of knowledge. In turn, technological change and the rapid obsolescence of specific skills that comes with it, puts a premium on people's receptivity and adaptability to change.

One thing that emerged from the R&D inquiry which the Commission conducted a few years ago, was an increasing recognition of the importance of *tacit* knowledge — knowing how things are done. Codified knowledge, in patents and literature and so on, is of little value without the human spark in applying it.

At the Commission, we also get a close look at the role of human capital in many of the individual firms with which we deal in our various inquiries. It comes through as a key source of competitive advantage in all sorts of ways. To give one example,

* Edited transcript of a presentation to the Victorian Economic Society Forum on Human Capital, Melbourne, 16 September 1998. Gary Banks was a member of the Higher Education Financing and Policy Review Committee (West Review), which reported in April 1998.

the Industry Commission's TCF report showed that while only one firm in three was involved in technological innovation, those firms accounted for over 80 per cent of that sector's exports. Typically they were also the most conscious of the need for complementary training — human capital investment — within the firm (IC 1997d).

Moreover, firms that do their own R&D generally have a much greater capacity to learn or benefit from the technological advances of others. In other words, to again use economists' jargon, they're better at 'absorbing spillovers' than other firms.

But innovation is not just about R&D. As the Business Council of Australia's (BCA) path-breaking Innovation Study Commission found, the key attribute of successful enterprises is an ability to innovate in *all* its dimensions — management and production systems, marketing and other things — not just through improvements in technology. Moreover, the BCA found that the most innovative enterprises have responded to, or been prompted by, a more open Australian economy with 'a great deal of learning and relearning' and were seized by the need to 'unlock the potential of their workforces'. Few enterprises succeeded without first tapping the goodwill and creativity of their employees (Carnegie et al. 1993).

This, of course, is primarily a management responsibility. Our inward-looking economy, our protected economy, was not conducive to human capital development in that area. We have the legacy of that still — although, in more recent years, we have seen a lot more training, retraining and replacement of managers. (If we wanted an illustration of how important that particular category of human capital is for any company, we can find it in the sharp rise in the share price of BHP when its CEO departed last year.)

Investment in human capital does not just yield benefits to firms and their shareholders; it is obviously also of considerable benefit to the individuals concerned. To the extent that it implies higher productivity, it means higher incomes, more interesting jobs, jobs of choice, and less vulnerability to unemployment. The statistics indicate that university graduates have an unemployment rate that is one-third of that for people who have not been to university, despite a burgeoning in the number of university graduates in recent years. The same applies for higher-skilled over lower-skilled workers.

To cite the TCF sector again, aggregate employment fell by 12 per cent overall during the past decade. But jobs involving formal training declined by only 1 per cent, whereas other jobs declined by 26 per cent.

How are we doing?

So, the right investment in human capital is an investment in higher incomes for Australians generally. How are we doing in this respect? The short answer is that we do not really know. This is not surprising. It is hard enough to measure the physical capital stock, let alone human capital.

There are hopeful proxy indicators such as the rapid rise in post-secondary education and training. The West Report noted that about 90 per cent of today's teenagers will find themselves in some form of post-secondary education, with about half of them in universities and half in vocational education and training (Higher Education Financing and Policy Review Committee 1998). University participation has increased by over 60 per cent in the past decade, and Australia now ranks seventh in the OECD in terms of participation of 17–34 year olds.

At the same time, we still have a situation in which only a little over half of 25–34 year olds have completed secondary school in Australia. That puts us down at about 19th in the OECD pecking order. This is an important issue not only economically, but also politically and socially. Apart from the other benefits, the ability of an electorate to resist simplistic political nostrums and to be a bit more discerning, is directly related to its level of education. In rural and remote areas, where One Nation has received most support, less than 40 per cent of the community has finished secondary school.

So participation in education is important, but so too is the *quality* of education and training actually received. Data on educational outcomes, or performance, are very poor in Australia. This remains a major gap in what otherwise has been a very successful COAG process of cooperation between the Commonwealth and the states in generating information by which to compare government service provision across different jurisdictions.

We do have data on government expenditure per student, however. Some of this raises questions about the cost effectiveness of public spending on education. For example, the Northern Territory and the ACT both spend substantially more per student than the states. But the Northern Territory has the smallest class sizes in Australia (and a large Indigenous study body) whereas the ACT has the largest.

Simply investing more public money in the education sector will not optimise the benefits from human capital development. We need the right *kinds* of investment and the right *utilisation* of human capital in the workplace. The framework that determines incentives to learn, to teach well, and to employ and use people in productive ways, is the critical thing.

Reforming higher education

This naturally brings me to the role of microeconomic reform. As the Commission noted in its *Stocktake of Microeconomic Reform* report, making the best use of Australia's human potential is fundamental to ensuring progress in a rapidly changing world (IC 1996e). It is a huge agenda, but there are two aspects in particular that are important. One relates to our education and training institutions; the second to our workplaces, and the regulatory and institutional environment in which they operate.

I think it should be obvious from my earlier remarks, that I see universities playing an increasingly important role in Australia's human capital development because of their role in building generic skills and attitudes. Critical thought and openness to new ideas are important ingredients in achieving a flexible and innovative economy in a changing world. They also provide the base for building more specific (but ever-changing) skills. This suggests an important complementary role for VET in relation to higher education. Many more people who complete a degree are availing themselves of the VET system, as well as the other way around. Clearly what we need is a responsive and diverse educational system in which that kind of movement is logical and productive.

What strikes an economist is the lack of use, or even misuse, of the market in our higher education system. There have been some changes — indeed for some, too many changes — but we still have the legacy of a centrally controlled system designed for a small elite in a relatively stable world. A system which is ill-suited to mass participation in an economy and society with diverse and rapidly changing needs.

This new world that we live in is very hard to optimise from the centre. Information requirements are extreme, involving allocation decisions among different universities, among different courses, and among large numbers of students with different capacities and needs. In the rest of the economy, it is the role of the market to sort all that out. Why not in higher education? The West Review concluded that higher education was too important *not* to make better use of market mechanisms. This was based on a pragmatic judgment about the pressures and challenges of the next 10 to 20 years, rather than any ideological position.

However, we certainly did not recommend an 'open slather' approach. As in other areas of policy with important social dimensions, the challenge is to make the most effective use of market forces in order to meet all of our objectives as a society, including both efficiency and equity.

For a start, we supported substantial public funding. That is despite the fact there remain major questions about the nature and extent of the societal 'spillovers', taking a purely economic perspective, and of the inducement effects of public funding. The pragmatic judgment of the West Review was that it was better to err on the upside, rather than risk *under*funding in this important area.

The second thing we strongly advocated was a direct financial relationship between universities and students, which we called 'student-centred funding' — and the newspapers simply called vouchers! Primarily the intention was to get the universities more focused on satisfying those who in any case are already paying significantly for their education through HECS fees, and who constitute the main source of external benefits that justify public funding in the first place.

We did not share the views of those who are concerned about the ability of students to be sufficiently discriminating or that they will be out-gunned informationally by the education establishment. Students showed themselves, in our discussions with them, to be discerning about what was in their interests and that of their prospective employers. We did recommend, however, regulated provision of information, as well as the establishment of complaints mechanisms to provide formal protection to students.

Thirdly, we argued for universities to be able to set prices that can reflect choices about the type and cost of courses that they offer. And that allow greater latitude in the remuneration of teaching staff. This provides the only viable mechanism in a future of continuing budgetary parsimony — to use Bruce Chapman's words — if we are to stem the otherwise inevitable brain drain. There aren't all that many choices: if we need to pay people more money to ensure quality, the money has to come from somewhere.

However, we also argued for transitional limits to such price freedoms and strongly endorsed the maintenance of a HECS-type approach, with no requirement for upfront payment of any fees.

We argued that this kind of approach — more market-based, but complemented by good regulation — would achieve a more diverse, innovative and accessible system.

Accessibility became an article of faith within the West Review very early on — almost to the point where I had to ask whether we were going to *force* everybody to go to university. I still harbour some uncertainties as to whether a university education is for everyone. I think the VET system has a valuable, separate contribution to make, which is more suited to many people. But that's against my general point that increasingly over time what universities have to offer is going to be needed by many more people.

Accessibility is not an issue confined to the design and funding of the higher education system alone. The under-representation of students from lower socioeconomic, Indigenous or remote region groups, is reflected very much in the point I made earlier about the low completion levels for secondary school in those areas.

There's a big issue here of the respective roles of universities and the TAFE colleges. The long term vision reflected in the West Report was of a seamless funding system in which students could move between the two areas, bringing the same source of public funding with them. VET obviously has to be directly responsive to the needs of firms, but it is questionable how directly responsive the universities should be.

A learning workplace?

This brings me to the second aspect bearing on the payoff from human capital: namely, skill development and utilisation within the workplace.

A learning organisation requires a culture of involvement and common cause from management down. Organisational culture and attitudes are greatly influenced by the market environment and by industrial relations regulation. The Commission has gained useful insights from studies that we have conducted recently at the request of the Government, looking at work arrangements in coal, stevedoring and, meat processing. We found in those areas that both the market environment and workplace regulation had constrained and distorted the development and use of human capital, and in turn had detracted from productivity at the enterprise and industry levels.

For example, we heard in the coal industry inquiry that there was a lack of effective management training and people skills, and it was easy to see why. State regulation had long prescribed the qualification and training required at all levels in a highly detailed way (PC 1998a). In stevedoring, we had a set of work arrangements with curious titles, such as 'the order of pick' and 'equalisation' of earnings, which essentially removed managerial discretion in allocating workers to particular tasks. It was hard to believe that these sort of work practices, which people in the industry spoke of as the norm, actually existed. It was not surprising, therefore, that there was little emphasis on training or, as in the case of coal, that industry had a very poor OH&S record (PC 1998c).

In the meat processing industry, the 'tally system', as prescribed in awards, was also very heavily pre-emptive of the management function (PC 1998d). Of course some managers said that they liked that kind of system. The sort of managers who grew up under a system that did not require much management expertise, would obviously have an inclination to stay with such a system.

In each of those three areas, we observed very poor workplace cultures: the antithesis of what the BCA, in that report I spoke of earlier, saw as the essential precondition for innovative and successful firms. In each case, we found strong unions — with almost comprehensive coverage of the workforce — weak management, and muted product competition. In fact, in all three, there was an emphasis on volume over production cost.

Summing up

In sum, human capital is clearly fundamental to economic progress. Its connection with innovation at all levels within firms, and more broadly, is especially important, and even more so in the rapidly changing world in which we live today. Generic skills and the role of universities are looming larger in this situation, with a VET system responsive to the changing specific skill needs of industry playing a complementary role.

In a complex, diverse and rapidly changing world, we need to enable more decisions about human capital investment and its use to be made by those directly involved. Flexibility and responsiveness are required both in our education institutions and in our workplaces. Policy has been heading in that direction — but not always as effectively as it might. In a highly competitive economy, which is increasingly global in its reach, we need to do better; and I think that challenge has never been greater than it is right now.

The Productivity Commission's gambling inquiry: three years on *

It is almost three years to the day since the Productivity Commission delivered to Government its final report on Australia's gambling industries (PC 1999a). In releasing the report, and issuing his Government's initial response, the Prime Minister observed:

> The Productivity Commission report is the first comprehensive investigation of gambling in Australia and it is the first time we have had a complete picture not only of the economics and regulatory structure of the gambling industries, but also of the social consequences of the recent rapid expansion of gambling in this country. (Howard 1999)

The 1000 page report was the culmination of an independent public inquiry that lasted some 16 months and attracted 320 submissions. It involved a draft report, two rounds of public hearings across all states and territories, six roundtables with interest groups and experts, and 60 meetings 'on location' with governments, the industry, community groups and individuals. The analysis in the report also drew on an extensive literature, both in Australia and overseas, supplemented by three national surveys and other original research by the Commission itself.

The report's essential message was that liberalisation of the gambling industries had generated major social costs as well as benefits. It also found that the social impacts, related to 'problem gambling', had not been adequately addressed, either in policy formulation or industry regulation.

The report evoked a variety of reactions, ranging from laudatory to hostile. There was support for, or at least acceptance of, the report by governments at all levels. And non-government organisations praised it. But the industry's reaction was mixed. Some, although critical of aspects of the report, responded constructively. Others were vehemently opposed to the report and its findings.

Since then, there has been a flurry of activity directed at ameliorating problem gambling. The Australian Government initiated a Ministerial Council on Gambling

---

* Keynote address to the National Association for Gambling Studies 12th Annual Conference, Melbourne, 21 November 2002. This speech benefitted from research inputs by Monika Binder and Ross Wilson.

and introduced legislation banning interactive gambling. Most state and territory governments introduced or proposed new ‘responsible gambling’ policies. And those in the industry who were initially hostile to the Commission’s report, began introducing their own responsible gambling measures. Indeed, the Commission’s report is increasingly being invoked as an authoritative source to support the industry’s position on gambling issues, including problem gambling.

How many ‘problem gamblers’?

Perhaps the most startling finding, for many people, was the Commission’s estimate that nearly 300,000 Australian adults had significant problems with their gambling, with 130,000 experiencing severe problems.

These findings should not have come as a surprise, as they were consistent with a number of other studies. However, the extent of problem gambling had tended to be downplayed, by referring merely to their 1 to 2 per cent share of the total population. This is sometimes also misconstrued as 1 to 2 per cent of gamblers. However, as the Commission found from its survey, the proportion of *regular* gamblers experiencing significant problems Australia-wide was more like 15 per cent. And, because problem gamblers spend a lot more time and money at it than other (‘recreational’) gamblers, their prevalence in a gambling venue at any time would normally be higher again. Indeed, the Commission estimated (again consistently with some earlier studies) that problem gamblers accounted for around one-third of the industry’s total revenue.

While there have been no other national surveys conducted since then, there have been a few done at the state or regional level. However, most have made significant modifications to the screening instrument, rendering comparison difficult.

The Queensland Government conducted a large sample survey in that state this year, using a recently developed screen from Canada: the Canadian Problem Gambling Index (CPGI). Like the Commission’s own approach, the CPGI is based on the notion of a problem gambling ‘continuum’, rather than a simple yes or no categorisation. While the Queensland research found that only 0.83 per cent of adults scored above a defined problem gambling threshold, it estimated that another 2.7 per cent were in a ‘moderate risk’ group.

The search for an ‘ideal’ screening instrument is worthwhile, but we should not allow it to become a distraction. What does seem important is to apply a given test, around which there is reasonable professional agreement, consistently across jurisdictions and over time. Otherwise there is a danger of creating more confusion than clarity about the extent of problem gambling and, importantly, whether it is actually responding to remedial measures.

Whether the actual *number* of problem gamblers, equates to 1, 2 or 3 per cent of the population, we are still talking about hundreds of thousands of Australians, and several hundred thousand more who are directly affected by their affliction. The precise number is a nicety, with little bearing on the need for effective policy action.

Anyone obsessed with decimal points should also bear in mind that *all* survey screens are likely to understate the extent of problem gambling — however they may choose to define it — simply because people have a natural reluctance to reveal the facts about such matters. That is why the estimate of gambling expenditure from the Household Expenditure Survey is one-quarter of the actual amount based on industry statistics — rendering that instrument of little use for analysis of gambling patterns or problems. The Commission asked 400 self-confessed problem gamblers in counselling how they would have responded to a survey prior to them actually seeking help. Only 29 per cent said they would have answered honestly; one-third said that they would have concealed their problems, and some 24 per cent said they would have refused even to answer the survey!

With this in mind, arguably the biggest practical challenge confronting prevalence studies is not the precise screening instrument, but rather the extent to which the design and presentation of the questionnaire can counter this inherent downward bias. The extent to which that happens in practice will hinge partly on the motives and interest of the survey sponsor, and on the skill and persistence of the interviewer.

Cost and benefits of liberalising gambling

A novel feature of the Commission's study was its attempt to quantify the (social) costs of gambling as well as the benefits. This was seen as necessary to counter the natural tendency to ignore what cannot be valued.

The real benefits are to consumers

A second source of novelty was the Commission's approach to measuring the benefits of the gambling industries. Typically, these had been seen as deriving primarily from the jobs and income associated with the industry. The Commission showed that this was a 'furphy'. Unleashing a previously constrained activity like gambling does not in practice create many new jobs. What it does do is enable people to spend more on gambling and less on other things. (The vocal complaints of retailers whenever new gambling operations set up in their vicinity bear testimony to this at work.) But that also means that the jobs and income created in the gambling industry have a counterpart in jobs and income destroyed in other parts of the economy. Except in depressed areas where unemployment is very high, the gambling industry's new jobs will be some other industry's existing jobs.

The real benefits from the deregulation of gambling come from people having increased access to something they like doing (better than some other things) and at a price lower than they would ultimately be prepared to pay. This 'consumer surplus' — while not without conceptual limitations — can be estimated, and it turned out to be sizeable, amounting to billions of dollars.

The industry, while puzzled and upset at the Commission's dismissal of the production-side gains from its expansion, was gratified at the discovery that there were quantifiable benefits on the *consumption* side, which had not previously been estimated. (Some members of community groups and the press, however, were not so sure.)

But where the Commission again parted company with the industry — or at least some of its consultants — was in not treating the consumption gains equally for recreational and problem gamblers, discounting them for the latter group to a level that corresponds to more normal expenditure. The fact that many problem gamblers report an inability to control their gambling, despite a desire to do so, and resort to self-exclusion and other devices to constrain themselves, provides strong support for this approach.

Social costs need to be accounted for

When it came to the *costs* of gambling, the Commission recognised that the psychic or emotional impacts on problem gamblers and their families — such as through family break-up and depression — are valid societal costs for which a value should also be assigned. That is not straightforward, of course, and it was necessary to use proxy measures and provide low and high estimates. Even then we erred on the conservative side (not attempting, for example, to place a value on the social cost of the 35 to 60 suicides attributed annually to problem gambling). As with the benefits, the costs turned out to be substantial.

The upshot was our estimate that the net impact on society of the liberalisation of gambling could be anywhere from a net loss of $1.2 billion to a net benefit of up to $4.3 billion. There were found to be significant differences by gambling mode, however, with lotteries showing a clear net benefit, whereas gaming machines and wagering included the prospect of a net loss. The reason for this is the much higher incidence of problem gambling for these modes.

The Commission's methodology has been broadly endorsed by most (though not all) of those professional economists who have acquainted themselves with it. And, since the inquiry, there have been a number of studies on the regional impact of poker machines that have drawn on the Commission's approach.

However, some industry-sponsored studies have changed key aspects of the model to derive a lower social cost estimate. This illustrates a theme to which I will return: namely the importance of securing arrangements for independent research in this complex and highly contentious area of public policy. Otherwise we will end up with a lot of research that is mainly directed at satisfying the needs of its sponsor. (This has already become a major problem in the United States, where the 'pedigree' of a piece of gambling research has become the surest guide to its findings, and the public debate is the poorer for it.)

Gambling regulations were inadequate

The Commission recognised that its quantification exercise could only produce 'ballpark' estimates that would be of limited usefulness for policy. What the exercise did make clear, however, was that the social costs as well as the benefits of gambling were likely to be substantial. This affirmed the need for considerable care in regulating the conditions of access to gambling. It also supported the Commission's general principle that regulation should be directed at effectively limiting the costs of problem gambling, without unduly impacting on the benefits of recreational gamblers.

In practice, regulatory processes and measures in all jurisdictions were found to fall well short of that ideal. The Commission observed an 'incoherent' regulatory environment, one characterised by complexity, fragmentation and inconsistency. Regulation was found to be driven mainly by revenue-raising and probity considerations, rather than the more fundamental objectives of consumer protection and amelioration of social costs.

Deregulation had greatly expanded the availability of legal gambling — particularly gaming machines — to an extent unprecedented in the western world. But there had been little attempt to ensure that people could be adequately informed about the price and nature of the product, its risks to their wellbeing, or sources of assistance. On the contrary, advertising and promotion typically spread the message that '*everyone* can be a winner!' There was also little attention to issues such as the access of problem gamblers to cash and credit on gambling premises, or to containing potentially hazardous features of machine design (such as spending rates or bill acceptors). Moreover, mechanisms to enable problem gamblers to exclude themselves from venues were limited (or poorly implemented) and the scope to provide gamblers with pre-commitment options to limit their losses had hardly been considered (other than for the emerging Internet gambling industry).

This was a pretty tough report card; however, most governments took it on the chin. From the outset of the inquiry they began to modify aspects of their regulatory frameworks to address a number of its deficiencies. (In some cases, they conducted their own supplementary reviews to facilitate this, and to provide for some differentiation in response.)

The gambling industry itself began to appreciate that its initial state of denial was not sustainable and, through the newly formed Australian Gaming Council (AGC), developed more pro-active strategies to address the social costs associated with its activities.

A recent tapering in 'expenditure' growth

In the decade before the Commission's inquiry, expenditure on gambling ('losses' in common parlance) more than doubled in real terms, rising from 2 to 3 per cent of household disposable income, or an average of around $800 for each adult in this country.

Most of this came from liberalisation of gaming machines, the number of which more than trebled, reaching some 185 000. (As the industry itself first noted, and detailed Commission research confirmed, this was about one-fifth of the number of *comparable* machines in the world at that time — and five times as many per person as in the United States). The *accessibility* of gaming machines also increased greatly, as they spread from their original stronghold in New South Wales clubs, to include pubs and clubs across all states and territories except Western Australia.

Since 1997-98, gambling expenditure has continued to rise, but its growth has slowed discernibly, largely reflecting a slowdown in gaming machine expenditure.

At face value, this might suggest that initiatives to moderate problem gambling have had some success. However, the fact that the slowdown or decline has not been consistent across jurisdictions complicates matters and — assuming that the differences cannot be attributed simply to differences in the measures taken — raises the possibility of other explanations.

A plausible explanation of the different expenditure trends across jurisdictions is that they simply reflect the maturation (or emerging saturation) of the gaming machine market. The typical market growth pattern for any new good or service is one of relatively rapidly rising expenditure initially, while consumers 'come on board', followed in time by a slowing and then levelling out of expenditure (or proportionate expenditure) as demand becomes satisfied. The fact that the gambling market contains a special group of compulsive consumers, whose wants do not conform to the normal pattern, needs of course to be taken into account. However, there is a limit to the spending of even problem gamblers (as their frequent resort to theft and larceny illustrates) and over time many will become ‘cured’ and leave the pool.

Thus, we observe that the tapering of expenditure is most pronounced in New South Wales and the Australian Capital Territory, which have had access to gaming machines for longer, and it is generally also more pronounced in those jurisdictions where household spending on gambling is highest.

That the tapering of total gambling (and gaming machine) expenditure — or industry income — reflects maturing markets, particularly in the larger states, may find some additional support in stock market trends. Gambling stocks have outperformed other stocks on average for much of the past three years, suggesting that the industry’s prospects have continued to look relatively good to investors. However, if we look more closely at individual gaming stocks, it is clear that the gambling enterprises in New South Wales and Victoria have recently done less well than in Queensland.

The gaming machine share of total expenditure on gambling has risen further to 57 per cent in 2000-01 from 52 per cent in 1997-98 (and only 34 per cent in 1991-92). This is relevant to the broader question of what expenditure trends may mean about the costs of problem gambling, as the social costs loom larger for this mode than for, say, lotteries, which has experienced a reduction in its share of gamblers’ spending.

Developments in regulation

In its report, the Commission identified a variety of harm-minimisation or consumer-protection measures which could be taken, rating them against the principle that they needed to target sources of social cost without detracting unduly from the undoubted consumer benefits to be derived from gambling. In that way, the benefits of action were likely to exceed the costs, although there are also compliance costs to consider (which can be significant in some cases).

Apart from the important area of counselling for those problem gamblers who seek it, there are three broad categories of measures that we identified (table 1). Two of these — relating to what might be called ‘informed choice’ and ‘consumer control’ — are essentially about empowering *all* consumers, including problem gamblers, to make informed and deliberate choices. They are therefore likely to satisfy our guiding regulatory principle, providing win-win outcomes for all gamblers.

The third category involves constraints that would potentially benefit problem gamblers, but could also detract from the enjoyment of recreational gamblers. Such measures were therefore seen as requiring more careful assessment of their costs and benefits. Nevertheless, we considered that, at face value, restricting venue-based access to additional money, and limitations on spending rates, looked promising.

Since then, actions have been taken by both industry and government in many of these areas.

Table 1 **Potential harm-minimisation and prevention measures**

Informed choice	*Consumer control*	*Venue/games restrictions*
• Meaningful 'price' and odds information • Expenditure statements • Warnings • Help service information • Ethical promotion • How games work	• Self exclusion • Pre-commitment – spending – duration	• ATMS – location – withdrawal limits • Credit restrictions • Bill acceptor limits • Cheque payouts • Spending rates • Enforced breaks • Machine caps • Opening hours • Advertising restrictions • Lighting, sounds and clocks

Industry 'self-regulation' initiatives

According to a recent report prepared for the AGC, some 30 voluntary codes of practice have been developed relating to gaming alone. Among the more significant of these are the AGC's own Responsible Gambling Code, the New South Wales Clubs' Clubsafe 2000, the Victorian Gaming Machine Industry Code of Practice and, most recently, Queensland's Responsible Gambling Code of Practice.

However, it is apparent that the most commonly applicable measures tend to be the 'softer' or more discretionary variety, like provision of information or warnings. Moreover, none of the codes contain processes for independent monitoring of their implementation or the collection of independent evidence of compliance rates, and few contained processes for periodic independent review and evaluation.

This is a significant deficiency, because as the Commission emphasised in its report, the danger of relying on such voluntary codes of behaviour is that venue operators face an inherent conflict of interest in dealing with problem gambling, given the extent to which their earnings depend on the disproportionate spending of problem gamblers. Indeed, they have a strong financial incentive to do as little as they can get away with. This is not to denigrate them. It is entirely understandable and logical.

Self-regulation works best when there are either inherent incentives to comply or external disciplines that create such incentives. The first condition clearly does not hold and, as recent test cases relating to a common law duty of care illustrate, there are currently weak external disciplines that could be brought to bear without explicit regulation.

Developments in government regulation

Informed choice

In the area of providing for more informed choice, most jurisdictions have introduced some key measures.

- Several governments now require venues to provide information to enable a reasonable understanding of the odds and to address false perceptions of how games work. Redressing such misconceptions, which experts see as contributing to problem gambling, is not straightforward and should desirably involve trials.
- Most governments have now introduced requirements for warnings about the dangers of excessive gambling, and information about the signs of an emerging problem, as well as of sources of advice and assistance.
- There are now also regulatory requirements in most jurisdictions relating to advertising and promotions.
- A requirement to provide gamblers participating in loyalty schemes with statements of their expenditure (losses) has been introduced in Victoria and New South Wales.

Consumer control

In the second category — giving problem gamblers options for self-imposed constraints on their spending — there has been a considerable extension and improvement of self-exclusion provisions. So far there is little provision for self-exclusion to be readily extended *across* venues: an important requirement for full effectiveness.

Self-exclusion is an important option for problem gamblers, but going ‘cold turkey’ is an extreme measure, and possibly unsustainable for many. The Commission saw a need to explore options to enable a gambler to continue gambling, but to set self-imposed limits on his or her losses prior to commencing gambling, when good intentions are more likely to prevail. At the time, such pre-commitment mechanisms were only being developed for Internet gambling

Venue and games restrictions

With respect to the third category of measures — imposed ‘constraints’ — there has been considerable regulatory activity, although the cost-effectiveness of measures has not always been tested prior to their implementation.

A number of the measures which seemed less promising to the Commission — such as light and clock requirements, and (minor) modifications to venue operating hours — were generally among the first to be introduced. They have populist appeal, but their potential effectiveness has not been demonstrated

Most governments have introduced, or will soon introduce, constraints on access to cash in venues (such as ATM withdrawal limits) and prohibitions on credit or cheque cashing, as well as requirements for ATMs to be located away from gaming areas. The Commission’s survey provided some compelling support for action on ATMs. Only 5 per cent of recreational gamblers reported using ATMs ‘often’, whereas this was the reported experience for 60 per cent of (severe) problem gamblers.

Gaming machine ‘caps’ are widespread

The most common imposed constraint on the gambling industry, pre-dating the Commission’s inquiry, are caps on the number of machines permitted in different jurisdictions. Since the inquiry, most states and territories have introduced various changes to caps on gaming machine numbers or ‘frozen’ existing caps pending review.

The Commission was at best ambivalent about caps as a harm-minimisation mechanism for two reasons. One is that, if binding, they impact on the accessibility of services to recreational gamblers. The second is that their effectiveness in limiting the extent of problem gambling is unclear, depending on the size and reach of the cap. (What is effectively a zero cap in Western Australia, for example, will produce quite different results to Victoria's cap of 27 500 machines.)

One obvious problem in constraining supply is that it can place upward pressure on the 'price' of gambling (compounding problem gamblers' spending difficulties). Another is that it provides strong incentives on both the demand and supply sides for the more intensive use of available machines. Thus Victoria, with one-third the machines in New South Wales, has spending rates per machine that are twice as high — and expenditure per head is three-quarters that of New South Wales.

With geographic caps, there will be a tendency for machines to migrate to those locations and venues where they can be used most profitably. A common complaint by hotel owners in Victoria during our inquiry was that the duopolists who 'own' the machines would generally remove them from any venue that was not getting enough out of them. This can obviously exacerbate incentives for venue owners to ignore the welfare of problem gamblers.

Regulatory and policy-making processes

The Commission's review of the processes by which gambling regulation had come about (or not come about), and the regulatory structures for overseeing the industry, demonstrated why the regulatory frameworks were so deficient. Decision making was generally poorly informed about the social impacts, ad hoc and piecemeal, with poorly specified or conflicting objectives and no systematic monitoring and evaluation of outcomes. Regulatory oversight was compromised by potentially incompatible objectives, lack of clarity in reporting responsibilities, conflicts of interest and lack of transparency.

Drawing on basic principles of good government, as well as international precedent, the Commission laid out the sort of institutional framework that it believed was necessary to remedy these shortcomings — clearly separating policy making from regulatory functions, as well as providing independent mechanisms for the research needed to inform government policy.

Since then, most jurisdictions have introduced worthwhile improvements — such as the introduction of consumer-protection objectives, requirements to consider the economic and social impacts of licensing applications and greater transparency and public consultation.

But the core requirement of a truly independent regulator is still proving elusive. Moreover, in all jurisdictions, policy and regulatory responsibility currently lie either with a separate industry portfolio or with Treasury and Finance. Neither arrangement is ideal, as the first is vulnerable to industry capture and the second is vulnerable to what might be called *budgetary* capture. The mooted re-location of portfolio responsibilities in Victoria from the Department of Treasury and Finance to the Department of Justice is a significant initiative, warranting serious consideration by other jurisdictions.

One possible spinoff from introducing a more 'neutral' policy and regulatory setting in each jurisdiction — apart from getting better decisions and regulatory outcomes — might be more effective coordination or cooperation among jurisdictions. While different policy approaches and regulatory 'experiments' provide desirable learning opportunities in a federal system, divergent approaches to research and information gathering do not, and this has been compounded by lack of transparency. The current balkanized approach to research is wasteful of scarce resources and missing important opportunities to apply common methodologies to explore common issues of concern (such as the effectiveness of harm-minimisation measures and treatment techniques).

In its report, the Commission favoured the establishment of a national research institute to be block funded by all governments. Apart from the useful national perspective that it could bring, it could be a key source of advice untainted by the real or perceived tensions that arise with research sponsored by special interests (whether industry, community or political).

Some priorities

Three years on from the Commission's inquiry it is apparent that significant progress has been made. Recognition that there *is* a problem is perhaps the most important change, together with acceptance by governments and industry that existing policies and practices were inadequate to deal with it. The many regulatory and self-regulatory initiatives since the inquiry began are impressive in their breadth and coverage of the industry, with some useful innovations occurring in harm-minimisation measures.

However, measured against the ultimate policy objective of maximising the net contribution of this industry, by reducing its social impacts without detracting unduly from its benefits, a number of gaps and deficiencies still stand out.

First, there is a burning need for more research on what actually works among the many possible harm-minimisation measures. (This is particularly important for those measures that can involve significant compliance and other costs.) If we are serious about doing things that are effective, rather than just being seen to be doing things, trialing and testing of different approaches is critical.

A *second* and related issue is the need for more follow-up analysis on what forms of remedial treatment (counselling) work best. Significant resources are being directed at help services, but there has been little 'performance auditing' of programs or detailed analysis of outcomes over time that I am aware of.

This leads me to my *third* priority: the need for much greater transparency about what research is being done and, more importantly, what results are emerging. Lack of transparency can encourage suspicions that only 'convenient' research sees the light of day.

My *fourth* priority, therefore, is the need for governments to establish arrangements designed to promote independent research and *fifth*, much greater coordination in data collection and research methodologies across jurisdictions. A jointly-funded national research centre could be an important focus for this. Current arrangements under the Ministerial Council are in the right direction, but in my view do not go far enough.

Sixth, there is a need to have effective arrangements in place to monitor and enforce industry compliance, whether with government regulations or self-regulation. Penalties on venues that do not meet required standards of harm minimisation need to be enforced as readily as those that neglect matters of probity.

This brings me to the *last* and, in my view, *highest* priority: the need to reform policy making and regulatory governance arrangements. Ensuring the substantive independence of the core regulator in each jurisdiction is central to this. It has demanding requirements, which the Commission spelt out in its report. In most jurisdictions those requirements have not yet been met.