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Prioritising a government's agenda

John Daley

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Overview

Australian governments should prioritise better than they do.

The failure to prioritise has been identified as one reason for failings of the Rudd Government, the Abbott Government, and the Shorten Opposition. Trying to do too much, they did too little.

Prioritisation is hard because it requires a government to leave some worthwhile reforms off the table – at least for now. Prioritisation is needed because the resources for reform are limited. Political capital, ministerial time, public attention, and the bandwidth of the public service to design and implement policy are always scarce.

Some governments may apply a framework for prioritisation internally. But because frameworks haven't been published, we suspect that the wheel for prioritising a government's agenda has been re-invented too many times.

Budget processes do help to prioritise, but could often be more strategic. They tend to lead to too many initiatives at once, underplay reforms that pay off over the longer term, and don't pay enough attention to the limits of political capital. So governments should prioritise beyond the budget process as well.

Inevitably governments need to steer a middle course between doing good and political reality. If a reform both serves the public interest and is wildly popular, then it has usually happened already. Worthwhile reforms usually face significant resistance either from initial public opinion or vested interests.

Communities will prosper more if their governments prioritise deliberately. This requires a disciplined assessment of the value of potential initiatives, and their feasibility.

Governments should be more articulate about the breadth of the valuable ends they serve. While rhetoric tends to focus on economic growth, there is little dispute that governments are also trying to improve health, education, public safety, social connection, the environment, the scope for individual choice, and cultural identity.

The biggest stumbling block to prioritisation is not disagreement about what is a valuable end, but how to trade off these ends. But because governments tend to be sloppy about evaluating alternative policy responses, they often miss options that would better serve all of the valuable ends they care about.

Good prioritisation also requires a more disciplined assessment of feasibility, including the strength of the evidence base, the strength of opposition (including political opponents, interest groups, and public antipathy), and the complexity of implementation.

Governments should prioritise a small number of reforms that are both high value and more feasible, and therefore worth the investment of political capital usually required to get big reforms over the line. When they identify reforms that are high value but less feasible, they should invest analytical resources to build the case and the support of stakeholders and the public, so that these reforms become more feasible in future. Governments should avoid spending scarce political capital on lower-value reforms, delegating the easier ones, and indefinitely deferring those that are less feasible.

This kind of discipline is hard when many groups are pressing their own case. But ruthless prioritisation is the key to maximising prosperity, and perhaps even to maximising the chances of re-election.

Table of contents

Overview 3
1 Why prioritising is important 5
2 The value of reform 14
3 The feasibility of reform 25
4 The process of prioritising reforms 34
5 Other forms of government prioritisation 42
A Government approaches to policy prioritisation 46
B Other approaches to policy prioritisation 51
References 55

1 Why prioritising is important

Prioritisation matters. When people, businesses, or governments try to do everything at once, they usually succeed in doing only a few unimportant things. Getting the big things done often requires clearing the agenda of distractions.

But how should governments prioritise their agenda? Often they can see a wide range of promising reforms, all of which would be helpful, but realistically only a few of them can be successfully pursued at the same time. How should they choose which to pursue?

A clear framework can help to impose the discipline necessary for successful prioritisation. This report aims to help governments to prioritise explicitly and rationally. It explains why prioritisation matters, and why it is often done poorly. It outlines a prioritisation framework that may be useful for ministers and those who advise them.

1.1 Prioritisation and politics

Many say that policy change only counts as 'reform' if it serves valuable ends, and this report adopts the definition. So defined, most reforms face political obstacles. Reforms that are both really good ideas and politically easy have usually happened already. Governments are often tempted by politically easy choices that will not further worthwhile ends.[1] So governments are usually trying to steer a middle course between high-value policy and political reality.

1. For example, all of the policies that will improve housing affordability without unacceptable side effects are politically difficult, whereas all of the popular options are likely to be ineffective. Governments have tended to pursue popular rather than effective housing affordability policies: see Daley et al (2018c, pp. 92–96).

1.2 Defining prioritisation

1.2.1 Prioritisation as choice

Prioritisation is the choice between competing goods. Analysis can eliminate bad choices that would be counter-productive. But a decision maker usually still faces choices between a variety of initiatives, each of which would advance their ultimate aims, but as a matter of practicality not all of them can be pursued at once. In practice resources are needed to devise, gain approval for, and implement *every* policy change, even if it is relatively uncontroversial.

As Paul Keating told Gordon Brown when the British Prime Minister rang him for advice:

> Stop messing about with fixing the water supply in Darfur. Just pick three big things – the right three things – and do them right. That's the trick of it.[2]

In practice, policy makers must make trade-offs; focusing on any one option comes at the cost of not pursuing others for now. Prioritisation is the conscious choice to focus on a smaller number of initiatives to improve their prospects of success.

Prioritisation may also rank the issues that do make it onto the agenda, clarifying which will have to wait if others require more time and attention than originally planned.

1.2.2 Prioritisation as the consequence of scarce resources

Public policy makers have only limited resources for reform. As former Productivity Commission chairman Gary Banks put it:

2. Button (2013, p. 23).

> The political capital and bureaucratic resources needed to advance 'unpopular' reforms are not in unlimited supply. They must be harnessed to focus on priorities and sequencing that are manageable and can yield the highest payoffs over time.[3]

A number of resources are scarce in government: political capital, ministerial time, public attention, public tolerance for reform, bureaucratic resources, and money.

Perhaps the scarcest resource is **political capital**. While academics can have trouble theorising the term, politicians and commentators often use 'political capital' to describe the trust that politicians have earnt from voters to implement reforms even when voters aren't sure about the reforms.[4] As Paul Keating argued, 'you burn up capital . . . to get the nation set properly'.[5]

Governments need to spend political capital in order to secure reform.[6] Reforms almost invariably result in some losers, and so each reform tends to erode the trust of at least some of the electorate. As we wrote in 2012:

> A government can only afford to cross major interest groups on a certain number of high-profile issues before it risks being seen as 'out of touch' in public debate. A sustained period of unpopularity can fatally undermine government leadership.[7]

Too many proposals at once for unpopular reforms, such as in the Abbott Government's first budget, can exhaust political capital, leaving a government so politically weak that it struggles to push through even relatively small reforms.[8] Governments today may reach this point more quickly than in the past because overall trust in government has declined.[9]

In theory, successfully delivering reforms can replenish political capital to pursue subsequent reforms.[10] The catch is that enough time and effort must be expended to ensure that the proposed reform is well-designed, successfully navigated through the political process, and implemented effectively on the ground.

Ministerial time to prosecute reform is limited. Governments can at least influence the course of public debate. Ministers and others can argue publicly and privately for the merits of their reforms, explaining why some will be winners from the reforms (which is not always obvious), and how the wins will outweigh the losses. At least some of the time this activity influences public opinion and improves the prospects of successful reform.[11]

As Paul Keating said, part of his success as Treasurer was 'not just getting these changes but selling them'.[12] Ken Henry reflected on how Peter Costello as Treasurer, before introducing the GST package, worked 'day and night for many months with a team of tax policy experts, . . . settling detailed design issues, developing compensation measures that would deliver fairness, and honing the communications strategy'.[13] And once they had proposed the GST, Howard and Costello

3. Banks (2012, p. 19). See also Productivity Commission (2011, p. XLI): 'As the resources for both reviews and reforms are limited, prioritisation of effort is essential . . . Prioritisation criteria seek to identify the areas of regulation where reform is likely to provide the biggest return to the reform effort.' Similarly Parkinson (2011, p. 25): 'Prosecuting reform on too many fronts at once risks losing focus and/or spreading efforts too thinly to deliver on the reforms, as well as fracturing any community consensus for reform'; and Mooney et al (2012, p. 13).
4. Mast and Barry (2013); Althaus et al (2018, pp. 62–63); and Casey (2008).
5. O'Brien and Keating (2013).
6. Mast and Barry (2013); and Bongiorno (2020).
7. Daley (2012a, p. 6).
8. As argued in L. Taylor (2015).
9. D. Wood and Daley (2018). It has recovered materially during the COVID-19 pandemic: Evans et al (2020, p. 13).
10. Mast and Barry (2013); and Bongiorno (2020).
11. Bullock (2011).
12. O'Brien and Keating (2013).
13. Henry (2020).

'were grilled in hundreds of talkback radio interviews about how the tax would apply to different goods and services such as electricity, telecommunications, foods, travel, toothpaste, race horse winnings, insurance claims, club memberships, accommodation, charities, and religion'.[14] Similarly, while pursuing significant school-funding reforms,[15] Minister Simon Birmingham conducted 72 interviews over two months.[16]

Private discussions, both to persuade stakeholders and to negotiate compromises, probably require even more ministerial time. As John Howard said of prosecuting GST reform:

> Building alliances with business leaders and community groups, including the Australian Council of Social Service, was crucial. We did build understandings and alliances with different groups in the community . . . Even though they may not have agreed, they understood our goodwill in talking to them, particularly some of the social groups.[17]

Just as ministerial time is a scarce resource, so is **public attention**. Successfully prosecuting a reform often requires engaging the public on the detail, so people understand why the benefits truly outweigh the costs on a complex policy issue.

But there is only so much media time available for this kind of discussion. Media can gyrate wildly from issue to issue. And if government veers from one issue to another, there is a risk that the public will find the entire package too complex and lose interest in engaging in the arguments for reform.

There is limited **public tolerance for reform**. Even if reforms are implemented well and a government still has political capital, too much too quickly can leave the public weary. Enthusiasm for future reform may be low because the benefits of past reforms were less than imagined, the negative side-effects of past reforms are more visible than the positives, and memories of a crisis that motivated past reforms may have faded.[18] The psychological effort of dealing with the conflict inherent to reform may leave electorates looking for something more relaxed and comfortable.[19]

Bureaucratic resources, particularly the time of senior public servants, are typically needed to research, pursue, and implement significant policy changes, and these resources are also limited. Spreading finite public service resources too thinly may lead to poorly developed policy, poorly implemented.[20]

Obviously, **public money** is also a scarce resource, and to the extent that reforms require additional budget – not least to 'pay off the losers' – only so many can be pursued. For example, increasing childcare subsidies to promote female workforce participation in a meaningful way would cost in the order of $5 billion a year, which would be three times larger than the largest single budget initiative of the pre-COVID decade except for the National Disability Insurance Scheme.[21]

14. Kehoe (2020).
15. Goss and Sonnemann (2016).
16. Grattan analysis of interview transcripts: Birmingham (2020).
17. Kehoe (2020).
18. Lora et al (2004).
19. Banks (2005, pp. 11, 26); and Simons (2020).
20. Hymowitz (2016, p. 3).
21. D. Wood et al (2020). The largest single recurrent budget initiative within the four years of the forward estimates announced between 2010 and 2019 was a new funding arrangement for public hospitals, announced in the May 2016 budget, costing $1.4 billion per year by the end of the forward estimates (excludes the NDIS, and the formal abandonment in 2017 of the 'zombie' budget savings announced in 2014 but with no prospect of passage): Grattan analysis of Commonwealth Budget Paper 2, 2010-2019. A number of other initiatives on foreign aid, school funding, defence, and income tax cuts were projected to have much larger budget impacts, but only outside the four-year forward estimates: Daley et al (2014a, p. 62) and D. Wood et al (2019a, p. 7).

But in practice, money can be the least scarce resource in pursuing significant reforms. Instead, the claim that 'the budget cannot afford the reform' may often just reflect an implicit judgment that a reform is a lower priority for other reasons. Nevertheless, government budgets are the most prominent regular process for reform prioritisation in our system of government (Section 1.6.1 on page 11).

1.3 Prioritisation of government agendas

Lots of potential initiatives compete for these scarce resources. Ministers and their advisors can be more or less strategic in how they choose to use them.

Government agendas have many influences.[22] Kingdon described these as the problems, politics, and policy streams that come together to define the agenda.[23]

Many events that influence a government's priorities are beyond the control of both public servants and ministers: the set of salient '**problems**' that arise through prominent events and long-term social shifts.

Priorities are also influenced by **politics**: election commitments, ministers' personal interests, the interests of key government supporters, and the agitation of interest groups.

And priorities are partly a result of the **policy** proposals that are in circulation, due to the work of interest groups, academics, think tanks, the public service, and other groups involved in the policy process.

Obviously governments tend to focus on initiatives that will maximise their chances of re-election,[24] but the calculus of prioritisation is more complicated than this. Ministers are more likely to put issues on the agenda if interest groups agree there is a problem, it fits with the news flow, there appears to be a plausible solution, the solution conforms with ministers' ideological framework, the political risks are low, and (forbid the thought) they think it would be good government.[25]

Much writing on public policy sees agenda setting as primarily a political process, largely driven by events, where ministers have little control and public servants even less.[26]

We can *describe* what reaches a government's agenda in these terms. But this isn't so helpful to ministers and public servants deciding what they *should* put on the agenda.[27]

Ministers and their advisors (from ministerial offices, departments, and agencies) do not think of themselves as hapless actors perpetually compelled to act out a script written by events. Instead they see themselves as people able to choose, even if those choices are constrained by circumstances.[28] This report aims to take their perspective, and help them to choose in the public interest.

Of course, politicians vary in the balance that they strike between devising and pursuing a strategic agenda, and responding to immediate

22. For a summary of different approaches to explaining the influences on agendas, see Weimer and Vining (2017, pp. 259–279). See also Birkland (2016, p. 205), Althaus et al (2018, pp. 56–60), Mortensen (2010, pp. 356–380) and Dowding and A. Martin (2017).
23. Kingdon (1984).

24. Bertelli and John (2013b, pp. 741–773).
25. Althaus et al (2018, pp. 64–65).
26. Birkland (2016, pp. 205–246).
27. When trying to answer a normative question ('what should I do'), a descriptive approach ('what did I do') misses the point. The internal point of view of a person faced with a choice must engage with the reasons for acting in one way rather than another, including analysing what reasons are more compelling than others. Even descriptive analysis will miss an important part of the picture if it does not engage with the reasoning of people making moral choices in an inherently normative activity like government: see Finnis (1979, pp. 3–18) and Bix (1999).
28. Bertelli and John (2013a, p. 10).

events. For example, NSW Premier Nick Greiner formally discussed a strategic plan with each portfolio minister and their secretary before considering their budget bids. In contrast, his successor John Fahey simply required all budget bids to be submitted directly to the Expenditure Review Committee of cabinet, where they were considered in the light of Treasury recommendations.[29]

But with news media dominated by what is 'new', it is very easy for the 'urgent' to displace the 'important'. The greater danger is not ignoring events, but becoming consumed by them so that they crowd out improvements that will make a bigger difference to people's lives, even if they are less 'newsworthy'.

This report is aimed at ministers and their advisors who choose to take a more strategic approach. As French Prime Minister Pierre Mendes-France said, 'To govern is to choose.'[30]

1.4 The value of prioritisation

1.4.1 The advantages of disciplined prioritisation

Ministers and their advisors will prioritise better, and achieve more, if they think in a structured way about the relative merits of reform proposals. Like most government decisions, some political judgment is necessary. But as with most government decisions, a clear framework can be helpful.

Most of all, an explicit prioritisation process can help stop the agenda becoming cluttered with too many initiatives. Adding something to the agenda is usually an easy decision. Leaving an item off the agenda invariably leaves someone unhappy. But as more priorities are added, the focus which is the entire point of prioritisation can be lost. An explicit process of prioritisation means that new initiatives are not added to the agenda without thinking about the collateral impacts on other work.

The decision that a reform is worthwhile, but not a priority given competing demands, invariably requires a difficult conversation. This conversation may be easier if there is an explicit prioritisation process with articulated criteria that make the overall picture more transparent.

A disciplined prioritisation process may also drive a better early assessment of reform proposals before substantial resources are committed. The discipline may compel a better understanding of a proposal – its costs and benefits, both policy and politics – leading to a rational decision not to proceed. A 'no-go' decision is often much easier to make before people have expended substantial resources and are psychologically invested.

To the extent that value judgments are involved in prioritisation, explicit criteria can make these value judgments more transparent. Transparency may discourage decisions that purport to be value judgments, but which are really mistaken judgments of fact.

When governments do publish their priorities it can be a signal to the electorate about what the government thinks is valuable (and worth voting for); and it can be a signal to those working in government about where they should focus their energy to ensure that the priorities happen.

1.4.2 The costs of failing to prioritise

The failure to prioritise may be one reason that reform has been patchy since 2003.[31] Lack of prioritisation is regularly cited as a significant failing of the Rudd Government in 2009-10. As James Button wrote:

29. Percy Allan, personal communication.
30. Tiersky (2003, p. 85).
31. Daley and Anderson (2020); and Cranston (2020).

> Rudd had to land his health plan, the Henry tax review, a new plan for the carbon pollution reduction scheme after it had been defeated in the Senate, and the federal budget. Each one was a massive operation. Each one required months of parliamentary and public battle. It was like trying to land four jumbo jets at once on the same runway, and people said it could not be done. As a result, policy was neither properly prepared nor argued.[32]

The Rudd program was enormous. For example, the COAG process initiated by Rudd in late 2007 set out seven key areas of reform: health and ageing; the productivity agenda (including education, skills, training, and early childhood); climate change and water; infrastructure; business regulation and competition; housing; and Indigenous reform.[33] At its next meeting in March 2008 'COAG noted the 26 implementation plans it had commissioned' as the seven key areas morphed into eight, and added another five (including the 2018 Football World Cup bid), and 'agreed on further reforms in a number of areas'.[34]

As an academic review of the Rudd Government found, its failure 'was to promise so much and deliver so little in terms of hard outcomes . . . The list of projects labelled as high priority surely eroded the significance of each'.[35]

Similarly, former ALP Minister Nicola Roxon identified the Rudd Government's failure to prioritise as a key flaw:

> Don't do too many things at once. The truth is a government can't cope with it and the public can't absorb it. At best, no one will know you've done it and you won't get any credit. At worst, people will be confused or stressed by too much movement and activity, and end up opposing something that with more time might have been palatable.[36]

After it lost the 2019 federal election, the ALP's review attributed the loss – among other causes – to a similar failure to prioritise:

> Labor's suite of policy offerings was largely designed to benefit these voters (lower-income working people). But the large number and size of them crowded each other out, making it impossible for voters to absorb them and for local campaigns to promote them.[37]

It may be that left-of-centre governments are more prone to be too ambitious. 'Progressive' governments inherently want to change things; 'conservative' governments inherently tend to be less convinced about the merits of change. Nevertheless, conservative governments have also been too ambitious at times. For example, much of the Abbott Government's agenda ran into the sand after its first budget in 2014.[38]

Of course, there are plenty of other reasons why reform is increasingly failing. Other plausible candidates include increases in the power of special interests, falling public trust in government due to cultural concerns, political polarisation, prominent examples of parliamentarian self-interest, a more polarised media with fewer resources, political parties becoming less representative, shifts in the balance of power between public servants and ministerial advisors, and leadership instability. We will discuss in a forthcoming report how these shifts have affected policy (non-)development in a range of areas.

32. Button (2012).
33. CoAG (2007). For a more exhaustive description of the Rudd Government's agenda, see Wanna (2010, pp. 23–25).
34. CoAG (2008, p. 4).
35. Aulich (2010, pp. 9–10).
36. Roxon (2013).
37. Emerson and Weatherill (2019, p. 59). Others came to a similar conclusion, noting that even those who follow the policy debate for a living found it hard to keep up with the flow of ALP campaign announcements: D. Wood (2019).
38. L. Taylor (2015).

1.5 A practical prioritisation framework

Governments that do want to prioritise their agenda strategically should consider two factors: the overall impact on well-being, and the feasibility of reform.

Any government assessment needs to consider both benefits and costs.[39]

When prioritising reforms, 'benefits' construed broadly includes all the things that governments can do that are **valuable** (Chapter 2).

When prioritising reforms, 'costs' should also be construed broadly, to include all of the scarce resources that are consumed in pursuing reform. While reforms obviously consume financial resources and the bureaucratic resources required to design and implement them, the scarcest resources are often political capital and the public's tolerance for reform (Section 1.2.2 on page 5). Rather than describing these scarce resources reform as 'costs' – which might imply monetary costs – we characterise them as the things that make reforms **feasible** (Chapter 3).

Explicit processes and evaluation are needed to focus scarce resources on those reforms that are more valuable and more feasible – where the impact of reform is highest relative to the effort expended. The agenda defined by prioritisation is inherently dynamic, and needs to adapt to events (Chapter 4).

It follows that a useful prioritisation framework needs to articulate what is valuable, what is feasible, and how reforms can be measured against these criteria.

This report aims to help politicians and public sector managers to prioritise competing proposals for reform. The approach to prioritisation described in this report does not aim to generate policy ideas, which is a separate process. We are assuming that social, economic, environmental, and other problems, and their potential policy solutions, have already been identified.[40] While having a good initial list is crucial to setting a good agenda, that is an issue for another day.

1.6 Other approaches to policy prioritisation

Australian governments typically have relatively few formal mechanisms for consciously prioritising initiatives to maximise the scarce resources of political capital, ministerial time, public attention, and bureaucratic time that are often the limiting factors for pursuing reform.

1.6.1 Budget prioritisation

Australian governments have institutionalised prioritisation of the expenditure of public money through the budget process. Budget processes are an opportunity for prioritisation, but they shouldn't be the only one as they are likely to fall short of the focused and disciplined process we propose. Budget processes tend to let through too many priorities, underplay reforms with long-term pay-offs but little short-term budget impact, and focus more on budget cost than feasibility.

The Expenditure Review Committee of Cabinet, which frames a budget, is usually the most senior committee of a government, invariably including the Prime Minister (or Premier), the Treasurer, and the Finance Minister if applicable (some states and territories do not have a separate Treasurer and Finance Minister), along with a small number of other senior ministers. Most reforms will come before it, because almost all reforms either require new spending (if nothing else, to pay off the losers), or because they add to revenues.

39. Sunstein (2019).

40. N. Turnbull (2006).

Because of the imperative of budget night and the headline attention paid to the bottom line, the budget process tends to rank potential initiatives against each other. It focuses on eliminating initiatives with low pay-offs relative to their budgetary cost. The assessment of a budget bid obviously considers the value that will be served by a new initiative. And because budgets are in part political exercises, the assessment of a bid will also consider the political obstacles.

But unless carefully managed, the budget process can lead to very different outcomes to those that might emerge from a focused prioritisation process.

First, the budget process sets the bar too low. Any budget contains hundreds of initiatives, many of them small, that are not significant reforms, and do not require support or attention from the centre.[41] A focused prioritisation process would try to identify a far smaller and more manageable set of initiatives.

Second, budget discussions tend to pay relatively little attention to reforms that may have a big impact in the long term, but relatively little budgetary impact in the short term. For example, some of the biggest potential boosts to productivity and budget sustainability would flow from changes to planning rules or from increasing the age of access to the Age Pension.[42] But neither of these initiatives would have much budget impact for many years.

Third, a budget discussion inevitably focuses on the budgetary constraint, whereas the process we have suggested would focus more on the feasibility of initiatives, to maximise the use of a government's scarce political capital.

41. See for example the Commonwealth's annual Budget Measures, Budget Paper 2: Treasury (2019).
42. Daley et al (2018b); and Daley et al (2019).

Finally a budget discussion tends to put more focus on new announceables and initiatives rather than reforms to improve the performance of existing programs.

1.6.2 Other forms of prioritisation in practice

The statements of priorities that Australian governments have published also fall well short of the disciplined prioritisation process that we propose. Many governments identify only priority *targets* or priority *areas*, not priority *reforms* (Appendix A.1.1 on page 46). Others fail to consider explicitly the feasibility of reforms (Appendix A.1.2 on page 46). While occasionally governments do nominate priority reforms, they never disclose the basis on which they were chosen.

Some governments in Australia may prioritise in private in a more methodical way. But none have published the framework that they use. As a result governments that do want to prioritise in a disciplined way may be re-inventing the wheel each time. We hope that at the very least the framework articulated in this report may provide them a short-cut for the future.

1.6.3 Prioritisation in theory

There is a large literature on the value of prioritising in the private sector, and on techniques for doing so.[43]

By contrast, there is relatively little about how governments should prioritise in the public sector literature. And the existing literature could be more helpful.

Public value management is the dominant public policy theory in Australia and New Zealand. But it is less useful for defining priorities because it does not articulate a coherent theory of value, largely

43. For example Nieto-Rodriguez (2012), Sirkin et al (2005), Atsmon et al (2016) and Collins (2001, pp. 139–141).

treats the authorising environment as a given, and does not consider a number of obstacles to implementing a reform (Appendix B.1 on page 51).

The prioritisation processes recommended by the OECD also fall short. Sometimes they fail to include all the valuable ends that government policy aims to serve. They do not always consider the feasibility of reforms. And sometimes they adopt a decision-making framework that is very complex for use in practice, and for communicating the outcomes in a way that will be transparent to stakeholders (Appendix B.2 on page 53).

Hogwood and Gunn (1984) provide a more comprehensive list of considerations for filtering a policy agenda, but perhaps not so much guidance about how to construct a tight agenda.[44]

44. Hogwood and Gunn (1984, pp. 91–99), summarised in Maddison and Denniss (2013, p. 110).

2 The value of reform

Determining the value of reforms raises fundamental philosophical questions. But the nuances often don't matter much: typically most philosophical approaches converge on similar answers, broadly consistent with the intuitions of policy makers.

The New Zealand Living Standards Framework and the Measures of Australia's Progress from the ABS both articulate a relatively comprehensive set of ends in a policy context.

Most people agree with these frameworks that it's valuable to improve income and consumption, jobs and earnings, housing, knowledge and skills, health, safety, social connections, the environment, subjective well-being, cultural identity, civic engagement and governance. Although people differ about why it matters, they generally agree that the distribution of these goals is important, including resilience to the risks of loss.

It is much more difficult to decide how to make trade-offs when these ends conflict. Popular attitudes can assist, but often there is no right answer. This kind of value judgment is intrinsic to prioritisation. At best, a clear framework can identify some answers as better than others. And at least, a clear framework ensures that such judgments are made deliberately.

2.1 Philosophical approaches to value

Assessing the value of a reform involves questions such as:

- What is the nature of value – is it **objective**, or is it determined by what people want? Should governments value the health of the population because people care about it, or because it is better to be healthy than sick?
- If value is objective, then what are the **different ends** that we are trying to maximise? Should governments value health, the environment, and economic welfare as separate ends in themselves?
- Is value simply about ends, or does the **means** of doing things matter as well? Should governments care about procedural justice for its own sake?
- If there are many values, how should they be **traded-off** against each other? Is a reform that increases life expectancy 'better' than a reform that increases economic growth?

Policy makers implicitly make assumptions about these questions when they choose one reform as more valuable than another.

In practice, however, the philosophical nuances may not matter so much. The list of valuable ends that some philosophers identify as 'self-evident' through 'practical reason' overlap almost entirely with the valuable ends that people individually choose. People disagree surprisingly little about which ends are worth having. As a review of the Queen's Speech in the United Kingdom found, governments of all stripes have been promising roughly the same kinds of outcomes – better health and education, higher incomes and more jobs – for fifty years.[45]

The other philosophical debates raised above also don't seem to matter much to government in practice. Politicians and policy makers tend to debate issues and act on them as if there are multiple objective valuable ends, the means matter as well as the ends, and they have no choice but to trade them off.

45. Muers (2020, p. 21).

2.2 Theories of value

One approach to policy value is that a policy is successful if it is implemented and not repealed.[46] But this is ultimately circular. It assumes that whatever our political system ultimately implements is worth having. Even those who propose this definition effectively import judgments that a 'successful' policy serves valuable ends.[47]

Some argue that things are valuable if – and because – people choose them.[48] Much economics simply assumes that the aim of policy is to maximise whatever people choose.[49] This assumption is one reason for the political and policy focus on maximising Gross Domestic Product – a reasonable proxy for the total resources that people can choose to expend.

But as the Stiglitz Sen Fitoussi Commission pointed out, many things matter beyond simply maximising resources.[50] And as behavioural economics has laid bare, people often don't choose in the moment consistently with their own long-term values.[51]

Many philosophers argue that some ends are valuable even when people don't choose them. Finnis, for example, argues that there are 'self-evident' basic goods.[52] Sen's formulation that we should focus 'on people's capability to choose their lives'[53] might be read carelessly as valuing whatever people pursue. But Sen consistently emphasises that he would only value those opportunities that people have '*reason* to value' (emphasis added).[54]

Much public discourse assumes the value of ends that people haven't necessarily chosen for themselves. Political discussion would be a futile activity unless there were some agreement about which ends are intrinsically valuable. Most politicians implicitly assume that there are a number of objectively valuable ends, that are distinct from simple majority opinion. Most of Australia's political discourse would make little sense unless those involved believe that there is some point to arguing about whether particular policies further ends that are collectively seen as valuable.

Even if one thinks that things are valuable only when people do choose them, most people in practice choose a remarkably similar set of valuable ends. A variety of prominent sources are largely consistent, as the New Zealand Treasury found in constructing its Wellbeing Framework (Figure 2.1 on page 17), even if there remain contested areas at the margins.[55]

The reasons we think something is a valuable end don't matter so much if we converge on the same end. For example, some think that better health is objectively good; some think better health is valuable because people choose it; some because it is a means to facilitate other individual choices; and some because it leads to a more productive economy. But all roads lead to the conclusion that

46. Luetjens et al (2019, pp. 5–8); and Rutter et al (2012, p. 7).
47. Rutter et al (2012, pp. 10–12).
48. Menger (1871); and Jevons (1871).
49. Menger (1871); Jevons (1871); and Robbins (1932, pp. 87, 136).
50. Stiglitz et al (2010).
51. Kahneman (2013).
52. Finnis (1979, p. 91); and Finnis (1984, pp. 50–51).
53. Sen (2001, p. 63).
54. For example, Sen (ibid, p. 291) pursues the 'opportunity to achieve outcomes that they value *and have reason to value*' (emphasis added).
55. The Australian Treasury's well-being framework summarised many of these valuable ends as 'the level of consumption possibilities', including market goods and services, voluntary and community work, personal and professional relationships, social capital, the quality of the physical environment, health, and leisure. Unlike the New Zealand framework, it did not attempt to spell out these valuable ends: see Treasury (2004) and Appendix A.2.3 on page 49.

it's worthwhile to improve health – and consequently the philosophy doesn't matter so much in practice.

2.3 Valuable ends of public policy

Many of the potential values are encompassed in New Zealand's Living Standards Framework (Figure 2.2 on the following page), incorporated into New Zealand's 'wellbeing' budget of 2019.[56] This framework drew on the 1988 Royal Commission on Social Policy, OECD research into well-being, public views collected through surveys and public hearings, independent experts on well-being, and other engagement with the community and public sector, and it is continuing to evolve.[57] The framework spells out a number of valuable ends, considers their distribution, and highlights a number of enablers that contribute to these ends in future, and may also be ends in themselves.

2.3.1 'Universal' values

The New Zealand Living Standards Framework identifies a number of ends that many philosophers argue are intrinsically valuable, and almost everyone would choose as valuable:

- Income and consumption
- Jobs and earnings
- Housing
- Knowledge and skills
- Health
- Safety
- Social connections
- Environment
- Subjective well-being
- Cultural identity
- Civic engagement and governance.[58]

The resources measured as **income** or economic production are ultimately the means to **consumption** of worthwhile ends. The consumption that income enables is a catch-all for a variety of goods and services. These may further ends such as health, education, and social connection, as well as ends involving choices that people make for themselves such as play or aesthetic expression.

Because consumption comes in such a wide variety of forms, the total economic resources available – roughly speaking Gross Domestic Product – are a reasonable proxy for many of the things that are valuable. Because we have sophisticated and quantitative systems for measuring economic resources, there is a tendency to focus on them. But money is not everything (Section 2.2 on the preceding page), and the remainder of the Living Standards Framework aims to capture these other ends.

Right-wing governments sometimes suggest that government should remain focused above all on economic growth. For example, when the

56. New Zealand Treasury (2018b) and New Zealand Treasury (2019a). The re-branding did not involve any apparent conceptual change (Appendix A.2.1 on page 48).
57. New Zealand Treasury (2018b); New Zealand Treasury (2019b); and Cook et al (2020).

58. The New Zealand Treasury is considering adding 'culture' and 'child wellbeing' to this list of ends: Cook et al (2020, p. 4). But it is unclear what 'culture' adds to 'cultural identity'. And while it is sensible to have a strategy aimed at increasing the well-being of children (see Department of the Prime Minister and Cabinet NZ (2019)), it is less clear why child well-being should be singled out as a valuable end separate to the ends of improving the health, knowledge and skills, social connection, etc. of all people (including children).

Figure 2.1: There is surprisingly little variation in the ends that people consider valuable

Value frameworks

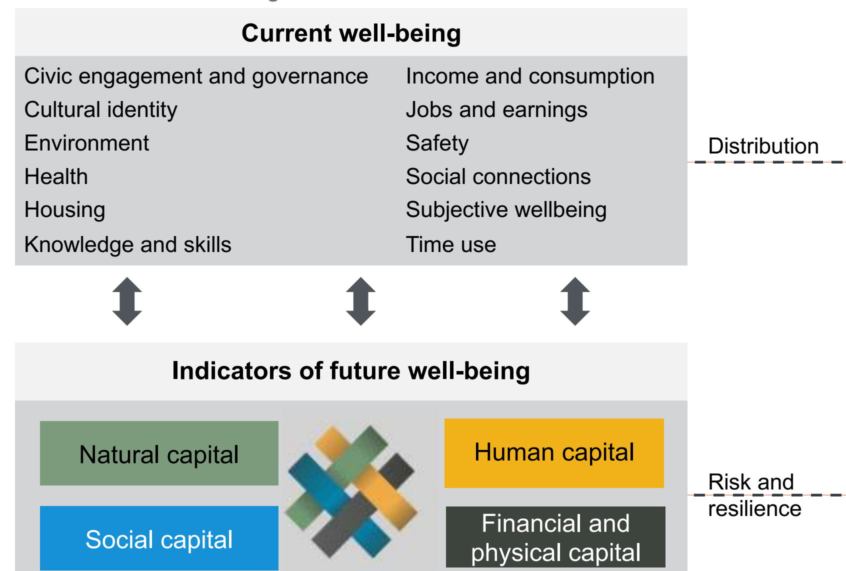
Source	Health	Education	Social dev	Justice & security	Human rights	Environ-ment	Economic dev	Subjective wellbeing
Better life (OECD)	✓	✓	✓	✓	✓	✓	✓	✓
How's life? (OECD)	✓	✓	✓	✓	✓	✓	✓	✓
Sustainable development goals (UNDP)	✓	✓	✓	✓	✓	✓	✓	
Human development index (UNDP)	✓	✓					✓	
Social progress index (Social Progress Imperative)	✓	✓	✓	✓	✓	✓	✓	
World happiness report (Sust. Dev. Solutions Network)	✓		✓		✓		✓	✓
Prosperity index (Legatum Institute)	✓	✓	✓	✓	✓	✓	✓	
Sustainable eco dev assessment (Boston Consulting Group)	✓	✓	✓	✓			✓	
Good country index (Simon Anholt)	✓		✓	✓		✓	✓	
State of the nation (Salvation Army)			✓	✓			✓	
Social report (NZ Govt, Min Social Dev)	✓	✓	✓	✓	✓		✓	✓

Note: Although some sources (such as the Salvation Army) focused on a narrower set of valuable ends, this largely reflects projects that deliberately focused on a narrower set of concerns than overall well-being.

Sources: Based on King et al (2018), analysing OECD (2011a), OECD (2011b), United Nations Development Programme (2015), United Nations Development Programme (1990), The Social Progress Imperative (2014), Sustainable Development Solutions Network (2012), Legatum Institute Foundation (2007), Boston Consulting Group (2012), Anholt (2014) and The Salvation Army (2018).

Figure 2.2: The New Zealand Wellbeing Framework is a well-considered summary of values

New Zealand Wellbeing Framework



Source: Based on New Zealand Treasury (2018a).

ALP advocated a 'well-being budget' in 2020, the Coalition's Treasurer, Josh Frydenberg, derided this approach as a misguided attempt to divert attention from economic outcomes.[59] But this may well be an electoral tactic aimed at maintaining public focus on economic issues where right-wing governments are typically seen as the better managers,[60] rather than a claim that the economy is the only thing that matters.[61] Right-wing governments routinely spend money or make choices that will constrain economic growth, to further values that do not obviously promote economic outcomes: for example, they try to improve the health of older people unlikely to work again, to promote national security, and to look after the environment.

Work – a **job** – often provides value over and above the income earnt and the consumption enabled. For many, a job provides knowledge, play, social interactions, and a sense of doing something worthwhile to help others.[62] Work may promote a sense of self-reliance and agency rather than dependence on others.[63]

Housing is part of a basic human need for shelter. It provides a sense of security and belonging, and enables many other valuable ends. Housing affordability is increasingly seen as one of the top issues for government.[64]

59. Hansard (Commonwealth, House of Representatives, 25 February 2020, pp. 1609-10).
60. For a discussion of issue-ownership, see: Petrocik (1996) and Walgrave et al (2009). Polling consistently finds that voters consider the Liberal Party to be the better economic manager: Essential Research (2016a) and Lewis (2010). It is not obvious that this popular belief is justified by history: Walker and Con Walker (2019).
61. Right-wing parties in New Zealand have also resisted the notion of a well-being budget, possibly for similar reasons: see Appendix A.2.1 on page 48.
62. Bolton (2011); and Yeoman (2014).
63. See, e.g. Bernanke (2010) and Bolton (2011).
64. Daley et al (2018c, p. 11).

Knowledge and skills enable many other ends, including promoting economic activity, facilitating social connections, and improving governance. They are also ends in themselves: many people study or acquire a practical skill as a hobby.

Health is fundamental to being. As countries become richer, they almost invariably spend an increasing share of their income on health services.[65] A significant proportion of this spending is *not* aimed at increasing economic growth: it is spending on older people unlikely to work again.[66] The health system is usually seen as the most important issue for government,[67] as COVID-19 has reminded everyone.

Preserving order and ensuring **safety** has always been fundamental to government, both through police and defence forces. In the past decade, Australian governments have spent more, and reduced freedoms, in the name of public safety.[68] The perception of safety matters as well as the reality. If people don't feel safe, then they behave differently, and go without other valuable ends.[69]

The evidence is growing that **social connections** can matter as much as financial resources to a person's overall well-being.[70]

The **environment** is invariably seen as worthwhile – although views differ on whether a healthy environment is a valuable end in itself, valuable because people enjoy it, or valuable because of the other ends it can produce.[71]

65. Daley (2016).
66. Daley et al (2014b, p. 26).
67. Daley et al (2018c, p. 11).
68. D. Wood et al (2019a, p. 11); and McGarrity and Blackbourn (2019).
69. Wills (2014).
70. J.-F. Kelly et al (2012, p. 4).
71. Compare Rolston (1986) with Callicott (1989) with Aristotle (2013, book 1 ch. 8) and Kant (1997, pp. 212–213). The debate is summarised in Brennan and Lo (2015) and Sandler (2012).

Over the past half-century, numerous surveys have measured **subjective well-being** – whether people *think* they are happy with life, and how this relates to other (possibly objective) measures of well-being.[72]

Subjective well-being may measure whether people feel happy today,[73] or whether people are satisfied with their life overall.[74] Whatever the precise feeling measured, such *subjective* measures should not be confused with *objective* measures of well-being,[75] that mark increased prosperity, irrespective of how it affects an individual's feelings.

On almost any theory of ethics, happiness today and overall life satisfaction both matter. In general, people would choose them if they could. Subjective well-being can be thought of as a manifestation of individual choice (see Section 2.3.4 on page 21), and most theories of ethics put at least *some* value on this.

Not everyone sees sharing a **cultural identity** as a valuable end in itself. But Jonathan Haidt has argued that in-group loyalty and respect for authority are defining values of people with more conservative political leanings.[76] Concern that national identity is being abandoned, and that 'traditional' values are changing, may well lie behind the rise in minor party voting in Australia, the Brexit movement in the UK, Donald Trump's election in the US, and the rise of new political parties in many other countries.[77] At the same time, 'identity politics' continues to rise, reflecting the the value that people put on identification with a particular sub-community.[78] Identification with a community can be seen as an end in itself because it is a means for a person to give shape and content to their life.[79]

For people who do value being part of an identifiable group, government should support this aim – indeed, it is hard for governments, responsible for at least a third of economic activity, to avoid shaping culture.[80] From imperial Rome[81] to imperial China,[82] from Medici Florence[83] to Bolshevik Russia,[84] government has always been in the business of articulating and creating cultural identity. Cultures shaped by governments can persist for generations, as the long-standing differences between East and West Germany illustrate.[85] Australian governments have long been in the business of shaping cultural identity – most overtly in the past few decades by promoting the ANZAC myth.[86]

Cultural identity can encompass more pluralistic notions than a uniform 'national identity', as illustrated by the promotion of Maori and Islander communities in New Zealand.[87] In Australia, long-standing debates about 'national identity' also encompass First Nations, multiculturalism, and pluralistic ideas of identity.[88]

72. The happiness literature developed in psychology was prominently applied to economics and policy in Easterlin (1974, pp. 89–125), which argued that increasing economic prosperity did not obviously increase happiness.
73. Sometimes defined technically in the literature as the preponderance of positive affect over negative affect: see Diener (1984, p. 543).
74. For an accessible discussion of the differences, see S. B. Kaufman (2016).
75. Assuming that such objective values exist – see Section 2.2 on page 15.
76. Haidt (2008).
77. D. Wood and Daley (2018, pp. 49, 56–60).
78. Fukuyama (2018).
79. Raz (1986, pp. 87, 91).
80. Muers (2020, p. 62).
81. Haverfield (2019); and Dench (2018).
82. Waley-Cohen (2006); Chiang (2019); and Mote (2003).
83. Acidini Luchinat (2002); and Kent (2000).
84. Hobsbawm (1995, pp. 11–12); and Neumann (2008).
85. Muers (2020, pp. 58–59).
86. Brown (2014, Ch. 1).
87. A New Zealand Treasury Working Paper has suggested adding 'culture as a value to New Zealand's Living Standards Framework, although it is not clear how this differs from 'cultural identity' Cook et al (2020).
88. Pearson (2014); White (1981); Schultz (2012); and Schultz (2018).

Good **governance** is obviously a *means* to better government and outcomes. But it is arguable that many people value a transparently fair process as an end in itself – they value it over and above its ability to produce substantive outcomes in the public interest.[89] Many people value a fair and transparent procedure over and above the substantive outcome it produces, both for policy decisions, and for particular decisions about them as individuals through courts or administrative decisions.

Irrespective of this argument over ends and means, at the very least, promoting better governance – including stronger institutions, more genuine democracy, and high-quality decision-making in the public interest – is a powerful means to achieving all the other ends discussed.

Similarly, **civic engagement** is evidently a *means* to better government. The act of self-participation in governance is also sometimes also seen as an *end* worthwhile in itself,[90] even if one's view does not prevail. But this view is not universally shared, and at most, civic engagement should be seen as only one end among others.[91]

2.3.2 Distribution of value

The New Zealand Living Standards Framework provides a variety of ways of thinking about how to distribute the valuable ends discussed in the previous sections, including:

- Distribution
- Risk and resilience
- Time use.

89. Muers (2020, pp. 37–38).
90. Finnis (1979, p. 149). On whether Aristotle had this view, see Mulgan (1990).
91. Jones (2020); and Mounk (2018).

There are a variety of reasons for caring about the **distribution** of valuable ends. Some argue that a more equal distribution of the pie is intrinsically better than a less equal division of the same pie, because it maximises overall opportunities.[92] Others are more focused on 'disadvantage' that leads to those who are less well-off being unable to fulfil basic values in their lives,[93] or in Sen's terms, having fewer opportunities to pursue lives that they have reason to value.[94]

The ideal of aiming to ensure that the worst-off have 'enough' to pursue opportunity is almost universally accepted; the idea of distributing resources more evenly as an end in itself is much more contested.[95]

In practice, governments invariably care a lot about distribution. Taking away existing benefits and advantages tends to be politically fraught. Apart from its impact on the value of a reform, redistribution also affects the feasibility of reform (Section 3.3 on page 28).

While income inequality matters, so too does inequality between generations and regions. Fairness between generations is primarily driven by the judgment – widely shared – that no generation aims for a subsequent generation to be worse off.[96] Government can affect the distribution of valuable goods between different birth cohorts through tax and welfare policies, planning policies that affect housing prices and availability, environmental regulation (not least of carbon emissions), and budget balances.[97]

It is arguable that inequality between regions doesn't matter so much from an ethical perspective – moral obligations are owed to people, not

92. Rawls (1971); and Leigh (2013).
93. Finnis (1979, p. 174).
94. Sen (2009, pp. 253–254).
95. Daley et al (2013a, pp. 36–37); Daley et al (2013b); and Daley et al (2019, pp. 19–20).
96. D. Wood et al (2019b, p. 7).
97. Ibid (pp. 8, 46–51).

places.[98] Inequalities between regions – particularly cities and rural areas – are primarily driven by economic forces beyond government control.[99] Nevertheless, governments often try to reduce disparities between regions.[100] Sometimes these efforts may be using geography as a proxy for targeting those who are particularly disadvantaged. But more commonly, these efforts are better characterised as governments tending to respond to the global trend of increasing dissatisfaction in regional areas[101] that makes these reforms more politically feasible, even if they are not always particularly valuable.

Reducing **risk** and increasing **resilience** are useful means to achieving the ends already discussed. Risk and resilience are ultimately ways of thinking about how valuable ends are distributed. Reducing the risk of undesirable outcomes, and changing their distribution, can improve overall well-being.[102]

For many people, **time** has become a scarcer resource than money. Government can help people to spend more of their time on the things they like doing or find valuable. Increasing the time available for productive use or leisure is a *means* to achieving other ends rather than an end in itself. But calling out its importance, at least as an enabler, can ensure it is valued appropriately. In Australia it is difficult to understand the impact of policy on time use because the ABS has not conducted a survey of time use since 2006, although before the COVID-19 crisis it had been planning to conduct this survey in 2020.[103]

98. Daley et al (2018b, p. 35).
99. Daley and Lancy (2011, p. 16); and Daley et al (2019, pp. 44–49).
100. Daley and Lancy (2011); Brett (2011); and Daley (2012b, pp. 212–223).
101. See D. Wood and Daley (2018, pp. 14–22).
102. Gorecki and J. Kelly (2012).
103. ABS (2008); ABS (2019); and ABS (2020a).

2.3.3 Enablers

The New Zealand Living Standards Framework also defines 'four capitals' as enablers of future well-being:

- Human capital
- Social capital
- Natural capital
- Financial and physical capital

These enablers are obviously important means to ends. They can sometimes also be ends in themselves. Increasing knowledge and skills enables other advances – and it's also an end in itself. Natural capital – the environment – enables subjective well-being and is often also seen as an end in itself (Section 2.3.1 on page 16). Residential housing is both a store of financial and physical capital, and a consumption good.[104]

But whether means or ends, it is obviously worth increasing these enablers to enable future advances, all other things being equal.

2.3.4 Individual choice

This framework of valuable means and ends does not much emphasise the value of individual choice. While many would not respect individual choices for ends that are not valuable, we should value individual choices between ends that *are* valuable.[105]

Increasing incomes tends to increase the choices that individuals can afford to make. But governments should also try to give people more

104. Freebairn (2016, pp. 307–316); and Flavin and Yamashita (2002, pp. 345–362).
105. Sen (2001, p. 291). Such choices between valuable ends are inevitable, as discussed in Section 2.4.3 on page 23.

agency over their lives in choosing things for which they don't pay.[106] Consequently, individual choice should be recognised explicitly as a valuable end of public policy.

As noted in Section 2.2 on page 15, other frameworks argue that individual choice is the *only* value that matters. This position lacks coherence: it implies that there are objective reasons to care about individual choice, but no objective reasons to care about anything else.

2.3.5 Budget outcomes

Budget outcomes – either budget balances from year to year, or overall government debt – are not ends in themselves. Rather, budget outcomes affect other ends: they implicitly shift costs and benefits between generations, and affect government flexibility to respond to future economic shocks.[107] So although budget outcomes are often seen as a key measure of success for governments, they are rightly not included in the New Zealand Living Standards Framework as ends in themselves.

2.3.6 Political values

Although many people have strong views about it, a particular role for government is *not* an end in itself, and whether it is a means to valuable ends is almost always a question of fact depending on the circumstances. Consequently, the size of government in itself is not an end that should be considered when evaluating a potential reform.

106. This is a significant part of the philosophy behind the National Disability Insurance Scheme.
107. Daley et al (2013a, p. 8) and Daley et al (2013b, pp. 11–12). There is increasing debate about the value of lower government debt: see Lowe in Hansard (Commonwealth, House of Representatives, 14 August 2020, pp.3-4). For an advocate of Modern Monetary Theory which argues government debt matters less, see Kelton (2020); for a critique, see Mankiw (2019).

Many people have beliefs about how government *should* work: they prefer less (or more) government regulation, government funding for services, and direct government delivery of those services. These are often heuristics about what they think will lead to better outcomes, maximising the ends discussed above.

Such beliefs can be linked to valuable ends. Putting a high value on individual choice tends to imply a preference for less government intervention, because government intervention often (but not always) reduces individual choice. But whereas judgments of what is a valuable end are ethical questions, the effects of government (non-)interventions are ultimately questions of fact, testable in practice. Consequently, people with similar ethical beliefs can have very different beliefs about how government should be organised.[108]

Beliefs about the proper scope of government can be deep-seated, and affect how people approach other ethical and factual questions. For example, a preference for smaller government has shaped the way many people have approached factual questions about whether human carbon emissions are causing climate change.[109]

2.3.7 Rights talk

Another way to think about values is that they are manifestations of human rights that governments should protect. While familiar to lawyers, this is less helpful when thinking about public policy. 'Rights talk' tends to imply that 'rights are trumps'.[110] But governments are often trying find a balance in which more of one valuable end implies less of another. 'Rights' usually just confuse this conversation about the underlying values.[111]

108. Muers (2020, pp. 11–12).
109. J. Taylor (2018).
110. Dworkin (1984).
111. Halpin (1997); and Glendon (1991).

2.4 Assessing the impact of reform

To assess the value of reform, one should consider how it will affect all of the valuable ends and enablers discussed above. This assessment should focus on the *net* value of reform – how much it will change things relative to what would happen anyway. It must assess impacts over time – costs and benefits today are often worth more than those in the future. And when comparing reforms, one needs a means of valuing the different ends discussed above relative to each other – which is perhaps the most difficult part when trying to compare reforms with each other.

2.4.1 The net value of reform

The net value of a reform depends on its impact all things considered. This includes the breadth and depth of its reach, the compliance costs, and any unintended consequences.[112] And each reform must be assessed as it is likely to be implemented in practice, rather than on its theoretical promise.[113]

Each reform should also be assessed relative to government not doing anything, and taking into account the likely contribution of other actors. The value of a reform is what a particular level of government can add over and above the value that any other level of government or participant is likely to add.[114] For example, Commonwealth Government intervention in many areas of school education will often add little to the activities of state and territory governments.[115] Such federal complexities may also make a reform less feasible (see Section 3.4 on page 30).

112. Productivity Commission (2011, pp. 125–126).
113. Ibid (pp. 126–128).
114. Rose (1976, p. 270).
115. Sonnemann and Goss (2018).

2.4.2 Calculating value over time

The value of policies must be assessed over time. Costs today – physical infrastructure or social investments – often pay back over many years. Evaluation should include these long-term impacts (such as future lives improved and welfare costs avoided).[116] This evaluation must put costs and benefits today on a comparable footing to costs and benefits in the future, by using a discount rate. Even assuming that both current and future costs and benefits can be quantified, selecting an appropriate discount rate is not straight-forward.[117] It may be appropriate to use a lower discount rate when comparing environmental as opposed to economic goods.[118]

2.4.3 Combining values

There is strong consensus about valuable ends; there is less agreement about what to do when more of one implies less of another.

Ends are 'incommensurable' if they have no common measure. There is no 'right answer' about whether three apples are better or worse than two oranges – or four oranges.[119] Public value management theory has shied away from valuing policies relative to each other for this very reason.[120]

But even if ends are incommensurable some of the time, a policy may be better or worse than all of the alternatives in its ability to achieve all of the relevant ends.[121] Much of the literature on outcomes-based

116. See Department of Social Services (2019).
117. Terrill and Batrouney (2018).
118. Stern and Jacobs (2006, pp. 31–33); and Garnaut (2019, pp. 45–51).
119. Finnis (1979, pp. 112–117); and Hsieh (2016).
120. ANZSOG (2017). Faulkner and S. Kaufman (2017, p. 81) recognise this problem but hope that public value might nevertheless be compared 'in a largely standardised manner'.
121. Increasing the Superannuation Guarantee is a good example: it is worse than the alternatives on all the dimensions of minimising budget costs, helping those who

policymaking,[122] evidence-based policymaking,[123] and government productivity[124] aims to identify reforms that maximise some ends without detracting from others.

At the very least, in a prioritisation exercise it may be useful to identify policies that have a big rather than small impact on the variety of valuable ends.

Even when there is no logically right answer, in practice policy makers must choose one policy rather than another, implicitly benefiting one group or end more than another.[125]

The Australian Social Value Bank provides one method for comparing different ends. It defines a monetary equivalent to the value of ends achieved by policies, such as more permanent accommodation, or obtaining employment. The comparisons are ultimately based on how much these outcomes tend to change subjective well-being.[126]

The New Zealand Treasury has adopted the Australian Social Value Bank methodology into its CBAx tool, a cost-benefit analysis tool that it uses for prioritising budgetary initiatives.[127] A review found that this methodology encouraged more systematic and robust analysis of impacts and assumptions.[128]

Multi-criteria decision analysis (MCDA) is another approach to combining multiple ends without obvious common metrics. MCDA evaluates how much an initiative will affect each end and then compares initiatives using weightings of each end. Weightings can be assigned to different ends either by force-ranking, or by applying relative weights (such as allocating 100 'importance points' across all the identified values). Inherently such methods depend on who is assigning the weightings, and they struggle if the value is not continuous (for example, improving water quality so that it is fresh enough to drink might have very high value, but further improvements less so).[129]

2.5 Alternative frameworks for defining value

A number of other frameworks have been developed in Australia for considering the value of a policy reform. They are broadly consistent with the ends articulated in the New Zealand Living Standards Framework, although there are inevitably differences in emphasis, and they sometimes categorise ends in different ways (Appendix A.2.2 on page 49 and Appendix A.2.3 on page 49). But the public value management framework, prevalent in Australian public sector thinking, is less helpful in articulating the value of reform (Appendix B.1 on page 51).

are worst off, increasing retirement incomes generally, and minimising short-run economic costs: Daley et al (2018a, p. 74).

122. Borgonovi et al (2018); and Schalock (2002).
123. Productivity Commission (2010).
124. McKinsey & Company (2017).
125. Peters (2005).
126. Fujiwara et al (2017b, pp. 12–13), discussed further in Appendix B.3 on page 53.
127. New Zealand Treasury (2019c).
128. NZIER (2018); and Jensen and Thompson (2020).
129. See, e.g. Saarikoski et al (2016).

3 The feasibility of reform

3.1 The components of feasibility

The scarcest resource for prosecuting reform is political capital (Section 1.2.2 on page 5). Less political capital is required if the evidence base is strong, the reform is not vigorously opposed, and implementation is straight-forward.[130] These features make a reform more 'feasible'.

The feasibility of a reform can change. The evidence base can be improved, opponents can change their position, and implementation risks can be mitigated. A long-term strategic approach to reform both ruthlessly prioritises the reforms that can be pursued today, and seeks to change the environment so that less feasible reforms are easier to pursue tomorrow.

Our *Game-changers* report[131] set priorities by focusing on the quality of the evidence base. It did not consider the broader issues of political opposition and implementation. That approach may have been justified when taking a more technocratic view. But when politicians and their advisors are setting priorities, feasibility should be considered more broadly.

Assessments of feasibility depend on judgments that are hard to quantify. They should take into account how they are influenced by the often sub-conscious perspective of the person making them.

130. A forthcoming Grattan report will show how these are typically the biggest barriers to reform.
131. Daley (2012a).

3.2 Evidence base

A reform costs less political capital when the evidence is stronger that a specific policy change will lead to desired outcomes that outweigh predictable side-effects. This may well include evidence about:

- the desirable direction of reform given identified problems;
- the detailed design of policy interventions;
- the best way to implement these interventions; and
- the size of likely benefits and costs.[132]

Better evidence increases the chances of an initiative delivering the desired benefits. Good evidence is not necessary or sufficient for reform, but it makes it politically easier. Governments themselves can improve the evidence base either directly or by commissioning others to do so.

3.2.1 Improving the chances of reform happening

High-quality analysis is **not necessary** for reform. Plenty of policies are enacted even when they have almost no evidence base[133] – although these policies are more likely to lead to poor outcomes.

132. Ibid (p. 64).
133. Of 20 case studies analysed in Institute of Public Administration Australia (2012), only 10 had been developed through a moderately evidence-driven process. Of 40 case studies analysed in the Evidence Policy Project in 2018 and 2019 (see newDemocracy (2018a) and newDemocracy (2019)), only 12 had followed an 'acceptable' process (or better). In these case studies, the brainstorming of alternative policy responses, comparing the costs and benefits of each, was the step in the policy process that was followed least often – see Figure 3.1 on the following page.

Many people have written about policy analysis.[134] In an ideal process, a variety of potential responses to the issue are evaluated in a disciplined way. But this options analysis (originally labelled as 'brainstorm alternatives') was the step missed out most often in the development of the policies analysed by the Evidence Based Policy Research Project (Figure 3.1).

The lack of disciplined analysis of alternatives may reflect uneasiness with trading off the different collateral impacts of different policies (Section 2.4.3 on page 23). But more often, it is simply the result of governments responding to events. Unfortunately, any event that opens the policy window (Section 3.3.1 on page 29 and Section 3.3.2 on page 30) can encourage bad policy if it at least *seems* to address the issue of the day.

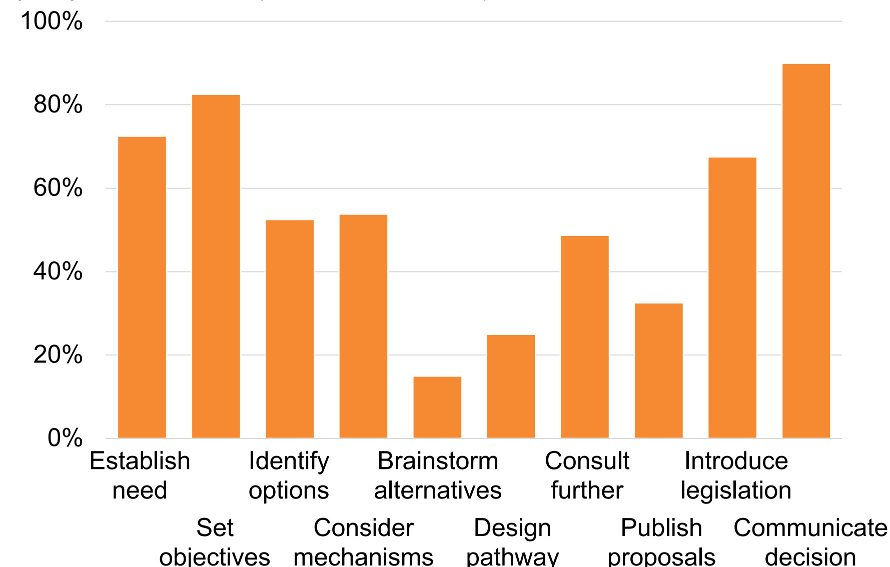
Policy-driven evidence is an unfortunate fact of government life. Politicians and public servants can both cherry-pick the evidence to fit a policy they already favour.[135] But although evidence is *sometimes* misused, in the long run better evidence can change beliefs and lead to better outcomes.[136]

High-quality analysis is also **not sufficient** for reform, even when there is substantial agreement about the evidence. For example, reforming the Age Pension assets test to include more of the value of owner-occupied housing is one of the larger opportunities for budget repair, and would have overall positive effects on the economy and social welfare.[137] This reform is almost unanimously supported by

134. Dunn (2012); Bardach and Patashnik (2015); and Kraft and Furlong (2020, pp. 168–197).
135. Cairney (2017).
136. Rosling et al (2019).
137. Daley et al (2013b, pp. 24, 37–39); Daley et al (2018c, pp. 98–100); and Daley et al (2018d, pp. 83–85).

Figure 3.1: Disciplined analysis of alternative responses is the least-followed step of the policy process

Proportion of policy proposals which used each step of developing a public policy business case (Wiltshire Standards)



Notes: Average assessment of 40 policy proposals by IPA and PerCapita for the Evidence Based Policy Research Project. The pattern was consistent across both years of the study, and across assessment by IPA and PerCapita. The essential elements of developing a public policy business case were outlined by Wiltshire in an unpublished CEDA Research Paper, reported in Institute of Public Administration Australia (2012).

Sources: newDemocracy (2018a) and newDemocracy (2019); Grattan analysis.

policy thinkers.[138] Nevertheless, it remains politically off-limits, with politicians from both sides of politics quick to shut down any suggestion of change.[139]

Even though good evidence is not necessary or sufficient for reform, it can **improve its chances**. Significant reform often waits until a government can exploit a window of political opportunity. But often government can only go through the window because the evidence has already been assembled. As Ken Henry wrote:

> A more accurate assessment of the history of tax reform in Australia is that successive governments have exploited windows of opportunity against persistently adversarial political opposition. The fact that notwithstanding that opposition they have had success owes a great deal to their courage. But no matter how courageous or tenacious, even the best of them would not have attempted serious reform without being able to build on the groundwork of a reasonably well-informed public debate.[140]

And of course, better evidence usually leads to better policy design, and more success in pursuing the objectives of the reform.

If the data has been analysed, the alternatives considered, and the collateral impacts thought through, a reform is more likely to succeed as intended.[141] Success tends to rebuild political capital. By contrast, a reform that falls short of unrealistic hopes can consume political capital as it is enacted, and then destroy even more when it fails.[142]

3.2.2 Calming the doubters and building support

Better evidence can convince at least some doubters, reducing opposition. Evidence can persuade journalists, and they may influence public opinion. Evidence can recruit active supporters to the cause of reform. For example, Grattan Institute's rigorous analysis of how increases to the Superannuation Guarantee suppress wage growth[143] was echoed in RBA testimony less than a week after publication,[144] and the responsible minister then cited both Grattan and RBA to suggest that planned increases to the Superannuation Guarantee should be deferred or abandoned.[145]

Such discussion can sway public opinion. For example, the negative gearing debate prosecuted by the ALP from opposition in February 2016 generated hundreds of media articles. Arguably a debate at this level of detail was important to the ALP winning the public discussion, as this policy, effectively to increase taxes, gained public support,[146] and did not obviously detract from its electoral appeal in either 2016 or 2019.[147]

138. These include government reviews: Henry et al (2009, part 2, volume 2, pp. 549-551), Australian Government (2014) and Productivity Commission (2015); think tanks from left, centre, and right: Denniss and Swann (2014), Daley et al (2013b) and Cowan and M. Taylor (2015); both business and welfare groups: Business Council of Australia (2013) and ACOSS (2014); expert analysts: Rice Warner (2015) and Actuaries Institute (2019); and academics such as Ingles and Stewart (2015).
139. e.g. Bennett (2015) and Maiden (2019).
140. Henry (2011).
141. Althaus et al (2018, p. 45); Institute of Public Administration Australia (2012); newDemocracy (2018a); newDemocracy (2018b); and newDemocracy (2019).
142. For a series of UK policy failures, and their political consequences, see King and Crewe (2014). In Australia, see Shergold (2015, pp. 8–13).
143. Coates et al (2020).
144. Ellis in Hansard (Commonwealth, House of Representatives, 7 February 2020, pp. 25-26).
145. Bonyhady and Duke (2020).
146. Essential Research (2015a); Essential Research (2015b); Essential Research (2016b); Essential Research (2016c); Essential Research (2016d); Essential Research (2016e); Essential Research (2016f); Essential Research (2017a); Essential Research (2017b); Essential Research (2017c); Essential Research (2017c); and Cameron and Mcallister (2019, p. 8).
147. Emerson and Weatherill (2019, p. 7); and D. Wood (2019).

More consensus among academics, policy makers and commentators about the right course of action is important to paving the path of reform.[148]

A lack of expert consensus certainly makes reform harder. The Mining Resource Rent Tax, for example, was inevitably opposed by the mining companies likely to pay it. But it is arguable that the government also struggled to sell the reform because many of the independent voices that might have supported it in the debate were unconvinced by the design of the new tax.[149] As a result, the Rudd Government's proposals were largely unsupported by external voices in the public debate and initial public support drained away within a month.[150]

3.2.3 Changing the evidence base

Governments themselves can change the evidence base – by building the analysis and the arguments – even if they can't change the facts. They can establish inquiries from government organisations such as the Productivity Commission or the Australian Competition and Consumer Commission. They can establish Royal Commissions, set up inquiries, commission work from experts through less formal processes, and contract work from consultants. They can instruct departments to investigate issues and possible policy responses. They can influence the agendas of academics and think tanks. All these voices carry weight with the community, supply evidence in debates, and assure the public that proposals have been well thought through. They can lead the public debate while an idea remains unfamiliar (and therefore often unpopular), allowing government to stay uncommitted and to conserve its political capital through the most difficult phase of the debate.[151] Of course, analysis can only help to sway experts and the public when and if it is published.

Thus governments can make a reform more feasible – and therefore increase its priority – over the medium term, by improving the evidence base.

There is no shortage of opportunities to do so. Grattan Institute has found a vast array of key policy topics to explore,[152] even though it aims to write reports only in areas where there is inadequate evidence (including identifying the best policy response), and it is unlikely that others will fill the gap in the near future.

3.3 Political environment

More vigorous opposition increases the political capital required to pursue a reform; whereas if supporters are prominent and vocal, the path to reform is easier.

Some opposition is almost inevitable. Ken Henry noted that *every* element of the reform program from 1983 was opposed by some powerful vested interest, and no tax policy reform enjoyed bipartisan political support, with the exception of the luxury car tax.[153] Status quo bias almost always stands in the way of reform.[154]

A wide variety of actors affect the political process, and their views influence each other:

- **participants** in formal decision making processes, including public servants, ministers and their advisors, members of parliament, and ultimately the electorate;

148. Parkinson (2011, p. 25).
149. Many commentators were openly hostile, and even supporters had real reservations about its design: see Padula (2013, pp. 6–7).
150. Ibid (pp. 23–24).
151. Banks (2011, pp. 12–13); and Berger-Thomson et al (2018, pp. 16–17).
152. For a summary of the issues covered, see Daley et al (2018b) and Daley et al (2019).
153. Henry (2011).
154. Samuelson and Zeckhauser (1988).

- **interest groups**, including individual companies, industry associations, peak bodies, and not-for-profits;
- **influencers** that are (relatively) independent of vested interests, such as academics, other research groups, and the media; and
- the **public**, bearing in mind that those with higher incomes often have different interests than those with lower incomes, and greater influence over the outcomes of the political process.[155]

3.3.1 How opposition can change

Politics changes, and feasibility changes accordingly.

Electing or appointing someone with particular views and attitudes can change things overnight. Floating the Australian dollar had been canvassed extensively for years, but was opposed by John Stone as Secretary to the Treasury. Nevertheless it was almost immediately on the agenda with Paul Keating's appointment as Treasurer, and pushed through within nine months.[156] Carbon pricing in Australia went from being an almost done-deal to a political football overnight when Tony Abbott replaced Malcolm Turnbull as Opposition leader.[157] And of course elections – whether or not the government changes – affect what happens. Similarly, the internal organisation and membership of political parties can affect outcomes.

Interest groups can change their mind, driven by changes in personnel or events.

Lobby groups perhaps have the biggest impact when they are seen to be arguing *against* their own apparent interest. For example, when the CEO of BHP Billiton gave a speech interpreted as arguing in favour of carbon pricing, it changed the direction of the public debate.[158]

The political power of interest groups can wax and wane with events. It is arguable that the perceived success of the mining industry's advertising campaign against the proposed super-profits tax[159] encouraged other lobby groups to threaten similar campaigns, and discouraged politicians from crossing industry lobby groups so often.[160]

Influencers also come and go as new institutions are formed or old institutions run out of resources. Influencers can participate more or less in public debate as their incentives change. For example, university research became less focused on practical policy problems in the decades to 2010 as university incentives became more focused on publishing refereed journal articles rather than participating directly in public debate.[161]

The 'house view' of media outlets can also change the price of reform. The shift in style and editorial line of News Corp media, for example, has materially influenced policy directions in Australia.[162]

And improved evidence, and the time to discuss it, can change the view of influencers themselves (Section 3.2.2 on page 27).

Public attitudes are themselves influenced by decision makers, interest groups, and influencers. But they are also influenced by events. Ramped up national security legislation (for good or for ill) became much more politically acceptable after 9/11.[163] Reforming gun laws

155. Gilens and Page (2014); Matthews (2016); and Gilens and Page (2016).
156. P. Kelly (2008, pp. 79–81).
157. Grattan (2009); and P. Kelly (2014, pp. 27–30).
158. Kloppers (2010), the impact of which is discussed in Grattan (2010) and Yeats et al (2011).
159. Padula (2013).
160. D. Wood and Griffiths (2018, pp. 47–50).
161. Shergold (2011); Moran (2011); and Daley (2014).
162. Cooke (2019).
163. McGarrity and Blackbourn (2019).

was easier in the immediate aftermath of the Port Arthur massacre.[164] COVID-19 led to unemployment benefits doubling after decades of concern about their inadequacy.[165]

The sequencing of reform can itself change public attitudes. Floating the dollar led to a sharp depreciation, which fuelled concerns about an uncompetitive economy, creating support for financial sector deregulation. That created an asset price bubble, which highlighted the need for microeconomic reform. And trade liberalisation created more impetus for industrial relations reform.[166] The theory is that quick wins from successfully prosecuting 'easier' reforms can build political capital to spend on more difficult reforms.[167]

3.3.2 Using the window of opportunity

As feasibility changes, priorities should change too. One should take advantage of windows of opportunity – prioritising a reform when the environment for it is relatively favourable, at least for the moment.[168]

Circumstances can both increase the value of a reform, and increase stakeholder support for it. For example, the multi-speed economy of Australia's mining boom made reforms to increase economic flexibility (such as workplace regulation) more valuable,[169] and arguably increased stakeholder support for them.

Economic plenty cuts both ways. It makes reforms more feasible because there is budgetary scope to pay off the losers (such as when the GST was introduced) or to fund investments to boost capacity.[170] But plenty is not necessary for reform: for example, budget deficits were no obstacle to the introduction of the demand-driven higher education system in 2012. And economic plenty can induce complacency, reducing the perceived urgency of reforms.[171] Australia's history suggests overall that reform is more feasible in times of adversity.[172]

3.4 Implementation issues

A reform is more feasible if it is less complex to implement. Complexity arises from a range of obstacles:

- formal constitutional and parliamentary requirements,
- the realities of departmental organisation,
- the problems of designing and putting in place machinery, delivering services, and managing workforces.

Some reforms cross **constitutional boundaries** and therefore inherently require coordination between the Commonwealth and the states. For example, the Commonwealth has no direct power over energy.[173] Instead, regulation of the 'national' energy market requires

164. Alpers and Ghazarian (2019); and Davies (2019).
165. Daley et al (2020, pp. 56–63).
166. On the importance of this sequencing, see Berger-Thomson et al (2018), Banks (2011, p. 8), Banks (2010, p. 10), Bowen (2013) and Productivity Commission (2011, p. 126).
167. Brinke and Enderlein (2017, p. 15).
168. For examples of this metaphor, see Henry (2011) and Berger-Thomson et al (2018, p. 14). It appears to originate in Kingdon (1984, pp. 174–180).
169. As argued in Banks (2012, p. 21).
170. Banks (2011, pp. 14–15); and Daley et al (2015b, pp. 13–14).
171. Garnaut (2013, pp. 5, 19); and Brinke and Enderlein (2017, p. 16).
172. It has often been said that, 'If you look at history, Australia is one of the best managers of adversity in the world. . . and the worst manager of prosperity': Dwyer (2010), Stevens (2010), Henry (2006) and M. Turnbull (2017). But the repeated attribution to *The Economist* magazine in the mid-1980s appears to be apocryphal: our digital search of the *Economist Historical Archive: 1843-2014* was unable to locate it: The Economist (2014).
173. A comprehensive carbon pricing regime to implement Australia's obligations under the United Nations Framework Convention on Climate Change would be supported by the external affairs power. But most energy regulation in Australia is pursuant to the *National Electricity (South Australia) Act 1996* and the *National*

agreement of the states and territories. Reform is inherently easier in areas where one level of government has clear responsibility. Problems (such as carbon emissions) are even more difficult when the policy solutions cross international borders.

Reforms are more complex if an issue crosses **state boundaries** and requires inter-state cooperation. For example, water regulation in Australia has always been challenged because water in the Murray-Darling system flows through four states.[174]

Reforms are harder if they require **legislative rather than executive** action.[175] Changing the accounting rules for student loans, for example, is purely an executive decision, but clearer accounting would make the impact of future policy changes more obvious, and help build support for them.[176]

Reforms are also harder if they require **cross-department coordination**, or coordination with independent agencies. It is possible that progress on housing policy is difficult because responsibility tends to be split between departments responsible for planning, for taxation (that is, Treasury), and for social housing (typically a Department of Housing more closely aligned with social services than zoning policy). Progress on retirement incomes has doubtless been hampered by the split of responsibilities for superannuation and taxation (in Treasury), for welfare payments such as the Age Pension (in the Department of Social Services), and for aged care (in the Department of Health).

The complexity of implementation is also affected by the kind of **legal machinery** required. For example, the regulatory changes required to implement a change to the age of eligibility for the Age Pension are relatively straightforward. By contrast, introducing a carbon price required a swathe of subordinate regulation governing the calculation of emissions, eligibility for free permits, and tracking the trade of permits.[177]

Implementation complexity (and risk) is also higher if government needs to **build institutional capacity** to deliver the reform or service, or to manage and oversee third-party service providers. The National Disability Insurance Scheme, for example, inherently faced significant challenges in setting up mechanisms to monitor eligibility of service providers, and to ensure the quality of their services.

The **scale of front-line service delivery** also increases implementation complexity. The effect of many policy changes ultimately depends on what 'street level bureaucrats' do.[178] For example, while most school policy changes do not require legislation, reforms that will make a big difference usually require teachers to do something different in the classroom. It is inevitably an enormous management challenge to change what happens in 9,500 schools and 300,000 classrooms.[179]

All of these implementation hurdles increase the time and attention from both minister and public service required to ensure success. Implementation complexity reduces the prospects of a reform working as intended, and therefore delivering the planned benefits. Obviously the value of a reform is whatever it delivers *as implemented*, rather than its theoretical promise (Section 2.4.1 on page 23). Political capital can be destroyed if reforms are pursued, incur the costs of political contest, and then ultimately fail to deliver the benefits that are promised.

Gas (South Australia) Act 2008 of the South Australian parliament, which are applied through the legislation of the other states and territories.

174. Grafton (2019); and Simons (2020).
175. For a prioritisation of budget repair initiatives according to whether they require parliamentary approval, or were likely to secure it, see Daley and Coates (2016).
176. Daley et al (2016b, p. 36).
177. *Clean Energy Regulation (2011) (Commonwealth)* (as in force on 29 November 2014) contained 295 pages of regulations to implement a carbon pricing scheme.
178. Lipsky (n.d.).
179. For school numbers, see ABS (2020b)

When political capital is the scarce resource, it is sensible to ration it, and to be wary of reforms that require extra capital to overcome obstacles. And reforms are also less attractive if there is more risk that they will not deliver the benefits that allow political capital to be rebuilt.

3.5 Sustainability

The features that make a reform more feasible also make it more sustainable – more likely to stick. When reforms survive changes of government, some analysts of public policy describe them as 'sustainable'.[180] Some go further and *define* success as a reform that is sustained (Section 2.2 on page 15).

Reforms are more likely to be sustained if:[181]

- They are strongly supported by the evidence (so they are more likely to achieve valuable ends);
- The opposition is not strong and persistent; and
- They are well-executed.

As discussed earlier in this chapter, these features also make a reform more feasible in prospect.

But feasibility and sustainability involve different perspectives. The historian looks back and judges in retrospect whether a reform was sustained. The policy analyst or politician trying to prioritise looks forward to assess whether a reform is feasible.

In prospect, the policy analyst rarely asks whether a reform will be sustainable. Sustaining a reform usually looks easy compared to the hurdles of getting it in place.[182] The inertia that inevitably creates obstacles to reform usually creates even higher obstacles to repeal. And while one can be wise in hindsight that a reform was misconceived, proponents invariably believe in the prospects of their reform.

Proponents can only assess feasibility based on the information available *before* the reform is enacted. They must forecast the strength of the evidence that it will be valuable; the likely strength of opposition to enactment; and the potential barriers to successful implementation.

Sustainability does matter: reforms that are subsequently repealed lose the substantive benefits, waste political capital, and may lead to disillusionment, undermining future reforms.[183] But worrying about sustainability is typically not the perspective of a reform's proponent.

3.6 Assessing feasibility

While both logic and most participants in government would define feasibility as a function of evidence, opposition, and implementation complexity, coming up with an assessment of the feasibility of a particular reform is harder. Evidence in public policy is rarely 'open and shut'; policy makers are guessing about how vigorously and effectively vested interests will oppose reform; and views may differ about the complexities of implementation.[184]

Views on feasibility are influenced by perspective.

Central agencies are perhaps more likely than line agencies to see initiatives as feasible. Central agencies tend to be less enmeshed with the lobby groups for a particular reform, have more belief that the Prime Minister or Premier's authority has weight and will be used, and be further removed from – and therefore more blasé about – the difficulties of implementation.

180. e.g. Banks (2011, p. 5).
181. Productivity Commission (2011, pp. 125–126).
182. Bardach and Patashnik (2015, p. 43).
183. Patashnik (2008, p. 6).
184. Bardach and Patashnik (2015, pp. 20–21, 41–42).

Ministerial advisors may consider political obstacles to be greater than do public servants. Hostile responses from the public or interest groups can affect electoral prospects, which inevitably concern ministers and ministerial advisors more than career public servants.

On the other hand, public servants may tend to have a less optimistic view than their minister of implementation complexity. Ministers know their life in a portfolio is probably short relative to the tenure of public servants. And further from the managerial coalface, ministers may tend to be less concerned about the sales and implementation challenges. For example, the reforms to higher education initiated by Education Minister Christopher Pyne tried to deregulate fees, cut funding, and expand the system all at the same time. Even those sympathetic to many of the changes thought it was 'attempting too much too soon',[185] and as things turned out, none of the reforms were passed at the time.

Nevertheless, a disciplined assessment of a proposed reform's feasibility against the criteria we have outlined above is a better approach to prioritisation than not trying at all.

3.7 Other approaches to feasibility

Other approaches to prioritisation by the Productivity Commission (Appendix A.1.3 on page 47), the OECD (Appendix B.2 on page 53), and from public value management (Appendix B.1 on page 51) have tended to define 'feasibility' more narrowly, missing some of the ways that reform can consume a government's political capital.

185. Norton (2015).

4 The process of prioritising reforms

4.1 Politicians and the public service

Ultimately, elected governments must decide on priorities in Australia.[186] Prime Minister Morrison's view in 2019 was that ministers should 'set the policy direction', and 'be in the centre driving policy agendas for their agencies and departments'. Meanwhile the public service should focus on implementing and delivering that agenda.[187] Similarly, some of the public sector literature concludes that prioritisation is a value judgment for politicians and beyond the scope of policy analysts.[188]

Some of the elements of prioritisation are inherently difficult calls that ministers are better placed to make. Assessing the relative value of reforms often requires weighing the merits of different ends that can't readily be measured on a common scale (Section 2.4.3 on page 23). Ministers have more legitimacy to make such value judgments. The relative feasibility of reforms depends in part on judgments about their political feasibility, in which ministers have more experience.

But prioritisation can be more than the gut decisions of political leaders. Decisions can be informed by expert analysis and careful thought about the value and feasibility of the reforms competing for attention (Section 1.4.1 on page 9). It is notable that since the COVID-19 crisis began, the Prime Minister and Treasurer have routinely presented health and economic policy changes as 'following the advice of the department'.[189]

186. Althaus et al (2018, p. 57).
187. Morrison (2019).
188. Birkland (2016, pp. 205–246).
189. Karp (2020); Hunt et al (2020); Morrison (2020a); Frydenberg (2020); Morrison (2020b); and Morrison (2020c).

Ministerial decisions about priorities will usually benefit from informed advice about the value of reform proposals, and their feasibility. In balancing the value of a reform, and all of the political constraints, ministers are entitled to ask public servants for an informed view about what the priorities *should* be. There is every reason for public servants to provide such advice when asked. Public servants are expected to monitor emerging policy issues and alert ministers to them.[190] Indeed if public servants aim to contribute to strategy, then they *should* be involved in the most strategic question of all: what to put on the agenda. When public servants do contribute to priority setting, their criteria for prioritisation should be explicit, and well thought through.

This report aims to help ministers, ministerial officers, and public servants to set strategic priorities to serve the public interest better, while acknowledging the realities of politics.

Obviously, advice about agenda-setting from the public service is only useful if politicians want it. Ministers and the public service need to agree about the criteria for setting priorities. This is why our framework has focused on 'value' and 'feasibility'. 'Value' and 'feasibility' bring together the achievement of worthwhile ends and the realities of politics, which inevitably concern politicians.

4.2 Prioritisation from the centre

Prioritisation depends on a central authority prepared to make hard decisions. Most people think that whatever they are working on should be a priority. Prioritisation inevitably leads to someone being disappointed because 'their' project misses out. As a result, prioritisation requires leadership rather than mass participation.

190. Althaus et al (2018, p. 60).

Consequently, when governments do prioritise consciously, the process is usually driven by central agencies, particularly the Department of Prime Minister and Cabinet, or the Department of Premier and Cabinet. The mission statement of the NSW Department is explicit about this: its role is 'driving priorities, brokering outcomes and delivering programs and services'.[191]

Given its key role, unless the central authority has the legitimacy and the competence to select priorities, the prioritisation process won't work.

A 'bottom-up' process in which each department nominates its top few priorities can be more inclusive. But unless the centre then selects between these nominated priorities, the overall 'priority' list is likely to be too long, and many elements – usually the most important and difficult elements – will not be delivered.[192]

4.3 Delegating prioritisation

Trying to set *all* the initiatives of government centrally is self-defeating. Central resources are finite, even if the process we outline aims to use them better.

So the centre should delegate responsibility to portfolios to set some of their own priorities. It might do so providing guidance about which ends are seen as particularly valuable. For example, the centre might set a priority area for reform (such as mental health), and ask the portfolio to prioritise initiatives within this area (see Appendix A.1.1 on page 46).

The risk of this approach is that it overlooks high-value initiatives outside the priority area. This risk is high, because by definition the priority area is set before all the initiatives have been evaluated.

191. Department of Premier and Cabinet NSW (2020).
192. Hymowitz (2016, p. 10).

The budget process can delegate more or less priority-setting to individual portfolios. A budget usually features a couple of headline priorities chosen by the centre. Ultimately the Expenditure Review Committee has the power to pick and choose between all proposed new initiatives. But in practice, jurisdictions vary in how much authority they give to the responsible minister to set the priority of initiatives within their portfolio within a set budget envelope. The 'portfolio budgeting' recommended by the Coombs Royal Commission was intended to encourage Commonwealth ministers to prioritise, allowing them to transfer resources from low- to high-value initiatives within their portfolio.[193]

Value and feasibility should also guide prioritisation within a portfolio. Obviously some values will tend to be more salient, depending on the portfolio – improving health is more likely to be the point of initiatives in the portfolio of the Health Minister than the Attorney-General. But the portfolio should prioritise aware of its institutional bias to value some ends more than others.

4.4 Selecting priorities

Governments should aim to prioritise particular reforms rather than outcome targets, or areas of attention (see Appendix A.1.1 on page 46). The value and feasibility of an area such as 'mental health' can't be assessed, whereas value and feasibility can be assessed for a particular reform such as increasing the resources for psychiatrists embedded in local health networks. Prioritising an *area* for reform rather than a *specific policy change* risks prioritising changes in policy that are relatively low return. We cannot presume that government intervention will remedy every social ill. This is one problem with the approach of the New Zealand Wellbeing Budget, which nominated priority areas such as 'improving child wellbeing' – although it appears

193. Coombs (1976, pp. 367–368).

that these areas may have been chosen on the basis that they encompassed a series of identified high-value initiatives.[194]

The process should aim to set a limited number of priorities. Too many priorities is itself a mark of an unsuccessful process that is unlikely to provide the focus that is the point of the exercise.

4.5 What governments should do with priorities

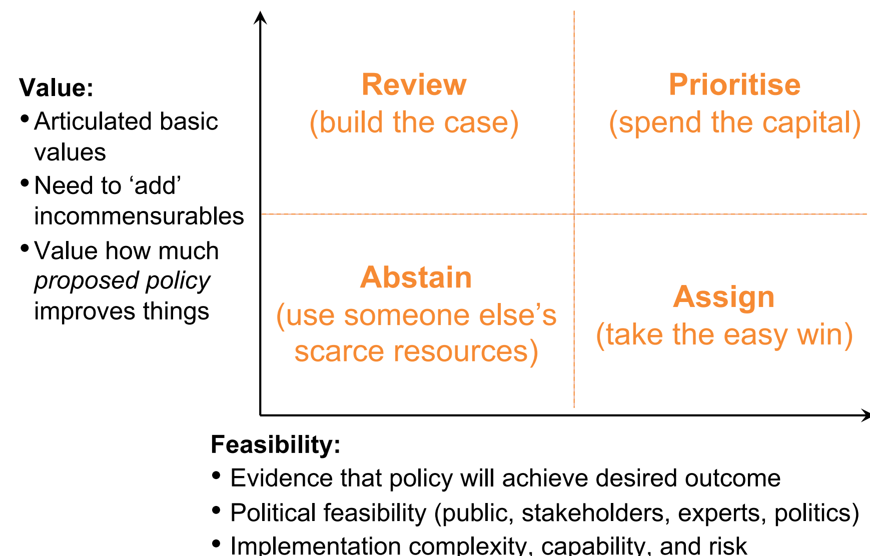
The first step in prioritisation should be to evaluate the elements of value and feasibility of each potential reform. A worked example is shown in Figure 4.3 on page 39.

Once a government has identified the value and feasibility of potential reforms, it can prioritise its activities accordingly, as illustrated in Figure 4.1.

Reforms that are more valuable and feasible should be **immediate government priorities**. Governments should apply more resources to ensure that these reforms are implemented and are successful. This includes applying ministerial time, political capital, money, and public service time to plan, advocate, and implement the policy.

Reforms that are more valuable, but less feasible, require **review**. Governments can invest to change the feasibility of a reform, at least over the medium term. Governments should commission work to improve the evidence base for such reforms, which improves confidence in the solution, can help to build a coalition of support, and may reduce implementation risks (Section 3.2.3 on page 28). Governments can work with stakeholders to build consensus. Governments can sequence other reforms to create pressure for a reform that at the moment is not very feasible. And governments can promote public discussion, often through third parties, that ultimately

Figure 4.1: Government activity should be prioritised depending on the value and feasibility of reforms
Prioritisation matrix



Source: Daley et al (2019, p. 22), modified based on subsequent analysis.

194. New Zealand Treasury (2019a, p. 6) and see Appendix A.2.1 on page 48.

changes the views of the public and other stakeholders (Section 3.3.1 on page 29).

Reforms that are feasible, but less valuable, should be **assigned** as easy wins. Governments should put enough resources (time, money, and political capital) into these reforms to make them successful. This can lay the groundwork for other, more valuable reforms by building momentum, political capital, and consensus on the benefits of reform. But central agencies can afford to limit the resources they devote to these reforms. Because they are more feasible, it should be possible to execute them without tying up extensive central resources. And because they are less valuable, failure is less critical.

Governments should **abstain** from giving whole-of-government priority to reforms that are less valuable and less feasible. Some of these reforms might still emerge relative to the alternatives when a particular portfolio sets its own priorities. But if progressed at all, they should be prosecuted by the responsible minister or department, with the understanding that they might have to make way if they interfere with the reforms that have been identified as a priority for the entire government.

Grattan Institute used this framework to prioritise policy reforms in 2019 from the point of view of the Commonwealth Government. Many of the impacts were approximate – but for prioritisation what usually matters is the order of magnitude rather than a precise estimate.

For example, the retirement incomes issues were assessed in 2019 as shown in Figure 4.2 on the following page. The major change to priorities since then is that it is now more important to halt the planned increase of the Superannuation Guarantee to 12 per cent. This illustrates how changes in circumstances, the evidence base, and the political environment can change priorities (Section 4.9 on page 40). The COVID-19 recession has increased the value of holding the Superannuation Guarantee at 9.5 per cent, because any increase in superannuation contributions is likely to reduce spending. Better evidence produced by Grattan Institute and affirmed by the RBA shows that higher superannuation contributions are ultimately paid out of wages. Some experts have changed their minds, and more of them are saying publicly that the increase to the Super Guarantee should not proceed.[195]

Put together, these assessments identified the whole-of-government priorities shown in Figure 4.3 on page 39.[196]

4.6 Packaging priorities

So far we have advocated a 'simple' prioritisation of the most valuable, most feasible reforms.

But governments often do, and should, design a package of reforms that increases overall feasibility. Political opposition can be reduced if those who lose from one element of the package gain from another.[197] For example, deregulation of labour markets under the Accord was accompanied by social reforms including income tax cuts, increased public spending on health and education, and the introduction of superannuation. The European Green Deal has been designed with similar intentions.[198] Of course, these kind of packages require a vision of the overall direction.

The desire to have a 'narrative' or 'light on the hill' that provides a linking theme for reforms may also shape the agenda.

195. P. Martin (2020); and Eslake (2020).
196. Daley et al (2019, p. 23).
197. Berger-Thomson et al (2018, p. 15); see also Banks (2010, p. 11).
198. European Commission (2019); and Harvey and Rankin (2020).

Figure 4.2: Grattan Institute's assessment of retirement incomes issue priorities in April 2019

Summary of policy option assessments; darker colours indicate a better score, lighter colours indicate worse

	Value					Feasibility				Priority
Reform	**Economy**	**Retirement incomes**	**Other social impact**	**Budget impact**	**Overall**	**Evidence base**	**Political environment**	**Implementation**	**Overall**	
Default super account	$2b/yr Minifie (2015, pp. 18–19)	5% higher low and middle incomes, 10% high incomes Daley et al (2018d, p. 74)		$0.2b/yr (assumes 10% tax on higher earnings due to lower fees)	H	Comprehensive report in Productivity Commission (2018)	Industry opposed Public supportive (hard to dislike lower fees)	Requires legislation. Requires new regulation and contract management	H	Prioritise
Age pension Asset test and owner-occupied housing	Negligible economic downside	No change provided changes made to Pension Loans Scheme	Encourages downsizing a little Daley et al (2018c, pp. 98–100)	$1-2b/yr Daley et al (ibid, pp. 98–100)	M	String of reports see above fn.138	Very hostile public reaction Academics and think tanks highly supportive	Requires legislation. Requires new State Revenue Office interface	M	Review
Age Pension asset taper	Minimal	5% higher for low and middle incomes Daley et al (2018d, p. 74)	Unfair to have negative real return on savings Daley et al (ibid, p. 82)	- $0.7b/yr Daley et al (ibid, p. 74)	L	Commentators agree Ingles and Stewart (2015, pp. 2, 33) and Industry Super Australia (2015)	Public supportive Industry groups supportive	Requires legislation. Simple rate change	H	Assign
Default super insurance	$0.1b/yr Assumes productivity gain of 50% on premiums not paid	0.5% higher, if net contributions increase $0.3b/yr Coates and Daley (2019, p. 2)		Minimal increase	M	Strong report in Productivity Commission (2018)	Industry opposed Public supportive	Requires legislation. Some consequential admin	H	Assign
Superannuation Guarantee level	Substantial positive; switch up to $15b/yr from saving to spending	4% for high income earners. Minimal gains for middle-earners since offset via Age Pension taper	Increases inequality as mostly benefits top 20%	$2b/yr today; long-term budget costs to 2060 Daley et al (2018d, p. 74)	H	No review since 1992 (Review commissioned after 2019 election). Contested whether comes from wages	Industry incandescent Public confused over wage impacts	Requires legislation. Simple rate change	L	Review
Super account switching	$0.3b/yr Minifie (2015, p. 45)	0.5% higher, if net contributions increase $0.3b/yr Coates and Daley (2019, p. 2)		Minimal increase	L	Some discussion in Productivity Commission (2018, p. 20)	Public supportive Hard for industry to oppose	Requires significant public education, nudging, and behaviour change	M	Abstain
Age-based tax breaks		Negative for middle and high income earners		$0.7b/yr Daley et al (2016a, pp. 26–30)	L	Under-researched outside Grattan work	Public hostile to reductions in special status of seniors	Requires legislation. Simple rate change	L	Abstain
Pension and super age	$20+b/yr Daley (2012a, p. 20)	8+% Daley et al (2018d, p. 74)	Some equity concerns as low incomes have lower life expectancy Whiteford (2014)	$12b/yr Daley (2012a, p. 29)	H	Under-researched outside Grattan work Equity issues not thought through	Public hostile ALP opportunistically opposed	Requires legislation. Simple rate change	L	Review
Super earnings tax	Minimal	Negative for high income earners		$2b/yr Daley et al (2019, p. 132)	H	Academic support Ingles and Stewart (2015, pp. 14–15, 45–50)	Public supportive, except for high income retirees Industry lukewarm	Requires legislation Requires some tax admin	H	Prioritise

Note: All amounts are approximations only. Priorities have changed since April 2019: recession has increased the value of holding the Superannuation Guarantee at 9.5%; and improved evidence base and political environment have made it more feasible to not increase the Guarantee.

Figure 4.3: Grattan Institute's assessment of Commonwealth Government priorities in 2019

	Prioritise	Assign	Review	Abstain
Economic development	• CGT discount, and negative gearing • Super earnings tax • Newstart	• Accelerated depreciation	• EMTR for 2nd income earners • Pension and super age • Property taxes	
Cities and regions				• Regional project evaluation • Regional service levels
Transport	• Infrastructure decision-making • Discount rate • Lessons from past projects			
Housing		• National Housing Supply Council • Foreign real estate ownership • Commonwealth Rent Assistance	• Planning for housing supply • Migration policy	• Social housing
Energy	• Emissions • Retailer reliability obligation		• Wholesale market reforms • Gas taxes	• Privatisation of network assets • Write-down of network assets • Retail electricity competition
Health	• Universal dental care		• Integrated primary care • Private health insurance • Out-of-pocket costs • Sugary drinks tax	• Public hospital pricing • Hospital complications data • Hospital outpatient funding • Pathology costs • Pharmacist repeats • Palliative care
School education		• School funding		• School reform agreements • Initial teacher education
Higher education	• Demand-driven higher education	• Completion information • Dis-enrol disengaged students		• HELP cost recovery • Vocational education fees
Retirement incomes	• Default super accounts • Age Pension asset test • Retirement incomes system	• Age Pension asset taper • Default super insurance	• Super Guarantee level	• Super account switching • Age-based tax breaks
Budget				• Macro-economic forecasts • Fiscal targets • Intergenerational report
Integrity	• Political donations • Campaign spending • Ministerial diaries	• Lobbyist register • Parliamentarian conflict of interest • Integrity commission		

4.7 Communicating priorities

Communicating an agenda for reform is different from designing one. Headlines are politically valuable. So public communications are likely to focus on an an even smaller set of initiatives than the priority list. And the public centrepiece may well be the initiative most popular with the public, rather than the reform that delivers the most value.

For the purposes of communications, multiple reforms will often be bundled together under a single heading (which may lie behind the New Zealand government's summary of its Wellbeing Budget's priorities as a small number of priority 'areas' rather than a longer list of reforms; see Appendix A.2.1 on page 48).

But to make the most difference to prosperity, an agenda should be identified first, based on value and feasibility, and then the communications can be designed around it.

It is understandable that governments usually prioritise in private. Publishing that a reform has not made the list just raises political grief about an issue which by definition is not a priority. If governments use the framework we have suggested, then prioritisation is likely to involve assessments of interest groups and political opponents that would sometimes cause embarrassment if public.

But it would do no harm to be more explicit about the frameworks for prioritisation, so that governments can at least learn from each other.

And it would be helpful if governments were explicit about the results. In the United Kingdom, the Queen's speech publicly sets out priorities. In Canada and Queensland, the mandate letters from Prime Minister or Premier to their ministers have been published (Appendix A.1.2 on page 46). Inherently publication both focuses the agenda for the public and departments, and increases ministerial accountability.

4.8 The time for prioritisation

Evaluating a program of reforms as we have suggested requires resources, time, and the space for reflection. It is unlikely to be a weekly exercise. It is more likely to emerge at key moments in the life of a government, such as the lead-up to an election, the immediate aftermath of an election, or the lead-up to a budget. The tempo of the Australian year means that the return from the summer break can also be a moment for agenda-setting.

4.9 Changing priorities

Although prioritisation benefits from a broad and overarching process, the agenda it defines is inherently dynamic, and any priority list needs to be adaptable.

Feasibility can change a lot with events (Section 3.3.1 on page 29), and priorities should adjust accordingly (Section 3.3.2 on page 30).

Although the value of a reform tends to be relatively stable over time, sometimes it depends on whether the reform is implemented today instead of tomorrow.

For example, the health and economic imperatives of the COVID-19 pandemic create an unusual set of priorities. A number of policy initiatives would have a much bigger impact if implemented sooner rather than later. This is particularly true for:[199]

- Emergency policies that are inherently time-limited but need to be unwound more carefully;
- Policies that maintain and refine emergency arrangements for the longer-term, where that is better than reverting to pre-COVID arrangements (such as telehealth, childcare subsidy arrangements, and JobSeeker);

199. Daley et al (2020, pp. 6–8).

- Policies to minimise the health risks and immediate social impacts of the pandemic; and
- Policies aimed at reducing the unemployment likely to ensue from the sharp recession (such as extension and redesign of JobKeeper).

In a world living with COVID-19, many policy initiatives would be much more valuable if implemented sooner rather than later. For once, the urgent really is also the important. As a result, other reforms should be deprioritised – for now – *because* they would remain valuable even if implemented later.[200]

But a social and economic shock on the scale of COVID-19 is very unusual, and it changes priorities in unusual ways. In a more normal world, the value of most reforms doesn’t change so rapidly over time.

200. Ibid (p. 6).

5 Other forms of government prioritisation

So far this report has focused on prioritising across the whole of government or a portfolio. But different approaches are required when prioritising initiatives in response to a particular social issue.

Sometimes options can be identified that are better or worse than all the alternatives on all dimensions. For example, Grattan Institute's work on superannuation tax breaks identified some changes as better than all the others on most if not all of the relevant policy dimensions.[201] Similarly, in analysing policies to improve retirement incomes, increasing the Superannuation Guarantee was the worst on *all* relevant criteria (Figure 5.1 on the next page).

Quite often, however, the reform that delivers the most value is also the least feasible. When analysing potential responses to concerns about housing affordability, for example, Grattan found that the most politically popular options also tended to be the *least* effective in improving housing affordability, and the *worst* in budgetary cost, economic impact, and inequality impact (Figure 5.2 on page 44).

But if analysis identifies high-value but low-feasibility reforms, then this also reveals where further work to build the case would be helpful. And it may discourage clogging the agenda with policy changes that will do little to improve the problem.

Feasibility can be incorporated into prioritising responses to a policy problem, as we have suggested it should be when prioritising the overall agenda of a government or a portfolio. For example, in trading off options to reduce carbon emissions, a reform that can politically evolve more easily from current policy settings may be preferable, even if it is not the most credible, flexible, adaptable, and low-cost option on the table.[202] A disciplined analysis of the options can show that some policy designs would be better than some others on all dimensions, including feasibility (Figure 5.3 on page 45).[203] As this example illustrates, explicitly incorporating political considerations can sometimes identify better solutions.

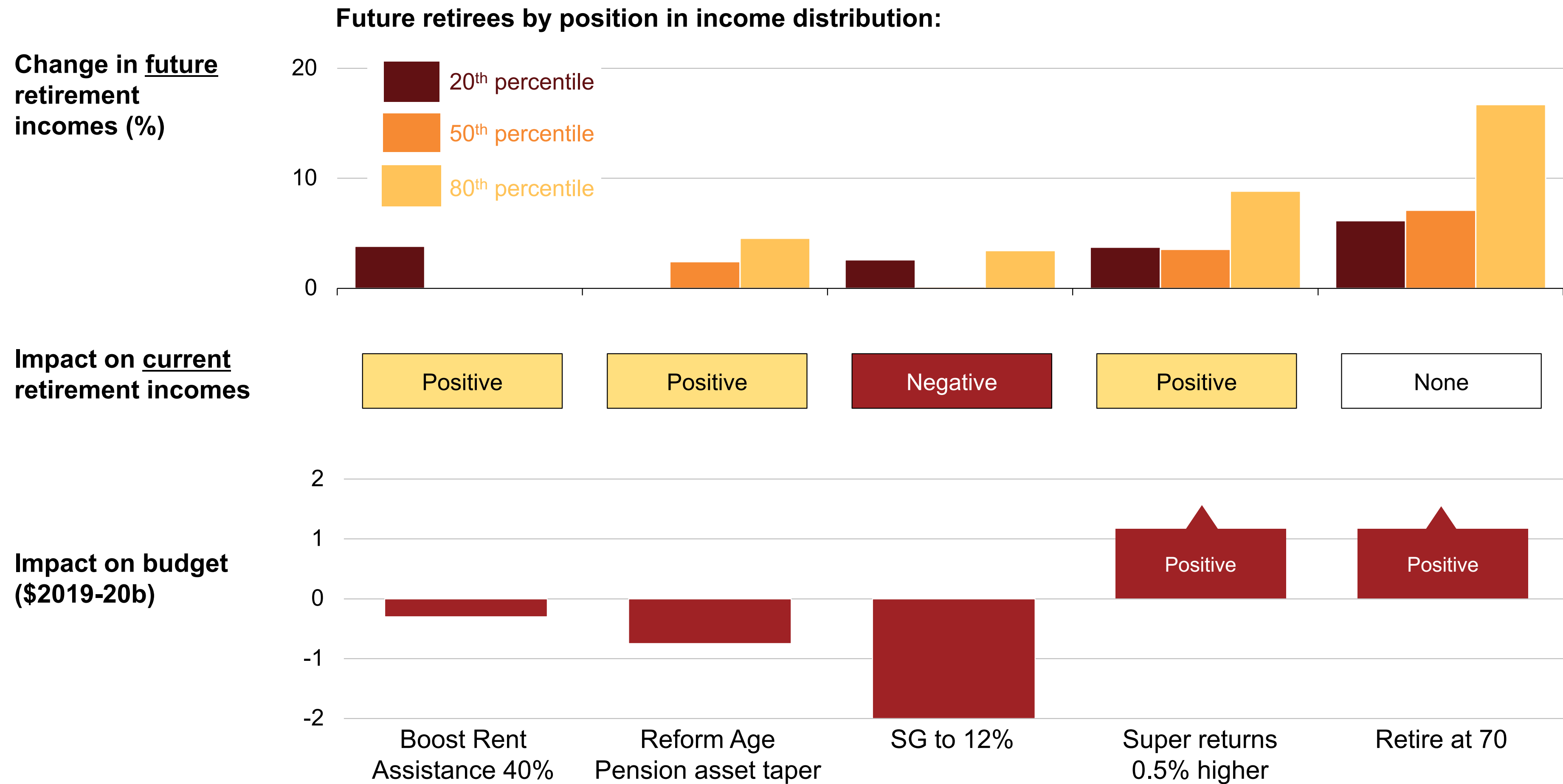
These are a small number of examples of prioritising potential responses to a policy problem. But governments often fail to do so. As discussed earlier (Figure 3.1 on page 26), a disciplined assessment of alternative responses to a policy issue is the least-followed step of an orderly policy process.

Australian governments would govern better if they were better at prioritising their overall agenda, the agenda of individual portfolios, and their responses to individual policy issues. We hope that this report helps those governments that want to do so.

201. Daley et al (2015a, p. 48).

202. T. Wood et al (2015, p. 32).
203. Ibid (p. 38).

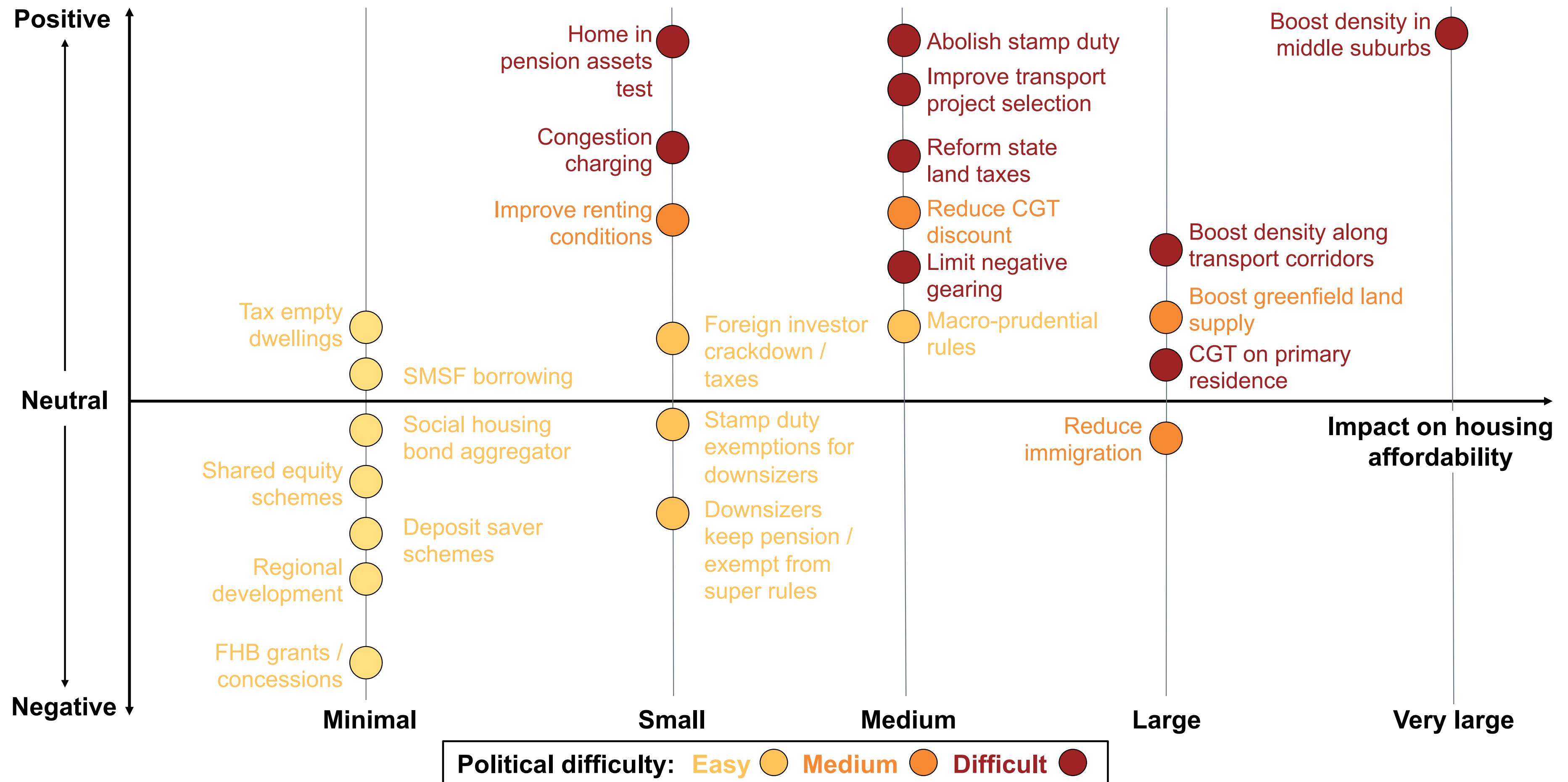
Figure 5.1: Boosting the Superannuation Guarantee would be the worst option to improve retirement incomes, on all dimensions
Impacts of retirement incomes reform proposals



Notes: see Daley et al (2018d, p. 74). Impacts as at April 2019; some have shifted marginally since then due to COVID-19.
Source: Daley et al (ibid).

Figure 5.2: The policies that would improve housing affordability most also tend to be better on other dimensions

Impacts of housing affordability reform proposals



Notes: see Daley et al (2018c, p. 95).

Source: Based on Daley et al (ibid).

Figure 5.3: Some policies to reduce carbon are better than others on *all* dimensions

Summary of policy option assessments; darker colours indicate a better score, lighter colours indicate worse

Policy	Credibility	Political viability	Flexibility	Adaptability	Public acceptability	Low cost
Cap and trade	Can be set to meet any target.	Does not have bipartisan support today, although an absolute baseline and credit scheme could be developed out of the existing ERF safeguard mechanism.	Can be adjusted to meet any target.	Is a market-based scheme that can be applied broadly, although there are challenges in applying it to some sectors.	Complex design makes it hard to communicate.	Can provide incentives for low-cost reductions across a range of sectors. There is less need for complementary or additional policies.
Carbon tax	Difficult to set the tax to achieve a specific target. Tax does not limit emissions.	Politically bruising history in Australia.	Can be adjusted, but no direct link to target.	Can be applied broadly, although challenges in some sectors. Can be transformed to a market-based scheme.	'Taxes' are unpopular. The bruising experience of Australia's fixed price on carbon adds to this unpopularity.	Can provide incentives for low-cost reductions across a range of sectors. There is reduced need for complementary or additional policies.
Intensity baseline and credit	No direct link between individual baselines and overall reduction target.	Smaller effect on consumer prices compared with other forms of carbon pricing.	Individual baselines can be adjusted, but estimating the baseline to meet a specific target is difficult.	Is a market-based scheme, but may be onerous to apply to multiple sectors. Can be transformed to a cap and trade scheme.	Smaller effect on prices makes it more acceptable than other forms of carbon pricing, but its complex design makes it hard to communicate.	Can provide incentives for low-cost reductions within a sector, but may be more costly to apply to multiple sectors.
Emissions purchasing scheme	Allocated budget puts a constraint on meeting targets. Lack of assurance that the target will be met given the scheme is voluntary.	Australia's current emissions purchasing scheme lacks bipartisan support.	Difficult to adjust since additional funds will need to be sourced from the budget.	Cost to the budget makes extending the scheme across the entire economy unlikely.	Acceptable for achieving low levels of emissions reduction, but cost visibility will grow for larger reductions.	Reverse auctions can secure low-cost reductions, but from a set of predefined opportunities.
Regulation	Difficult to link regulations across multiple sectors to meet a specific target.	Seen as a clear and direct way to reduce emissions.	Adjusting regulations is time-consuming, with no direct link to targets.	By its nature, cannot be transformed to a market-based mechanism.	Seen as a clear and direct way to reduce emissions. Costs of regulation can be less transparent to the public.	Need for precise and extensive information makes it difficult to target the lowest-cost reductions.
Tradable green certificate scheme	Only covers the electricity sector and cannot be relied on to meet a specific, national target.	Both sides of politics committed to RET, but the recent reduction in the target raises questions as to whether this commitment is long-lasting.	Only covers the electricity sector.	Difficult to see how to apply to sectors outside of electricity.	Providing incentives for renewable energy is popular in Australia.	Australian experience shows emissions can be reduced at moderate cost, although not at lowest cost.

Notes: ERF = Emissions Reduction Fund. RET = Renewable Energy Target. Source: Based on T. Wood et al (2015, p. 38).

Appendix A: Government approaches to policy prioritisation

A.1 Prioritisation process

When governments in Australia have prioritised explicitly, they have adopted a variety of approaches. Publicly at least, these approaches fall well short of what we have proposed.

A.1.1 Targets and policy areas as priorities

One approach is to announce a list of 'priorities' that are targets, without explicitly specifying which reforms will be undertaken to achieve these outcomes. Governments in New South Wales, Queensland, and Western Australia have all announced priorities of this kind.[204] They were recommended for WA,[205] which responded by identifying six broad domains (such as 'a safer community') with two or three specific targets within each domain (such as to reduce the proportion of the population that use an illicit drug by 15 per cent between 2016 and 2022),[206] and six overlapping 'high-level areas of strategic importance' such as 'job growth'.[207]

The process and criteria for selecting these targets are usually not transparent. One exception is the Queensland Plan, which used an extensive community consultation process to identify the 'foundations for government' (such as 'community'), qualitative goals within each of these areas (such as 'we applaud community achievers'), and then specific targets related to these (such as 'rates of volunteering and community participation').[208] A subsequent set of government priorities in Queensland labelled 'Our Future State' did not use such a community consultation process. Although Our Future State claims to be based on the Queensland Plan, the correspondence between them is loose.[209]

The NSW Premier's Priorities define both broad policy areas (such as 'improving the health system') and a small number of specific targets (such as 'reduce the rate of suicide deaths in NSW by 20 per cent by 2023'). The document outlines why each of the targets is important but, as the NSW Auditor-General has pointed out, it does not explain why each policy area and target is *more* important than the range of other alternatives. Nor does it explain why the selected targets are the most important within the nominated broader policy area.[210]

Even if the best targets are selected, this is a less than ideal approach to prioritisation. It does not take into account the returns of individual policy reforms. It can lead to the selection of a high-cost low-return reform somehow connected with one of the selected targets, instead of a low-cost high-return reform not so connected.

A.1.2 Reform lists as priorities

Other government priority lists have identified particular reforms (not necessarily involving budget expenditure) as priorities.

For example, the annual Queen's Speech in the UK sets out the government's legislative program for the year.[211]

204. e.g. Berejiklian (2019), Department of Premier and Cabinet WA (2019) and Queensland Government (2018a).
205. Department of Premier and Cabinet WA (2017, pp. 28–31).
206. Department of Premier and Cabinet WA (2019); and Western Australian Government (2019).
207. Department of Premier and Cabinet WA (2019).
208. Queensland Government (2018b, p. 6).
209. Of 20 Queensland Plan targets, only 2 strongly overlap with Our Future State targets, and another 8 have some relation: Grattan analysis of Queensland Government (2018a) and Queensland Government (2018b).
210. New South Wales Auditor-General (2018).
211. Bertelli and John (2013a, pp. 11–12).

The ACT Government has 10 priority areas that roughly correspond with government departments ('health', 'education', 'transport', etc.). Within each of these areas it outlines a number of initiatives, some of which are relatively generic (such as 'working with government, non-government, and community sectors to develop actions that will deliver the best education outcomes for our students'), while a few are much more specific (such as to 'open a new P-10 school in Molonglo').[212]

Under cabinet government, Prime Ministers and Premiers often issue a letter to each of their ministers laying out their priority initiatives (which in practice have usually been developed in consultation with the relevant minister).[213]

These letters are not usually public. The criteria and process for choosing priorities may not be explicit in private discussion, and are never made public.

The Queensland Government did publish its cabinet charter letters in 2018.[214] Some of these priorities are generic (for example, one of the Arts Minister's priorities is to 'continue supporting arts and cultural activities that provide public value for Queensland communities, build local cultural capacity, cultural innovation and community pride, in partnership with local councils and industry').[215] But many of them are more specific (for example, the Environment and Heritage Minister is asked to 'design, develop, and implement the flagship $500 million Land Restoration Fund').

Similarly, the Canadian government publishes mandate letters, laying out the Prime Minister's priorities for each minister.[216]

212. ACT Government (2018).
213. Althaus et al (2018, pp. 56–57).
214. Queensland Government (2019).
215. Queensland Government (2018c).
216. Canadian Government (2019).

A.1.3 Prioritisation within specific areas

Clearer prioritisation frameworks and processes are more visible at lower levels in government, such as infrastructure, public health spending, or regulatory reform – although it is less clear how consistently these are used in practice.

For example, the New South Wales, Victorian, and Western Australian governments have developed frameworks for assessing the value of human services programs (measured by impact on a range of particular indicators, generally shaped by well-being research), and started to use these to allocate funding within the health and community sectors.

As with the New Zealand well-being approach, however, these frameworks typically consider only the financial costs and benefits of an implemented reform. They do not consider the political capital required, nor the implementation issues (Chapter 3).

A.1.4 Budgeting processes

Budget processes are perhaps the most influential processes for prioritisation in Australian government today, as discussed in Section 1.6.1 on page 11.

A.1.5 Strategic review

Sometimes governments also initiate strategic reviews to reduce the scope of current activities. As the Australian Public Service Commission described them:

> Strategic Reviews are designed to provide information to assist the Government to set its priorities in the Budget process. Reviews will focus on areas where outlays are significant or growing strongly; where fiscal risk is high; where there might be overlap and integration issues across agencies; or where activity has not been subject to recent substantial review . . . Reviews will be guided by Terms of

> Reference, with the aim of considering the appropriateness (whether the activity is consistent with the Government's policy objectives), effectiveness (how well the activity delivers on its objectives), and efficiency (what is the economic and fiscal cost of delivering the activity) of Government programmes. Care will also need to be taken to ensure that strategic reviews consider appropriate time frames because . . . the most complex policy issues usually need longer time frames for results to become apparent.[217]

In effect this is prioritisation in retrospect: it is better than no prioritisation at all, but clearly it would be better to deprioritise an activity before work on it starts.

A.1.6 Productivity Commission

The Productivity Commission has suggested an approach to prioritising reforms that is conceptually similar to what we propose, albeit in the more limited context of regulatory reform. It would prioritise reforms that have larger payoffs because: (i) the impacts of the reform are deeper; (ii) those impacts are felt broadly across the community, including the extent of any benefit for the most disadvantaged; and (iii) the costs of planning and implementation are lower.

In this approach, the Productivity Commission defined feasibility more narrowly than we do. The Commission focused on the costs to the public service: the time and expense required to undertake reviews, develop proposals, draft legislation, consult appropriately, and set up the new administrative regime. If the existing evidence for a reform was poor or debated, the Commission saw assembling the evidence as a 'cost' of the reform. The Commission emphasised political costs less, particularly the political environment that makes some reforms more feasible than others.[218] The Commission's approach may have been driven by the context of its review: it was examining the prioritisation of detailed regulations inherently less likely to attract political attention. And as a statutory body, the Productivity Commission may have been reluctant to overtly assess the political difficulty of particular reforms.

217. Australian Public Service Commission (2007).
218. Productivity Commission (2011, pp. 125–126).

A.2 Government theories of value

Governments have articulated a variety of theories of value. The New Zealand government has developed a sophisticated 'Living Standards' Framework'. The Australian Bureau of Statistics has developed a framework that is broadly similar. The Commonwealth Treasury adopted a 'well-being' framework that was much less clear about valuable ends, and much more focused on distribution.

A.2.1 New Zealand Wellbeing Budget prioritisation process

The approach of the New Zealand government to defining valuable ends is discussed extensively in Section 2.3 on page 16.

Based on the Living Standards Framework, the New Zealand Government's Wellbeing Budget of 2019 nominated six priority areas (such as 'taking mental health seriously' and 'improving child wellbeing').[219] These were selected on the basis that they are the areas where 'there are the greatest opportunities to make real differences to the lives of New Zealanders'.[220]

The budget process prioritised initiatives that would address these priority areas, and that would also make the biggest difference to a range of much broader well-being objectives.[221] Further initiatives in these areas were 'put on ice' in 2020 due to COVID-19.[222]

219. New Zealand Treasury (2019a, pp. 1, 3, 6 30–59).
220. Ibid (p. 6).
221. New Zealand Treasury (2019a, p. 6) and Mintrom (2019). These broader objectives are described in more detail in Section 2.3 on page 16.
222. New Zealand Treasury (2020, p. 5).

Both the priority areas and the specific initiatives were selected using a series of well-being indicators, that were balanced relative to each other on the basis of community values using Treasury's CBAx tool (Section 2.4.3 on page 23), and other unmonetised considerations.

This is a more disciplined approach to prioritising the initiatives that will make the most difference. But it was still limited. It did not consider the political capital required for the prioritised reforms, nor the implementation complexities. Given the budgetary context, it focused on priorities that needed government spending rather than considering a broader range of reforms.

The right-wing National Party has historically been less comfortable with a 'well-being' framework than a 'living standards' framework, even though they are conceptually very similar. This may have more to do with word association and party branding than content. 'Living standards' may evoke ideas of 'working for a living' that may appeal more to right-wing ideology. The National Party may have been attempting to distinguish itself from the branding of the left-wing Labour Government's first Wellbeing Budget in 2019. Nevertheless, the right-wing ACT party in New Zealand has recently adopted 'well-being' language in policy debate.[223]

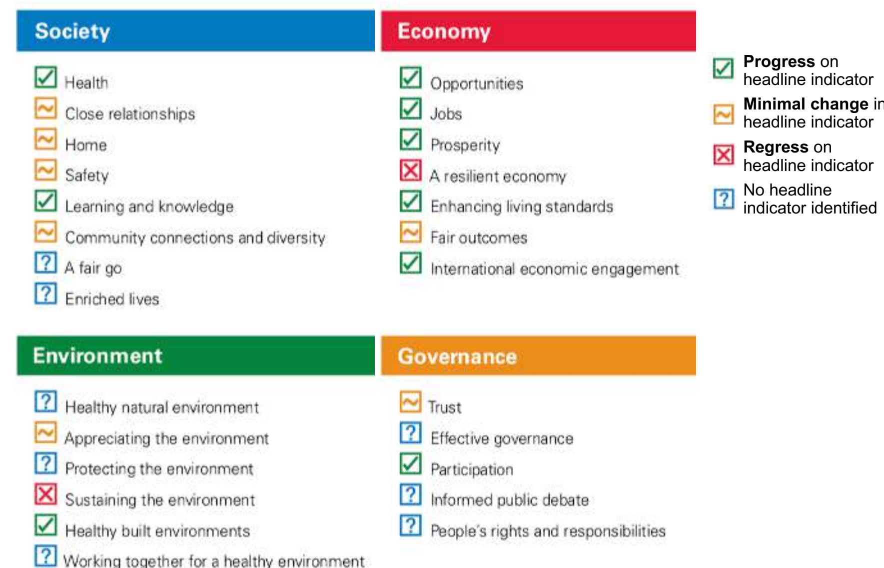
A.2.2 ABS Measures of Australia's Progress

The ABS developed a set of indicators to help answer the question 'is life in Australia getting better?'[224] It identified measures for a number of outcomes that Australians said 'were important for national progress', as shown in Figure A.1. These measures largely cover the ends articulated in the New Zealand Living Standards Framework. Some of the ABS measures go into more detail, and explore various aspects of a single end in the New Zealand framework. For example, the

223. 1 News (2020).
224. ABS (2013).

Figure A.1: The ABS developed measures of what Australians say they value

Measures of Australia's Progress, 2.0



Source: ABS (2013, p. 5).

ABS indicators include distinct measures of whether the environment is healthy, appreciated, protected, sustained, and supported by community activity. Cultural identity is the only feature of the New Zealand framework that is not explicitly articulated in the ABS Measures of Australia's Progress.

A.2.3 Commonwealth Treasury well-being framework

The Commonwealth Treasury first published a well-being framework in 2004, and substantially updated it in 2011.[225] The framework provided

225. Treasury (2004); and Gorecki and J. Kelly (2012).

a 'broad context and direction for policy advice', and was intended to be a 'high-level reminder of things to be concerned about'.[226] It highlighted:

- The set of opportunities available to people;
- The distribution of these opportunities;
- The sustainability of these opportunities;
- The level and allocation of risk; and
- The complexity of choice.

This framework sketched what might be considered valuable ends – the 'set of opportunities' – but focused more on how whatever opportunities are identified might be allocated: their distribution, preservation, and selection.

The Commonwealth Treasury's framework may have been more focused on allocation than articulating values, but at least it was open to the multiple values articulated in the New Zealand framework. Unfortunately, it was replaced by a new corporate strategy in 2016, that focused on improving productivity, restoring budget surplus, and securing the economic benefits of globalisation.[227] This strategy appears to narrow Treasury policy advice to economic productivity and budget responsibility. As discussed in Section 2.3 on page 16, these outcomes matter, but they are far from being the only ends that are valuable, and that government policy aims to promote. This narrowing is concerning given Treasury's responsibility for the budget process, which must select between competing initiatives, many of which will serve non-economic ends.

226. Gorecki and J. Kelly (2012).
227. Uren (2016).

Appendix B: Other approaches to policy prioritisation

A number of academics and organisations from outside government have suggested frameworks for government prioritisation.

B.1 Public value management

B.1.1 The limitations of public value management theory

Public value management theory has been the dominant framework for thinking about public sector management and strategy in Australia and New Zealand for the past few decades.[228]

It defines a public sector manager's strategy as good if it focuses on an initiative which simultaneously:[229]

- Aims to create something substantively valuable;
- Is legitimate and politically sustainable (i.e. the authorising environment provides enough support to get it done); and
- Is operationally and administratively feasible.

But public value management theory is not particularly helpful as a method for the kind of prioritisation discussed in this report for four reasons:

- It fails to articulate a coherent theory of value;
- It largely treats the authorising environment as a given, subject to the limited changes that might be instigated by a public sector manager, whereas political actors may deliberately set out to change what is politically feasible on a much larger scale (Section 3.3.1 on page 29);
- It focuses on whether a reform can be implemented in practice by a public sector manager, and does not incorporate other obstacles such as complexities created by constitutional and departmental structures; and
- It sees the primary cost of intervention not as the use of scarce political capital, but as restricting 'the freedom to pursue one's own course in life'.[230]

Overall, public value management is primarily aimed at defining 'what can/should public sector managers get done?' rather than 'what should governments prioritise?'.

B.1.2 Values in public value management

Typically, public value management starts with an idea that has already been identified as valuable, and articulates how to get it authorised and implemented. Measuring whether or not this actually delivers public value 'remains elusive, with little attention and some speculation'.[231]

Nevertheless, some have asserted that 'public value provides a rough yardstick against which to gauge the performance of policies and public institutions'.[232] South Australia formally adopted a 'public value' framework, requiring all Cabinet submissions to describe the authorising environment and to consider capability and implementation, although how public value is really assessed remains implied.

A recent review of studies aiming to measure public value identified four dimensions:[233]

228. Moore (1995).
229. Alford and O'Flynn (2008, p. 4) citing Moore (1995, p. 71) and ANZSOG (2017).
230. Moore (2014, p. 471).
231. Mendel and Brudney (2014, p. 33).
232. G. Kelly et al (2002, p. 4).
233. Faulkner and S. Kaufman (2017).

- The achievement of outcomes that the public value;
- Whether the implementing agency has public trust and legitimacy;
- Customer perception of service quality; and
- Efficiency of delivery – high outputs relative to resources expended.

But the review found that the published literature provides little guidance on how to measure 'outcomes that the public values': it seldom attempts to articulate objective ends, or an exhaustive list of things that the public values. And without a measure of outcomes, it is unclear how 'efficiency' can be measured.

Overall, public value management theory is somewhat coy about defining what it is that is valuable. At best it expects 'the public' to decide what is valuable;[234] and at worst it smuggles in the public manager's somewhat unarticulated judgments of what is valuable.[235]

Public value management tends to define something as valuable *because* it emerges from the political process. This approach stems from a philosophical underpinning that 'individuals are . . . the only appropriate arbiters of value', and that the moral justification for government is that it is a process to aggregate these judgments.[236]

This philosophical viewpoint is widely shared in the US, with a political history obsessed by individual liberty. It is less ubiquitous in the rest of the world, where most politicians and some philosophers take seriously the idea that there are objectively valuable ends (see Section 2.2 on page 15). Accepting that there are ends with at least as much value as individual choice leads to an alternative political theory of legitimacy (at least as coherent as that assumed by public value management), that the primary justification for government – democratic or otherwise – is that it delivers these things that are objectively valuable.[237] This objective theory is much more consistent with history and political development in Australia than in the US.

234. Moore (2014, p. 469).
235. See Rhodes and Wanna (2007) for the more inflammatory language, and responses such as Alford (2008), Alford and O'Flynn (2008, pp. 185–189) and Mazzucato and Ryan-Collins (2019).
236. Moore (2014, p. 466).

As a result of this thin theory of value, public value management doesn't do much to help ministers and their advisors trying to decide what to prioritise. If things are only valuable *because* they emerge from the political process, then there is little guidance for political actors trying to decide what *should* emerge from the political process.

B.1.3 Feasibility in public value management

The theory of value underlying public value management also leads to a different view of the scarce resource. Whereas our framework sees political capital as scarce, public value management defines the primary 'cost' of policy intervention as restrictions on the freedom to choose one's own course in life. But while maximising the scope for individual choice is clearly one value, there is no reason to value it so much more highly than the many other things that are also valuable (Chapter 2).

Given this theory of 'cost', public value management does not explicitly consider a number of the feasibility issues that we see as crucial to prioritisation, such as the strength of the evidence base, and whether the broader political environment might support a reform.

Given all of these problems, public value management does not provide significant assistance in prioritising reform initiatives that are competing for scarce political capital.

237. Raz (1996) and Raz (1998) discussed in Daley (1999, pp. 63–64).

B.2 OECD

The OECD has published two prioritisation methodologies.

The *Going for Growth* publication series now covers more than 50 countries, including all OECD members. It identifies reforms that serve a narrower range of ends than we propose, and it does not consider feasibility. In setting priorities for a country, the OECD identifies where the country has both a relatively poor outcome and relatively poor policy settings likely to affect that outcome. For example, it might identify low rates of older-age workforce participation and high effective tax rates on older-age workers. Judgment and local knowledge is overlaid where this methodology would otherwise identify too many priorities, or where outcomes are reasonable but declining. It also adds priorities identified in the OECD's *Economic Survey* for each country.[238]

The OECD's articulation of valuable ends in the context of government prioritisation remains more limited than those identified in the New Zealand Living Standards Framework. The original methodology of the OECD's *Going for Growth* publications focused on reforms that were likely to affect economic growth.[239] The OECD also started to identify priorities to improve inclusiveness from 2017, and to improve environmental sustainability from 2019.[240]

This remains much more limited than the broad range of ends discussed in Chapter 2. The *Going for Growth* publications do not explicitly value social connection, cultural identity, housing, health, or safety. And they continue to treat education, civic engagement, and governance primarily as means to economic growth rather than as ends in themselves, although they do show increasing concern about their distribution and impact on equity.

238. OECD (2005, pp. 31–35).
239. Ibid (pp. 31–35).
240. OECD (2019, p. 30).

The OECD's *Better Life* initiative,[241] by contrast, identifies a broader range of measures of well-being, which are broadly similar to those identified in the New Zealand Living Standards Framework. But the *Better Life* initiative does not attempt to prioritise reforms, and does not consider their feasibility.

The OECD also developed a prioritisation tool to assist south-east Europe select reforms for the annual Economic Reform Programme (ERP).[242] The tool is focused on reforms to increase economic growth, rather than broader government ends. While it does take into account the quality of the evidence base, and implementation complexity and risk, it considers only some of the political obstacles to reform.[243]

The tool requires a relatively complex screening process and so may be less effective than the conceptually simpler prioritisation that we have advocated in this paper.

B.3 Australian Social Value Bank

The Australian Social Value Bank compares a variety of ends by comparing their impact on subjective well-being, and converting these to monetary equivalents.

It quantifies non-financial outcomes by identifying the typical difference in:

- Self-reported life satisfaction, according to general well-being surveys, for people with different characteristics induced by policy changes (such as having permanent accommodation rather

241. OECD (2011b).
242. Progress on these Programmes is effectively a condition for joining the European Union: see European Commission (2020).
243. OECD (2018).

than temporary accommodation), all other characteristics being equal;[244] and

- Income required to produce a similar difference in subjective life satisfaction.[245]

It quantifies financial outcomes by identifying the typical difference in income for people with different characteristics. It quantifies secondary benefits by identifying the typical difference in lower government expenditure or higher tax receipts for people with different characteristics. It then adds these non-financial outcomes, financial outcomes, and secondary benefits to quantify the value of a reform. But it only matches these benefits with the budgetary cost of a reform: it does not consider feasibility as we have suggested.

B.4 Other frameworks

B.4.1 Approaches to overall prioritisation

In prioritising a large set of EU structural economic reforms, Brinke and Enderlein consider both the economic value and the 'political feasibility' of each reform.[246] This is much closer to the framework that we propose.

Other advisors have suggested approaches to prioritisation that focus on the value of individual initiatives (in terms of maximising well-being, citizen preferences, or productivity) relative to the expenditure and bureaucratic resources required.[247] Occasionally these approaches refer to the practical problems of technical implementation, but they typically do not consider the political capital and senior resources usually required to implement reform successfully.

B.4.2 Approaches to value

A number of indices have expanded on what is valuable beyond GDP. Jones and Klenow developed an index picked up by IMF economists that combined income with leisure activity, excessive inequality, and mortality.[248] While broader than GDP, this misses many of the aspects of well-being covered by the frameworks already discussed, such as housing, jobs, safety, social connection, subjective well-being, and the environment.

The Australian National Development Index articulated a broader framework that largely overlaps with the New Zealand Living Standards Framework.[249]

244. The methodology uses multiple regression techniques to estimate the impact on well-being of a particular characteristic, all other things being equal: Fujiwara et al (2017b, p. 58). For more detail, see Fujiwara et al (2017a).
245. Again, this uses multiple regression techniques to estimate the impact on well-being of a higher income, all other things being equal.
246. Brinke and Enderlein (2017).
247. See, e.g. PricewaterhouseCoopers (2013), McKinsey & Company (2017) and Dudley et al (2015).
248. Bannister and Mourmouras (2018).
249. The ANDI identified 12 domains of well-being: (1) Children and young people's well-being; (2) Community and regional life; (3) Culture, recreation, and leisure; (4) Governance and democracy; (5) Economic life and prosperity; (6) Education, knowledge, and creativity; (7) Environment and sustainability; (8) Justice, fairness, and human rights; (9) Health; (10) Indigenous well-being; (11) Work and work-life balance; and (12) Subjective well-being and life satisfaction: see Salvaris (2013, p. 86) and Australian National Development Index (2019). A survey in 2018 confirmed that most people thought these domains were important to measuring national progress: Stanley and Salvaris (2019, p. 51)

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