Making better decisions: A conversation with Michael Brennan

In a time of change and upheaval our leaders are being asked to make complex and difficult decisions. What tools and approaches can we draw on to ensure our leaders are making better decisions? Michael Brennan, Chair of the Productivity Commission shares his insights with Tim Ryan, Principal Consultant Aither.

[00:00:00] **Tim Ryan**: Good morning, everyone. And, or evening depending what time you're listening. So it's Tim Ryan here. I'm a principal consultant with Aither, a consulting firm. And today I've got the chair of the productivity commission, Michael Brennan here for an interview and a bit of a discussion. So welcome Mike.

Michael Brennan: Thanks Tim. Great to be here.

Tim Ryan: So you commenced, in your role as the chair of the PC or in about two years ago in 2018 from previous roles in quite senior roles in the federal and Victoria state governments. and you moved into the PC, which has obviously a highly regarded and well known institution, you know, taking on the top role there. So what were your thoughts on taking on that role in the first place and, you know, two years into the role, how's that kind of playing out for you?

Michael Brennan: Yeah, well, I was obviously keenly anticipating the role, very pleased to get it. And yeah, nothing that I've seen or observed or experienced at the time since has changed that view.

So when I came to the job, I guess I had been a long standing [00:01:00] supporter and consumer of the productivity commission's products and it's predecessors products. So I've been a great admirer of the work. Dating back to the early nineties, which I guess at the beginning of when I started to get interested in economic policy, the role of the industry, then industry commission under Bill Carmichael, then Bill Scales, and then the advent of the PC under Gary Banks and then its continuation under Peter Harris. And I was aware of, whilst I hadn't lived through it personally, that the antecedents of the commission in the tariff board and the history of Alf Radigan and his famous rivalries with black jack McEwen and alike, you know, these are things you'd read about and I'd sort of internalized as a, as a young person as being sort of the great iconic chapters in Australian economic policy history.

So it was a great privilege to have effectively [00:02:00] accepted the mantle or the custodianship of such a, a great, and important and iconic institution. And the things that I had always respected about the commission were firstly, the, I think the rigor that it brought to its analysis, and I've always seen, you know, rigorous analysis, kind of having two blades. If you like one being strong, analytical, or conceptual analysis, but the second being a commitment to evidence, real world evidence, and the fact that the commission had this, institutionalized process of going out and gaining the views of stakeholders and testing them rigorously. And hearing them and trying to understand the industries in which they were operating, such that it wasn't, despite the critiques that sometimes arise, it's not an ivory tower institution. It's something that's out there listening to the real world views of stakeholders on the ground. And I've, I've always been impressed by that. I also think it's, it's been an organization that's been prepared to [00:03:00] take a longer term view, and often that's involved a bit of unpopular, but necessary policy advocacy. And that's a precious thing in our democracy because, let's face it. You know, there's always pressure to, deal with issues and address them in the here and now. And I know from my time in, both in government departments, but even in ministerial offices, you know, that what you want to know is that there's something there on the shelf when the time comes, when someone's given a great deal of detailed thought to an issue, that can give you a little bit of a roadmap such that what you're doing in the here and now is consistent with, perhaps a good solid longterm policy path.

Tim Ryan: And actually with that, the longterm view, how does that line up with the current, I suppose, pandemic situation where there probably is a much more shorter term focus in terms of the immediate here now and the impacts, that kind of stuff. How do you, I suppose, maintain that longterm [00:04:00] focus?

Michael Brennan: Yeah. Well, we've, it's, it's been interesting actually. I mean, the pandemic is a fast moving thing in every sense. And the policy response has been fast moving and I think the general community attitudes being fast moving. When I think back to April of this year, you know, all of the focus was on the here and now the immediate response, you know, and some big decisions being made rolling out the job keeper or the job seeker supplement, the closure of the borders, the various restrictions and the like big decisions, having to be made quickly.

Yeah, then not necessarily things where the PC has a significant role to play or wear out the traditional toolkit or approach that we would bring as a lot to, to offer. Nonetheless, we did try and support decision making in that period a little bit, because we figured, well, we have some resources here, some strong, good economic minds and the like that can be used to [00:05:00] try and assist others as they grapple with these issues.

So we succonded a number of people into the treasury. We've provided a bit of support to treasury in terms of tasks, where they might want a bit of additional thinking that we can do.

And, kind of send back some thoughts back to them as inputs into their policy advice and the like, so we've endeavored to flex to make ourselves useful and adaptive to the situation.

But I think since then things have shifted a bit and there is much more focus now on the longterm, partly because there's a realization that coming out of the pandemic and as the economy ultimately recovers, there are two things. One is that the economy will not go back to its precise form. January, February, 2020.

And hence, there's a need for degree of reallocation in the economy. That's a big question Mark, about how you efficiently and speedily encourage that and facilitate that reallocation of resources across the economy. And also, beyond that, in a new, what you might describe as the new steady state, it's just going to be a need for more [00:06:00] pro-growth settings because we will be in a world of a big fiscal overhang for governments, and you know, potentially some heightened risk aversion and weak balance sheets for business, such that we've going to need policy settings, which are as conducive as they possibly can be to investment in growth.

So I think in a way that longterm view is coming back a bit and it remains very important. Albeit there are also short term issues that from time to time, we'll, we'll keep governments very focused.

Tim Ryan: You mentioned the custodianship of the role, which I agree with kind of a long lasting kind of position. But it also also allows you to, I suppose, have your own imprint on the commission itself. So do you have a view of, I suppose, or an ideal in terms of what legacy you want to create for the commission by the time that you finish up there?

Michael Brennan: Well, it's probably not a specific legacy that's [00:07:00] identifiable ahead of time. But I think the key thing there is that there's no question that in coming in, in, September, 2018 as I did, I came into an organization that was strong and successful. So there was no sense of, you know, this was an organization that needed to be turned around or, or things had to be radically remade.

The legacy that I inherit from past chairs and past, and not just the chairs, but the staff and commissioners that have been a part of the commission over a long period. It was very, very strong. It's an influential organization, an organization with a strong internal culture. And it is an organization with a strong commitment to good policy and rigorous analysis.

The key thing is that, as with, you know, even successful institutions can, can kind of have their vulnerabilities born of their success because you, you, you need to ensure that you're continually adapting, evolving to meet the circumstances of the [00:08:00] day. You can't get too trapped in past successes and past business models, but you have to maintain the best of what you've got.

So mainly for me, I think it's a matter of continuing to evolve such that we remain influential in, in the modern day. And sometimes I think that the circumstances in which we find ourselves change and that the pandemic is a good example of that. One of the other things I think we've endeavored to do much more of is to, try to build the influence or improve the influence of our ideas with a bit of what are described as after sales service. So I think we increasingly need to think of the generation of, you know, generating a detailed, long weighty report as being, you know, still a large portion of the value of our product, but it's only a portion it's not the end of the story.

A lot of the value in our product is effectively what we, [00:09:00] then, you know, the service bit to use the economic metaphor, you know, we're shifting a bit from the good to the service after the event. I think with decision makers within government, particularly in the bureaucracy, when a report lands and, yeah, it's long and it's detailed and it's got a lot of analysis that underpins it. It can be a bit overwhelming, particularly for people who are time poor, and often there's a good opportunity for us to be in there explaining things. Often we can give a sense of what led us down to two particular conclusions. And often we can even provide a bit of a senseas they then grapple with a potential government response.

And they're looking at trade offs and they're looking to prioritize potentially. Sometimes they're looking at alternatives and there are instances even within our remit where we can help, we can help them think through those problems. I mean, we have to be a bit careful about it because we want to be, we want to be clear that the advice as per the reports still stand, but there's no point [00:10:00] being completely passive about what happens after the report lands, if that it just compromises the likelihood of good ideas and good policy that, that have been thought about deeply getting up. And so we've tried to put a lot more effort into, into that in a measured way. It doesn't mean a whole lot of public advocacy. It doesn't necessarily mean we're, lobbying ministers ,and what have you that that's not really our game, but, but it does mean ensuring that the full context background, underpinnings of the report or whatever understood in policymaking circles.

Tim Ryan: Which makes sense because a lot of the reports you do are quite detailed, it is also a lot of time. and effort that's allowed for, you know, to go into those reports, to get into that kind of level of detail, that level of understanding that when it drops on, you know, the bureaucracy side and, you know, whoever the recommendations, and that are for, they may not have the same amount of [00:11:00] time or ability to get into that kind of same level of detail. So helping that comprehension and being able to understand where the commission and their staff are coming from, I think is your key comparative. So it doesn't just become a large kind of reference document that. No one reads the whole document. Cause they are quite lengthy at times. It's there for reference for future purposes, but the more you can help people understand where you're coming from, then I think that can only be a positive thing.

Michael Brennan: I think that's right. I mean, the other thing is when you spend a year or two, when you're doing these things, and as I mentioned before, there's that institutionalized public facing bit, which is both, on inquiries, public hearings, but it's the receipt of submissions, but it's also just the informal consultations that we had to take.

So we did a report. it was a bit atypical for us, but a report on. Expenditure in the Northern territory on child and family services, which had us doing a lot of consultation on the ground, going into remote indigenous communities, as well as major regional centers in the NT. And the point is you learn a lot.

You learn a lot by [00:12:00] talking to people just by observation. By osmosis really that you sort of absorb a whole lot of implicit knowledge, which is, you are trying as best you can to explain in the written report, but you'll always do it a bit imperfectly. So it's natural that someone, in addition to reading the report or let's say reading the overview and the, maybe the wrecks and findings.

Yeah, it's, there's a bit of knowledge. That's implicit in the people who've gone and done the work, that, that you want to try and download by other means. So sometimes a conversation or two, you know, or more with, with policy makers that just taps into all of the things that we learned and observed, and, and the judgments that we, form over the course of doing that work can be very valuable.

Tim Ryan: At Aither, our fundamental purpose is to make better decisions that as a consulting firm, that's kind of, you know, a large focus of what we do. And that stems from our experience in advising kind of various industries and governments [00:13:00] over a number of years. And one of the key kind of things that underpins that kind of philosophy is really that we kind of think that making better decisions can have a massive impact on having better outcomes for society and address, you know, key issues, you know, that are currently faced all around the world, not just in water and kind of other industries that we generally work in. So from your perspective, having that kind of overarching kind of view and a lot of current policy input and advice kind of stuff, what are some of the key factors from your perpsective in terms of ensuring that decision makers can make better decisions going forward.

Michael Brennan: I think it's a good question. The, I mean, all of us play a role obviously in that, in our own different, different ways.

And so one thing that I think supports good decision making is whether you've got the right institutional setup that provides the support to decision makers, to make those decisions, which is a combination of, organizations like ours, which would probably be more focused on longer term and trying to do some deep thinking on a particular area in detail, but then, [00:14:00] high quality people that are in the public service close to the government, but in the central agencies, but also the relevant line agencies that can balance those day to day demands with still having a longer term view .

I think things like having a degree of independence, you know, having, a degree of, yeah, preparedness on the part of government to hear divergent views and diverse sources of advice. I think those things are important, but I think post accountability is also very important. I mean, in one sense, what, you know, what makes democracies work effectively, and we shouldn't beat ourselves up, you know, I mean, in a lot of ways in my view is in Australia, the quality of decision making is actually very good. You know, the quality of people, that we will like to bag out, institutions of government. The truth is Australia is a well-governed country by any, by any objective measure.

Tim Ryan: Yeah, I think it comes from maybe people's expectations as well. Of course you do a relative comparison with some other countries we'll [00:15:00] then obviously we're going to stack up a lot better.

Michael Brennan: That's right. So, and it's Metro people got the high expectations as they should, and that's what, you know, it makes us all keen to improve.

So it's an importance spur for, to, to continue to getting better. But, but to me, it's, it's not just about, you know, our, our, our decision makers making as it were, is the right decision in some objective scientific sense because let's face it often the circumstances are so complex, so uncertain. there is no right answer.

You're, you're, you're kind of gathering information, making judgements that there's a bit of evidence, but there's a lot of judgment that's required. And what really matters is that people are accountable for the decisions that they make. The, the essence of good democratic decision making, is not always the quality of the decision upfront. It's the quality of the accountability process after the event. And that's a combination of things. That's, that's about having, you know, a free and robust media, but it's about institutional settings, like audit [00:16:00] offices, requirements to evaluate programs. Ideally a commitment to trialing things, piloting things, seeing how they work, then rolling them out more broadly.

So a little bit of humility and caution at times. S o I think it's often those things that, that add to the. The quality over the longterm, the quality of, of decision making and, you know, because you, you, can't always, you know, you know, sometimes we, we always want to find some Holy grail that will improve the quality of decision making upfront, but, but that's hard.

We've got to acknowledge it. That's a, that's a hard thing. And that the pressures and constraints on decision makers are very, very significant.

Tim Ryan: And there's always uncertainty associated with a lot of decisions as well. You're having to, in a sense forecast, future events, you know, make decisions in the here and now that are quite definitive.

And so then there's other kind of things as well, which I think you kind of touched on with the policy and that kind of stuff is things like, you know, the real options analysis, that kind of

[00:17:00] stuff. We can kind of make decisions no regrets kind of things where rather than making a big bang kind of decision, you can make, you know, break it into stages.

So they can kind of reassess the future scenario, you know, after you've done some level of investment and then kind of deciding whether or not you should continue down that path or change tack.

Michael Brennan: Yeah, I think that's absolutely right. I think one of the great things about, to me, one of the great values in understanding the real options framework is, For me, at least, from where I see it, it's less about that it's quantitative or numerical precision. There will be some instances, you know, where you can really quantify a probability distribution and you have a really robust sense of what new information becomes available at different time periods. There's a degree of quantification you can, you can put on the optimal strategy, I think. And, you can kind of, yeah, has put some values at different points on the decision tree, but I think it's the qualitative [00:18:00] intuition that really is that's where the power exists often. Particularly for policymaking. Policymaking is replete with uncertainty. but you can't just score a wallow with the uncertainty and say, Oh, well, I can't do anything because I just don't know.

And so trying to tame the answer the uncertainty and using some of those basic powerful qualitative insights from real options analysis like that, the greater the uncertainty, the more value there is in flexibility, the more, but, but you have to be disciplined about what new information will come along when that would change your position and, and, and your strategy. And so you, it's never about waiting and seeing indefinitely. You've got to know exactly when to cash in your flexibility. but the other thing is that sometimes you build flexibility through early action. You know, sometimes you impose it or you incur a cost upfront, and that's the thing that keeps your options open.

I think those things are actually, they're powerful intuitions that they. People understand them innately, but [00:19:00] you still have to apply a little bit of qualitative rigor to them because otherwise there's the risk that as a site, people will either want to maintain flexibility indefinitely which is not always the right course, or they will, they will dither where they need to act decisively in order to maintain a degree of optionality, as is often the case.

And, I think that understanding that basic framework is probably the important thing.

Tim Ryan: You mentioned earlier, which I agree with the majority of decisions are generally pretty good in the Australian kind of context, both from government or industry. Now, one thing that I was going to touch on is the fact that, you know, we now have vast quantities of data and analytical tools that we probably didn't have decades ago.

But then decades ago we were still probably making good decisions back then. I don't know, at least in my mind that it's clear, we've actually started making, you know, improving the outcomes we're able to get from those decisions, [00:20:00] even though we have access to so much more information available to us.

So that may or may not be true from your perspective, but I guess how do we ensure the available data and tools are used effectively to get the best outcomes given that we have so much available to us these days.

Michael Brennan: I think it's a very pertinent point actually, as to, you know, has the quality of decision making improved, given that the tools in one sense for decision-making seem to be better now. In terms of more information, more data, yeah, hard, hard question to answer, but it's probably actually a hard case to make, you know, in one sense, a lot of decisions were made in the past where the detailed data might have been lacking but there was a lot of intuition, a lot of judgment, a lot of anecdote and that sort of thing that fit into, fit into decision making.

Tim Ryan: There might have been less probably dynamic changes in the economy and broader kind of society than what there are now given, you know, there's kind of [00:21:00] quite a higher rate of change in certain cities, certain industries.

Michael Brennan: I mean, they're there, this is a slight diversion, but there's probably an interesting, dichotomy between when we look back on decisions that many of us would regard as significant and positive changes that were made in economic policy making.

So for example, the reduction in tariff barriers and trade protection, the opening up of the Australian economy, but also flooding the exchange rate, deregulating financial markets, reforming government, business enterprises, and the like. There's some of those decisions. I think you can say there was a strong evidence base and a very strong process of harnessing that evidence ahead of the decision and the trade protection one is probably the standout for that because you had institutions like the tariff board who were basically given the task of going away and looking at it what is the optimal rate of tariff for this very often niche industry, do the [00:22:00] analysis. What, what can we say? And it was a combination of first principles or partial equilibrium diagram, but with a bit of quantitative, you know, where you could get the quantitative data, you try and put that in and you'd get the views and try and understand the complexity of the industry through firsthand, or kind of dealing with stakeholders and hearing their accounts.

So that's an instance where I think there was a long and painstaking process of understanding the consequences of the decisions upfront, you know, trying to invest as much as possible in, in forming the decision. A lot of the other decisions that were taken that were the kind of, famously cited policy reforms of the eighties and nineties national competition policy, the say reform of government business enterprises.

They were much more judgment based when you think about it. I mean, there was not a long and detailed process to, you know, in the lead up to a thing like NCP that sort of said, you know, here are the - there might've been attempts to work out the benefits [00:23:00] ex-ante. I mean, actually the most famous, estimates were done after the event by, by, by us, by their predecessor organization. About what benefits of NCP might be.

So I think, you know, your, your data and analytics are really strong in informing decision making but often, a lot of decisions and a lot of perfectly good decisions get made, with a strong element of judgment. We shouldn't, we shouldn't forget that as much as we, as much as we kind of exhort decision makers to make as much use of the evidence as possible.

That's the key thing I think about data. And it's proliferation. I think it has been hugely beneficial. On two fronts, we have data sources now, which are much more, either have very, very large sample sizes or there are complete populations distinct from the sample. So sampling error, in some ways it's become less of an issue, and it's, it's become much more real time.

So I'll look at what the Bureau of Statistics has done in the current pandemic with the single touch payroll [00:24:00] data that they've got from the ATO. It's a vast sample. It's really, you know, it is a whole population, but it's also very, very timely. And so it's a, it's kind of a new, yeah, it's sort of an interesting.

Two things that are interesting. It's a whole new kind of area for the ABS to be in, which I think is really positive. David Gruen and has, really pushed, but it's also, there's an element of public value creation in the fact that you have this ATO led, kind of digital system, basically that then one of the byproducts of it is it generates this data flow, that kind of then becomes a public good for the rest of us to understand things.

So I think data is improving. It kind of is a game changer. It is revolutionary, but the thing is always just to be, right with all those things. It's not about being glass half empty or glass half full about it, but you've got to understand the limitations. And I think the key limitation of data is data won't make the decisions for you.

[00:25:00] So I've always been a skeptic of the idea that you can just put all the data into the algorithm or something and it'll sort of tell you a lot of answers, as it were revealing, the answers to mysteries, you know, and just kind of, yeah, mysteriously giving you the solutions to problems. I think you've got to start with your own hypothesis.

Yeah. The data is powerful for testing hypotheses and - correct. You got to start with your first principles view that that judgment based view. and you've got to be prepared to rigorously test against the data and you've gotta be prepared to let it go when the data tells you otherwise. But, the idea that the data of itself, you know, you can just listen to the data.

I am skeptical of that. I'm willing to be willing to be persuaded, but I'm still old fashioned enough to take the view that I think there's a human element upfront, which is start with your hypothesis, form a hypothesis, identify the data that would disprove it and, and be

[00:26:00] honest enough to accept when it's been disproven, rather than going in as it were with a blank sheet of paper.

Tim Ryan: Yep. As consultants, we're primarily advisors and generally advising, you know, decision makers, not always privy to the actual decision itself, and at the PC, not the consultants, but you know, it is that similar kind of advisory kind of role to government. and you touched on earlier about the after sales kind of stuff that you're now kind of looking to try and do to try and make sure that, the information that you guys provide, the reports that get done around would to be utilized to their full capacity and more comprehensively understood, I suppose.

Is there any other kind of, process that you use or other kinds of things to help ensure that, you know, the advice that gets provided, you know, is used appropriately and able to actually positively influence decisions.

Michael Brennan: So I think in the short term, it's mainly that, that process of after sales service and trying broadly to make sure that the recommendations, the [00:27:00] findings that we've made are well understood.

And sometimes there's a public facing element to that. We don't over do it, but we will get out there and communicate those things publicly and then often as I say, helping policymakers, trying to navigate that maze as well, that there's probably another dimension to it too, which is that there are some reports we do, which are kind of quite moored or anchored in the here and now, you know, the government it's kind of evident from the terms of reference with government is focused on a particular problem and they are after some solutions that are tested and evidence based. And that's what we endeavor to provide. And that's then amenable to an immediate government response about what things they might take up and which things not.

There are other instances and reports that we might do, which are subtly less about the here and now, but there might be more about changing the way people think about an issue and often there what we're trying to [00:28:00] do is, yes, ideally give government some actionable recommendations in the here and now, but we're also trying to influence policy making and thinking in a slightly broad and intangible way. But, that a real way, nonetheless, over time. And sometimes that means, you know, you can write a report that will as it were sit on the shelf, but reports can sit on the shelf in a good way or bad way. They're worst places to sit than on a shelf. Right. And, you know, there are, I can think of reports that spring to mind the Henry tax reviews, example, you know, sort of sits on the shelf, but in many ways it is still the authoritative, account of, of what good tax policy, starting from our starting point, ought to look like for Australia and it gets consulted regularly in that light.

So sometimes that's our role, you know, sometimes we want to be influential in having the right, you know, well based recommendations [00:29:00] that are actionable now, but often it's, we want to kind of change thinking and have a product that, might not necessarily have short term influence, but has that longer term slow burn influence.

Tim Ryan: Yeah. I can speak for my own. I know, I think I've mentioned to you before there was a review done a while ago in public infrastructure that's a similar kind of thing. It's largely, you know, it's quite a large, you know, a couple of volumes kind of thing, but quite detailed.

And so I know myself, I know others have kind of referred back to that, you know, from the PCs website, cause it is there and it's quite a good account and record of, you know, kind of, good practice that can last, you know, it's not just a one off kind of point in time. You can actually keep on referring to it in the future.

Michael Brennan: Yeah. Yeah. I think that's exactly right. And there is sometimes there is sometimes the distinction is between, you know, big issues versus small issues, but not always, there are some big issues, where, the government might be after something that's actionable here and now, oftentimes there's a smaller seemingly smaller issue, but one way we might actually, b e interested more in, as I [00:30:00] put it, changing the way people think about the issue.

Tim Ryan: Yeah. Changing the perceptions, which can take a while.

You previously did a speech to WSAA. I did some research. I had actually read it a while ago. And one of the things you noted was, you know, the roles of policymaking investment decision in the industry at large, they're being separated.

Yeah, highlighting the positive kind of thing, that separating and clearly having that sustension of the two roles. But over time, I guess there's an increasing relationship between policy and investment decisions. Quite a lot of policy impacts on investment decisions, you know, quite directly.

So I suppose if we have those two separate roles and, you know, they are kind of that overlapping kind of thing, how do we ensure that those kind of two roles kind of collaborate effectively? And so we get the most efficient outcome for customers going forward.

Michael Brennan: Yeah, it's a very good question. And I don't have a really, I don't have a great answer in a way, but, other than to say, I think [00:31:00] the, the basic narrative that you've sketched out the holes that we, we saw very significant benefits, I think from the 1990s onwards in that wave of reform in particularly regulated infrastructure, water, energy, gas, and the like, by moving to that degree of separation, establishing entities with clear corporate mission boards, capital policy and economic regulation around pricing and investment decisions and well, particularly around pricing around cost recovery. And then, you know, I think we gain, well, statistically, we gained significant productivity benefits associated with that wave of reform. And, and I think you're right. We increasingly observe in areas like water that, the separation whilst beneficial can also be a barrier to getting the right policy outcome at times because we've got an entity that's essentially [00:32:00] got a delivery mandate that that might not necessarily be taking broader account of some other policy considerations.

And so whose role is it? And we, we get, you either have a copy coordination problem or, or a problem of, you know, it's nobody's responsibility and maybe things kind of fall between the cracks. And you can get a bit of confusion. My basic instinct on it is that the model that we've got, You don't want to change it fundamentally because it has delivered the benefits that it has.

And it's not clear to me that the, more blurred, set of accountabilities would, would do better than, than what we've got. But that's an instinct. It's not, it's not a disposition. I, I can't claim to have thought deeply about it, or really looked hard at the evidence. So I think it is probably more about, do you have the, you know, what, what is the role of the policymaker?

I mean, I'm part of, part of the problem may have been that the, we have almost allowed the economic regulation of [00:33:00] the utility sector, sometimes it's almost become a victim of it's success. It's so successful and so powerful a model that sometimes other players in the process have forgotten their role. And I've sort of privately made that observation in the past about the shareholder role. I think sometimes the shareholder role has been diminished because it was almost as though, well, the economic regulator was looking after the investment decisions or most of the entities, whereas in fact, the shareholder really ought to be taking a proactive position, but yeah.

Tim Ryan: Yes. And then the regulator becomes responsible for pricing as opposed to shareholders, you know. That's right. And I think, yeah. And that is a function of the fact that we set up a very successful, strong, dominant model, if you like, and other people maybe couldn't quite see their role, once you have that in place. And maybe there's an element of that with policy-making but, there was too much, or has been too much in the sense that the system sort of runs itself.

[00:34:00] And I agree with that separation of the roles and the benefits that have come from that.

One of the things that just comes to me is the thing of, potential information assymetry in terms of, you know, policy decision makers aren't privy to the detailed information that the, you know, the service providers, you know, the ones that are actually going to be making the investments have. And so they may be making it, you know, there may be some kind of interaction and collaboration, but they're not going to have the same level of detailed understanding of what impact the policy decisions are going to have.

Michael Brennan: Yeah, no, I think that's right. I think that's always been a challenge in policy making and a hard thing to overcome.

Tim Ryan: Yeah. In a slight change of tact until we get value in decision making. The majority of decisions that we see in a lot of the regulated industries, you know, that we deal with are primarily focused on the financial, the cost perspective in terms of decision making. And don't really have a lot of consideration for, you know, the [00:35:00] potential economic, social, environmental kind of value of different options.

It's generally focused on, you know, the least cost in order to deliver certain services. But in my mind at least, there's this distinct difference between the the value that customers get from a certain product or service and the cost, you know, in terms of actually providing it. I suppose the regulated industries, they're a little bit different in terms of, you know, customers don't have a choice.

They have to pay the bills essentially for those related services, which are natural monopolies. Yeah. They regulate by economic, regulators. And for the most part, generally focus on cost. In terms of, you know, because that then feeds into pricing. Now, how do we kind of, I suppose, incorporate that kind of consideration or bridge that gap a bit between, you know, the cost of actually providing a service and the value that customers actually get from that.

Michael Brennan: Yeah. And again, I don't have a perfect answer. I suspect that, you know, in a context like a natural monopoly, which is regulated, [00:36:00] there's an inevitable tension and you have to kind of weigh up what, you know, how, how much, to pardon the pun, but how much value is there in a more value focused lens versus, let's just extract the benefits that you can get out of a cost containment and an efficiency lens.

So going back to my other point, no question that the reforms of the 1990s imposed. Significant discipline, particularly significant capital discipline, on these natural monopolies, which is capital intensive businesses and drove productivity improvements. When you see it in the total factor productivity stats over that period, further for the utilities sector that, that rose significantly.

Now, in a sense we've subsequently given back some of those gains and particularly you can see how that happened in cases like electricity, transmission and distribution, where there were in some states, more stringent reliability requirements that were brought in. Now, in a way you could see that as the value that you're talking about, you know, it results in a measured fall in productivity.

It results in a big [00:37:00] increase in price per unit of output. So the price is faced by the consumer passed on via the retailers. But someone somewhere has made a judgment that there's value in the greater reliability standard. Now the, always the question in these industries is, is that a view that's actually shared by the consumer doesn't really reflect willingness to pay , at the consumer end. Now in energy, maybe you can test that a little bit more because you can find, you know, more innovative pricing structures that allow you to test the genuine revealed preference of consumers about, you know, are they really prepared to pay for that reliability on the hottest day of the year or, you know, during the peak times and the like, and in their market mechanisms, I think in water, that's much harder, to get them open to the idea that you might be able to kind of extract some, something that's a reveal preference around reliability or the desire not to have, not to trigger water restrictions in [00:38:00] a dry period, that those sorts of things. But one of the challenges of course, is that you for the most part, the efforts to try and measure the value.

And you're absolutely right. You know, we, part of the challenge here is we don't have prices in the conventional sense. We don't have prices like you do in a competitive market that kind of keep information about, consumer willingness to pay and you know, in a kind of competitive structure, the part of the challenge is a lot of the modeling techniques that you might employ to try and elicit a willingness to pay are difficult, because they tend to rely on a state of preference.

And it's hard to, it's hard to avoid some element of stated preference, which is yep. Just a bit unreliable, unreliable and prone to misuse, I think, informing, a regulator's pricing decision. So I think it's hard. I mean, it is not impossible that, you know, when you weigh up all of the pros and cons, you just come to the [00:39:00] view that, well, what do consumers really want fundamentally from utility like services. They want reliability, at least cost and that's value enough. And so the economic regulation we've got, whilst it's not perfect, if it can drive that outcome that's enough. But that's a good, it's a good question to have, I think because, as we see, we've tried to bring out a bit in the paper that we put out recently on integrated cycle management, you know, there is increasingly, these other perceptions or budget perceptions. The reality of value that, associated with, aspects of water provision that are hard to incorporate into that conventional economic regulated Woody mode.

Tim Ryan: The traditional kind of model is, it's interesting, is supplying water, take away sewerage and treating it on both sides, maybe a bit of trade waste and storm water kind of stuff.

But now. The definition of the water [00:40:00] industry is kind of increasingly kind of considering other aspects of, you know, where, how water interacts with the general kind of environment and natural habitats and all that kind of stuff. And then it's kind of, yeah, that thing of trying to work out where those roles and responsibilities lie between local governments and state governments and water utilities.

And so who should be doing what, which I think is quite a gray area at the moment in terms of, yeah. Not only who should be doing what, but then kind of going, well, how much should be spent on that because you know what do customers value at, you know. And are customers actually willing to pay? You, get the regulated point of view saying, you know, a competitive environment, people can choose to not purchase the product if they don't see value in it. You know, if it doesn't, it's not value for money for them, they won't buy it. And therefore you get that direct feedback straight away knowing that, well, we've set the price too high for that one.

In regulated monopolies, you know, people don't have that choice necessarily to go to not consume that product and not pay the bill. And so you may get some that are willing to pay and others [00:41:00] aren't. Then you're essentially going to be having one price for everyone. And then it's kind of, you know, balancing that trade off of, you know, what people are willing to pay and how you apply that across the whole customer base.

Michael Brennan: Yeah. And the other thing, of course, in a private market is that you've got the function of entrepreneurship. You've got someone taking a risk, putting out, you know, going out there with a new product, trying to get support for it. They either succeed or fail. You can't replicate that easily in, in the water sector.

So you're trying to substitute for what market might generate in terms of longterm marginal cost pricing and the like, by, by fiat, by regulation. And that's, you know, it's hard for regulators to substitute for entrepreneurs. The other point, you're quite right when you've got some of these broader goals, like, habitat or urban cooling, or just, you know, the, the amenities associated with, a wetland or something that are, over and above the traditional view of what water services have been.

It [00:42:00] is important to ask, you know, who, who delivers that and partly through the lens of who who's well qualified to deliver that because culturally you've got a lot of entities with very distinct, their own distinct cultures like the culture, you know, in a water business is very different from the culture in a local council, to an environmental regulator, to an economic regulator, to a private sector developer, you know, whatever.

But the other thing is that by default, when you attribute a responsibility to a particular player in that, in that mosaic, you're often implicitly making a judgment about who should pay, because if the water authorities are funding something, then that's probably a cost that's going to be built in to the regulated asset base and going to be passed on through pricing, either a unit price or a fixed component of a tariff, but probably across the catchment. If it's funded by council, you know, it'll be reflected in rates. So maybe it's a little more granular because it's that local council, but maybe it's [00:43:00] the right players as a whole, you know, do they, they all leave getting, getting the benefit equally.

If it's the developer, it's much more user pays associated with the particular housing development, but does that, you know, if there is a habitat or that urban cooling effect, you know, is it a little broader than just that immediate development? Should the state pay, you know, there, part of the challenge is, you know, the question about who, who should deliver these things inevitably, gets you into a decision about who should pay because they have their own unique ways of funding their services.

And, and you've got to think hard about. Well, who, who are the beneficiaries and where should we target that cost recovery.

Tim Ryan: Yeah. And part of that also, I think from the water industry's perspective is scope similar to, you know, other ones, primarily electricity, I guess, in terms of tariff structures. So in terms of the water industry itself, it's generally a simple kind of tariff structure I would say that hasn't changed for the [00:44:00] last, I don't know, probably a couple of decades since they came in, in terms of, you know, it's generally a fixed price and variable charge. You know, sometimes that's an inclined block, but there's never been really any kind of consideration of do we research, have a different tariff that customers can opt into, you know, that, you know, like what you can have with electricity, you can opt into certain things. It's generally been just one tariff across the board, with a view, I think from utilities that billing systems aren't necessarily currently capable of dealing with all that kind of stuff.

And so therefore they have a simple kind of tariff structure that essentially means it gets applied to everyone, or they may have some geographic kind of boundaries, but there's no kind of, kind of flexible opt in or scenarios or anything like that that could help deal with that kind of, you know, beneficiary pays and you know, that willingness to pay.

Michael Brennan: Yeah. Yeah, yeah. It's sort of been a question in my mind about how, you know, whether the cost recovery principal ought to flow right through. So should it just have a fixed component on, on bill that reflects the fixed, fixed cost of the business? Which are most of it? [00:45:00] Or is it okay to have greater variability at the, on the retail interface t o recover some fixed costs for the, for the entity itself? And at the end you're kind of taking a bit of a risk on, on usage as it were. And, yeah, I haven't thought enough or researched that question enough, but, you are, right that, it's a, it's a much, it's a much simpler and one size fits all pricing policy in water than it is in other, even other regulated utilities.

Tim Ryan: So in terms of decision making, one things in my mind that kind of gets overlooked quite a bit, and we kind of touched on a little bit, is that, you know, the subsequent realization of the benefits or the outcomes after the initial decision. So there's a lot of focus that gets done and, you know, the ex-ante kind of thing of leading up to the decision and you know, what this decision is going to deliver and all this kind of stuff, but then there's not, very little consideration and then very little resourcing kind of thing, if any.

I think it's dedicated to actually ensuring the value from the [00:46:00] investments actually having to be realized. so I suppose, do you agree with that kind of statement? And then do you have any views on how that could be overcome if so?

Michael Brennan: Yeah, I do agree with it and I agree with, I think it's true in a whole range of contexts, right?

From a hard investment decisions, but also policy decisions and the like, and in a way you can see it as stemming from a couple of innate natural human tendencies. It's one that, decision making is hard. And so there is a bit of a tendency once you've made the decision and we've all had it, you know, when you have an agonizing decision, once you've made the decision that the most salient feeling after that is one of relief, I'll find out I've made the decision, you know?

And so you just want to move on and then if you want to confront the next thing and the next thing you don't really want to be revisiting, you know, Do I have regrets or do I, you know, did I get out of that decision? What I wanted to, and sometimes it, well in your personal life, it's probably not all that fruitful a thing to do, right?

Because you don't, you know, you just won't go with it. Yeah. [00:47:00] But I think so. I think there's that, I think the other thing is that within an organization, for example, you know, a decision has often been, agonized over, but ultimately it's somebody's responsibility. And then for that, somebody they're pretty invested in the decision and they're going to be a little defensive potentially about any effort to kind of go back and review, was it the right call? I mean, the part about post benefit realization is it doesn't have to necessarily be a reflection of quality of the decision making upfront. And then particularly true going back to the way we talk about the intuition behind real options, often what you're trying to go for is some modular approach such that ofcourse you're going to want that ongoing review because you're trying to maintain a bit of flexibility and then determine what's the new information, you know, where are we now at in the decision tree? Should we, should we shift gears? Do we keep going? Do we pause for awhile?

Those things. So in a way, rigorous, post-decision evaluation is part and parcel of taking that flexible modular approach upfront too. [00:48:00] I think. And it should be seen almost as part of an ongoing decision making process, but, but it is hard for those reasons. And I think there are natural reasons why people, you know, they're kind of a little defensive about revisiting, revisiting past decisions, but yeah, you can definitely learn from them.

And, often even if you haven't explicitly gone down a modular path, if you don't think you're getting the benefits that you thought you might, there is often something you can do to try and extract more of those benefits. But of course also in a world of, uncertainty and endogeneity in path dependence, you probably, you're also getting all sorts of benefits that, that you hadn't counted on that just you never really thought about.

Or there would be these other byproducts or side effects and it's good. Just to be reflective about that. I think so. Yeah. I think there is a big role for sort of benefits realization piece after the event. And I suspect part of the reason that doesn't happen is [00:49:00] because people can't quite see the point.

Yeah. That sort of thing. Well, it's a, it's a sunk cost. It's done no point, revisiting it. And, you know, it's only, you know, it looks like a witch hunt about how a decision was come to, but I think that's the only thing we have. We have great difficulty is human beings kind of making the distinction between what, what was a good decision upfront, good decision ex-ante that may not have had a good outcome.

You know, it was probably a good decision to back. The favorite, the favorite didn't win, still was a pretty good decision upfront knowing what you knew, but yeah.

Tim Ryan: Yeah, I think you mentioned at the start about that, you know, the role of accountability in terms of making, you know, having a good decision making kind of approach, and that accountability, you can have accountability in terms of making a decision versus, you know, it may be a different person or different institution that's responsible, and accountable for the actual realizing of the benefits. You know, that can be actually two different kinds of comparison that, you know, it's not just one person accountable for the whole. Yeah. The whole string.

Michael Brennan: Yeah. [00:50:00] Yeah. I think that's right too, because you might, you might tend to, or you've got to be objective.

You gotta be objective about it. Yeah. It's, it's and objectivity is hard, individuals find it hard. I think organizations find objectivity hard, because there's always, you know, there'll be people who want to defend past decisions, that sort of thing. You have to work hard to cultivate an environment.

That is conducive to objectivity. I remember I had a, once had a, a boss who would, go and do a speech or something and, you know, kind of come back and, and say, or purportedly asked for feedback, but basically sort of catch the whole thing in terms of, you know, that was pretty good. Wasn't it?

Yeah, I did that. I got that line in. That was good. Yeah. I really like the way did the, uh. And I admit I was a young person at the time and I remember sort of thinking, yeah, well you haven't really created an environment that's conducive to a really candid exchange of, well, you know, this worked and that didn't maybe next time we'll do this, you know?

Partly because yeah, everyone's human. They want a bit of reassurance too. And confidence is an important ingredient as well. Yeah. [00:51:00] You know, it's, you've got to work at, it is the point, I guess, to, to cultivate an environment that's conducive to objectivity where people are gonna tell the boss the are wrong or people are going to say, yeah, the thing we did last week that we thought was a great idea it actually turns out, maybe it wasn't. But here's how we can make it okay. That's really, that's a big challenge, I think because, it requires a lot of honesty and humility.

Tim Ryan: Yeah, we're coming towards the end. So for the last question I will bring it back up a bit more about the person Michael Brennan himself.

So given where you are at in terms of you become the chair of the PC and, you know, I'll say, yeah, you're a relatively young person given the position that you're in and what you've been able to achieve thus far.

Michael Brennan: Relative to what?

Tim Ryan: So if you could go back 20 years or so, what advice would you give to your younger self?

Michael Brennan: Yeah, that's a good question. [00:52:00] A totally unrealistic question, but it's a good one to ponder, so I'm yeah. Yeah. I mean, I, I, like I say, young relative, relative, what are. So, I'm 49.

I think back to, you know, when I was in my twenties, the advice that I'd give to myself is, yeah, well work harder. I don't know. But that, that, that would be, that would be vain. I think that there's a few things. One of the things that I probably do reflect on a bit is that when you're in your twenties, you probably over think your career choices in a way that you ought not, it matters much more how you do things rather than what you do. So as long as you're doing well at what you're doing and, giving it your all and, and great pride in it, I think that's much more important than, than what you do. I think when I look, I did it a bit, or I was guilty of this a bit, but I see young people doing it today, you know, trying to kind of build the career through building blocks. And so saying, I'll do this and then I'll do that. And then this [00:53:00] will be the right step for me and that sort of thing. It's, it's good to be conscious of the choices you're making, but don't overthink it because what's actually much more important is, you know, you can go and do something totally different for awhile, as long as you're giving it your all, and you're doing it well.

It's amazing how you can then reconnect with past streams of your, of your career. So there were a number of points where I thought, you know, I was at some fork in the road where I was choosing crucially between going down one path. The truth of the matter is, either path might well have led me back to where I am now.

And so you don't, you know, these things aren't quite, the big forks in the road. The other thing, I mean, my own, career was pretty nonlinear. You know, so I've done a bunch of other things that I had had a few, yeah, I've worked, for awhile in, in ministerial office. I have worked in the Kennett government, for example, and, and they are kind of screeching halt in 1999, you know, when, when it came to an unexpected election defeat, you know, so that totally changed my, I lost my job and it kind of changed my, [00:54:00] what would have been under a different scenario my, my career path after that.

And so there are a lot of non-linearities and they're a good thing. And I do look sometimes at, particularly true in the public service. One of the worries I have about young people coming into the service, cause they're very bright, talented people, and they've actually done an extraordinary amount in their undergraduate studies and extracurricular activities and the like, but, particularly in the, in the APS in Canberra.

I think it's true that there's then a very, very strong focus on promotion and the speed of promotion within the ranks know because, it's meaningful to people. That's how you gain a bit of self esteem and a sense of self worth. And it's how you work out if you're doing well or not, how you're going relative to your cohort.

But it, but it's a drug, you know, it's a, it's a toxic and addictive drug that this idea of fast linear advancement, which really is going to [00:55:00] not count for that match when you're 50, you know that how fast you got from one position to the next in your twenties really is immaterial much better off going off, doing interesting things, suffering some setbacks, building a bit of character.

Broadening yourself. You know, having a bit of fun, I think that's more important in the long run. And so whether I'd say that that'd probably be a dangerous message to give to my 20 year old self, but I think it's true for a lot of people. Now, I worry that they can get a bit, a bit channeled on a pretty narrow linear path because it's, yeah.

And they're, and they're goal oriented people and they just want to meet the next milestone and I sometimes think that needs to be shaken up.

Tim Ryan: Yeah. Yeah. Yep. It's that uncertainty and including it within your life.

Michael Brennan: Yeah. Well, it is partly because, you know, if, if so, if you start, for example, in the Australian public service and your goal is to become, a secretary or a deputy [00:56:00] secretary.

I don't know that you'll get there, but by organic, you know, promotion within and, and maybe you shouldn't, and, and part of the reason why you may not is because the world around you is gonna change. So that what looks like a linear path is not really a linear path anyway, it's going to be, it's going to be disrupted by external events.

So it is the uncertainty bit, and you know, the key to uncertainty dealing with uncertainty is, is not about being able to predict what's going to happen. It's really about how you adjust when it occurs.

Well, thanks for your time, Michael. There was quite a lot of good insights there and kind of helpful advice in terms of decision making and kind of useful things to take forward. I think, which was quite useful. So thanks for that.

Tim Ryan: No worries. Thanks Tim. Thanks for having me.