

22 June, 2004

Secretary to the Inquiry into the
Impact of National Competition Policy
Productivity Commission
Australia PO Box 80
Belconnen ACT 2616
AUSTRALIA

The Council for the National Interest Western Australia Committee (CNI) welcomes the fact that a study is to be made of the impact of National Competition Policy (NCP) in Australia.

Regrettably other priorities and time constraints will prevent CNI making a detailed submission at this time.

CNI has made two previous submissions:

18 May 1999 - Senate Select Committee on Social and Economic Consequences of the National Competition Policy.

23 July 1999 - National Competition Review of Pharmacy Legislation.

A copy of each submission is enclosed.

CNI is not aware of any developments or results of NCP which gives CNI reason to change the views expressed in these submissions. In fact events have simply served to reinforce our concerns. For example the Australian sugar industry is now on its knees not because it was inefficient or uncompetitive but because its ability to compete in polluted world markets was taken from it.

Another example is the dairy industry where the winners have been the wielders of supermarket power and the losers are the consumers and dairy farmers. There are other examples.

A serious question to be answered is "Why in a Federation should the States today remain bound to competition agreement signed a decade ago which experience shows has delivered so little, if any, in benefits to the Australian economy and people?"

The question is even more pertinent to State Governments whose mandate from their constituents may well be in conflict with NCP.

Conclusion

We ask that you accept CNI submission 20 May 1999 to the Senate Select Committee on Social and Economic Consequences of the National Competition Policy as a submission to your Inquiry. A copy is enclosed and the Executive Summary and Recommendations are as follows:

EXECUTIVE SUMMARY

This submission argues that:

- (1) the estimates of the benefits to Australia from National Competition Policy (NCP) are seriously flawed and overstated the benefits as measured by growth in GDP by as much as 8 times and further that the flow on effects are negative;
- (ii) proposed reforms under NCP must be halted and then each proposal must be examined on a case by case basis to determine the social benefit;
- (iii) similar reforms in New Zealand and the United Kingdom have not produced sustainable benefits by comparison with comparable economies in their regions and
- (iv) the cost to Australian taxpayers of maintaining the Federal Government is growing disproportionately and should be the subject of an independent investigation.

This submission RECOMMENDS that:

- (2) the National Competition Policy Act be repealed and the Competition Principles Agreement between the Federal Government and the State and Territory Governments be rescinded this being the most effective way to bring a halt to the reform process;
- (3) such reforms as contemplated by the Agreement which have not yet been effected and other reforms be examined on a case by case basis by the relevant Governments;
- (4) each reform proposal should be subjected to a “net social benefit” test, of both the short and long-term benefits and disbenefits;
- (5) no reform proceed unless the most detailed examination, based on tested assumptions of the advantages and disadvantages, show a continuing net social benefit;
- (6) no reform proceed where the reform eg privatisation, contraction out, deregulation etc would be in conflict with the relevant government=s ability to discharge its responsibility to defend the nation or provide basic services such as water, power transport etc to its citizens at an affordable price;
- (7) all net social benefit analyses include a study of the impact of the reforms on families in the form of a Family Impact Statement (FIS);
- (8) an independent body with judicial powers be established to examine the cost of

maintaining the Federal Government with a view to achieving efficiencies and elimination fraud, waste and extravagance;

- (9) based on the experience of the outcome of recommendation (vii) similar bodies be established in State and Territories with the same objective.

Denis O' Sullivan
Chairman CNI - WA Committee

20 May 1999

Mr Peter Hallahan
Executive Officer
Senate Select Committee
Suite SG 64
Parliament House
CANBERRA ACT 2600

SUBMISSION TO THE SENATE SELECT COMMITTEE ON SOCIAL ECONOMIC CONSEQUENCES OF THE NATIONAL COMPETITION POLICY

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Denis Whitely
Executive Director

A SUBMISSION TO THE SENATE SELECT COMMITTEE ON SOCIAL ECONOMIC CONSEQUENCES OF THE NATIONAL COMPETITION POLICY

BACKGROUND

National Competition Policy (NCP) is an undemocratic exercise of Executive Government power. In a deal agreed at the 1995 Council of Australian Government (COAG) where State Premiers and Territory leaders, having suffered substantial cuts to Federal Grants in past years, jumped at the chance to receive compensation payments from the Federal Government ceded control over microeconomic reform. This agreement was formalised by the Competition Policy reform Act, (the Act) which received very little debate or publicity when shepherded through the Parliament.

As a consequence the vast majority of Australian electors were not aware and were not told that their State and Territory leaders had surrendered their sovereignty over the reform process and had committed to contracting out of government services, corporatisation of government instrumentalities, privatisation of State electricity and gas supplies, deregulation of retail shopping hours etc, etc.

GOVERNMENT REGULATIONS

Government have two major obligations to their citizens;

- (10) to provide the capability for the nation to defend itself against aggressors and
- (11) to ensure that all citizens, no matter how impoverished they might be, have access at an affordable price to essential services eg water, power, transport, housing, safety and health.

The question that arises therefore is NOT >should this government business enterprise (GBE) or service be privatised but rather >how can government discharge its obligation to provide these basic human needs in the most efficient ie not wasteful way, at an affordable cost.@

It follows that it is not necessary for all GBE to make a profit but rather the goal should be to provide an adequate service to the people.

It can be argued that the term >most efficient@ equates to >not wasteful@ in that the most efficient way might result in a permanent loss of employment opportunities with a net social loss. In such circumstances the retention of employment opportunities to avoid a net social loss would be judged to be the >most efficient@ provided that the actual operation was carried out with maximum efficiency.

NCP as embodied in the Agreement and in the Act has proven to be in conflict with government obligations and moreover its claimed benefits are based on flawed assumptions and economic ideology.

ESTIMATED BENEFITS OF MICROECONOMIC REFORM

Arising from the two stage procedure, used by the Industry Commission (1995A) to estimate the benefits of microeconomic reform, the estimated increase in GDP can be divided into two parts. The first is the direct benefit or short run increase in output which would take place if the labour and capital employed in different industries. The total direct benefit for the sectors in its report is estimated by the Industry Commission (1995a) at 2.32% of GDP. (Table 1) (Quiggin 1997).

The second estimates benefit, claimed by the Industry Commission (1995a) derives from the increase in GDP arising from the adjustment to a new general equilibrium. For the same sectors this second benefit is estimated at a total of 3.12% giving a combined estimated final benefit of 5.46%, say 5.5% of GDP (or around \$25 Billion)(Table 1). This represents an approximate 1.1% per annum in the level of GDP over a five year period.

The estimates of direct and second round benefits by the Industry Commission (1995a) do not stand up to close scrutiny. They are shown to be over optimistic and based on flawed assumptions. (Quiggin 1997). When adjustments are made based on more realistic assumptions they fall to less than 1% in total or about one eighth of the claimed benefits. These adjustments are detailed at the second and fourth column of Table 1.

In its modelling of the benefits of microeconomic reform the Industry Commission (1995a) makes no allowance for the unemployment effects of microeconomic reform even though evidence reported by the Industry Commission (1995b) suggests that around 50% of workers made redundant by microeconomic reform were still unemployed or not in the labour force after three years. A downward adjustment of final benefit for the unemployment effects is reflected in the fourth column of Table 1.

Table 1 Estimates Benefits of Hilmer and Related Reforms
(per cent of GDP)

Area of reform	Direct productivity benefit		Final benefit	
	Industry Commission	Adjusted ^b	Industry Commission	Adjusted ^c
Telecommunications		0.05	0.20	0.65
Australia Post		0.04	0.01	0.07
Airports and aviation		0.03	0.01	0.03
Electricity, gas and power		0.60	0.10	1.50
Rail, road and ports	0.18	0.08	0.46	0.07
Competition tendering		0.50	0.13	0.87
Statutory marketing ^a		na	na	0.15
Professions		0.10	0.06	0.33
Building regulation	0.27	0.08	0.98	0.08
Private monopolies ^a		na	na	0.14
Self-regulation		0.10	0.02	0.28
Total		2.32	0.69	5.46

Notes: (a) na = not applicable. No direct productivity gains arise from reform of statutory marketing arrangements and private monopolies. Column 3 contains the estimated benefits derived by the Industry Commission from ORANI simulations. Column 4 contains an estimate of the increase in consumer welfare arising from these reforms.

(b) Alternative estimates of the direct productivity effects of microeconomic reform, derived in section 3.1-3.11 of this paper.

(c) Derived from the adjusted estimates in column 2 with a further adjustment for unemployment effects as described in Section 2.5 The adjustment is based on the assumption that 25 per cent of gains arising from labour-shedding will be offset by permanent withdrawal from the labour force.

FLAWED ASSUMPTIONS FOR BENEFIT OF COMPETITION REFORMS

In arriving at the adjusted benefit from NCP Quiggin examined each industry sector and illustrated the way in which the assumptions used by the Industry Commission (1995a) are flawed and result in over optimistic estimates of benefits from competition (Quiggin 1997). In this submission CNI outlines some examples which are self evident and show that the Industry Commission estimates of benefits are so flawed as to be meaningless. A consequence a halt must be called to the implementation of National Competition Policy reforms.

(1) World=s Best Practice and GBE.

On the assumption that exposure to the competition will force Australian GBE to achieve Aworld best practice@ through internal restructuring the Industry Commission estimates the benefits of competition/reform by measuring the gap between the current performance of the GBE and world best practice.

The critical issue therefore is the selection of a realistic benchmark.

Quiggin writes, AWorld best practice analyses used by the Industry Commission (1995a) typically begin with the presentation of a set of enterprises for which some productivity measure has been estimated. As a initial step, the Commission compares the performance of the Australian GBE with that of the top-ranked enterprise in the set studied. In most cases, this comparison is invalid because the enterprises are not comparable. For example, labour productivity (measured in gigawatts per employee) in the Australian electricity industry is compared by the Commission to that of a Canadian electricity company serving a few large industrial customers. The small number of customers served by the Canadian company greatly reduces the need for line workers and service technicians and hence results in a higher level of labour productivity than can be achieved by Australian enterprises serving a large number of customers. After discussion the comparison between Australian performance and that of the top-ranked enterpriser the Commission normally sets the world best practice benchmark at or above the measured performance of the second-ranked enterprise. Even though the resulting benchmark is above any plausible upper bound, it is made to appear more reasonable by reference to the original, clearly invalid comparison@.

Quiggin goes on to illustrate that in terms of procedure and on an industry by industry basis the Industry Commission (1995a) estimates range from plainly wrong to absurd and result in claimed benefits which are quite unachievable. (Quiggin 1997).

(2) Other Countries= Experience

Both New Zealand and the United Kingdom have undertaken more comprehensive reforms than has Australia. Neither country has out-performed the OECD average growth rate since reforms began in New Zealand 1984 and United Kingdom 1979. In fact New Zealand after a couple of good years, 1994 and 1995 has seen GDP growth fall to rate consistent with a trend rate of growth of GDP of around 1 Percent. The United Kingdom has performed better but not as well as other European countries that have not undertaken reform and not as well as Australia (Quiggin 1997).

NET SOCIAL BENEFIT OR TRANSFER OF PUBLIC WEALTH?

CNI argues that reforms as envisaged by NCP should only be undertaken where it can be demonstrated that a continuing net social benefit will result. In relation to the privatisation of Telstra and the Commonwealth Bank it is self evident that rather than provide a net social benefit there was a transfer of public assets to private ownership including to many foreign residents at a discounted value.

In relation to providing competition for Telstra it can also be argued that this has been achieved at a huge waste of infrastructure in the roll out pay TV cabling and of duplicated digital cable to replace the existing analog system.

NET SOCIAL BENEFIT OR TRANSFER TO QUASI MONOPOLIES?

An examination of the result of the deregulation of the New South Wales dairy industry provides an example of the folly of blindly following economic ideology in the belief that competition will lower prices and bring lower costs to consumers and therefore a net social benefit.

The evidence suggests that farmers are receiving 3 cents per litre less at the farm gate, vendors are receiving 7 cents per litre less; processors are receiving 12 cents per litre less. Sadly this 22 cents per litre cost reduction in the milk production/processing chain has not translated into a price reduction for consumers as in fact retail prices have gone up by as much as 5 cents a litre. Who have been the winners? The supermarkets. It is claimed that in New South Wales, in the first three weeks of deregulation Coles and Woolworths, quasi monopolies, pocketed \$60 million by not passing on the savings to the consumer (Price 1999).

Worse still about a third of the dairy farmers may become non viable and many such vendors are also likely to go out of business with a consequent net social loss.

THE EVER RISING COST OF PARLIAMENT

Whilst for nearly twenty years successive Australian Governments have been obsessed with the microeconomic reform process despite the absence of any substantial pay off, the cost to the taxpayer of maintaining politicians in the manner to which they have become accustomed has been ever rising.

In the case of the Federal parliament for example, in 1981, prior to the move to the new House of cost of maintaining it was \$70 million. The 1998.99 budget for parliamentary outlays including the five house departments was around \$346 Million (Andren 1999).

In 1992 the cost of maintaining the Federal Parliament per head of population was \$16, it is now \$19. By comparison with Australia's \$16 per head in 1992 it was \$12.30 per head in Canada, \$11.67 in New Zealand \$8.66 per head in the United Kingdom and in 1993, \$12.50 per head in the USA.

This cost translates to \$1.54 million to keep each member or senator in Parliament for one year. (Andren 1999).

In addition there is the huge unfunded liability for superannuation.

There is a need to appoint an independent investigator with judicial powers to enquire into the whole structure and operation of the Federal parliament to achieve maximum efficiency and to eliminate fraud, waste and extravagance. Based on the outcome of such an examination similar exercises should follow in all States and Territories.

CONCLUSION

It is clear that National Competition Policy has been and is being ideologically driven, its estimated benefits are based on flawed assumptions and there is no evidence that it has actually increased net worth of the public sector. Based on the above examples of Telstra and Commonwealth Bank (and there are many ore similar examples) it can be strongly argued that there has been a reduction in the net worth of the public sector.

The net social benefits have not been demonstrated whereas the evidence suggests that when account is taken of the unemployment effects, the result had been negative.

It is incredible that successive Australian Governments have been bewitched by competition and microeconomic reform ideologues whose inflated estimates of benefits to gained have distorted the economic policy decisions by these governments whose wrong policy choices have largely ignored the most costly and socially crippling need, the need to reduce substantially the unemployment level.

The annual cost of this high level of unemployment is \$40 to \$80 billion far and away in excess of any realistic estimate of the benefits of microeconomic reform (Langmore and Quiggin 1994).

It is a gratuitous insult to the Australian people for Politicians to embark on such policies which have thrown thousands of people out of work, dislocated thousands of families, left thousands of people and families in the misery of unemployment induced poverty whilst the politicians do not subject themselves to the same reform disciplines but on the contrary their very existence places and ever increasing burden on the taxpayers.

RECOMMENDATIONS

- (12) The National Competition Policy Act be repealed and the Competition Principles Agreement between the Federal Government and the State and Territory Government be rescinded this being the most effective way to bring a halt to the reform process;
- (13) such reforms as contemplated by the Agreement which have not yet been effected and other reforms be examined on a case by case basis by the relevant Governments;
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Denis Whitely
Executive Director
Council for the National Interest

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18 May 1999