

THE DEBATE ABOUT COMPETITION POLICY

***A introduction to NCP by Graeme Samuel, President, National Competition Council,
to the Economics Society of Queensland debate with Professor John Quiggin,
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I would like to thank the Queensland Economics Society for this opportunity to debate the issue of National Competition Policy. National Competition Policy — or “NCP” — has been in the news of late and is quite a contentious issue, so this debate on NCP is timely. I hope it will help clarify some of the misconceptions surrounding the nature of competition policy in Australia and its effects.

My opposite number this evening is John Quiggin. As you would be aware, Professor Quiggin is well known for his critiques of many ‘mainstream’ economic policies and/or policy bodies. For example, his book ‘Great Expectations’ sets out what he sees as the ‘micro gains from micro-reform’. He has also made a number of public criticisms of NCP. While I have already responded to some of these comments, I look forward to examining them more closely with Professor Quiggin this evening.

I will start the discussion, however, by briefly outlining what NCP is about and some of the early evidence of its effects.

About NCP

Australia’s governments accepted the need for a broad-based program of competition reform back in April 1995 when they all signed on to the National Competition Policy (NCP) reform package.

The NCP package contains several ‘generic’ reforms which apply to all sectors of the economy.

- First, NCP extends Part IV of the *Trade Practices Act 1974*, that deals with market rigging, to cover all businesses. Some businesses were previously exempt.
- Second, under NCP, reviews are being conducted of all anti-competitive regulation. An example is the recently announced review of the law that gives the legal profession its monopoly on conveyancing here in Queensland.
- NCP also involves a number of generic reforms to government-owned businesses.
- And there is also a national ‘access’ regime to give businesses a legal avenue to get use of other businesses’ infrastructure that they need to supply their products. So, for example, a transport company may be able to get access to track to run its own trains in competition with an existing training operator. The regime also seeks to ensure that access is available of reasonable terms and conditions, such as a fair price.

To characterise these generic reforms, for the most part they are directed towards ensuring that every business or industry in the Australian economy that is currently sheltered from competition is opened to it, *except for those businesses or industries for which it can be demonstrated that there is a net community benefit in restricting competition.*

The qualification is important, although it is one that is often overlooked in public debate. And I refer here not just to Professor Quiggin's past comments — many public commentators and political figures seem to have misunderstood this point. So let me make it clear up front. NCP is not, and never has been, about competition everywhere, nor competition for its own sake. Rather, NCP comprises a raft of reforms that seek to harness competition, *where competition is appropriate*, to boost economic performance throughout the economy.

To help guard against competition being implemented where it is not appropriate, the NCP agreements contain a public interest test. That test requires that governments, when reviewing various NCP reform options, objectively weigh up all the pros and cons of competition — including its effects on matters such as employment, equity and social welfare, regional development and consumer interests and well as business competitiveness and economic efficiency.

And just to reinforce the point, let me point out that several reviews have already found situations in which restricting competition is appropriate. Our 1998 Annual Report contains several examples, including water resources and liquor licensing restrictions in South Australia, physiotherapists registration requirements in Victoria, export marketing monopolies for rice in NSW and the domestic marketing monopoly for sugar in Queensland.

The NCP agreements also allow governments to provide *genuine* community service obligations to people in regional areas, or anywhere else for that matter.

That said, the focus on the generic NCP is on injecting competition into previously sheltered parts of the economy.

As well as the 'generic' competition reforms I have been discussing, there are also specific packages for four key infrastructure sectors tied to the NCP reform agenda. These reform packages are for electricity, gas, water and road transport. The packages pre-date the NCP agreements, by up to four years in the case of electricity, but were brought within its ambit in April 1995. The packages involve different things. For example, the water reforms focus on pricing and asset appraisal to ensure that water is managed with its economic viability and ecological sustainability in mind. The main focus of the road transport reforms is on reform of regulations affecting vehicle and driver operations. The electricity and gas reforms focus on breaking down state barriers to trade and on introducing competition into the generation and retail sides of the market, although the reform packages also recognise that pipelines and electricity transmission grids are natural monopolies and so not amenable to competition.

And let me make an important point here. This aspect of NCP reform makes it quite different from some 'micro-economic' reforms, such as the telecommunications reforms of the early 1990s. In that case, we see what Professor Quiggin has identified as a wasteful duplication of infrastructure in the duplication of local area wires networks. While I might agree with him on this, I would also point out that the introduction of competition into telecommunications

predated NCP and does not necessarily reflect what would have been the outcome had a properly constituted NCP review taken place. While it may thus be an example of micro-reform, it is not necessarily an example of NCP reform.

(Incidentally, I should say that the term micro-economic reform itself is of questionable utility, as it can encompass a range of measures: from the highly centralised Dawkins reforms to education in the 1980s, to the deregulation of output markets as occurred in the airline industry in 1990, changes to product input regulations such as food safety standards, to a decrease of tariffs on imports. In fact, an increase in tariffs on imports would also be a micro-reform, would it not? Micro-reform may or may not accord with mainstream economic ideas, depending on the nature of the reform. Of itself then, the term tells us little about the nature or merits of a reform, just the level of the economy to which it applies).

So, the overall NCP package is a wide-ranging reform but balanced reform agenda which recognises that, while competition can do much to enhance economic performance, it is not an end in itself.

And the National Competition Council? The Council is a policy advisory body. We are appointed by, and report to, both the Commonwealth Treasurer and the Council of Australian Governments (COAG). We comprise five business people drawn from different parts of Australia, supported by a small secretariat that provides us with economic, legal and public policy advice. Our role, in general terms, is to promote the reform program; to facilitate reform; and to monitor progress by governments in implementing the reform program.

We are not the only government body involved with NCP – the ACCC, which is an amalgam of the old TPC and PSA – is also involved, for example.

The case for broad-based competition reform

So that is what the NCP reform program broadly covers and that is the role of the Competition Council.

What is the rationale for NCP reform?

Well, at a very broad level, the rationale is that competition, properly harnessed, can boost economic performance and enhance consumer welfare. But the reasons for NCP reform go beyond narrow economic efficiency considerations and touch on matters of, for example, business ethics, environmental sustainability and social equity as well.

For example, while various aspects of the NCP package can be characterised as aiming to promote economic goals such as a better allocation of resources between industries and greater flexibility to adapt to external shocks, the specific packages in electricity, gas, water and road transport also address other matters, including environmental sustainability, administrative efficiency and even road safety. Likewise, the NCP reforms to government businesses will allow governments to more transparently address their social obligations, as well as providing scope for informed decisions on whether these obligations are best met by in-

house provision or through provision by businesses. Competition policy also involves a greater element of public scrutiny and thus makes it more difficult for governments to provide favours for 'friendly' business groups or to strike deals behind closed doors.

While it is still early days in the NCP program, we have begun to see some fairly striking evidence of the benefits of competition. Our 1998 Annual Report — which was released earlier this month — documents an array of evidence. To give you a flavour, we have seen reductions in business electricity bills for relevant businesses of up to 30 percent on average; cuts in gas prices of up to 50 percent; rail freight reductions of as much as 40 percent, with improvements in transit times and service quality. There has also been a reduction in the prices of government businesses of 15 percent while, at the same time, those businesses have doubled their payments to governments, over the 4 years to 1995-96, partly due to competition reform. We have also seen a streamlining of business licensing requirements under NCP; savings in water usage to help the environment; better utilisation of the nation's infrastructure; lower fees for professional services, and more convenience for retail consumers without the decline in retail employment predicted by some commentators.

The further development of national energy markets offers additional benefits. For example, while electricity prices have fallen by over 20 percent since the commencement of Queensland's internal wholesale electricity market, they remain well above prices in the south. The commissioning of 'Westlink' will allow Queenslanders to get access to cheaper power, provide extra supply security, thereby helping to alleviate the likelihood of 'brown-outs', and also reduce the need for capital outlays on new generation capacity. Tasmania has also announced the commissioning of 'Basslink' which will, among other things, alleviate the possibility of supply disruptions during droughts. In relation to gas, although it is still early days, the recently commissioned \$50 million 'interlink' pipeline between NSW and Victoria allowed a limited amount of Cooper Basin gas from South Australia to flow into Melbourne during the recent Longford supply disruption, enabling emergency services to be maintained. You will also be aware of the Chevron project that will bring gas from PNG to Queensland and then along the eastern sea-board.

Beyond these developments, one potential outcome of NCP is that is an improvement in the productivity and flexibility of our economy in aggregate, which may thereby reduce the extent to which, and speed with which, we slide into recession in response to adverse changes in the world trading environment. In this context, it is noteworthy that the Australian economy has to date remained surprisingly (though not completely) unburned by the Asian melt-down. In fact, leading US economist Paul Krugman has recently labelled Australia a 'miracle economy', having successfully applied a textbook adjustment to a massive external shock. It is too soon to say that we will completely escape recession, either from the effects of the Asian crisis or the global slow-down foreshadowed by some. Nevertheless, we have fared much better so far than might otherwise have been expected. This apparent fire-proofing of the economy is of course not a result solely of competition policy. However, it arguably forms part of the reason.

So NCP reform is clearly already bringing benefits and more are in prospect.

On the other hand, the Council has always recognised that NCP is neither an economic cure-all, nor the only thing governments need to do. There is a range of other matters that also need to be addressed, including tax, labour market arrangements and appropriate measures in relation

to education, training, R&D incentives and infrastructure provision. (There is also the issue of how governments need to help communities adapt to change, about which I shall say more shortly). But NCP should, I suggest, form an integral part of any plan that aims for a prosperous *and sustainable* future.

As well as the economic imperatives, there are several equity benefits in prospect from robust competition reform.

First, as the NCP energy reforms expand to take in the household sector, the resultant lower power prices will have ‘progressive’ distributional effects. This is because low income households spend a larger proportion of their budget on power than do high income households.

Second, implementation of the NCP reforms should ensure that the disciplines of competition are shared more evenly across society. At present, some groups do business from behind anti-competitive arrangements, while other people are not afforded the same privileges and, in fact, can end up paying for them. One example is the legal profession’s monopoly on conveyancing here in this State. When similar restrictions were removed in NSW in the early 1990s, conveyancing fees fell by 17 percent, saving NSW consumers of at least \$86 million. In other words, these restrictions had effectively boosted the incomes of members of the legal profession, but at the expense of consumers and others wishing to compete for their custom. Of course, as you know, the Government has recently announced a review of the Queensland laws. Under NCP principles, such anti-competitive arrangements would only be justified if they provide a net benefit to the community as a whole, rather than simply profiting the practitioners.

Third, to the extent that NCP does help fire-proof us from external shocks, we can expect to avoid recessions, or suffer less serious recessions, than we otherwise would. I understand that labour market economists who have examined the effects of recessions on unemployment over the last couple of decades have coined the term ‘hysteresis’ to describe the process where we see unemployment settling back to a higher rate after each recession than that which prevailed beforehand. The aggregate level of unemployment, of course, is a key indicator of inequity in our society.

Fourth, NCP can provide the means to promote equity by enhancing our economic performance. This is most obvious in the area of government business reform. Where governments are able to provide their services more cost-effectively, they will, as I mentioned earlier, have more resources available to meet other community needs.

Having said that, some competition reform options, were they to be implemented, could detract from equity. This would be the case if, for example, a reform would cause job losses in an already depressed area that would not be sufficiently offset by more jobs elsewhere.

In such cases, the ‘public interest test’ built into the NCP Agreements requires that equity be weighed-up against other matters when a particular reform option is being reviewed. If a reform option does adversely impact on equity, this would add to the case for not implementing it. In this context, it is worth remembering that NCP is not about competition for competition’s sake. Nor is it reform for its own sake. Rather, as I mentioned earlier, it is

about pursuing the broader community interest through competition where, and only where, competition will help achieve that objective. Which is as it should be.

Further, if the benefits of such a reform option do outweigh the costs, including the cost of the loss of equity, it is open to governments to provide adjustment assistance for those adversely affected by implementation of the reform. This is an issue that the Council raised in its 1996-97 Annual Report to governments — well before these issues started receiving attention from mainstream parties and commentators, it should be noted — and it has taken it up again in this year's report.

However, apart from those cases where the public interest safeguards built into the NCP agreements themselves negate the implementation of a reform option, retreating from NCP reform will not be an efficient means of promoting equity — quite the reverse.

Rather, to meet the community's equity objectives, governments need to identify and act on those policy mechanisms that are relatively efficient means of delivering equity. Taxation, education and labour market arrangements are obvious candidates for attention in these respects, I would suggest.

Summary

Let me summarise these points.

The NCP program, agreed to by all Australian governments, is a wide-ranging and balanced program of reform that generally seeks to harness the benefits of competition, where it is appropriate, in all parts of the economy. While it is still early days, we are starting to see evidence of some substantial benefits flowing from competition, and more benefits are in prospect. There are also reasons to believe that many NCP reforms will enhance equity or, where they will not, that there are more efficient mechanisms for pursuing equity than retreating from competition reform.