Submission to Senate Select Committee on the

SOCIO-ECONOMIC CONSEQUENCES OF NATIONAL COMPETITION POLICY

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Summary

National Competition Policy fundamentally affects all aspects of Australian life, but has been introduced and implemented through bureaucratic processes that avoid public accountability. National Competition Policy differs from earlier attempts to promote competition by virtue of the assumption that competition is always and everywhere desirable and that it where competition is in conflict with other values, there should be a presumption in favour of competition.

In the standard economic framework, competitive markets are not regarded as an objective in themselves, nor is it supposed that competition promotes technical efficiency. Competitive markets are seen as desirable because, under certain ideal conditions, the price signals they generate ensure that resources are allocated to the use in which their value is greatest. However, these assumptions are not always satisfied.

As a result of mistaken assumptions about competition, the benefits from National Competition Policy have been seriously overestimated. It is likely that a carefully designed program of reform could raise GDP by around 1 per cent. However, the current policy framework encourages ill-considered policy innovations that may reduce social welfare. The adverse effects of unfettered competition on social relationships and of excessively rapid adjustment on regional economies and employment have not been adequately considered.

A number of policy recommendations are put forward. First, the use of financial penalties to compel state governments to comply with the agreement is undemocratic and should be abandoned.

Recommendation: The Competition Principles agreement should be renegotiated to make the payment of Financial Assistance Grants unconditional. The power of the National Competition Council to make recommendations concerning the payment or withholding of such grants should be removed.

Second, the application of the policy to the community services sector is not justified by the Hilmer report and should be abandoned.

Recommendation: The provision of health, education and similar services should be excluded from National Competition Policy except where it can be shown that a well-defined product is being offered for sale to informed customers in a potentially competitive market

Third, the public benefit test set out in the Competition Principles Agreement has not been applied appropriately.

Recommendation: Determinations under the public benefit test should be required to take explicit account of all the criteria set out in the Competition Principles Agreement, Section 1(3), as well as any other relevant factors. In particular, assessment of public benefit should take appropriate account of losses to employees through reductions in wages and increases in work intensity

Finally, reliance on Community Service Obligations to deal with the social consequences of competition policy should be limited to cases of clearly specified financial obligations.

Recommendation: The use of Community Service Obligations should be confined to requirements to set non-commercial prices and to other instances where the satisfaction of the CSO and the cost of meeting the CSO can be easily verified. In other cases, direct accountability to governments should be maintained and competition principles should not be applied.

Introduction

National Competition Policy, also known as 'Hilmer and related reforms' was introduced in 1995, as a result of the meeting of the Council of Australian Governments (COAG). This meeting resulted in the passage through all Australian parliaments of legislation which fundamentally affected all aspects of Australian life, from the opening hours of shops to the employment conditions of workers. Yet until 1998, the majority of Australians had never heard of National Competition Policy and only a tiny minority were aware of what the policy involved. This situation changed dramatically with the 1998 Queensland election, where the vote for the One Nation Party was attributed, in large measure, to resentment at the perceived effects of National Competition Policy. Whereas advocates of National Competition Policy claimed it would be worth $1500 per year to every Australian households, critics blamed the Policy for everything from unemployment to the decline of country towns.

The object of this submission is to examine the socioeconomic effects of National Competition Policy, and to propose modifications that would mitigate some of the adverse effects that have been associated with the policy. The submission is organised as follows. Section 1 deals with The Competition Policy Reform Act and the Competition Principles Agreement including the key provisions of National Competition Policy, a critique of National Competition Policy as a policy process and a discussion of the public benefit test. Section 2 deals with the role of competition in society and the economy. Section 3 is an assessment of the economic, social and regional effects of National Competition Policy. In Section 4, some recommendations for reform of the policy are put forward.

. The Competition Policy Reform Act and the Competition Principles Agreement

The Hilmer Committee was appointed in 1992 to inquire into and advise on appropriate changes to legislation and other measures in relation to the scope of the *Trade Practices Act 1974* and the application of the principles of competition policy. The Committee's Report (Hilmer et al 1993) was issued in 1993. Its greatest significance lies in the fact that it was used as the basis of the Competition Principles Agreement reached at the 1995 meeting of the Council of Australian Governments (COAG). The term 'Hilmer reforms' is now used to refer to processes arising from the intergovernmental Competition Principles Agreement and the associated *Competition Policy Reform Act 1995* (Cwlth). These reforms are generally consistent with the spirit of the original Hilmer Report, but, in some instances, go beyond the specific recommendations contained in the Report.

Advocates of reform within Federal government policy circles used the Hilmer Report as the basis for a renewed push for public sector reform, centred around the COAG. By virtue of its reliance on inter-governmental negotiations and remoteness from open political debate, the COAG process permitted further extensions of the reform process to be presented as a *fait accompli*, embodied in the Competition Policy Reform Act, and the associated Competition Principles Agreement.

At the time of the 1995 meeting, it was envisaged that COAG would form the basis of a co-operative Federal–State approach to competition policy and to microeconomic reform in general. Among other things, it was expected that the Council would oversee the implementation of National Competition Policy. However, since the 1996 election the significance of COAG has diminished, and the Council has not met for more than a year. The involvement of elected governments in the implementation of National Competition Policy has diminished accordingly and the process is now being handled primarily by bureaucratic bodies such as the National Competition Council.

At the 1995 COAG meeting it was agreed that Commonwealth payments to the States would be linked to the implementation of National Competition Policy at the State level. State governments argued that the benefits of reform in State government business

enterprises would flow primarily to consumers rather than taxpayers, and that, in view of the continuous pressure on State finances, some redistribution of the proceeds of reform was appropriate. The Commonwealth therefore agreed to make a series of 'Competition Payments' to the States, conditional on the implementation of reforms. The annual payment to the States was to be $200 million (1994-95) dollars for 1997-98 and 1998-99, rising to $400 million in 1999-2000 and 2000-1 and $600 million thereafter. The payments were to be indexed to allow for inflation, but not adjusted for growth in population or national income. Each 'tranche' of payments was conditional on satisfactory progress being made by the States in the implementation of Competition Policy.

The payments have been referred to as 'bonus' payments. However, because of previous and subsequent cuts in general purpose grants, they are in fact only partial compensation for the steady erosion in the State share of the national revenue base. Moreover, ambiguity has arisen as to whether eligibility for payments depends on the implementation of the competitive reform process including the public benefit test, or on the adoption of particular reform options, with or without a *bona fide* public benefit test.

Key provisions of National Competition Policy

The central objective of National Competition Policy, as it applies to the public sector, is to achieve the most efficient provision of publicly provided goods and services through reforms designed to minimise restrictions on competition and promote competitive neutrality. The principal reform required under the policy is the application of a public benefit test to justify the maintenance of any public policy which *prima facie* restricts competition. Policies for which a public benefit cannot be demonstrated must be repealed or modified so that they do not reduce competition. In this regard, the Competition Principles Agreement calls for a wide-ranging program of legislation review, stating in clause 5(1):

> The guiding principle is that legislation (including Acts, enactments, Ordinances or regulations) should not restrict competition unless it can be demonstrated that:
> (a) the benefits of the restriction to the community as a whole outweigh the costs; and
> (b) the objectives of the legislation can only be achieved by restricting competition

and in clause 5 (9):

> Without limiting the terms of reference of a review, a review should:
> (a) clarify the objectives of the legislation;
> (b) identify the nature of the restriction on competition;
> (c) analyse the likely effect of the restriction on competition and on the economy generally;
> (d) assess and balance the costs and benefits of the restriction; and
> (e) consider alternative means for achieving the same result including non-legislative approaches.

The public benefit test referred to in (d) is discussed in detail in Section 2.

The idea of competitive neutrality is defined in clause 3(1) of the Competition Principles Agreement:

> The objective of competitive neutrality policy is the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities: Government businesses should not enjoy any net competitive advantage simply as a result of their public sector ownership. These principles only apply to the business activities of publicly owned entities, not to the non-business non-profit activities of these entities.

Other areas of National Competition Policy require structural reform of public monopolies and require owners of monopoly facilities to negotiate access with other users.

The main institutional change arising from National Competition Policy was the creation of two new bodies: the Australian Competition and Consumer Commission (ACCC), formed from the amalgamation of the Trade Practices Commission and the

Prices Surveillance Authority, and the National Competition Council (NCC), a body designed to supervise the progress of Federal and State governments towards the implementation of competitive reform.

The National Competition Policy as a policy process

Unlike previous microeconomic reform initiatives, National Competition Policy is a comprehensive program, which has been imposed from the top levels of government without any consultation with those affected, and which is not subject to significant democratic accountability or control. All of these characteristics are important in considering the appropriate implementation of requirements imposed under National Competition Policy and particularly the application of the public benefit test.

The comprehensive nature of National Competition Policy is the most obvious departure from previous microeconomic reform initiatives, which involved the reform of particular classes of policy, such as tariff policy, or particular industry sectors, such as telecommunications. By contrast, National Competition Policy establishes general requirements that must be satisfied by any government policy or private agreement. In combination with the short deadlines imposed for the assessment of policies, the comprehensive nature of National Competition Policy creates significant difficulties for groups concerned with the outcomes of the policy process, including producers, workers and consumer organisations.

Since the Policy is required to apply to all sectors of the economy and to many social arrangements that would, in the past, have been regarded as lying outside the scope of economic policy, it is phrased in very general terms, which give little guidance to the appropriate conduct of public benefit tests in specific sectors. Nevertheless, it is required that the public benefit tests be conducted in a manner that the National Competition Council deems to be consistent with the Act. Government agencies and private organisations that do not comply with this rather vaguely specified mandate are subject to

legal and financial sanctions, including the loss of Commonwealth funds and the possibility that existing arrangements will be deemed to contravene the Act.

The discussion above also illustrates one aspect of the top-down nature of National Competition Policy. In the past, policies affecting particular sector of the economy were normally formulated in consultation with the groups most directly concerned, including producers, workers and consumer organisations, sometimes collectively described as 'stakeholders'. Similarly, the boards of statutory authorities typically included representatives from these groups as well as members appointed by government.

By contrast, advocates of microeconomic reform, such as Sieper (1982), generally regard groups representing producers and employees as vested interests, which should be excluded, as far as possible, from the policy process. The only interest recognised as legitimate is that of consumers, and consumer interests, it is argued, are best protected by competition rather than by consultation with consumer groups.

Under National Competition Policy, consultative approaches to policy formulation are generally discouraged. In particular, corporatised statutory authorities are required to maximise profits. Their managers must therefore satisfy their fiduciary obligation to shareholders without regard to the effects of their decisions on other concerned groups, even where the concerned groups may be supported by the majority of the shareholders, that is, the public, in their capacity as taxpayers and ratepayers.

Under National Competition Policy any activity not consistent with profit-maximisation, such as provision of services at subsidised prices is required to be treated as a community service obligation (CSO) and explicitly funded out of general revenue. As will be argued below, CSOs are a flexible instrument for the management of pricing policies, but are much less satisfactory as a way of committing organisations to multiple service objectives.

Another top-down aspect of National Competition Policy is the strict subordination of local government to State government. The operating arrangements of local government authorities have been removed from the control of the governments

concerned and required to conform to policies laid down by State governments in accordance with Competition Policy.

Finally, National Competition Policy is largely exempt from democratic accountability. It is, of course, open to the Commonwealth Parliament to amend or repeal the Competition Policy Reform Act. But apart from this theoretical possibility, it does not matter whether policy changes required under National Competition Policy have majority public support or, indeed, any public support at all.

Competition policy and the design of economic policy

National Competition Policy involves an approach to policy design which differs in important respects from the standard economic approach to policy. Competition policy is linked to the economic approach to policy design by the fact that, under ideal assumptions, competitive processes lead to ideal outcomes. The key difference is that, whereas the standard approach to policy is concerned primarily with the equity and efficiency of outcomes, competition policy focuses on the nature of market processes.

The divergence between the two approaches is noted by the Industry Commission (1995a). Section 44X.(1) of the Competition Policy Reform Act directs the Australian Competition and Consumer Commission to take account of 'the public interest in having competition in markets'. From a standard economic perspective, as the Industry Commission (1995a, p. 39) observes, such references 'tend to confuse means (competition) with ends (efficiency)'. Other economists would agree, but would specify a set of ends including equity and employment objectives as well as efficiency.

The standard economic approach to policy normally involves a willingness to consider government intervention in situations where the ideal assumptions are not satisfied. By contrast, advocates of competition policy tend to prefer imperfectly competitive markets to any form of government intervention. Where markets diverge radically from the conditions under which perfectly competitive outcomes can be

expected, the aim of competition policy is to create rules under which the market participants are forced to behave as if they were competitive firms.

Competition policy differs from the standard economic policy framework with respect to the role and definition of competition. In economic analysis, a market is competitive only if it contains a large number of firms, each of which is too small to affect the market price. By contrast, in competition policy, a market supplied by a few firms, or even by just two firms may be regarded as competitive if firms do not collude in setting prices. Such industries would be regarded as oligopolies or duopolies in a standard economic analysis.

Prior to 1992, the Trade Practices Commission took the view that a market served by two equally matched firms was adequately competitive (Trade Practices Commission 1986, quoted by Williams 1989), in that there was no firm which displayed 'market dominance'. The Trade Practices Act was amended in 1992 to prohibit mergers which have, or are likely to have, the effect of substantially lessening competition, unless authorised. This amendment had the effect of increasing the discretionary powers of the Trade Practices Commission and its successor the Australian Competition and Consumer Commission. However, neither Commission appears to have prevented the emergence of situations where large numbers of sellers face one or a few buyers or vice versa.

Much discussion of competition policy reflects a confusion in terms by which the struggle for market share between two or more large firms is seen as evidence of a market that is 'highly competitive'. Indeed, because struggles between two firms are more visible than the operation of the price mechanism there is a widely held view that duopolies and oligopolies are more competitive than markets involving large numbers of dispersed firms. This view is consistent with the ordinary usage of the term 'competition', but not with the way in which the term is used in economic analysis.

In economic analysis of strategic interactions between small numbers of firms, there is no presumption that competition for market share will yield long term benefits to consumers. Where competition among a few firms involves a struggle to dominate

strategic areas of the market, it is likely to involve a waste of resources, and the adoption of pricing policies that are not closely related to costs.

The public benefit test

The public benefit test required under the Competition Policy Reform Act is fairly similar to the standard process of policy analysis that would be undertaken by economists. The main difference is the strength of the presumption in favour of competition. Under the Act, policies held to reduce competition, including restrictions on access to essential facilities which have been imposed by government or by the owners of those facilities, can be justified only if it can be shown that removal of these restrictions would be contrary to the public interest. The term 'public interest' is not explicitly defined, but the Competition Principles Agreement, Section 1(3), provides that:

(3) Without limiting the matters that may be taken into account, where this Agreement calls:

(a) for the benefits of a particular policy or course of action to be balanced against the costs of the policy or course of action:
(b) for the merits or appropriateness of a particular policy or course of action to be determined: or
(c) for an assessment of the most effective means of achieving a policy objective:

the following matters shall, where relevant, be taken into account:

(d) government legislation and policies relating to ecologically sustainable development;
(e) social welfare and equity considerations including community service obligations:
(f) government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;
(g) economic and regional development including employment and investment growth;
(h) the interests of consumers generally or of a class of consumers:
(i) the competitiveness of Australian business; and
(j) the efficient allocation of resources.

Williams, Lynette

From: John Quiggin
To: lynettewilliams@pc.gov.au
Subject: Submission for NCP inquiry
Date: Wednesday, 21 October 1998 2:25PM

Dear Lynette,

Thanks for passing this on to John Cosgrove

Best wishes
John Quiggin
Web site http://econ.jcu.edu.au/JCQ:JQ.html

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Criterion (j) refers directly to the concept of economic efficiency, and criterion (i) is most usefully interpreted as referring to technical efficiency in production. Criteria (e) and (h) are related to the economic concept of equity. Criteria (d) and (f) cover the main non-economic concerns arising from competition policy. Criterion (g), referring to economic development and employment, encompasses a mixture of efficiency, equity and non-economic concerns and provides scope for consideration of cases in which the presumption in favor of competition is not satisfied.

The role of competition in society and the economy

Most Australians would agree that a certain degree of competition is essential in society, but that excessive competition is undesirable and destructive and that, in certain spheres, competition is inappropriate and co-operation is to be preferred. National Competition Policy differs from earlier attempts to promote competition by virtue of the assumption that competition is always and everywhere desirable and that it where competition is in conflict with other values, there should be a presumption in favour of competition.

The inadequacy of this approach might be illustrated by consideration of the (hypothetical) suggestion that a similar approach should be applied to equality. As with competition, most Australians would agree that equality is generally to be preferred to inequality, but that it may be inappropriate in certain cases, and that the pursuit of equality may conflict with other values. Suppose, however, that a National Equality Policy was proposed and that States were required, subject to financial penalties, to review any legislation which appeared to promote inequality, and to repeal such legislation unless it could be shown, to the satisfaction of a National Equality Council appointed by the Federal government, to pass a public benefit test. It is safe to predict that many of the supporters of microeconomic reform would be among the leaders in

denouncing this Policy as a step towards dictatorship and a gross breach of States rights. Yet precisely this approach has been adopted in relation to competition.

To assess the proper balance between competition and other social values it is important to understand the economic effects of competition, and to recognise that some common claims about the benefits of competition derive little support from economic theory or empirical evidence.

The role of competition in economic theory

Economic policy analysis usually takes as a benchmark the allocation of resources that would be generated by perfectly competitive markets on the basis of an equitable initial distribution of wealth and other resources. The term 'perfectly competitive' refers to a market with a large number of buyers and sellers, each so small that their actions have no significant effect on the market price, and all perfectly informed about the price and quality of the goods traded in all relevant markets. Under certain ideal assumptions, discussed further in the next section, it can be shown that the equilibrium arising from perfect competition and an equitable initial allocation of wealth will be socially optimal.

In the standard economic framework, competitive markets are not regarded as an objective in themselves, nor is it supposed that competition promotes technical efficiency. Competitive markets are seen as desirable because, under certain ideal conditions, the price signals they generate ensure that resources are allocated to the use in which their value is greatest. In addition, competitive markets are seen as promoting the equity objective by preventing the redistribution of wealth from buyers to sellers that arises under conditions of monopoly. Such redistribution, referred to as the transfer of monopoly 'rent', is often seen as unfair.

Failure of the competitive market assumptions

Unrestricted competition is not always beneficial. Important exceptions to the general presumption that competition will favour efficiency arise in the presence of

(i) unemployment;
(ii) externalities;
(iii) scale economies ;
(iv) market power; and
(v) financial market failures

Unemployment

Unemployment is the most important single violation of the competitive market assumptions. In the standard competitive model, the fact that firms may go bankrupt and employees lose their jobs as a result of the competitive process is not a cause for concern, since it is assumed that workers will immediately find new jobs elsewhere and firms' capital will be transferred into more productive uses. In reality, this is not the case. Workers displaced by competition may experience prolonged periods of unemployment. Although it is often asserted that the losses experienced as a result of higher unemployment will be offset by gains in other sectors of the economy, there is no theoretical basis for the supposition that the two effects will cancel each other out.

Externalities

Externalities arise when the actions of one firm or individual affect other firms or individuals directly, rather than through market prices. In these circumstances, unless environmental regulation is applied, profit or utility maximisation will lead to excessive levels of environmentally damaging activities.

Economies of scale

Economies of scale arise when average costs of production are lower for firms with higher total production. Most economic activities display economies of scale to some extent, in that there is a 'minimum efficient scale' of production, below which average costs will be high, for example, because essential items of capital are not fully utilised. If the minimum efficient scale is large in relation to the size

of the market, only a few firms will be able to operate at the minimum efficient scale, and the market will therefore not be perfectly competitive.

Market power

Scale economies often extend to the point where an activity is more efficiently undertaken by a single enterprise rather than by two more competing firms. Such an activity is referred to as a 'natural monopoly'. The most appropriate solution, in many cases, is that the activity should be undertaken by a co-operative or publicly owned enterprise. Problems of market power are closely related to economies of scale. In markets where there are only a few buyers and many sellers, the buyers can use their greater bargaining power to offer lower prices to sellers. The opposite is true when there are many buyers and few sellers.

The processing of agricultural commodities is an industry characterised by scale economies and market power. The result is that large numbers of farmers deal with a relatively small number of firms engaged in processing and marketing. In the absence of regulation or of frameworks for collective negotiation over prices, processing firms will be able to set prices paid to farmers below the level that would prevail in a competitive equilibrium.

Financial market failures

The actual operation of financial markets is not as smooth and efficient as the ideal competitive model requires. The result is that market outcomes for problems involving credit, risk and insurance are rarely optimal. In some, but not all, such cases, government policies such as price stabilisation schemes may yield a superior outcome.

The fact that many markets do not satisfy the ideal assumptions of the competitive model means that social welfare may be improved by appropriately

designed government policies or by co-operative action. However, the existence of so-called 'market failures' does not imply that any particular scheme of intervention will improve welfare. To determine whether this is the case, it is necessary to examine the equity , efficiency and non-economic effects of such schemes.

Competition and technical efficiency

The idea that competition will promote improvements in technical efficiency is often referred to using a distinction between the static benefits obtained from eliminating price distortions and the 'dynamic gains' claimed to be generated by competition. The dynamic gains hypothesis may be summarised by the statement that, over time, competitive markets will generate improvements in technical efficiency additional to any that might be derived directly from the removal of regulations that increase costs of production. The nature of these dynamic gains is not usually described in detail, although statements about dynamic gains are often made in terms that suggest that there is a well-developed body of theoretical and empirical work supporting the dynamic gains hypothesis. In fact, there is no such body of work.

Many claims about the existence of dynamic efficiency gains are based on the concept of X-efficiency. Leibenstein (1966) argued that firms exposed to the bracing atmosphere of competition will respond by eliminating internal inefficiency and seeking out opportunities for innovation. Leibenstein refers to the productivity gains arising from this process as improvements in 'X-efficiency'.

The idea of X-efficiency has been criticised by writers such as Stigler (1976). Stigler argues that what is represented as a gain in X-efficiency is in fact simply an increase in the intensity of work or, equivalently, a reduction in on-the-job leisure. At an empirical level, Stigler's critique has a great deal of force. In many of the recent cases where labour productivity has increased following competitive reforms, there is evidence of increased work intensity (Ganley and Grahl 1988, Australian Council of Trade Unions 1995). These observations suggest that the increased competition associated with

microeconomic reform has led to a general increase in work intensity, rather than an improvement in technical efficiency.

Competition and co-operation

Societies and economies depend on a mixture of co-operation and competition. Until recently, economists have focused primarily on competition. However, over the past two decades increasing attention has been paid to the need for co-operation, and analysis of the conditions under which co-operation will emerge.

The starting point of much of this analysis is a simple example, that of the Prisoner's Dilemma. In this example, two prisoners are being held in separate cells. Each can get a lighter sentence by betraying the other but if both confess, they will both face a long prison term. The point of the example is that, even though they would both be better off if they kept quiet, the 'rational' option for each of them is to confess. Analysis arising from the Prisoner's Dilemma model shows that a society based solely on rational self-interest cannot be sustained.

On the other hand, competition is also important. Without competition, small groups can collude to benefit themselves at the expense of the broader community. The Prisoner's Dilemma example illustrates the point that co-operation is not always desirable. While we value co-operation, as a society, we also provide incentives to break down co-operation among criminals.

The problem with National Competition Policy is its one-sided nature, focusing exclusively on competition. In the view of the National Competition Council, any co-operative activity is seen as a conspiracy by a self-interested minority against the general public. Claims that professionals in areas like health and engineering have commitments to ethical standards which transcend a simple profit motive are dismissed as self-serving rhetoric. It is assumed that only the pressure of competition will produce desirable outcomes.

Similar mistakes are being made in the private sector. Processes such as 'downsizing' are justified by the logic of competition. Regardless of their past service, a rational and self-interested employer will dismiss workers if the expected value of their future services is less than the saving that can be made by sacking them. Large once-off gains can be made in this way in organizations which have historically worked on a basis of co-operation and implicit contracts. For example, in many large organisations, such as banks and public services, staff accepted starting wages lower than those paid by other firms in return for an implicit commitment to lifetime employment and career progression. Under a system of this kind, some workers turn out to have greater ability, aptitude or luck than others and are promoted further. However,

Employers have reaped benefits by reneging on these implicit contracts. Rather than protecting the careers of all of their workers, they keep only those they need and sack the rest. The effect is to capture the entire benefit of the sacrifices made by workers earlier in their careers, while paying out only the costs of the winners.

The problem with this kind of saving is that it can be made only once. By breaking their implicit commitments, the management of the organisation forfeit the trust of their employees. The problems of low morale, 'survivor syndrome' and so on that affect organisations after downsizing, have been amply documented.

The effect of National Competition Policy is to require all public sector organisations to abandon implicit contracts with their employees. If a service can be provided more cheaply in the short run by sacking the existing staff and contracting out, then this is the approach that must be adopted. Indeed, there is a presumption in favour of contracting out. Policies that require a certain proportion of services to be contracted out, such as those adopted by the Kennett government in Victoria are not affected National Competition Policy, while policies that restrict contracting out are open to challenge.

Economic, social and regional effects of competition and competition policy

Economic effects

Kasper et al. (1980) began a tradition of making quantitative estimates of the benefits of microeconomic reform. Kasper et al. also anticipated later debate by presenting scenarios illustrating the benefits of their proposed microeconomic reform strategy, which they called the libertarian path, relative to a base scenario involving minimal change, which they referred to as the mercantilist path. These scenarios included projections of key variables such as output per worker, real wages and investment which were derived from the assumption that a libertarian Australia could match rapidly growing Asian countries.

For the base scenario, Kasper et al. projected that real GDP per capita would grow by 1.7 per cent per year over the period 1973–2000. On current projections this is close to the rate that will be realised. Kasper et al. predicted that, if a package of microeconomic reforms was introduced, real GDP would grow by 3.8 per year over the same period, implying a cumulative gain of 77 per cent relative to the base scenario. Since they envisaged reform commencing in 1980 rather than 1973, the acceleration in growth predicted to result from microeconomic reform was even faster — the rate of growth of GDP in the two decades following the adoption of microeconomic reform was projected to be nearly 3 percentage points higher than under the status quo.

The estimates presented by Kasper et al. were based on judgement rather than formal modelling. From the late 1980s onward, a number of model-based estimates of the benefits of microeconomic reform have been generated, including Industry Commission (1989, 1995, 1996a), Business Council of Australia (1994), Bureau of Industry Economics (1990), Filmer and Dao (1994), and Dao and Jowett (1994).

Table 1: Estimates of the benefits of microeconomic reform

Quiggin (high)	1.1	1995-2000	S	0.2	1.1

Estimated benefits range from 5.5 per cent of GDP (Industry Commission 1995) to 21 per cent (Bureau of Industry Economics 1990 and Business Council of Australia

1994). In most studies it is suggested that this increase in GDP will be achieved over five to ten years, implying that reform will raise the rate of growth of GDP by one to two percentage points.

Quiggin (1997a) presents a critique of the Industry Commission (1995) and derives alternative estimates of the benefits of the Hilmer reforms, ranging from 0.75 to 1.1 per cent of GDP. Assuming this gain is realised over a five-year period, this implies an increase in the trend rate of GDP growth of between 0.15 percentage points and 0.22 percentage points.

Let us now turn from projections of future benefits to estimates of realised benefits. During the expansion of the 1980s, it was widely claimed that the benefits of microeconomic reform were already being realised. A widely noted assessment, made in mid-1989, was that of Higgins (1991)

> We have had a decade of remarkable and fundamental economic and social policy reform; reform which in all its major contours and, arguably, in 99 per cent of its detail, is efficiency-enhancing.

This early optimism did not survive the recession which began in 1990 and reached its trough in 1992. The rapid growth of the 1980s was revealed as a normal cyclical upturn. Far from improving, productivity growth over the 1980s was weak, particularly in the private sector. Although allocating observed productivity growth to factors of production is a problematic exercise, a number of writers concluded that the productivity slowdown was the result of zero or negative growth in capital productivity (Dowrick 1990).

It is widely believed that the static or declining capital productivity of the 1980s may be attributed to the effects of financial deregulation and in particular, the rise of 'entrepreneurs' such as Bond, Skase and Elliott. Despite the name, the entrepreneurs were not noted for significant new undertakings, but focused on property speculation and takeover deals. They were initially embraced by advocates of microeconomic reform as proof of the dynamism generated by financial deregulation. However, the entrepreneurs

were quickly disowned as their financial empires unraveled after the stockmarket crash of 1987.

Most supporters of reform now concede the existence of 'teething problems' while arguing that financial deregulation has yielded positive net benefits and, in particular, an improvement in the allocation of investment. The poor performance of the 1980s is most commonly attributed to sequencing problems, and particularly to the fact that product and capital markets were deregulated but labour markets were not.

The experience of the 1990s seems somewhat more favorable. The Industry Commission (1997) estimates that the rate of multi-factor productivity growth in the market sector has risen from 1.5 per cent, the average rate since the 1960s, to a trend rate of 2.0 per cent in 1994-95 and 1995-96. Some, but not all, of this increase is acknowledged to be cyclical. Since the market sector accounts for about 60 per cent of GDP, a productivity improvement of 0.5 percentage points is equivalent to an increase of 0.3 per cent in the trend rate of GDP growth. Over a five-year period, this yields a net gain equal to 1.5 per cent of GDP, slightly higher than the upper bound estimate presented by Quiggin (1997a), but well below any of the other estimates listed in Table 1, even allowing for ambiguity in the time-frame.

If some of the extra growth is assumed to be cyclical and some to represent a recovery from the below-trend productivity of the 1980s, with the remainder being attributed to microeconomic reform, the evidence reported by the Industry Commission is consistent with the estimates of benefits presented by Quiggin (1997a), namely, a total improvement in GDP of between 0.7 and 1 per cent of GDP over five years.

Experience in New Zealand casts even more doubt on claims of large benefits from reforms aimed at making the economy more competitive. New Zealand followed a path to reform similar to, but more rapid than, that taken in Australia. Financial deregulation, product market reform and public sector reform were undertaken by the Labour government from 1984 to 1990. The Bolger National government undertook radical

labour market and social security reform in 1991 and extensive reform of the health and education sectors thereafter.

New Zealand experienced very weak growth in output throughout the 1980s. Although there was strong measured productivity growth in some years, this reflected the elimination of low-productivity workers and enterprises. Conversely, in periods of rapid employment growth, productivity growth was weak.

Like Australia, but a little earlier, New Zealand had two good years, 1993-94 and 1994-95, giving rise to hopes that a permanent improvement in productivity growth rates had been achieved. However, high growth was not sustained. The Reserve Bank of New Zealand now estimates that the sustainable growth rate for New Zealand is around 3 per cent per year (Brash 1997). Allowing for growth in the labour force of about 1 per cent per year and some capital deepening, this implies TFP growth of less than 1.5 per cent per year. Hence, if the judgements of the Industry Commission (1997) and the Reserve Bank of New Zealand are correct, New Zealand may be expected to fall further behind Australia over time. It seems more reasonable to suggest that the Industry Commission estimates for Australia reflect an over-optimistic assessment of the benefits of microeconomic reform, while the Reserve Bank estimates for New Zealand reflect the cautious approach to be expected from a central bank concerned to minimise the risk of renewed inflation.

Social effects

It is very difficult to trace out all the links between economic institutions and social outcomes. Nonetheless, there is a large literature devoted to analysis of the claim that unfettered free markets are socially corrosive. Several elements of this claim may be distinguished

(i) The claim that the kind of thinking required for economic rationality is inherently conducive to individual selfishness

(ii) The claim that the desire for profit leads to the breakdown of social controls on socially damaging activities such as gambling

(iii) The claim that unfettered pursuit of profit leads to the breakdown of trust between members of society and that this breakdown has socially damaging consequences

(iv) The claim that competition between firms and between government jurisdictions leads to a 'race to the bottom' in safety standards, environmental practices and so on.

These claims are controversial. However, there is sufficient evidence supporting each of them to suggest that, under certain circumstances, the damaging effects they impute to competition will arise. Even if claims of this kind are only partially valid, they provide legitimate grounds for concern about a policy framework which treats competition as unreservedly good, and which, in cases of conflict with other social goals, begins with a presumption in favour of competition.

The claim that participation in competitive markets tends to lead to the development of certain character traits, such as a narrow focus on wealth and a tendency to selfishness, is an old one. Recently, attention has focused claims that the study of economics tends to discourage altruistic behavior, presumably by pointing out the inconsistency between altruism and rational egoism.

The search for profit leads naturally to attempts to evade or avoid controls on economic activity that hamper profitable activity. For example, wherever attempts are made to restrict gambling, some entrepreneurs will seek to extend the definition of legal forms of gambling, while others will set up illegal gambling enterprises. Similarly, if environmental regulations are costly, firms will seek to evade or avoid them.

In some circumstances, competition policy may provide an avenue through which regulation can be broken down. An illustration at an international level is the decision of the World Trade Organisation that the United States cannot prohibit the import of seafoods caught in ways that threaten endangered species of turtles. Similarly, the requirement for competition in telecommunications has been held to override the right of local councils to prevent technically unnecessary duplication of overhead pay-TV cables and mobile phone towers. The principles under which the World Trade Organisation

operates are similar to those of National Competition Policy. It is probably that under a variety of circumstances, action can be taken under National Competition Policy to undermine environmental controls.

The idea that trust is an important contributor to social and economic prosperity has been popularised by the work of Putnam (1993). As noted above, trust is unlikely to flourish unless there is an appropriate balance between competition and co-operation.

The central claim of competition policy is that it provides a 'level playing field' on which publicly and privately owned enterprises can compete. Under competition policy, government business enterprises are subject to standard legal requirements regarding workplace health and safety, environmental practices and so on. However, there is little incentive for a profit-maximising enterprise to exceed minimum standards, especially in a slack labour market. Hence, if existing practices provide a higher standard of safety than the legally required minimum, it is reasonable to expect some erosion of standards.

Regional effects

There has been considerable concern about the effects of National Competition Policy on regional economies, particularly those of country towns in the inland. In evaluating whether this concern is well-founded, it is necessary to take account of the fact that changes in the pattern of population and economic activity are an inevitable consequence of social and technological change. For example, as transport costs have declined, larger country centres have tended to expand at the expense of smaller towns.

It would be a mistake therefore, to suggest that National Competition Policy is the primary cause of the decline of rural towns. Nevertheless, it is arguable that National Competition Policy and other aspects of microeconomic reform have increased the rate of change and made it unnecessarily traumatic.

All communities are socially and economically interdependent. A contraction in one industry leads to lower demand for the suppliers of inputs, while the associated loss of employment reduces the income of retail traders and the viability of schools and other

services. Economists can analyse some aspects of this process using methods such as input-output analysis. In the long run, market processes can be expected to respond to technological changes through adjustment to a new, sustainable equilibrium. However, only under very special circumstances will the process of adjustment generated by unfettered market forces be socially optimal. Processes of economic contraction are likely to proceed excessively rapidly as the loss of one area of economic activity imposes external costs on others.

In the past, the existence of stable employers like banks, post offices and so on tended to cushion the impact of adverse economic shocks. These stable activities helped towns faced with a temporary downturn in key industries to ride out the storm, and permitted a more gradual adjustment to permanent changes requiring a contraction in activity. In an increasingly market-oriented economy this stabilising effect is lost. Rather than continuing service after it is unprofitable as a return for past benefits, profit-maximising enterprises withdraw such services immediately. Indeed, the current trend appears to involve the withdrawal of services that are still covering costs, in the expectation that they will become unprofitable in future.

National Competition Policy closes off some routes by which governments have traditionally sought to slow down the rate of adjustment. For example, local governments are effectively prohibited from favouring local contractors, even if the closure of those businesses would lead to contraction in the local economy which would in turn accelerate the withdrawal of banks, schools, post offices and so on.

Employment effects

Competitive reforms have often been associated with job losses and reductions in employment. This outcome is most common in cases where increases work intensity and reductions in service quality are the primary sources of budgetary cost savings.

If workers who lose their jobs as a result of competitive reform are rapidly re-employed elsewhere, the process yields a net public benefit equal to the additional output

produced in their new jobs. In many cases, however, workers remain unemployed for long periods or use redundancy payments to finance early retirement. The medium term economic impact of voluntary withdrawal from the labour force on a redundancy package is identical to that of an increase in unemployment. In these cases, there is no additional output and no net public benefit. The effective labour force available to the community is reduced, and this loss fully offsets the budgetary cost saving. Even where workers are re-employed, it is frequently in jobs requiring lower skills. The loss of skills associated with this process is equivalent to a shift in the effective supply of labour.

In the application of the public benefit test, some proportion of the unemployment generated by labour-shedding during the implementation of competition policy should be modelled as a medium term reduction in the labour force. Evidence reported by the Industry Commission (1995b) suggests that about 50 per cent of workers made redundant by microeconomic reform were still unemployed or not in the labour force after three years.

Directions for policy reform

Conditionality of competition payments

The 1995 agreement under which the Commonwealth made Financial Assistance Grants to the States was a gross misuse of the Commonwealth's fiscal power arising from the vertical fiscal imbalance between the Commonwealth and the States. The fiscal power has long been used by the Commonwealth to influence the actions of the States, for example through specific-purpose grants. However, the imposition of an agreement under which a national agency superintends a comprehensive review of all state legislation, and recommend the imposition of financial penalties if it is dissatisfied with the results, is unprecedented. Such an imposed agreement is inconsistent with the right of citizens of the Australian states to democratic self-government and should be renegotiated to remove the element of compulsion.

Recommendation: The Competition Principles agreement should be renegotiated to make the payment of Financial Assistance Grants unconditional. The power of the National Competition Council to make recommendations concerning the payment or withholding of such grants should be removed.

Scope of competition policy

The Hilmer report dealt primarily with the activities of government business enterprises operating in the market sector of the economy. There was therefore, little or no discussion of the issues associated with the application of competition policy to services such as health and education which are commonly provided by public or non-profit institutions on a non-commercial basis or by profit-making enterprises receiving subsidies such that prices do not reflect the cost of provision.

Professor Hilmer has expressed concern that the principles set out in the Hilmer report have been applied, inappropriately, to services of this kind. This concern is well-founded, in that the scope of the Competition Policy Reform Act is essentially unlimited. In addition to the direct effects of National Competition Policy, the health and education sectors have been subject to extensive 'reform' based on the assumption that a combination of managerialism and market competition is the best way to secure efficient provision.

Policies of this kind have produced highly unsatisfactory outcomes wherever they have been applied in Australia and overseas. Easton (1997) gives an excellent account of the failure of reforms of the New Zealand health system based on managerialism and competitive principles such as the purchaser-provider split.

There are two main difficulties with the application of competition policy to health and education services. First, the services are very complex and the 'consumers', that is, patients and students are less well-informed about the services than the 'producers', that is, educators and medical professionals. Competition policy is based on the theoretical assumption of consumer sovereignty, that is, that consumers are always the best judges

of their own interests, and the practical assumption that comparisons of 'like with like' can be made so as to ensure a 'level playing field'. Neither of these assumptions is, in general, valid with respect to health, education and similar services

The application of competition policy to health and education services may be appropriate in some cases. For example, although some restrictions on advertising of health and similar services may be appropriate in view of difficulties in conveying appropriate information, the outright prohibition of advertising information such as the willingness of doctors to bulk-bill does not appear to have such a justification. Nevertheless, the presumption under the Competition Policy Reform Act that competition policy is applicable in all cases should be reversed with respect to services such as health and education. The requirement for a public benefit test should be applied to those seeking to impose a competitive outcome rather than to those advocating the maintenance of existing arrangements.

Recommendation: The provision of health, education and similar services should be excluded from National Competition Policy except where it can be shown that a well-defined product is being offered for sale to informed customers in a potentially competitive market

The public benefit test

The public benefit test is the only point in the National Competition Policy process at which concerns other than those of the simple competitive model can be taken into account. It is, therefore, crucial that the scope of the public benefit test should be interpreted as broadly as possible. The criteria set out in the Competition Principles Agreement will not all be relevant in every case, but each of the issues they raise should be considered before a public benefit test is undertaken.

Many of the criteria which must be considered in public benefit evaluations cannot be evaluated in simple monetary terms. A public benefit test will normally involve a

balance of monetary and non-monetary costs and benefits. There is no objective and value-free method of reaching such a balance. Rather, these are social decisions which must ultimately be made by governments rather than by bureaucrats or experts. The process of reaching such a decision may be assisted by expert advice about the consequences of particular policies, but evaluation of the desirability of those consequences should be a matter of public consultation rather than analyses undertaken behind closed doors.

This issue is particularly important in considering the environmental implications of policy decisions. Environmental issues pervade all aspects of modern life and cannot be separated neatly from issues related to competition. For example, the replacement of systems of food safety regulation, and other regulations governing product quality, with self-regulation, advocated by the Industry Commission (1995b) as a significant component of 'Hilmer and associated reforms' has implications, not only for the quality assurance received by consumers but for environmental practices throughout the production and marketing chain.

The Industry Commission's claims that self-regulation would not lead to any decline in quality were contrary to the predictions derived from basic economic analysis. Self-regulating firms will not take into account adverse consequences of regulatory failures for the industry as a whole, and will therefore take fewer precautions against such failures than an external regulator dealing with the industry as a whole. Recent incidents of food contamination in several states suggest that the predictions of economic theory are being borne out.

In a submission to the National Competition Council, the Industry Commission (1997) argues that all but the last of the criteria set out in the Competition Principles Agreement, that is, the efficient allocation of resources, should be disregarded. The Commission gives three main reasons for this view:

(i) Economic efficiency is conducive or essential to the achievement of other objectives;

(ii) The pursuit of multiple, and potentially conflicting, objectives may put at risk the achievement of the most appropriate third party access outcomes; and

(iii) Alternative instruments are appropriate to the achievement of goals other than efficiency.

In procedural terms, the Commission's suggestion rests on the basis of the claim that the requirement to take account of public interest criteria 'where relevant' permits the National Competition Council to ignore these criteria whenever it sees fit, or, equivalently, that the Council may determine in advance that public interest criteria are never relevant. The legal validity of such a claim is a matter for the courts, but the impropriety of the Commission's suggestion should be self-evident.

The arguments put forward by the Commission are criticised by Quiggin (1997b). In that paper it is argued that:

(i) The benefits arising from improvements in economic efficiency are not, in general, large enough to justify the exclusion of other objectives;

(ii) Conflict between objectives is an inevitable feature of the policy process and cannot be resolved by arbitrarily assigning particular objectives a dominant role in any given area of policy; and

(iii) The Industry Commission's claim that alternative instruments are available to deal appropriately with equity issues is incorrect in general, and especially in view of current constraints on public expenditure and taxation.

In applying the public benefit test, it is important to distinguish between efficiency improvements and transfers. An efficiency improvement arises if, in principle, the aggregate gains from a policy initiative are large enough to permit compensation to be paid to everyone made worse off by the initiative and still leave a net surplus. By contrast, a policy may generate gains to one group, such as consumers or taxpayers, by transferring costs to other groups, such as producers or employees. In the application of the public benefit test, such transfers should cancel out, resulting no net benefit.

The need to take such transfers into account has often been neglected in assessments of the impact of competition policy. For example, the Industry Commission (1995b) analysed the effects of a large-scale program of competitive tendering and contracting. Following Domberger et al (1986, 1987) and Rimmer (1993), the Industry Commission assumed that budgetary costs savings from competitive tendering and contracting would average 20 per cent. It was estimated that the program of competitive tendering and contracting considered in the study would yield a net public benefit equal to 1.7 per cent of GDP or between $7 billion and $8 billion. In its report on competitive tendering and contracting (Industry Commission 1995c), the Commission examined the same issue taking into account the possibility that some budgetary savings were generated through reductions in wages and quality of services. In a simulation taking both factors into account, the estimated net benefit was reduced to 0.3 per cent of GDP or a little over $1 billion.

Recommendation: Determinations under the public benefit test should be required to take explicit account of all the criteria set out in the Competition Principles Agreement, Section 1(3), as well as any other relevant factors. In particular, assessment of public benefit should take appropriate account of losses to employees through reductions in wages and increases in work intensity

CSOs

The specification of CSOs tends to be a first step towards their elimination. In part this is a result of transparency. When the cost of CSOs is spelt out, it may become apparent that the benefits do not justify the costs. A less satisfactory reason for the vulnerability of CSOs is that CSOs appear as part of the budget sector, whereas the earnings of government business enterprises are 'off-budget'. Governments are typically much more concerned about on-budget than off-budget expenditures, even though the economic implications are identical.

A more fundamental difficulty with CSOs is the need for an exhaustive specification of the objectives of organisations which have historically been seen as serving the public interest in a generalised fashion. For example, the post office has long played an important role in the life of country towns, over and above the provision of standard letter services to country residents at a uniform rate. The closure or downgrading of the post office is often an important step in the decline and death of small towns. The CSO for Australia Post is specified as requiring the provision of standard letter services, but not the maintenance of a network of country post offices. This amounts in effect to a policy change; the result is to reduce the resources allocated to the objective of maintaining a decentralised population. This may well be a desirable change, but it is not explicitly chosen in the process of specifying CSOs. Thus, while the transparency argument applies in relation to the obligations retained by corporatised firms, it does not apply in relation to those objectives that are abandoned in the process of corporatisation.

CSOs are most satisfactory when applied to pricing policies. There is no significant difficulty in specifying a requirement that certain groups of users should be provided with services free of charge or at a price less than full costs. As observed above, where there is an element of fixed cost, technical difficulties arise in estimating the cost of providing a service to any given individuals and therefore to the payment a government should make to a corporatised enterprise to offset the cost of a CSO. However, at least in the case of wholly owned enterprise, exact specification of the cost of CSOs is not critically important, since it amounts to little more than the transfer of assets from one pocket to another.

CSOs are a less satisfactory instrument for imposing requirements relating to the nature of services to be provided. The basic problem is that such requirements may be hard to specify in the contractual terms required for a CSO. It is possible, for example, to require that garbage be collected twice a week, but more difficult to require that the garbage collection enterprise should respond sensitively to community concerns about noisy garbage trucks. There is little value in providing general injunctions of this kind to

a corporatised enterprise. In the contest between the clear and unambiguous imperative to maximise profits, and vague instructions to pursue other objectives, profit-maximisation must win. Indeed, it is precisely this sharpening of focus that is desired under corporatisation.

One merit of the process of competitive reform is that it imposes on governments the need to seek, wherever possible, quantitative and qualitative measures of performance. Even if no structural reform is adopted, the use of such measures may provide information on areas of inadequate performance and incentives to achieve improvements.

Where obligations are too general to be made the subject of contract, it is necessary to look for forms of governance in which stakeholders have an effective voice. There is some doubt over whether stakeholders other than shareholders and creditors have any voice in a corporate enterprise. The obligations of directors under company law do not appear to provide any scope for actions which harm the interests of shareholders and creditors, even if these actions yield a substantial benefit to other stakeholders. However, some work on the role of managers has suggested that there is in fact substantial scope to pursue socially desirable objectives, even at the expense of profit maximisation. On the whole, it would appear that reforms to the regulation of companies have diminished the freedom of managers in this respect.

If a corporatised government business enterprise is established under special legislation, there may be scope to influence its activities through a statement of corporate intent. Such a statement could, for instance, involve a requirement to adopt environmentally sustainable policies, or to take the interests of employees into account in decision-making. It remains to be seen whether such statements would have any force in practice.

Recommendation: The use of Community Service Obligations should be confined to requirements to set non-commercial prices and to other instances where the satisfaction of the CSO and the cost of meeting the CSO can be easily verified.

In other cases, direct accountability to governments should be maintained and competition principles should not be applied.

Concluding comments

The implementation of National Competition Policy is likely to lead to the abolition of some existing policies which are seen as reducing competition and which fail to pass the public benefit test. However, it appears unlikely that there will be significant positive action by the Australian Competition and Consumer Commission to promote competition, for example, by enforcing the breakup of the private sector monopolies and duopolies that increasingly dominate the Australian economy.

In considering responses to policy problems in the future, therefore, the Hilmer reforms will be less a guide to action than a constraint on the kinds of policies that can be adopted. Policies must be designed so that any restrictions on competition can be justified on the basis of a public benefit test. Furthermore, alternatives that do not restrict competition must be considered. The main positive lesson from the Hilmer reforms is that policy should be designed so that opportunities for beneficial competition are not unnecessarily precluded.

In designing policy for the future, it will be necessary to steer a middle course between the excessive reliance on regulation that characterised industry policy for much of the postwar period and the naive faith in competition that motivates National Competition Policy. It is important to recognise the possibility of a market solution, without assuming that market solutions will always be optimal.

Careful consideration of the debate over the public benefit test will also prove useful in designing future policies. In particular, the discussion above demonstrates the need to take account of a wide range of considerations in policy design, including efficiency, equity and environmental sustainability. Conversely, approaches based on the dominance of a single objective such as the promotion of competition, must be rejected.

Both the content of the Hilmer reforms and the nature of the reform process raise issues of concern for all members of Australian society. The process has been undertaken in a way that precludes significant consultation. The reforms involve a misunderstanding of the nature and role of competition in the economy. There is a danger that issues such as equity and environmental sustainability will be neglected. The specification of the public test offers an opportunity to take these issues into account. It is important, however, to reject suggestions that the public benefit test should be narrowly focused on economic efficiency.

National Competition Policy was designed to accelerate the pace of microeconomic reform. As a result, reform is proceeding with little time for adequate consideration of the costs and benefits of reform, or of the most appropriate choice of policy. Considerably more work is required for a comprehensive review of the costs and benefits of existing and proposed policies.

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