

E-mail submission received from John Quiggin

Impact of Competition Policy Reforms on Rural and Regional Australia

Response to draft report:

1. Having made an extensive submission to the inquiry, including a detailed discussion of the public benefit test, I was disappointed by the assertion (p. 82) that I was 'unaware of the provisions or did not understand how they could be used'. This assertion was based on my claim that 'local governments are effectively prohibited from favouring local contractors' (emphasis added).

In my submission, having detailed the considerations formally set out in the public benefit test, I raised concerns that, in practice, these considerations were being ignored.

My view of the effective, as opposed to theoretical, operation of the policy is supported by numerous submissions to the inquiry (e.g. Box 8.3, Box 8.8, Box 11.2), and by much discussion in the report concerning problems with the practical application of the public benefit test. The draft report provides no examples of competitive tendering processes in which local employment was considered as a criterion. (In the cited example of Yarra Ranges, preference for the in-house bid was justified on the basis of maintenance of in-house expertise, not on the basis of regional employment considerations.) There is also nothing to show that local employment requirements would not fall foul of the requirements for compulsory competitive tendering on the basis of competitive neutrality applied in Victoria or requirements for commercialisation applied in other jurisdictions in fulfilment of NCP obligations. The report makes the point that State governments could have done things differently, but this does not help local governments much.

In summary, I stand by my judgement regarding the effective impact of NCP, as regards competitive tendering in local government. If the Commission wishes to criticise that judgement, it should do so in the relevant section of the report, rather than putting forward the unjustified claim that I am 'unaware of' or 'do not understand', the public benefit test.

2. The Industry Commission has previously argued (with specific reference to NCP) that the pursuit of employment objectives through local government employment policies and the like is inappropriate and that the public benefit test applicable to policies of this kind should be confined to issues of economic efficiency. The underlying assumption is that employment objectives are better addressed using general labour market policies, and that therefore the public benefit is best served through maximisation of economic efficiency in the activities of local government. It follows that a purported application of the public benefit test which placed substantial weight on employment objectives would be erroneous, and should be rejected by bodies, such as the NCC, required to ensure correct application of the test. The present report does not address these arguments, even though it relies heavily on the fact that the public benefit

test set out in the Competition Policy Agreement requires employment and other issues to be taken into account.

I find the absence of any discussion of this point disturbing. It leaves open the hypothesis that the Productivity Commission still accepts the logic of the arguments previously put forward by the Industry Commission, but has judged that it is politically undesirable to put forward such arguments for consideration at present. This is an important issue and the Final Report should either accept or reject the view that the public benefit test is appropriately confined to economic efficiency.

3. Although my 1997 critique of previous modelling of the impacts of reforms is cited in the body of the report, the paper does not appear in the reference list.

Quiggin, J. (1997), 'Estimating the benefits of Hilmer and related reforms', *Australian Economic Review* 30(3), 256-72.

4. The discussion of NCP and state sovereignty trivialises serious issues. In particular, the emphasis on the word agreed (p 92) prejudices important issues, as does the reference to COAG being made 'referee, player and paymaster' (p91). This entire section reads as if it was drafted by the NCC, rather than reflecting serious consideration of the issues.

In my view it is highly inappropriate for state governments to make general policy commitments of the kind implicit in NCP in a way which is binding on their successors, and equally inappropriate for an unelected body like the NCC to have the power to judge whether these commitments have been fulfilled and to levy penalties if they are not. I suggest that the Commission might want to consider the implications that would have arisen if the economic policies of the past had been entrenched in this way, for example, by agreements between the states not to engage in 'unfair' competition among themselves.

5. With regard to the policies supposedly not required under NCP, it is unfortunate that the Report quotes only critics of NCP. Among the arguments advanced in favour of the privatisation of the South Australian electricity industry, for example, was the claim that competition payments would be in jeopardy if the assets were not sold. These claims were not, to my knowledge, refuted by the NCC. I am aware of a number of similar instances. Once again, the rather vague nature of the commitments entered into under the Competition Principles Agreement, combined with the extensive discretionary power of the NCC and the Federal government leaves plenty of room for misinterpretation. It is clear that many State and local agencies take the view that 'it is better to be safe than sorry' and therefore to err on the side of more competition, privatisation etc.

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