

National Competition Policy: Some Issues

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Introduced as part of the Hilmer reforms of 1995, national competition policy (NCP) is a cooperative Federal-State attempt to broaden the scope of competition and develop a more coordinated approach to reform. The main provisions are set out in the Competition Principles Agreement (CPA).

Some competition reforms were already in place before NCP was introduced. For example a few individual governments had earlier opened up infrastructure monopolies such as gas, electricity, water and transport to wider competition. The NCP framework took these reforms under its wing and embraced many new initiatives which sought to:

- extend the Trade Practices laws to certain government-owned and private businesses previously exempt;
- promote competitive neutrality between private and government-owned businesses;
- encourage governments to undertake systematic reviews of all anti-competitive elements in existing legislation; and
- ensure reasonable access by competing businesses to core monopoly controlled infrastructure such as electricity cables, railway lines, gas pipelines and airports.

The broad principle underlying NCP is that restrictions on competition should be removed unless they can be shown to be in the public interest. The National Competition Council (NCC) has been given the role of advising the Federal Treasurer on whether the aims of the reform program are being met and if not, whether special Commonwealth revenue grants ('competition' or 'bonus' payments) should be withheld.

Concerns have been expressed about the competition reform program on three main grounds:

- it does not allow state authorities adequate discretion in relation to policy development, review and pace of implementation;
- its effective contribution to economic efficiency is small; and
- it gives too much weight to efficiency relative to other societal goals.

The main aim of this paper is to examine critically these concerns.

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Democratic Legitimacy of NCP Processes

Some critics (for example Quiggin, 1998:16-17) say that NCP allows the state governments too little discretion in pursuing their own social priorities and that processes of consultation and implementation are inadequate. They therefore question its democratic legitimacy. There are several strands to this concern.

First, some critics allege that only limited consultation occurred when the policies were first formulated. This claim is not explored further in this paper. Second, it is argued that NCP arrangements do not allow individual governments enough political flexibility to trade-off some efficiency for other values in response to community preferences. This is an important issue; it is discussed later in the paper. A third strand is that non-elected officials and advisers have excessive influence relative to state politicians. This concern relates to the powerful role played by the NCC in monitoring the reforms and advising the Federal Treasurer. Finally it is argued that states rights are being infringed by giving the Commonwealth Government powers to impose financial penalties on the states when it is dissatisfied with the results.

The need for State Governments to have a bigger say in the policy development process was recognised by federal and state ministers at their November 2000 meeting. They agreed on a number of changes designed to enhance the opportunity for states to make their case where the NCC recommends a penalty and before the final decision is made on competition payments (Banks, 2001:13). State authorities are still required to document their public interest reasons and to ensure that the outcome is within a range which 'a properly constituted review' might consider 'reasonable' on the information available to it. But they are being allowed more discretion in determining whether existing practices are in the public interest.

To go further and totally abolish the right of the Federal Government to withhold competition payments — remove altogether the element of incentive (as proposed by some, for example Quiggin, 1998) — would leave NCP without a framework to ensure that the rules of the game are observed. It would weaken confidence in the transparency, independence and objectivity, and hence the consistency and integrity, of public interest assessments.

On the other hand, it is equally untenable to argue that the role of the states needs to be substantially reduced in order to speed up the process of reform (Harman and Harman, 1996:2). Such critics overlook the extreme difficulties of winning political cooperation and support without allowing states discretion on how best to achieve agreed outcomes (Keating and Wanna, 2000:139).

NCP and Economic Efficiency

Some economists believe that reforms like NCP make little or no contribution to economic efficiency. This criticism is discussed here firstly at the theoretical level and then by specific reference to NCP.

Theory

A reform improves economic efficiency if winners are capable of compensating the losers and still remain better off. (A more restrictive concept of efficiency requires that winners actually compensate losers but policy-making would be paralysed if it always had to strive for win/win outcomes.) A recent survey of economists found an overwhelming majority was of the view that pro-competition policies will tend to improve economic efficiency (Argy, 2001). Such consensus is rare in economics. It stems from a belief that competitive markets give consumers wider choice and lower prices and give sellers stronger incentives to:

- minimise their costs and cut out waste (thus making less calls on national productive resources to produce any given output);
- innovate and adapt quickly to changing circumstances;
- pass on cost reductions to consumers and target their specific preferences; and
- channel goods and services to those consumers who value them most highly.

However economists are also aware of three ‘traps’ in the theory. First, free markets do not always work perfectly. There may be information asymmetries, high transaction costs involved in collecting and evaluating information, learning curves, herd mentality affecting buyers and sellers, and so on. More importantly from the viewpoint of this paper, the market may not be able to sustain several producers if there are potentially large economies of scale and natural barriers to entry. In such circumstances competitive markets may not be viable in the long term and can lead to a concentration of private market power. This would in turn require extensive regulation and would not necessarily produce good efficiency outcomes.

Second, unleashing the forces of competition across the economy may entail economic adjustment costs in the short term and these costs need to be set against long term efficiency gains. For example, many unskilled workers displaced by structural change and reform remain unemployed for fairly long periods and suffer severe personal costs (Borland and McDonald, 2000).

Third, competitive markets may not produce efficient outcomes in the long term if there are ‘negative externalities’, that is, adverse economic welfare consequences not fully accounted for in the price and market system. Such externalities can occur, for example, if the competitive process leads to erosion of a country’s natural capital or increased traffic congestion and airport noise or increased job insecurity and stress.

Even the most enthusiastic supporters of competition policy acknowledge that if market imperfections, adjustment costs and negative externalities are large enough and are ignored, they can conceivably leave little or nothing by way of net efficiency gain.

Potential efficiency gains from NCP

NCP is essentially a mechanism for freeing up markets and facilitating greater competition. How well does it deal with the three ‘traps’ outlined above?

Some public service or utility markets targeted by NCP operate in *imperfect markets*. They may not lend themselves to additional competition, either because of economies of scale (as with core networks) or because of the high costs of collecting and evaluating information (as with health and education). But such imperfections are only found in a few of the markets subject to NCP and can be separately accommodated, for example, through price and access regulation (Fels, 2001), without abandoning the whole reform program.

Implementation of NCP is also likely to involve significant *adjustment costs* on the way. For example, the Productivity Commission (1999:250) acknowledges that, although in the long run there should be positive employment effects through price reductions and real income increases, ‘the early direct effects of NCP reforms on employment have been adverse’. Victoria’s Latrobe Valley suffered sustained job losses as a result of electricity reform, although employment levels in the Valley region are now tending to recover significantly.

While short term employment disruption is unavoidable as NCP begins to bite, good governance can ensure that it does not lead to long term, structural unemployment — an issue the paper returns to later.

There are also transitional costs stemming from water reform, for example, the lack of success in addressing water property rights is eroding security for farmers in financial negotiations. Again, such costs can be minimised with appropriate policy action. Similarly, any *negative externalities* generated by NCP can in general be prevented or offset without destroying the basic efficiency rationale of the reform program.

For example, Hamilton and Denniss (2000) warn that the application of competition policy to the electricity sector could, by encouraging more electricity production, add substantially to the combustion of carbon-based fossil fuels and greenhouse gas emissions. However, the problem here lies not with competition policy per se but with environment, energy and utility pricing policies. For example, the price of electricity could incorporate a special carbon charge to ensure it is not below the socially optimal (and consumption is not above optimal). Or the tax system could be restructured so as to encourage a shift from coal-fired to gas-based fuels and so reduce the ‘carbon dioxide intensity’ of electricity generation. More generally, a balanced national energy policy could be implemented in conjunction with NCP. A review of the energy market foreshadowed by the Council of Australian Governments (COAG) is to include greenhouse emissions in its terms of reference. Limited steps are also being taken to facilitate the trading of emission credits.

In any case the environmental externalities generated by competition policy are not all negative. For example, cost minimisation in electricity reduces demand for natural resources *per unit of output*. Similarly, water reforms, such as the application of fuller cost pricing to water use, the allocation of clear rights to use

of water and the introduction of tradeable allocations of water rights, are likely to prove favourable for the natural environment, and especially our river systems. Again, the wider choices offered by NCP should make it easier for buyers to purchase 'green' energy from renewable sources like natural gas.

On a different plane, it has been argued that reforms like NCP which tend to intensify the competitive environment can put pressure on firms not to exceed legally required safety standards and working conditions and to demand more of their workers. The market liberalisation reforms of the 80's and 90's have been associated with a rise in casuals, more widespread job insecurity and increased work intensity and stress, as well as higher structural unemployment. The evidence of deterioration in workers' quality of life is now quite extensive (for example, see ACIRRT 2001; Pocock 2001; Kelley Evans and Dawkins, 1998), although it is still subject to debate (Murthough and Waite, 2000; Wooden, 1999). Being based on opinion surveys, the evidence is perceptual in character. But perceptions are important in such cases.

The potential efficiency costs of such effects on workers are far from insignificant. For example, when asked, typical low-income workers say that they would be happy to earn one third less to move from an insecure to a secure job (Kelley and Evans, forthcoming). If governments are concerned (as they should be) about what is happening to the quality of life of workers, it does not mean they have to walk away from competition reform. They can continue to implement reform and then neutralise some of its undesirable effects by other more direct means such as establishing minimum economy-wide workplace standards.

In short, market imperfections and failure do not *per se* destroy the efficiency rationale of competition policy. However they have a message for policy-makers. The efficiency benefits of competition reforms like NCP cannot be taken for granted; they must be assessed on a case by case basis and the reforms often need to be supplemented by other policies. Sometimes the externalities are so complex and difficult to anticipate and control that they are best handled under a regulated public monopoly (Argy et al., 1999; King and Pitchford, 1998).

Actual NCP efficiency returns

It is difficult to evaluate the actual impact of NCP on efficiency and costs. For one thing, implementation has progressed more slowly than expected. Rail reform is lagging and there has been some slippage in achieving a national gas and electricity market and in reviewing anti-competitive practices in the previously exempt private sector. The slow pace of reform reflects the sheer technical complexity and ambitious scope of the exercise, but it also stems from community and political concerns about the pace of change. Whatever the causes, NCP remains an unfinished project.

Many analysts point to big reductions in prices of gas and electricity for large users (Willett, 2001) and to other benefits such as lower conveyance fees, savings in water usage and reduced duplication (NCP, 1999:9). Some also argue that for most electricity customers the incidence of supply interruption has been reduced.

However, some of the initial efficiency gains from NCP may not be sustained. Initially, electricity prices fell but this was partly because the industry was deregulated at a time of excess capacity. With this excess capacity eroding, and little or no generating reserve capacity to draw on, the expectation now is that retail electricity prices will rise appreciably in the near future — at least until new capacity comes on stream. Although the recent world wide downturn in demand for energy and falling oil prices may be fortuitous in easing the transition, the electricity reforms are about to be tested to the full.

Longer term, there are doubts about the competitive structure of the industry. ‘High regional pool prices could indicate that the generation market is too thin and that individual generators have substantial market power ... the market is not currently working as well as it should’ (Willett, 2001). The NCC attributes this to inadequate inter-regional competition, a cumbersome regulatory framework and inadequate competition between generators. The challenge for regulators will be to reduce monopoly power and excess profits and yet ensure adequate incentives for private electricity operators to invest in new transmission links. Fortunately, Australia does not face the same fundamental problems as in California, where wholesale prices were freed while retail prices were frozen. Australian authorities are aware of the need for regulated prices to be regularly and flexibly adjusted.

Clearly, the original form envisaged for the national electricity market will require some modification. In the meantime, Queensland (unlike other states) has decided not to proceed with retail contestability.

Despite all these transitional and structural difficulties, most economists are confident that NCP will appreciably improve efficiency in the long term. Various independent reports (cited by Willett, 2001; and Banks 2001:3-4) have estimated that the electricity reforms will improve GDP by several billions of dollars. These projections are consistent with Australia's own past experience with microeconomic reform. In the decade of the 1990's, Australia's multi-factor productivity growth was double the rate in the preceding decade and a half and 0.8 percentage points higher than the OECD average, whereas it was below or equal to OECD in the two previous decades. These productivity gains partly reflect cyclical recovery effects that some analysts believe to be dominant (Quiggin, 2001). However most economists see evidence of a decisive improvement in productivity trend (Dowrick, 2001) and, while they attribute some of the gains to improvements in technology and human capital and better macroeconomic management, they assign a major role to the microeconomic reforms of the 80's and 90's. Many of these reforms (for example, tariff reductions, deregulation of financial services, transport and communications and contracting out in the public sector) had as their principal intent to increase competition.

Model-based estimates are fraught with uncertainty and the precise numbers they churn up cannot be taken seriously; but the broad impressions they convey are in line with what one might theoretically expect. Apart from widening consumer choice and giving sellers the right sorts of incentives, NCP is likely to have a positive disciplining effect on state governments by instilling in them ‘ a culture of rigorous justification of the need for and design of new business

regulation' (NCC, 2001:Foreword). In short, while the results so far are patchy and uncertain, NCP can reasonably be expected to yield important efficiency benefits in the longer term.

Consistency of NCP rules

If efficiency is the main aim of NCP, then it needs to be applied consistently. Anti-competitive practices by, say, pharmacists, newsagents and some professionals have not been subjected to the same rigorous cost-benefit evaluation on public interest criteria as other restrictive practices. Political sheltering erodes the integrity and even-handedness of the system.

Equity as an Important Dimension of Community Well Being

A gain in economic efficiency is basically value-free. It simply widens the choices available to the community. The community can use the benefits to increase consumption of goods and services or for other purposes such as extend leisure, improve the quality of life and restore the environment. Whatever a nation's values and goals, these can be achieved better if national resources are used and allocated efficiently. So if NCP enhances efficiency it also has the *potential* to increase community well-being (social welfare). However realisation of this potential will depend on how the benefits and costs are distributed.

Although economists are taught not to make interpersonal utility comparisons, value judgments in policy formulation are inevitable. The so called 'neutral' assumption that everyone has the same marginal utility (which is the implicit premise when a reform is assessed exclusively in terms of aggregate GDP outcomes) is itself fraught with value judgments.

If value judgments are inevitable, governments should try to reflect predominant values as far as possible. These values are not easy to determine but opinion surveys point to three pertinent conclusions. First, most Australians seem prepared to sacrifice some economic growth in order to achieve less inequality (Kelly, 2000:230). Second, Australians seem prepared to pay higher taxes in exchange for better government services that promote equal opportunity (Withers and Edwards, 2001; Kelley and Evans, 2001). Third, a person's perceived well being seems to depend at least as much on changes in *relative* income and quality of life as on *absolute* changes (see Oswald, 1997; Frank, 1997).

Prima facie this suggests that, to ensure efficiency benefits are translated into community wellbeing, low income people should ideally share (at least in part) in the incremental benefits of reform — and not just over the 'long term'.

It is unlikely that NCP has had much impact on distribution so far. But it does have the potential to do so increasingly in the future. Some of the effects will be socially progressive. Increased competition in the utilities and professions should tend to reduce incomes inequality by breaking down market power, forcing prices to fall in line with productivity improvements and eroding privileged positions. A study by the Productivity Commission has found that 'productivity

gains at the industry level have predominantly been passed on in the form of lower prices. This is particularly true of the 1990's, suggesting that stronger competitive pressures have been at work' (Parham et al., 2000:xiv). The widespread use of utilities like electricity and gas means that lower prices are of special value to poorer households.

However there is a risk that, in the absence of active policy intervention, the regressive effects will outweigh the progressive effects. A more competitive environment almost by definition favours strong, well endowed, adaptable and competitive people and hampers those most vulnerable to change. The evidence (Katz, 1998:33-8; OECD, 2001:Table 2-1) appears to bear this out — across countries, there was a tendency for earnings inequality (before taxes and transfers) to widen in the late 80's and 90's in response to market liberalisation reforms.

In Australia too the increased pace of change, deregulation and liberalisation in the 80's and 90's appear to have led to an increase in earnings dispersion, with lower paid workers falling behind (Parham et al., 2000:135-6). But Australian governments recognised this danger and took measures through social security payments, the progressive tax system and 'social wage' (that is, non-cash benefits) to offset the increase in market inequality (Harding, 2001; Saunders, 2001). As a result, net incomes inequality, conventionally measured, did not significantly increase over the last two decades. But without on-going government intervention (both passive and social assistance) inequality would certainly have increased, as it did in many other reformist countries such as the UK, NZ and the US.

Similarly, competition policy can increase regional inequality. A more competitive environment creates incentives to centralise costs and roll back uneconomic services, thus affecting the smaller regions. A study covering the period 1986 and 1996 found 'dramatic increases in regional inequality' especially between states and post codes within states (NATSEM, 2000:2). A more recent study suggests that, at a national level, regional inequality has stopped increasing in recent years, probably reflecting falling unemployment and rising farm incomes (Harding, 2001). The Productivity Commission (1999:257) believes that most statistical regional divisions will be positive winners from the major NCP reforms relating to utilities (also see Banks, 2001:6), but there are likely to be transitional and even sustained adverse effects on smaller specialised geographic regions.

If governments believed that a particular reform would hurt particular sections of the community and wanted to prevent or temper this effect, they could take offsetting action either *ex ante* or *ex post*. In the case of NCP, one way — but as we will argue not necessarily the best way — would be to use the Public Interest mechanism to justify retention of the restrictions on competition.

Deficiencies in the Public Interest Test

The Public Interest Test (PIT) is set out in clause 1(3) of the Competition Principles Agreement. It requires governments to take into account not only the effects of NCP on economic efficiency (such as competitiveness of Australian industry, efficient allocation of resources and economic development) but also

- ecological sustainability;
- social welfare and equity, including community service obligations;
- compliance with prescribed standards on occupational health and safety, wages and working conditions;
- reasonable equality of access to essential services; and
- regional development.

Nor is this clause meant to be exclusive. It is open to governments to take account of matters not specifically listed in the clause 'such as the impact on specific communities, including adjustment costs' (Samuel, 2001:4). As well, critics of NCP are frequently reminded that the Agreement, although it does require competitive neutrality, does not insist on privatisation of government assets, nor does it insist on compulsory competitive tendering and contracting out.

The NCC therefore believes the PIT offers an adequate safeguard against over-preoccupation with efficiency relative to other societal goals. It argues that 'the NCP agreements give social and environmental values no less weight than financial considerations in determining where the public interest lies. ... All public interest considerations intrinsically carry equal weight' (NCC, 1999:20). But critics are not satisfied. Quiggin (1998:8) argues that 'NCP differs from earlier attempts to promote competition by virtue of the assumption that competition is always and everywhere desirable and that where competition is in conflict with other values, there should be a presumption in favour of competition'.

This may over-state the weight given by NCP to competition but it raises a legitimate concern. Despite the broad ranging character of the PIT and the large discretion on social policy allowed individual governments, there are doubts about the effectiveness of the Test in establishing an acceptable balance between efficiency and equity. These doubts arise from two features of the PIT.

First, the onus lies with *opponents* of reform to prove, through rigorous and independent public interest reviews, that existing restrictions on competition are in the public interest. The NCP framework presumes that competition serves the public interest unless it can be shown otherwise — that is, that 'competitive outcomes deliver greater benefits than non-competitive outcomes in the absence of evidence to the contrary' (Samuel, 2001:3). This approach is not the usual practice with economic reform. Normally it is up to reform *proponents* (including the Productivity Commission) to show that a particular change will be worthwhile. By assuming that existing restrictions on competition are against the public interest unless shown not to be, NCP is an exception to this rule. True, the Trade Practices Act uses an approach similar to the NCP's to deal with anti-competitive conduct. But in that case the aim is to curb the abuse of private monopoly power for private purposes — whereas in the NCP's case it is to curb the potential for abuse of political power. The two cases are qualitatively different.

The Chairman of the Productivity Commission, Gary Banks, has noted another feature of the PIT which may compound the bias in favour of competition and efficiency. In a recent talk, he warned of the 'danger that only the measurable (what can be easily quantified or valued) will be influential in decision-making'.

Since effects on distribution, the environment or quality of life are not easily measured, quantified and demonstrated through ‘rigorous, independent reviews’ (as required by the Agreement), such values will tend to start with a disadvantage relative to productive efficiency (usually measured by GDP per hour or per head). More generally, Banks disputes the view that social and environmental considerations carry ‘equal weight’ with other public interest criteria. ‘This could be misconstrued as them having equal importance in all cases. It may be better to describe the criteria as having equal *status*’ (Banks, 2001:9).

The effect of these features of the PIT is to give proponents of competition reform an advantage over opponents. If this is a concern to governments, there are a number of possible policy responses. They are discussed in the next section.

Possible Policy Responses

The President of the NCC, Graeme Samuel (2001:8), accepts that governments have a responsibility to ‘ensure the benefits (of competition policy) are shared equitably’. He also believes that ‘to date governments have responded poorly to this responsibility’. There are three ways to more effectively meet this responsibility.

The ‘reform dilution’ approach

The first would be to try to amend the Public Interest Test provided in the Agreement so as to make it easier for governments to show that existing restrictions on competition are in the public interest. This can be called ‘reform dilution’ because it involves deliberately foregoing some efficiency benefits in order to safeguard other goals (see Argy, 1999).

There are various ways the PIT can be amended to achieve the desired result. Quiggin (1998:17-19) suggests restructuring of the onus of proof to take ‘explicit account of all the criteria set out in the CPA s.1(3) as well as any other relevant factors, including losses to employees through reductions in wages and increases in work intensity’. Less ambitiously, the Federal Government has foreshadowed some tinkering with the PIT. The Deputy Prime Minister is reported to have said that ‘the public interest test needs to take proper account of the needs of rural communities and the costs of reform for regional communities’ (Lewis, 2001).

The option of diluting the PIT, while technically viable, would add a lot of complexity to the process. More importantly, it would almost certainly involve a significant sacrifice of efficiency if it made it too easy for governments to retain market-distorting devices such as restrictions on competition to advance their social goals — instead of looking for more cost-effective devices.

The ‘exemption’ approach

A second possible approach, potentially involving an even larger sacrifice of efficiency if carried too far, would be to legislatively exempt a wide range of activities from the provisions of NCP (as is already done for most pharmacists).

Such an approach would side-step the need for rigorous, objective and transparent cost-benefit analysis. There would therefore be a risk that reform would be suppressed merely to satisfy vocal vested interests. Moreover, like the reform dilution approach, it would involve employing a market-distorting instrument.

That said, there may be a case for excluding from NCP such areas as the provision of health and education. Apart from being socially sensitive, these are sectors where competitive markets do not always work well — for example, where consumers are not adequately informed and there are high transaction costs involved in acquiring the necessary information.

The 'reform with smoothing' approach

A third possible response would be to leave the PIT as it now stands and address the equity and environmental concerns associated with competition policy through direct budgetary means. This would mean providing special assistance *in addition* to generally available assistance measures (such as those administered by Centrelink). The additional assistance need not be of the income support variety, nor need it be solely 'compensatory' in its intent. It can include what the OECD has called 'active social policies' which seek to encourage a creative change in the behaviour of assistance recipients (for example, inducing them to move to where the jobs are or to enhance their skills or gain some work experience). Such active policies may include for example: adjustment assistance, expenditure on regional infrastructure, equal opportunity measures and active labour market programs (such as wage subsidies, training, improvements in job placement machinery and intervention to promote welfare to work). Active policies are socially more rewarding in the long term because they get at the root cause — market inequality — and eventually reduce the need for passive welfare. They are also economically more efficient (OECD, 2001; Forsyth, 1999; Argy, 1999)

Such an approach to economic reform can be called 'reform with social smoothing' because it seeks to safeguard wider community values through the most efficient and effective means available, while maintaining the momentum of economic reform. It may require higher taxes and, where the social expenditure is of a capital nature and the gains are likely to be shared by future generations, some additional net government borrowing. If sensibly designed, such fiscal devices are superior to restrictions on competition on many counts. They are likely to involve much lower efficiency costs. They can be used to facilitate structural adjustment. They allow the burden of costs and benefits to be more equitably controlled and targeted. And they are generally more transparent and accountable.

There is nothing in the Competition Principles Agreement that precludes governments from spending more money on social assistance (of the passive or active kind). Despite globalisation, governments still have adequate powers of fiscal intervention if they choose to use them. However reliance solely on this fiscal approach to correct the imbalance between efficiency and equity may require a more flexible medium term government stance on revenue, borrowing and spending than is now the case at either state or federal level (Argy, 2001).

Conclusions

The paper has focused on three common criticisms of NCP

- that the democratic legitimacy of the process is questionable;
- that NCP is built on a false premise that increased competition necessarily means increased efficiency; and
- that efficiency is given too much weight relative to other community goals.

Although the subject is complex and does not lend itself to simple generalisations, the paper has expressed certain views which can be summarised as follows.

Legitimacy of the process. Concerns about the democratic legitimacy of NCP processes have been allayed as a result of recent changes in *modus operandi*. To go further and give the states much greater discretion would run the risk of destroying the integrity of the cooperative agreement. However there is a need for greater consistency and fairness in the treatment of different groups and sectors.

Competition and efficiency. Although it is too early to assess the specific efficiency effects of NCP, economic theory and experience with other competition-promoting reforms both suggest that, provided adequate attention is given to externalities and adjustment costs, the long term winners from NCP will outweigh losers, thus meeting the usual economic efficiency test.

Nevertheless economists who question the efficiency gains of competition policy have two important messages for policy makers. First, they should not start with a universal presumption that competition necessarily improves economic efficiency: this needs to be demonstrated on a reform by reform basis. Secondly, competition policy often needs to be complemented by other policies (for example, to facilitate adjustment and minimise transitional costs) if it is to achieve its maximum potential for efficiency.

The imbalance between efficiency and broader community goals. The paper has argued that the present Public Interest Test (PIT) is currently weighted too much in favour of competition and efficiency. It does not give anything like comparable weight to other dimensions of wellbeing such as equity.

Governments may wish to correct this imbalance. If so, one viable response would be to amend the PIT to put all criteria on a more equal footing (although complete equality of treatment would not be practicable). A second possible response could be by way of legislative exemptions. Both these approaches have efficiency costs. A third response would be to smooth undesirable social effects, preferably through 'active' social policies. This would be the most effective and efficient way to achieve the desired social outcomes. However the third option is only viable if governments are prepared to give themselves enough medium-term fiscal flexibility to finance the social assistance and adjustment packages.

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