Re-Assessing the Public Interest Impacts of Major Economic Policy Change in Australia - The Dairy Example

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Abstract

The introduction of National Competition Policy (NCP) in 1995 globalised Australia's domestic economy, replacing existing regulations in many sectors with a new set of market-based meta-regulations, which tend to favour large corporations at the expense of vulnerable community sectors, small business and regional communities. NCP was one of the most significant policy changes ever implemented in Australia. Such changes were assumed to be the public interest, unless members or sectors of the community could manage to prove otherwise via a very narrow, market-based public interest test. Research into the Australian dairy industry has revealed the urgent need for systematic follow-up sector-by-sector checks to test the actual outcomes of NCP against its largely untested driving assumptions.

There is frequent discussion of the need to properly assess the social, environmental and economic impacts of major projects, but what happens when the Australian Government makes major economic policy changes without testing or checking the assumptions upon which those policy directions are based? One example of this in Australia relates to the farmgate deregulation of Australia's dairy industry enforced as part of the globalisation of many aspects of Australia's domestic economy in 1995 by the Hawke/Keating Labor Government, known as National Competition Policy (NCP).

Research into the deregulation of Australia's dairy industry[1] [2] illustrates not only that the outcomes have failed to match many of the predictions that were used to drive the changes, but calls into question the lack of systematic assessment of the assumptions driving change in a range of sectors which were targeted for such "microeconomic reform" under NCP. NCP in dairy has resulted in fewer dairy farmers[3], the loss of substantial numbers of Australian dairy processors[4] and a more concentrated and powerful corporate retail sector.

Basic economic theory tells us that a perfect market consists of a large number of buyers, a large number of sellers and complete market information. Instead, in the dairy sector, we have producer/sellers with reduced market bargaining power and an oligopsony of buyers. A fundamental assumption behind the push for NCP was that removing existing regulatory arrangements would lead to greater economic efficiencies, and therefore greater economic productivity.[5] The capital risk in Australia's dairy industry is concentrated at the producers end[6], and by 2005 producers total factor productivity growth had dropped, rather than improved.[7]

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[1] Margetts (2007a)
[2] Margetts (2007b)
[3] Margetts (2007a), p 123
[4] Ibid, pp 124/5
[5] Hilmer et al, 1993 p xvi
[6] ACCC (2001) p 29
[7] Margetts (2007a p 110

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NCP incorporated the belief that there should be no regulatory restriction on competition unless it was proven to be in the public interest[8] so the onus of proof was placed on the community, states and territories to provide a case to justify the retention of any particular legislative or regulatory measure in the absence of market based alternatives. Theoretically, the States were supposed to be able to make their own public interest judgements, but the powerful National Competition Council (NCC) recommended that particular states or territories be subject to substantial economic penalties by claiming that the public interest tests were not undertaken satisfactorily![9] However, the NCC admits to being selective in implementing the full public interest testing process themselves.[10] Embedded in the NCP public interest test was the assumption that removing existing industry regulations equals more market competition and is in the public interest unless it can be proven otherwise. Although the test included a range of issues which **could** be considered, it did not **require** a full social impact assessment.

In the dairy case, the public interest assessments carried out by the majority of Australian states recommended retaining state-based statutory farmgate regulations,[11] but nearly a decade later, the main rationale used by the NCC (that the consumer would be the main beneficiary of dairy farmgate deregulation) to overrule those findings, remains unproven[12] and at the same time, some parts of Australia are facing looming milk shortages[13] as dairy farmers continue to leave the industry.

The assumption that statutory marketing arrangements had held back the efficiency and productivity of the Australian dairy industry can now be judged in the context that, just prior to deregulation, Australian dairy exporters were receiving the lowest average farmgate prices in the world, and were considered to be amongst the world's most efficient producers.[14] Whilst it will take some years to ascertain what impacts such supply conditions as drought have made, it has yet to be proven that deregulation has created a more efficient dairy production sector.

Another general assumption behind NCP was that it would enhance Australia's manufacturing capacity by reducing the cost of inputs[15] but the increased marketing buying power of the corporate supermarkets, has put the Australia's dairy manufacturing sector under great pressure and that has lead to a number of takeovers, especially from overseas interests including Australia's major dairy competitor, New Zealand.[16] The new national system of farmgate deregulation and new market-based rules,[17] combined with other aspects of NCP-driven changes such as the retail sector, has had major impacts on the market power of primary producers and dairy processing sectors.

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8 Margetts (2007a) p 98
9 NCC 2003 4.13
10 Margetts (2007a) p 107
11 Ibid p 107
12 Ibid pp 111-113
13 Dairy Australia (2006) p 5
14 Margetts (2007a) pp 109-110
15 Hilmer et al (1993) p 15
16 Margetts (2007a) pp 124-125
17 Ibid p 107-108

There have been occasions, when the Productivity Commission (and its predecessor, the Industry Commission) have been asked to undertake their own inquiries into the outcomes of NCP. In a table summarising the assumed impacts of "Hilmer and related reforms" in their 1995 Report, "*The Growth and Revenue Implications of Hilmer and Related Reforms*" the Industry Commission, in almost every case, predicted reduced costs and/or increased productivity[18] in the targeted sectors.

In 1998, three years after its introduction, and just as the Federal Senate was setting up a Joint Select Committee to investigate the socio-economic impacts of NCP, the Federal Treasurer, Peter Costello, commissioned the Productivity Commission (PC) to inquire into the impacts of NCP on rural and regional Australia. However, most of the assessments were economy-wide, not targeted at particular sectors, and the dates chosen were often irrelevant to the arguments. For instance, as NCP was introduced in 1995 and involved such massive legislative reviews, the changes for which it was largely responsible generally did not occur immediately[19], and yet, the PC report included graphs, such as changes in regional employment levels, from 1986 to 1996[20], without providing any explanation why years unrelated to the implementation of NCP had been chosen.

In April 2004, Treasurer Costello again commissioned the PC to undertake a review of the "*benefits the reform program has delivered to date…*"[21] There was, however, no instruction to research any costs to the community. It is significant that most of the report again dealt with selected economy-wide information, not sector-by-sector data. That is, the specific sectors that had been targeted by the Hilmer Report, the NCP Agreements, and the National Competition Council such as rural marketing arrangements and the professions were not systematically assessed in this report.

The 2005 PC report makes no assessment of the impacts of NCP on Australia's balance of trade or manufacturing capacity, especially changes linked to those areas targeted by NCP policy changes, including Australia's food production and retail sector.

Back in 1989, the Leader of the Opposition in the Senate, Senator Fred Chaney expressed the view that the biggest winner from the microeconomic reform agenda of the Industry Commission would be the mining sector[22] and John Quiggin's 1993 analysis of the ORANI model (which had been used by the Industry Commission to provide the predictions which they used to support their push for micro-economic reform), confirmed that it was weighted towards the mining and resource sector.[23]

Ironically, leading up to Australia's current mining and resource boom, Western Australia's State Agreement Acts, which provide special assistance to individual corporations and project consortia, escaped unscathed from a very superficial NCP

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[18] IC (1995) pp 18-21
[19] NCP brought various aspects of Government under the *Trade Practices Act* straight away but few of the forced legislative changes, such as those to statutory marketing arrangements occurred before the late 1990s, and dairy deregulation Australia-wide did not take place until 2000.
[20] PC (1999) p 55
[21] PC (2005) p iv
[22] Senate Hansard 1989: 2878-9
[23] Quiggin (1993) p 22

scrutiny.[24] It therefore warrants investigation as to why the corporate mining sector whose legislative support was quarantined from deregulatory measures applied to the many other parts of the economy appears to be thriving.

Other parts of the economy affected by NCP which warrant a full assessment (or re-assessment) include Australia's wheat marketing arrangements, the impacts on meat producers and fruit and vegetable growers of changes to the regulatory arrangements in Australia's retail sector and the impacts of forced deregulation in such areas as the valuable Western Rock Lobster industry.

This systematic reassessment is both urgent and vitally important as the Productivity Commission's agenda for the next round of NCP-type changes includes health care, vocational education and training and "aspects of natural resource management" including climate change.[25]

In June 2007, a Reserve Bank discussion paper was published linking deregulation with improved productivity.[26] The paper contained a number of multi-country graphs but none of them included a correlation coefficient and the dates they chose for their graphs appeared to change suit their argument. For instance, they graphed the correlation between deregulation and changes to Total Factor Productivity Growth from 1983 to 1993[27] (dates prior to Australia's major microeconomic reform vehicle - NCP). Using the data in their appendices, graphing the Total Factor Productivity from 1993 to 2003 (dates which are more relevant) results in a correlation coefficient of only 0.29 i.e. sloped in the opposite direction!

Prior to the 2007 Federal Election, Kevin Rudd and Wayne Swann were amongst those in the Labor Party frequently promoting the next round of "productivity reforms" as Labor Policy, and these proposals also included health, education and the environment, echoing the PC's proposed next round of NCP.

One of the first steps taken by the new Labor Government in this direction was to commission Professor Ross Garnaut, one of the architects of NCP, to conduct an inquiry on possible actions to address climate change, but whereas, the Hawke Labor Government had followed almost the letter his views on microeconomic reform in the 1990s, when Garnaut's research revealed that it was in Australia's environmental and economic interest to take much stronger steps to combat climate change,[28] the Government have shown reluctance to follow his recommendations.[29]

Conclusions

Public interest assumptions of Australian dairy farmgate deregulation such as consumer benefits and greater productivity remain unproven and systematic assessments have not been undertaken of the impacts on those other sectors targeted by NCP.

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[24] Margetts (2001)
[25] PC (2005) p 303
[26] Kent, C & Simon, J (2007)
[27] Ibid, p 5
[28] http://www.theaustralian.news.com.au/files/garnaut.pdf
[29] http://www.news.com.au/story/0,23599,23434451.5009760.oo.html

With the change of Government in Australia, it is vitally important that Prime Minister Rudd does not attempt to be the new Paul Keating without listening to the carefully considered advice of economists such as John Quiggin:

"*A careful assessment of the gains and losses of microeconomic reform and of the areas which reform has succeeded and failed may help to guide the path to reform and to identify policies that would yield greater benefits to ordinary Australians than have been adopted in the past*."[30]

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[30] Quiggin, J (1996) p 22