

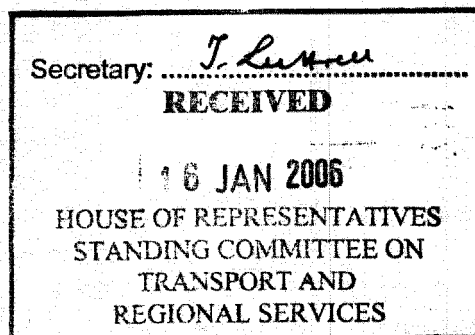
Attached is a response to a question on notice. I can provide more information if needed.

Regards

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At my appearance before the Inquiry, I was asked the following:

Ms BIRD— On page 7 you talk about private sector versus public sector investment— you may or may not wish to comment on this. You make the point: Government investment can be swayed by political considerations, meaning investment can be very inefficient.

Is the chamber making that comment on the basis of evidence and examples or of a general view of the world?

Mr Potter— Yes to both.

Ms BIRD— Would you like to share evidence and examples of that with us?

Mr Potter— I will take that on notice.

In response, I note that there are many studies that show that companies perform better when privately owned and that privatisation provides benefits to the wider community. In particular:

Barnett (2000) "Evidence on the fiscal and macroeconomic impact of privatisation" IMF Working Paper 130 finds that: "total privatization is correlated with an improvement in macroeconomic performance as manifested in higher real GDP growth and lower unemployment."

Earle & Estrin (1998) "Privatization Competition and Budget constraints: disciplining enterprises in Russia" SITE Working Paper 128 finds: "robust evidence of a positive impact of privatization on labor productivity: in our basic specifications, we estimate that a ten percentage point increase in private share ownership raises real sales per employee by three to five percent"

Estache & Rossi (2004) "Have Consumers Benefited from Reforms in Electricity Distribution in Latin America" World Bank Working Paper 3420 finds that: "private firms perform better (approximately 30%) than public firms; there is no clear pattern of differences in electricity prices according to the regulatory regime; and final prices fell in general [for privatised firms]"

Frydman, Gray, Hessel & Rapaczynski (1997) "Private Ownership and Corporate Performance - lessons from transition economies" World Bank Policy Research Working Paper 1830 "provides strong evidence that private ownership, except for worker ownership, dramatically improves corporate performance... Most importantly, we find that privatized firms generate significant employment gains relative to state firms."

I have attached a table from Gonenc, Maher & Nicoletti (2000) "The implementation and the effects of regulatory reform past experience and current issues" OECD Working Paper 251 which summarises a large number of studies of the effect of privatisation on a range of economic indicators.

Lundsgaard (2002) "Competition and efficiency in publicly funded services" *OECD Economic Studies* 35 argues that competitive tendering for services produces savings in the range 10-30 percent, driven both by competition and private ownership of the service provider. Costs are lower for any given quality of service.

Ohlsson (1996) "Ownership and input prices: A comparison of public and private enterprises" *Economic Letters* 53-1 found that in Sweden private firms pay 10-15% less than public enterprises for of a homogeneous capital item - 800 garbage trucks.

Pollitt & Smith (2002) "The restructuring and privatisation of British Rail: was it really that bad" *Fiscal Studies* 23-4 finds that:

The paper shows that major efficiencies [in British Rail] have been achieved and consumers have benefited through lower prices, whilst the increased government subsidy has been largely recouped through privatisation proceeds. We also find that output quality is no lower (and is probably better) than under the counterfactual scenario of public ownership (pre-Hatfield). The achievement of further savings is key to delivering improved rail services in the future. This paper finds that a privatised structure, where shareholders demand a return on their investment, has led to significant improvements in operating efficiency. It remains to be seen whether the new regime, with a not-for-profit infrastructure owner, will deliver the same efficiency improvements.

Szymanski (1996) "The Impact of Compulsory competitive tendering on refuse collection services" *Fiscal Studies* 17-3 found that compulsory tendering for refuse collection generated an average 19.5% reduction in costs, with "little evidence to support the hypothesis that lower costs are a consequence of lower standards"

Table 1. Product market liberalisation and performance

A. Effects on growth and the macroeconomy

| Author | Country/period | Explanatory variable | Performance variable | Effects found | Method |
|--|-------------------------|--|---|---|-------------|
| <i>Reported in van Bergeijk and Hoffner, 1996:</i> | | | | | |
| Emerson et al., 1988 | EU medium-term | Implementation of Single Market (excluding trade-related measures) | GDP | Positive, GDP increases by 4.1 | Simulation |
| Industry Commission, 1995 | Australia long run | Deregulation (implementation of the Hilmer report) | GDP | 5.5 | Simulation |
| Lipschitz et al., 1989 | Germany annually | Deregulation | GDP | 0.3 | Simulation |
| Van Sinderen et al., 1994 | Netherlands annually | Deregulation | GDP | 0.5 | Simulation |
| <i>8 OECD countries long-run:</i> | | | | | |
| | United States | | | 0.9 | |
| | Japan | | | 5.6 | |
| | Germany | | | 4.9 | |
| | France | | | 4.8 | |
| OECD, 1997 | United Kingdom | Regulatory reform in electricity, air travel, road freight, telecommunications and retail distribution | GDP | 3.5 | Simulation |
| | Netherlands | | | 3.5 | |
| | Spain | | | 5.6 | |
| | Sweden | | | 3.1 | |
| Goff, 1996 | United States 1950-92 | Index of regulatory intensity | GDP | Negative (GDP decreases by 0.9% annually) | Econometric |
| Koedijk and Kremers, 1996 | 11 EU countries 1981-93 | Index of strictness of product market regulation | GDP per capita growth TFP growth Labour productivity growth | Negative Negative Negative | Descriptive |
| Gwartney and Lawson, 1997 | 115 countries | Index of degree of economic freedom | GDP per capita GDP per capita growth | Positive Positive | Descriptive |
| Dutz and Hayri, 1998 | 52 countries 1986-95 | Index of pro-competitive policy environment | GDP per capita growth | Positive | Econometric |
| Edwards, 1998 | 93 countries 1980-90 | Indexes of openness to trade | TFP growth | Positive | Econometric |

Table 1. Product market liberalisation and performance (continued)

| B. Effects on labour market | | | | | |
|---|---|--|----------------------|--|-------------|
| Author | Country/period | Explanatory variable | Performance variable | Effects found | Method |
| <i>Reported in van Bergeijk and Hoffner, 1996</i> | | | | | |
| Emerson et al., 1988 | EU medium term | Implementation of Single Market (excluding trade-related measures) | Employment | Positive, employment increases by (%). | Simulation |
| Industry Commission, 1995 | Australia long run | Deregulation (implementation of the Hilmer report) | Employment | 0.4 | Simulation |
| Lipschitz et al., 1989 | Germany annually | Deregulation | Employment | 0.6 | Simulation |
| Van Sinderen et al., 1994 | Netherlands annually | Deregulation | Employment | 0.1 | Simulation |
| OECD, 1997 | 8 OECD countries long-run | Regulatory reform in electricity, air travel, road freight, telecommunications and retail distribution | Employment | Nil | Simulation |
| Goff, 1996 | United States | Index of regulatory intensity | Unemployment rate | Positive (unemployment rate increases by 0.3%) | Econometric |
| Nicoletti et al., 2000 | 19 OECD countries 1982-95 | Indexes of strictness of product market regulation | Employment rate | Negative | Econometric |
| | 19 OECD countries 1982-95 9 manufacturing industries | Indexes of strictness of product market regulation | Wages | Mixed, predominantly positive | Econometric |

Table 1. Product market liberalisation and performance (continued)

| Author | Country/period | Explanatory variable | Performance variable | Effects found | Method |
|-----------------------------|--|---|---|---|--------------------|
| | | Air travel | | | |
| Hullber and van Boven, 1997 | Netherlands | Intra-EU liberalisation, reform slot allocation | Prices | Decline by 4% | Simulation |
| OECD, 1999a | United States | Domestic liberalisation of entry and prices | Prices Efficiency Quality | Decline by 33% Increase by 15% Unclear | |
| OECD, 1999b | Mexico | Partial liberalisation of price and entry | Prices Quality Employment Efficiency | Unclear Unclear Increase | |
| Evans and Kessides, 1993 | 1000 routes United States 1986-88 | Demopolisation | Prices | Negative (net number of competitors irrelevant) | Econometric |
| Borenstein, 1992 | United States | Airport dominance | Prices | Mixed (short-haul increases, long-haul decline) | Descriptive |
| Crimm and Millroy, 1993 | Australia | Domestic liberalisation of entry and prices | Price Quality | Negative Positive | Descriptive |
| Goetz and Nicoletti, 2000 | 21 OECD countries, 1996 | Liberalisation of entry and prices, competition | Efficiency | Positive | Econometric |
| | 168 buses international routes, 1996 | Liberalisation of entry and prices, competition | Prices Efficiency | Negative Unclear | Econometric |
| | | Road freight | | | |
| Hullber and van Boven, 1997 | Netherlands | Liberalisation of carriage, driving periods | Prices | Decline by 1% | Simulation |
| OECD, 1999a | United States | Liberalisation of entry and prices | Prices Efficiency Quality Employment | Decline by 75% (T.L.) and 35% (LTL) Increase Improvement Increase by 16% Decline by 37% | |
| OECD, 1999b | Mexico | Liberalisation of entry and prices | Prices Quality Employment Efficiency | Improvement Increase by 5% Increase | |
| Yang and Keefer, 1991 | 56 firms United States 1975-83 | Liberalisation of entry and prices | Prices | Decline by 29% to 35% | Econometric |
| | Australia | Liberalisation of entry and prices (1950 and 1960s) | Prices Quality | Negative Positive | Descriptive |
| | Canada | Liberalisation of entry and prices | Prices Quality | Negative Positive | Descriptive |
| | France | Liberalisation of entry and prices (1979 and 1989) | Prices | Negative | Descriptive |
| | New Zealand | Liberalisation of entry and prices (1983) | Quality | Positive | Descriptive |
| | United Kingdom | Liberalisation of entry and prices (1968) | Quality | Positive | Descriptive |
| | United Kingdom (1967-1990) | | Quality | Positive | Descriptive |
| McKinnon, 1996 | United States (1970-1978) New Zealand (1984-1987) France (1987-1990) | Road haulage deregulation | Prices | Decline by 25% Decline by 12-25% Decline by 25% Decline by 15% | Descriptive |
| Winston, 1993 | United States | Liberalisation of entry and prices | Consumer welfare | Gain of 16 billion of 1990 US \$ | Ex-post assessment |
| Yamashita, 1995 | Japan | Liberalisation of domestic road haulage | Consumer welfare | Gains between 2.5 billion and 8.2 billion of 1990 US \$ | Simulation |

Table 1. Product market liberalisation and performance (continued)

| | | Retail distribution | | | | |
|--------------------------------------|--|--|---|---|------------------------|--|
| Haffner and van Bogaesjk, 1997 | Netherlands | Liberalisation of entry, shop opening hours and zoning | Prices | Decline by 2% | Simulation | |
| Høj et al., 1995 | 22 OECD countries, 1990 8 OECD countries, 1990-90 | Large outlet restrictions | Average size Outlet density | Negative Positive | Economic | |
| Central Planbureau, 1995 | Netherlands | Liberalisation of shop opening hours | Employment | Increase 15000 jobs (11000 full time equivalent) | Simulation | |
| Civildepartement, 1991 (Pilat, 1997) | Sweden | Liberalisation of shop opening hours | Turnover and price | Moderate effect | Simulation | |
| IFO (Pilat 1997 - OECD, 1997) | Germany | Liberalisation of shop opening hours | Prices | Fall by 0.6 per cent | Simulation | |
| OECD, 1997 | Japan | Revision of the LRS (Large Store and Retail Store) law | Employment | Increase 1.3 per cent (full time equivalent) | Simulation | |
| | | | GDP deflator for the distribution sector | During 1992 and 1993, the GDP deflator for the distribution sector fell by 2 per cent each year | Descriptive | |
| | | Telecommunications | | | | |
| Mijander, 1993 | 40 firms US 1973-87 | Deregulation | Efficiency | Increase | Data Envelope Analysis | |
| Haffner and van Bogaesjk, 1997 | Netherlands | Liberalisation | Prices | Decline by 18% | Simulation | |
| OECD, 1999a | United States | Unbundling, liberalisation | Prices Quality Employment | Decline in long distance rates Improvement | | |
| OECD, 1999b | Mexico | Liberalisation of long distance and local service, regulatory reform | Prices Quality Employment Efficiency | Decline in long-distance by 22% increase in local Unstable Increase by 30% Increase by 46% | | |
| OECD, 2000 | Korea | Liberalisation of long distance and local service, regulatory reform | Prices Quality Employment Efficiency | Decline in long-distance by 50-60%, in mobile by 20% Improvement Increase by 25% Increase by 27% | | |
| Van Cullenburg and Siau, 1995 | 24 OECD countries 1989-92 | Liberalisation of local and long distance | Innovation | Positive | Economic | |
| Gruber and Verboven, 1999 | 15 EU countries, 1984-97 | Number of competitors | Mobile penetration | Positive | Economic | |
| Gort and Sung, 1999 | 9 firms United States 1952-1991 | Competition | Efficiency | Positive | Economic | |
| Yang and Shin, 1993 | 46 firms United States 1976-87 | ATT unbundling | Efficiency | Positive | Economic | |
| Oum and Zhang, 1995 | United States, 1951-90 | Competition | Efficiency | Positive | Economic | |
| Boylaud and Nicolini, 2000 | 23 OECD countries, 1991-97 | Liberalisation, competition | Prices Efficiency Quality | Negative Positive Positive | Economic | |

Table 1. Product market liberalisation and performance (continued)

C. Industry and firm-level effects (continued)

| Author | Country/period | Explanatory variable | Performance variable | Effects found | Method |
|-------------------------------------|-------------------|---|---|--|-------------|
| Electricity | | | | | |
| Comnes <i>et al.</i> , 1996 | US 1987-94 | Liberalisation | Prices | Nil | Econometric |
| Esnache and Rodriguez-Pardina, 1996 | Argentina 1992-95 | Regulatory Reform | Prices Efficiency | Decline Increase | Descriptive |
| Hope <i>et al.</i> , 1993 | Norway 1991 | Unbundling, TPA, Pool | Prices | Decline | Descriptive |
| Haefliger and van Bergseijk, 1997 | Netherlands | Liberalisation, unbundling, TPA | Prices | Decline by 11% | Simulation |
| Steiner, 2000 | 19 OECD countries | Liberalisation, unbundling, TPA, pool, consumer choice | Prices Efficiency | Negative Positive | Econometric |
| Rail freight | | | | | |
| OECD, 1999a | United States | Liberalisation of tariffs, shipping and exit | Prices Efficiency Quality Employment | Decline by 50% Increase Improvement Decrease by 41% | - |
| OECD, 1999b | Mexico | Horizontal unbundling, regulatory reform | Prices Quality Employment Efficiency | Decline by 7% Improvement Unclear | - |
| Wilson, 1994 | United States | Liberalisation of tariffs, shipping and exit | Prices | Decline by 30% | - |