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NATIONAL COMPETITION POLICY

Review whitewashes competition policy

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A major report on competition policy fails to explain why European countries not pursuing competition policies have much higher output per hours worked than countries pursuing such policies, such as Australia.

The glaring inconsistency appear in the just-released, 500-page Productivity Commission (PC)'s *Review of National Competition Policy Reforms*. The same inconsistency was pointed out by the *Australian Financial Review* columnist, Brian Toohey, when the PC draft report on National Competition Policy was floated for public discussion last year.

National Competition Policy (NCP), it will be recalled, was instigated in the mid-1990s as a joint agreement between the federal and state governments.

NCP's rationale was that deregulating or privatising an array of industries would lead to higher productivity levels, i.e., higher output per worker, best measured as Gross Domestic Product per hours worked by the nation's workforce.

Tariff removal

For example, it was argued that the removal of tariffs would expose Australian industries to competing imports, forcing domestic industries to become more efficient and to improve their productivity.

Higher productivity can come about as a result of technological advances (such as computerisation), better business organisation, investment in more efficient plant and equipment, or development of skills through education and training of workers.

The higher the productivity of Australian workers, the higher their possible living standards, and the easier it will be in the future for tax-

paying workers to bear the burden of the soon-to-retire baby-boomers. That is, the higher the average GDP per hours worked, the better will working Australians be able to meet the health and social security needs of the nation's ageing population.

The Federal Government has paid the states big money — which will total \$5.7 bn by 2006 — to implement NCP policies.

The problem with this theory is that the Productivity Commission report has revealed a figure (see chart on opposite page) that shows that countries not pursuing competition policies have higher GDP per hour worked than countries such as the United States and the United Kingdom — and, of course, Australia — which have vigorously pursued deregulation and privatisation.

The commission's diagram shows that GDP per hours worked in Denmark, Germany, France, Netherlands, Ireland, Belgium and Norway are higher than in the USA, and many more are superior to Australia.

As Brian Toohey has pointed out, it can be concluded from this diagram that, if Australia's productivity matched that of US workers, average Australian household income would rise by \$22,000. But if we matched that of Belgium, our households would be \$34,000 better off. If we matched Norwegian productivity levels, we would be \$47,000 better off!

As Toohey has commented, it is argued by Australia's free-market advocates that these are the countries that suffer from "Euro-sclerosis", where "labour markets are often less flexible than Australia's, taxes are higher and regulation is rife."

He says: "Most European countries offend against the 'reform' principles that the Productivity Commission says Australia must embrace with

greater tenacity if it wants to move up the rankings." (*Australian Financial Review*, October 30-31, 2004).

The Productivity Commission's defence of NCP is not that Australia has a higher actual productivity level than other developed countries, but that Australia had one of the best improvements in productivity in the 1990s. This is like saying that the student who moved from bottom of the class to fourth from the bottom had shown the biggest improvement over the year, and making it look as if he was now dux of the class.

Incredibly for such an important report, there was no serious analysis of the array of possible factors that could have led to improvements in Australia's productivity in the '90s. Could higher use of computers or a greater proportion of university graduates, rather than NCP, have improved Australia's productivity a few notches?

Descriptive argument

Instead the report makes a descriptive assessment. It argues that, given "there was no evidence of a widespread international productivity acceleration" and "in the absence of a technical advance specific to Australia", this suggests that Australia's improved productivity was owing to NCP. (pg 43)

The report then sets up a few "straw man" objections to this poorly argued assertion, then proceeds for the next 400 pages to argue the success of NCP, and recommends yet more deregulation.

However, another report early last year, by the Federal Government's now defunct National Office of the Information Economy (NOIE), demonstrated a systematic methodology when examining productivity growth in the manufacturing sector from 1984 to 2001.

The NOIE study found that between 60 per cent and 85 per cent of manufacturing productivity growth was owing to the growth in information technology. The rapid decline in the price of computer equipment, with greater and greater processing capacity, has seen a rapid uptake of comput-

ers and information technology in many industries.

Further, the other 15-35 per cent improvement in productivity is what would be expected from an increase in the proportion of university graduates in the population.

The NOIE report also considered the impact of tariff cuts, but found it had a negligible overall effect on manufacturing productivity — positive for the car industry and negative for textile, clothing and footwear.

So what effect did NCP-inspired micro-economic reforms have on manufacturing productivity? None — or at least none that could be measured.

These findings seemed to embarrass NOIE. Economist John Quiggin noted, "The report begins with an executive summary, which takes pains to play down the main finding, and to pay homage to the conventional wisdom about micro-economic reform." (*Australian Financial Review*, April 24, 2004).

NOIE's failure to find any evidence that competition policy actually benefited manufacturing raises serious questions about the Productivity Commission's analysis of the impact of competition policy on the Australian economy. The commission made no attempt to analyse statistically other significant factors that influence productivity, either as a whole across the economy or by looking at key sectors of the economy, such as manufacturing, agriculture, building and construction, or telecommunications.

Indeed, the generalised claims that NCP was the reason for improved telecommunications and lower prices illustrates the questionable claims of the report.

The commission argued that it was the entry of new service-providers under NCP that led to "much lower communications costs, promoted

wider uptake of information and communications technologies (such as wireless telephony and the internet), and contributed to productivity improvements in user industries."

Telecommunication prices have indeed fallen. Now, with full privatisation pending, the National Competition Council is proposing to force Telstra by regulation to further cut prices by four per cent annually.

As John Quiggin again recently pointed out, "This is exactly the rate of progress achieved by the Postmaster General's Department when it provid-

mid-2000. But, as *News Weekly* has pointed out before, Australian Bureau of Statistics figures show that the supermarkets increased the price of milk substantially in the nine months prior to deregulation, then dropped the prices after deregulation to create the illusion of falling prices for consumers.

Predictably, the PC calls for more deregulation. In its sights are full water-trading between urban and rural areas and a review of the single selling-desk for wheat, among others.

On water-trading, the argument put forward is that it will see the shift of water from low-valued to high-valued agriculture and from agriculture to the cities.

Farmers in Victoria pay about \$30 per megalitre (equal to an Olympic-sized swimming pool). The low cost of water is what enables farmers to supply Australian consumers the lowest priced food in the developed world. Low-cost water is what farmers need to give them a competitive edge on the world market — particularly as Australian farmers have the lowest producer support from government in the developed world, except for New Zealand.

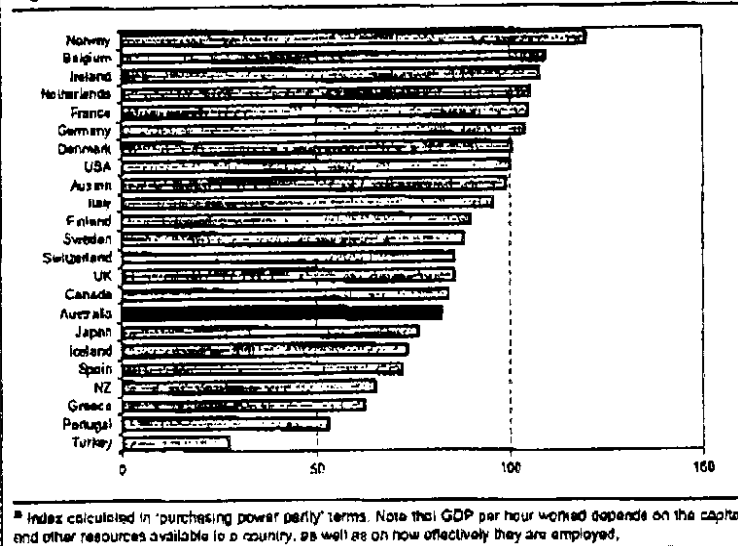
For this reason, historically there has been a deliberate partitioning of the market for irrigation water and city water. Cities will pay up around \$1,200 per megalitre. Detaching farmers' water rights from their property title, in order to allow water trade, will inevitably see irrigation water sold to cities, particularly when farmers retire or are forced out of the industry by drought or destructive competition policies.

Hence, water trade is an excuse for the states not to build new dams — even when new water supplies are available — and not to spend on new water-saving infrastructure.

Shifting water to high-valued ag-

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Figure 1 GDP per hour worked in OECD countries, 2003*



ed telecommunications services prior to 1975. It is rather poorer than was achieved by Telecom Australia when it was a statutory authority." (*Australian Financial Review*, April 14, 2005).

Further, as to the take-up of broadband internet, Quiggin notes that Australia ranks 20th across the OECD developed nations, and our ranking is falling.

As to the take-up of voice-over-the-internet protocol — effectively very cheap long-distance phone calls over the internet — Quiggin says that Telstra announced in 1999 that it would implement the service, but it still hasn't happened!

The report also fails in attention to detail. For example, it claims that the price of milk to consumers fell after deregulation of the dairy industry in

had stood on communist tickets in union elections and been defeated by ALP Industrial Group candidates, and thirdly by the launching of the sectarian campaign, he could win — and he did.

Evatt's chief private secretary, Alan Dalziel, who knew Evatt better than anyone else, wrote in his book *Evatt the Enigma*, "Dr Evatt deliberately chose to precipitate the great sectarian split in the ALP." (Page 143)

Let me tell you of a personal experience which I had that supports Alan Dalziel's comment.

At the time of the split, I was a member of the central executive of the Victorian ALP. I was also a minister in the Labor Government. I was Cabinet Secretary. In this position I was in regular contact with a number of ALP federal officers. I met Jack Schmella, Federal Secretary of the Labor Party, on the steps of Parliament House in Melbourne.

I said to him, "Jack, what are you really down here for?" He replied, "We are going to cut back the Catholic influence in the Labor Party."

I asked him how they were going to do that. He said, "We will sack McManus, Keon, Mullens, Bourke and a couple of others." I told him that if

they did that they would destroy the Labor Party. They proceeded to do as he threatened.

Now, as you know, if you carve the heart out of an individual or an organisation, it dies. Sadly the Labor Party never recovered from the split Evatt caused.

Perhaps the strongest comment on the state of the party after the split came from Kim Beasley Senior who, in a statement quoted in the *Bulletin*, said, "When I first went as a young man to the ALP forums, those present were the cream of the working class, while now, those there in many cases represent the dregs of the middle class". (*The Bulletin*, October 2, 1979.)

Fifty years on, what do we see? Today we see the sad spectacle of Labor spokesmen being reported in the *Herald Sun* as saying that the Labor Party was academic.

We see the sad spectacle of the Labor Party divided by factions, with public demonstrations by members against Labor branch-stacking, with public complaints by members of preselection irregularities and allegations of corruption in the Party — a legacy of the Labor split of 1955 caused by Dr Evatt.

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Competition policy

(continued from page 7):

riculture is fraught with problems. It diminishes regional economies when irrigation water is traded out of a region. Selling it to high-valued agriculture doesn't necessarily lead to higher-valued agricultural output. It can rapidly lead to oversupply and can turn today's high-valued farm industry into tomorrow's low-valued industry, as oversupply drives prices down.

For several years, limited water-trading has seen a lot of water sold for the production of wine grapes. Prices for some grape varieties have fallen from over \$1,000 per tonne, to \$250 per tonne, i.e., below the cost of production. This year, some crops are not even being harvested.

The loss of irrigation water is a

major threat to the farm-dependent economy — which, it should be remembered, is bigger than either Australia's manufacturing, or building and construction, or transport, or mining industries.

The PC report is a whitewash. Methodologically it is deficient, with no rigorous analysis of the range of factors affecting productivity, and no proper assessment of the effects of competition policy across the economy. It is a mantra to the free market, with blinkers on.

As the PC is answerable to the Federal Treasurer, its findings suggest that we are likely to have more of the same economic policies as we have had for the past decade.

— Pat Byrne

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"Witch" sues over Christian Bible study

A self-confessed witch and convicted sex-offender in Western Victoria has launched a lawsuit against the popular Alpha Bible Study course.

Robin Fletcher is serving a 10-year sentence in a jail in Ararat, Victoria, for having sexually abused two teenage girls in 1998. He has alleged that references to witchcraft in Alpha program videos and manuals are both offensive and vilifying.

Fletcher has lodged complaints against the Salvation Army (which ran the course in the Ararat jail); Corrections Victoria (the Victorian Government's prison administration); and CMC Australasia Pty Ltd (distributors of the Alpha program materials).

He is seeking to ban the Alpha program throughout Victoria, unless Alpha deletes from its course material he deems offensive — presumably Alpha's critical references to witchcraft and the occult. Fletcher has now referred his complaint to the Victorian Civil and Administrative Tribunal (VCAT), which recently found two Christian pastors of Catch the Fires Ministries guilty of supposedly vilifying Islam under the terms of Victoria's Religious Tolerance Act.

In a letter to Corrections Victoria, Fletcher has declared: "I consider that [the Alpha] program is in violation of the Equal Opportunity Act of Victoria, and also of the Religious Tolerance Act of Victoria ...

"I am further asking for the discontinuation of the Alpha program because it constitutes a personal danger to my health and safety within the prison system."

He went on to threaten Corrections Victoria with further legal action should they not comply with his demands: "In this case, because the matter is a serious one involving potential of physical harm to myself and others, you may be vicariously in breach of the 'serious violations section' of the Religious Tolerance Act."

— Salt Shakers (Victoria).