A SUBMISSION

TO **:** The Standing Committee of the
Legislative Council of Western Australia

FROM **:** Council for the National Interest
Western Australian Committee

DATE : 16 July 1999

SUBJECT **:** **INQUIRY INTO THE PROPOSED SALE OF WESTRAIL FREIGHT BUSINESS**

The driving force behind the proposed sale of the Westrail freight business is National Competition Policy (NCP) the principles of which are embodied in the Competition Principles Agreement of 1995 between the Commonwealth of Australia, and the State and Territory Governments.

Respected researchers have shown that the estimates of the benefits to Australia from NCP are seriously flawed and overstate the benefits as measured by growth in GDP by as much as 8 times and further, that the flow-on effects are negative. (See Appendix 1)

The effect of NCP inspired reforms has prompted a political backlash in rural and regional Australia so much so that a Select Committee of the Senate is currently holding an inquiry into the Socio Economic Consequences of National Competition Policy.

It is logical that further reforms under NCP should be stalled until the findings of the Senate Select Committee are published.

RECOMMENDATION

This submission RECOMMENDS

1. That no action is taken to sell the Westrail freight business until such time as the findings of the Senate Select Committee are released and considered and

2. That no action be taken to sell the Westrail freight business until, after consideration of the Senate Select Committee findings, and a formal properly controlled study shows that there is a continuing net social benefit to the people of Western Australia, particularly those in rural and regional Western Australia, from the sale.

Denis Whitely
Executive Director
Council for the National Interest
Western Australian Committee

SUBMISSION TO THE STANDING COMMITTEE OF THE LEGISLATIVE COUNCIL OF WESTERN AUSTRALIA ON PUBLIC ADMINISTRATION.

ESTIMATED BENEFITS OF MICROECONOMIC REFORM

Arising from the two stage procedure, used by the Industry Commission (1995A) to estimate the benefits of microeconomic reform, the estimated increase in GDP can be divided into two parts. The first is the direct benefit or short run increase in output which would take place if the estimated productivity gains were realised without any adjustments in the labour and capital employed in different industries. The total direct benefit for the sectors in tis report is estimated by the Industry Commission (1995a) at 2.32% of GDP. (Table 1) (Quiggin 1997)

The second estimates benefit, claimed by the Industry commission (1995a) derives from the increase in GDP arising from the adjustment to a new general equilibrium. For the same sectors this second benefit is estimated at a total of 3.12% giving combined estimated final benefit of 5.46%, say 5.5% of GDP (or around $25 billion) (Table 1). This represents an approximate 1.1% per annum in the level of GDP over a five year period.

The estimates of direct and second round benefits by the Industry Commission (1995a) do not stand up to close scrutiny. They are shown to be over optimistic and based on flawed assumptions. (Quiggin 1997). When adjustments are made based on more realistic assumptions they fall to less than 1% in total or about one eighth of the claimed benefits. These adjustments are detailed at the second and fourth column of Table 1.

In its modelling of the benefits of microeconomic reform the Industry Commission (1995a) makes no allowance for the unemployment effects of microeconomic reform even though evidence reported by the Industry Commission (1995b) suggests that around 50% of workers made redundant by the microeconomic reform were still unemployed or not in the labour force after three years. A downward adjustment of final benefit for the unemployment effect is reflected in the fourth column of Table 1.

	Direct productivity benefit		***Final Benefit***	
Area of reform	*Industry Commission*	*Adjusted*	*Industry Commission*	*Adjusted*
Telecommunications	0.50	0.20	0.65	0.18
Australia Post	0.04	0.01	0.07	0.01
Airports and aviation	0.03	0.01	0.03	0.01
Electricity, gas and water	0.60	0.10	1.50	0.08
Rail, road and ports	0.18	0.08	0.46	0.07
Competitive tendering	0.50	0.13	0.87	0.11
Statutory marketing	na	na	0.15	0.02
Professions	0.10	0.06	0.33	0.06
Building regulation	0.27	0.08	0.98	0.08
Private Monopolies	na	na	0.14	0.03
Self-regulation	0.10	0.02	0.28	0.02
Total	2.32	0.69	5.46	0.67

Notes: (a) na = not applicable. No direct productivity gains arise from reform of statutory marketing arrangements and private monopolies. Column 3 contains the estimated benefit derived by the Industry Commission from ORANI simulations. Column 4 contains an estimate of the increase in consumer welfare arising from these reforms.
(b) Alternative estimates of the direct productivity effects of microeconomic reform, derived in Sections 3.1-3.11 of this paper.
(c) Derived from the adjusted estimates in column 2 with a further adjustment for unemployment effects as described in section 2.5.
The adjusted estimates in column 2 with a further adjustment for unemployment effects as described in Section 2.5 The adjustment is based on the assumption that 25 per cent of gains arising from labour-shedding will be offset by permanent withdrawal from the labour force.

REFERENCES: Industry Commission 1995a "The Growth and Revenue 1 Implications of Hilmer and Related Reforms" AGPS, Canberra.

Quiggin J (1997) "Estimating the benefits of Hilmer and related reforms", Australian Economic review 30(3) pp 256-72.

Quiggin, J. "Micro gains from Micro Reforms", Economic Analysis & Policy Vol. 28,

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