



NATIONAL COMPETITION POLICY

National competition policy holds out the potential to deliver substantial economic benefits to Australia. However, it is not without its challenges. Meeting these challenges, and realising the benefits of the national competition policy reform process, will best be achieved if some of the misconceptions about the process are dispelled, and some important related issues are addressed.

Prominent misconceptions - or misrepresentations – in regard to national competition policy include the supposed dismissive approach of national competition policy to ‘public benefit/interest’ matters, while important related issues such as using the competition dividend payments to fund constructive structural adjustment assistance must be actioned.

An unfortunate misconception which has been allowed to develop (or been promoted) about national competition policy concerns its treatment of ‘public benefit/interest’ issues. The content and tone of some commentaries would suggest national competition policy totally disregards public benefit/interest considerations.

An objective reading of the National Competition Principles, adopted by all Federal, State and Territory Governments of both major political persuasions in April 1995, belies this misconception.

In short, there is a clear and present place for public benefit/interest in the national competition policy framework.

EVALUATING PUBLIC BENEFIT

The National Competition Principles, at Clause 3, set down the considerations which should be taken into account in evaluating public benefit/interest. In the order listed: government policies on ecologically sustainable development; and, social welfare and equity considerations.

Clause 3 also identifies, in list order: occupational health and safety; industrial relations; economic and regional development; the interests of consumers; the competitiveness of Australian business; and the efficient allocation of resources.

Taken as a whole, the considerations which need to be taken into account when determining ‘public benefit/interest’ are unremarkable, and consistent with the general public policy framework which successive governments have operated under for decades.

However, and this may explain some of the misunderstanding about ‘public benefit/interest’ within the national competition framework, the Principles do not attach a pre-determined weighting to each factor to have universal application in all cases.

In essence, the weightings to be attached to the different considerations will vary with the nature of the issue at hand, and indeed over time. Different weights would also likely be attached to the considerations by different governments, as well as across the economic and political cycle.

In short, there is no 'one size fits all', static model for assessing 'public benefit/interest', nor is there a single mathematical equation which produces an unequivocal, numerical answer at the end of the calculation process.

Commerce and industry recognise restraints on competition can in some circumstances lead to net public benefit, although these first must be subject to examination in open, transparent, rigorous, public inquiry processes.

However, in determining 'public benefit/interest', business regards the primary considerations as international competitiveness, and economic efficiency and growth.

But, we also note other considerations identified in the Competition Principles Agreement include sustainable development, social welfare and equity, industrial relations, regional development, and the interests of consumers.

COMPETITION DIVIDEND PAYMENTS

A second important element of the national competition policy framework, about which there is fairly low levels of public awareness is the existence and treatment of what have generally been referred to as the 'competition dividend payments'.

As the nomenclature suggests, they are payments from the Federal to the State/Territory Governments reflecting the economic dividends resulting from the effective implementation of national competition policy.

The dividend payments are measured against the achievements of the individual State/Territory Governments in delivering competition reforms, working on the simple premise without such reforms there can be no dividends to distribute.

According to estimates by the Federal Treasury, some \$A648 million was remitted by the Federal Government to the State/Territory Governments in the 1999/2000 financial year as competition dividend payments.

On current fiscal projections, and assuming full compliance by the State and Territory Governments, annual payments are likely to rise from \$A715 million in 2001/02 to \$A795 million in 2005/06.

The States and Territory Governments have given undertakings to produce meaningful outcomes for such considerable payments of public monies, and the Federal Government (and, by association, taxpayers) have a not unreasonable expectation of the same.

To date, such payments have generally reflected high levels of achievement and compliance by the State and Territory Governments in delivering the national competition policy reform agenda. Where there have been areas of under-performance, remedial action has been taken, or those concerned have 'agreed to disagree' with payments discounted accordingly.

To be clear, the State and Territory Governments are not without discretion in implementing national competition policy. But when, where, and the degree to which they fall short of their commitments under national competition policy framework, will mean that dividend payments will be adjusted accordingly.

SUBSTANTIAL COMPETITION DIVIDEND PAYMENT

A related issue to the quantum of the payments is the use made by the State and Territory Governments of the substantial competition dividend payments.

Taking a narrow view, the competition dividend transfers are defined in the Competition Principles Agreement and in public financial terms as being ‘general purpose payments’.

That is, they are given by the Federal Government and received by the State and Territory Government to be used for general purposes at the latter’s discretion. This is in contrast to tied payments, which can only be used for the defined purpose.

It appears the State and Territory Governments have taken the competition dividend funds quite literally as general purpose payments, with any onward expenditure of these monies being at the discretion of the Government concerned.

Further, it appears the competition dividend payments have not been used for what commerce and industry, and others, would have reasonably expected – that is, to facilitate structural adjustment for impacted communities and sectors.

Structural adjustment assistance could constructively include targeted funding for education and training, provision (or replacement) of key economic infrastructure, and identification of new economic platforms for impacted communities.

Such assistance should be used to underpin new directions and sustained economic futures for these communities, not to create an ongoing welfare dependency amongst recipients. In simple terms, it should not result in a ‘hand-out’ mentality, but create the capacity for communities to improve their competitiveness and productiveness

Unfortunately, there is little available information on how the competition dividend payments have been used by the State and Territory Governments.

PRODUCTIVITY COMMISSION REFERENCE

The Federal Government could usefully send a joint reference on these issues to the Productivity Commission, which has strong capacities in examining structural change issues, and the Commonwealth Grants Commission, whose expertise is Federal/State financial relations.

This reference could examine the usage to which the competition dividend payments have been put by the State and Territory Governments, focusing in particular on how, if at all, these funds have been used for structural adjustment assistance (and then how effectively and efficiently).

At the same time, when determining the allocation of such structural adjustment assistance it will be important to clearly distinguish those impacts which can be properly attributed to national competition policy, and those which cannot.

While it is a reasonable expectation of impacted communities to share in the competition dividend payments where they may have been adversely affected, it is not so where the underlying cause of their discomfort arises from other factors.

For example, there have been a great many media reports of regional and rural communities seeing the departure of valued education, medical and financial services.

However, it is a quantum leap in reasoning to attribute such events solely or predominantly to national competition policy without taking other considerations into account.

These include other government policies (such as deregulation of the financial sector, which commenced almost 20 years ago, and meaningful trade liberalisation, which has been underway since the late 1980s), and market forces (such as the long term trend decline in commodity prices, and bold and fast paced developments in communications technologies).

They also reflect changes in social attitudes and practices, such as the strong internal migration which has seen sustained net movements of Australians, especially older Australians, from inland to coastal areas.

Indeed, a Productivity Commission report released in 1999 on the impact of competition policy on regional and rural Australia concluded the negative effect of competition policy on those areas had been overstated.

After apportioning Australia into 57 separate regions, the Productivity Commission found all would benefit from national competition policy reforms in terms of average income per person employed.

While most of the regions were likely to be able to absorb any job losses resulting from national competition policy within a short to medium term time frame, a not insubstantial nine regions could expect greater challenges in creating new jobs.

It is in those regions where the structural adjustment assistance may well be most needed and can be best justified, and where the State and Territory Governments should apply the substantial national competition dividend payments.

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