John Quiggin, **Great Expectations: Microeconomic Reform and Australia**, Allen & Unwin, Sydney, 1996, x + 251pp.

Reviewed by Glenn Withers*

John Quiggin has written a very useful book. It pulls together a lot of material on the ill-defined policy field known as 'micro-economic reform'.

One broad construction of the field is that 'microeconomic reform' refers to industry level policy changes which seek to make better use of competitive market processes. It therefore does not necessarily refer to all industry reform. For instance, John Dawkins' higher education reforms were centralist not market-like. But even restricting change to the pursuit of competitive market incentives and structures leaves a field which is potentially very wide ranging in scope. Correspondingly, Quiggin's book covers a lot of territory: international precedent, Australian history, major relevant economic methods of analysis and schools of thought and chapters on individual sectors and reform instruments.

In the final analysis Quiggin believes that the benefits of microeconomic reform in Australia in recent times have been 'positive and significant in many, perhaps most, cases'. It would, he believes, be wrong to abandon microeconomic reform or to try and turn the clock back.

Yet the book is a sustained critique of microeconomic reform policies and of associated economic analysis. The burden of Quiggin's concern is that too much policy has been driven by 'a dogmatic commitment to competition and the private sector (which) amounts to little more than the substitution of one set of prejudices for another'. (pp 222-3)

Equally, the processes of quantification of potential and, sometimes, achieved benefit from microeconomic reform are seen as frequently poorly grounded in mainstream economic theory and professional best practice. They are all too often simply 'shonky'.

The way forward is seen as 'made to measure' reform, 'a willingness to analyse each problem on its merits, bringing the relevant economic theory to bear. In some cases, such an analysis will support deregulation; in other cases, an increase in regulation; in others the status quo. Often the optimal policy solution will involve a change in the form of intervention rather than a move to more or less intervention' (p.223)

Traditionally, Australians have eschewed dogma and sought pragmatism. John Quiggin's approach is clearly more in tune with that spirit than is the prevailing microeconomic reform consensus of the policy elite in

* Australian National University

government, business circles and the media. Quiggin rightly points to the paradox of a reform program which is essentially oriented at expanding consumer choice having been largely imposed by that elite on an unenthusiastic or hostile public. Whether the Australian microreform momentum will run into 'reform fatigue' for this reason is currently being tested in Australia, as it has been in New Zealand.

But Quiggin does not spend much time on the political dimensions of his subject. His interest lies firmly in the economic analysis.

Within the economic sphere a number of topics are not touched. Labour reform and tax are explicitly excluded and there is little mention of the social industries (health, welfare, education) or reform of the core public goods of law, defence, foreign affairs and policy advising. Rather the focus is on the already reformed sectors of manufacturing (the tariff), finance, and the network industries (utilities, airlines, telecommunications) and on the intervention techniques of privatisation, competitive tendering and private financing.

The sequence from traded to commercial non-traded to non-commercial non-traded nevertheless seems inexorable in the minds of reformers. The social industries and core public goods are the focus of much future reform. The Productivity Commission's 'Stocktake of Progress in Microeconomic Reform', issued after Quiggin's book went to press, makes this clear. But, once again, whether the political appetite for ongoing change will be sustained remains to be seen.

Quiggin has fun in successive chapters in pointing out the analytic deficiencies of much existing analysis of reform. On finance the claim for improved efficiency is said to not be consistent with the increase in resources consumed in the sector, the failure of margins to fall and the absence of increased private sector capital productivity. On airlines, improved index number analysis (Fisher Ideal) leaves only small fare reductions to be claimed for the reforms. On tariffs, even the CGE models themselves give only small welfare gains, which Quiggin further reduces. On privatisation, Quiggin seeks to show that the loss in public sector net worth has often been as large, or larger, than the sale price. On infrastructure private finance and competitive tenders, Quiggin says that those who can best bear the risk often do not do so. And so on.

One can quibble with each point, but the critique should not be dismissed. It has serious analytic standing and is a long overdue reminder that economic science works best as a toolbox rather than as a set of readymade answers. It is a pity therefore that Quiggin did not include labour, tax and the social industries . We could have learned much. As it is, the occasional throw away line on why the separation of efficiency and equity is bad economics or on where labour markets fit into reform sequencing, are simply left as tantalising thoughts awaiting further development.

Yet one of the biggest issues is that of sequencing. Is it best to leave labour market reform until product markets are reformed? Employers claim they are hamstrung by opening demand side competition when they cannot offer a flexible labour response. In fact, the experience of the many labour markets in Australia that are not subject to the formal arbitration system shows that labour market deregulation is certainly not a sufficient condition for efficient operation. Equally, the experience of best practice firms under labour regulation show that, for good performance, liberalisation is not a necessary condition either. Clearly there is a major debate yet to be joined.

Similarly, on the social industries, these raise the issue of economic change and social support. Can change, with all its uncertainties, be successfully prosecuted and sustained unless fully effective social support and human development policies are also in place? Is this a complementarity in policy reform that is needed even more than that between product and labour markets? In pursuing such reforms how are the issues of targeting, poverty traps and perverse incentives to be dealt with?

Perhaps the second edition of John Quiggin's book will provide some answers for these further areas and also seek to answer the critics who will abound on the details of the material that he already includes. And, of course, Quiggin is hardly right on all the issues he raises. For instance, the sustained total factor productivity increases in the utilities sector over the past decade or more remains eloquent testimony to the benefits of micro-reform, despite all the quibbles.

The important overall point, however, is not the details, but the general message offered by Quiggin's book. It is a book that signals the ongoing need for better professional practice by economists and which warns against believing in easy answers to difficult problems.

The book is to be recommended to practitioners and students alike. Well written and accessible it covers an immense amount of material comfortably in a short space. It can be considered as a useful partner volume to the official Productivity Commission review of microeconomic reform (for which this reviewer was co-commissioner).