***John Freebairn**, Professor of Economics at Monash University, reviews **Microeconomic Reform in Australia** edited by Peter Forsyth (Allen & Unwin, Sydney, 1992).*

This is an informative and readable survey and review of the state of microeconomic reform in Australia. It contains revised and edited versions of 14 papers presented by economists and social scientists at the Australian National University in September 1990, together with an introductory overview chapter by Peter Forsyth. The volume offers an excellent introduction for the interested layperson, and a comprehensive reference for students, policy-analysts and researchers.

Microeconomic reform embraces a wide range of changes in government policy designed to facilitate increases in national productivity and living standards. Policy changes discussed in this collection include those affecting labour, taxation, tariffs and other forms of industry assistance, financial market regulations, agricultural commodity policies, road, rail, water and air transport, telecommunications, public business enterprises, and competition policies. The opportunities for microeconomic reform are here, there and everywhere, and they involve the three levels of government.

Microeconomic reform can raise living standards in three ways: improving productivity by raising output per unit of labour and capital; improving the allocation of inputs and outputs such that marginal social benefits and costs are equated; and achieving dynamic efficiency by greater flexibility and adaptability in response to changing circumstances. The volume focuses primarily on the first two mechanisms, using comparative-static models. Potential gains in aggregate welfare equivalent to up to 20-30 per cent of national income are said to be available for the taking. None of the contributors says anything about the potential dynamic gains of a sustained increase in the rate of growth. Clearly, this mode of gain is far more difficult to assess, let alone quantify, yet it could be even more important than the one-off gains indicated by the comparative-static analyses that form the principal focus of the volume.

A rising standard of living forms the principal end product and purpose of microeconomic reform, which is really about long-term structural change to shift out Australia's supply potential. Ironically, much of its political support at the upper and grassroots levels comes from its perceived palliative effects on short-run macroeconomic problems. In particular, none of the authors in this collection sees microeconomic reform as a particularly appropriate way to reduce current account deficits or unemployment. The case studies of microeconomic reform presented in the volume focus significantly on the obstacles to change and the likelihood that apparently large potential gains in material welfare will be converted into real gains. Microeconomic reform inevitably involves change for managers, workers and consumers, and also redistribution, with some losers. The private interest theory of regulation is advanced as an explanation for the persistence of the status quo and for the conclusion that reform so far has been ad hoc rather than systematic, with government playing a passive rather than an active role. Changes that have occurred in recent years, for example in finance, taxation, tariffs, agricultural policies and some transport modes, have been driven by combinations of factors: the realisation that regulations were not in fact advantageous to the protagonists (banks in the case of financial deregulation and unions in the case of tariffs and aggregate employment); external pressures to reform or else (competition and deep sea transport, social pressures and taxation, and some outlandish management and work practices); and direct compensatory hand-outs to losers (in particular, redundancy payments to displaced labour and one-off grants to NSW egg producers). Improved understanding of the effects of existing policies, and their general exposure, have helped to create a more congenial environment for reform. Most authors are optimistic that the current attraction of microeconomic reform will grow. But, at the same time, they explicitly warn that the process will be slow and that only a fraction of the potential gains will be realised. Further, private interest groups will be resourceful in promoting new forms of redistribution that are contrary to the public interest; for example, the shift from import protection to various forms of export subsidies. An underlying theme of several chapters is a plea for more extensive analyses. In particular, more attention needs to be given to the transition process, to the articulation of redistributional effects, and to better understanding of the political and social processes that promote or retard change. Case studies in the volume on the attractions of and obstacles to microeconomic reform and on the facilitating institutional arrangements and processes yield a diversity of stories. Each case is shown to have peculiar characteristics which require detailed work and, usually, problem-specific solutions if potential gains are to be realised.