

Analysis of Productivity Gains from Australian ESI reform

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Reform of the Australian electricity supply industry (ESI) is now more than a decade old. The key features of this reform include restructuring of the electricity industry, developing a new regulatory framework, and privatization of significant segments of the industry. The main argument behind this reform – likewise elsewhere in the world – has been that such reform will improve the productivity of the ESI and contribute to enhancing the productivity of the economy at large. Several empirical studies have been undertaken in recent years to assess the productivity gains from ESI reform. This paper reviews these studies and demonstrates their methodological deficiencies. This paper provides recommendations for strengthening the methodological frameworks for assessing productivity gains. Further, this paper argues that the main sources of reform-induced productivity gains are more likely as a result of technological improvements in the ESI, and not necessarily as result of the introduction of competition through market-oriented reform, as is often claimed by the proponents of such reform. Although the analysis in this paper focuses on Australia, the messages are relevant for other countries.

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