Consumers the big winners from open competition policy

| Alan Moran
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Australia is a small community geographically isolated from the rest the world. But the companies operating in our markets have the same potential economies of scale and scope as those in larger markets.

Hence Australia is never likely to host the wide variety of players in those sectors where there is natural protection from overseas competition. But this does not mean Australian consumers do not benefit from competitive forces.

Many Australian product and service markets are dominated by just a few companies. Thus we have only two big supermarket chains, domestic air service businesses, newspaper groups, breakfast cereal suppliers, and brewery chains. We also have only four big banks, arguably only one dominant telco, and are moving towards only three major electricity retailers.

These concentration levels have not changed much. Indeed, in manufacturing, smaller companies may have slightly increased their market share.

Almost everyone would agree that a greater number of competitors provides advantages to the consumer and has potential benefits in terms of stimulating a more innovative and cost-aware business culture. Lots of competitors means reduced scope for suppliers to rest on their laurels.

Even so, in recent years industry concentration levels have not brought poor performance. Our airlines are world class; the newspapers have lively copy; banks are competitive with the world's best; and our semi-dominant telco last year led the world in the introduction of a high-speed 3G network.

This satisfactory performance stands in contrast with the poor performance of concentrated industries 15 years or so ago. This is because incumbents now have no immunity from outsiders entering and usurping their positions.

Early evidence of the potency of this contestability was provided by the supermarkets' duopoly. Coles and Safeway were always vulnerable to competitive entry from a dozen or more substantial overseas supermarkets monitoring the Australian market for opportunity. Notwithstanding ALP tub-thumping, the supermarkets have steadily improved their efficiencies in providing low-cost food and provisions, which has translated into lower prices.

The supermarkets story provides insights into more general differences between then and now. When Qantas and Ansett battled for market share, they were protected from other airlines and, in the end, the consumer was milked by excessive labour costs. Today's Virgin/Qantas duopoly knows it has no protection from interlopers, the proof of which is the imminent entry of the Ryanair-affiliated Tiger Airlines.

Our energy companies 10 years ago had government guarantees against competition, were state-owned and performed like sheltered workshops. Now they readily invade each others' territories and see new upstarts grabbing valued niches.

Prior to the 1980s, our banks also operated in a cozy oligopoly. The "four pillars" policy was potentially "four pillows", which protected poor management. Today we have a range of financial institutions snapping at their heels.

Telstra, the dominant telco 20 years ago, was a protected monopoly but now sees itself supplying a vast array of different and changing business products, few of which are safe from competition.

Lack of competition is no longer the danger to productivity because markets are open to new players should opportunities emerge. Rather, the danger is market restraints such as the four pillars policy.

In addition, we are creating problems by the competition authorities' attempts to artificially create rivalrous situations. They do this in infrastructure with forced sharing of facilities on terms and conditions the owners consider to be overgenerous. Forcing the sharing of existing infrastructure might look like a good idea and be justifiable where that infrastructure was built by governments. But for facilities built under the harsh light of market competition, it sends a message to companies that they would be better off avoiding investment and awaiting the moves of rivals.

Hence we have Telstra at war with the ACCC and the Government, because the government agencies won't let it invest.

We also have competition authorities attempting to dictate terms of sharing in infrastructure with privately built gas pipelines and the Pilbara iron ore railroads. This insistence even extends to requiring shared facilities, where several facilities are already available and competing with the other.

In these respects, regulatory agencies sometimes maintain that we should be careful we do not overinvest - astonishingly they want to give a tick to "good" private investment and a cross to "bad". Such behaviour can only result in suboptimal investment.

The message is clear. Competition is a far better servant of the consumer than regulatory bodies. Government should ensure markets are open to entry and do little else.

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> July
> June
> May
> April
> March
> February
> January
2013
> December
> November
> October
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> August
> July
> June
> May
> April
> March
> February
> January
2012

> December
> November
> October
> September
> August
> July
> June
> May
> April
> March
> February
> January

2011
2010
2009
2008
2007
2006
2005
2004
2003
2002
2001
2000
1999
1998
1997
1996

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