

# Regulators a headache for market forces

[Deregulation Unit](#) and [Media, Telecommunications and IT Unit](#) | [Alan Moran](#)



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Every year, Telstra must submit 162,000 pages of paperwork to regulators. It estimates that there are 500 public servants devoted to its regulation.

Large firms in transport and communications, such as Telstra, rail operators, and pipeliners incur considerable costs to accommodate regulators such as the ACCC and the National Competition Council.

These firms battle against regulators who want to force them to sell their services cheaply. And they won't make new investments if they can't control them.

Small businesses face different problems. These stem from regulators trying to discover them conspiring to jack up prices.

The ACCC made an art form of this under its former boss, Professor Allan Fels.

Even before becoming head of the ACCC, as Victorian prices Commissioner, Prof Fels concentrated on the price collusion issue.

He could apparently find no evidence of collusion between cigarette companies to jack up prices but looked at the prices in the shops and decided it must be there.

Likewise, he drove around country Victoria observing petrol prices which he felt were too high and decided that there must be collusion.

Firms acceded to demands for price reductions even though they often believed they were unjust.

The pressures intensified when Prof Fels became head of the ACCC.

It appears that current ACCC chief Graeme Samuel has failed to halt this pursuit by regulators of small businesses in petrol retailing.

Last year the courts found that the ACCC invented data on alleged price collusion in Geelong. A similar case by the ACCC in Ballarat fell apart on appeal.

It's bad enough having regulators as drones on the public purse but when they're actually undermining productive activities their costs are amplified.

And they would like even more power, including an ability to demand jail terms for business owners and executives who collude to raise prices.

It's doubtful that regulators would want such penalties extended to their own activities where these create unnecessary costs.

The problem is that few people within regulatory agencies understand business.

They see identical prices offered by different firms and assume collusion. They don't realise that with similar goods tiny price differences mean a firm loses almost all its trade.

A day at the Melbourne market would show just how rapidly businesses change prices in response to demand, supply

and competitors' behaviour.

What regulators don't understand is that firms are constantly looking at each other's prices to try to win sales or raise their own prices if those of competitors are heading north.

Our prices stay low because markets are open, not because they are patrolled by regulators.

Any firm that seeks to increase prices above costs sees new competitors stealing its customers. Any firm that looks for a quiet life sees new rivals undercutting it.

Our over-resourced regulatory agencies fail to recognise this.

And they impose legal and other costs on firms in their zeal to find markets that don't work as they think they should.

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