THE AGE

National Inflation

OPINION

I know how to get the inflation monkey off our back. Here's my Christmas wish list

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If this week's inflation report is anything to go by, our cost-of-living crisis could run through Christmas and beyond. Prices are up 3.8 per cent from a year ago and rising across the board, from travel and jewellery to medical fees and takeaway food.

The result underscores the point made in Policy Institute Australia's new report, *Match Fit,* that Australia's high cost of living is at risk of becoming entrenched. To break the back of inflation, and put Australians back in control of their lives, we argue it is time to unleash the one force most able to directly and sustainably drive prices down: competition.

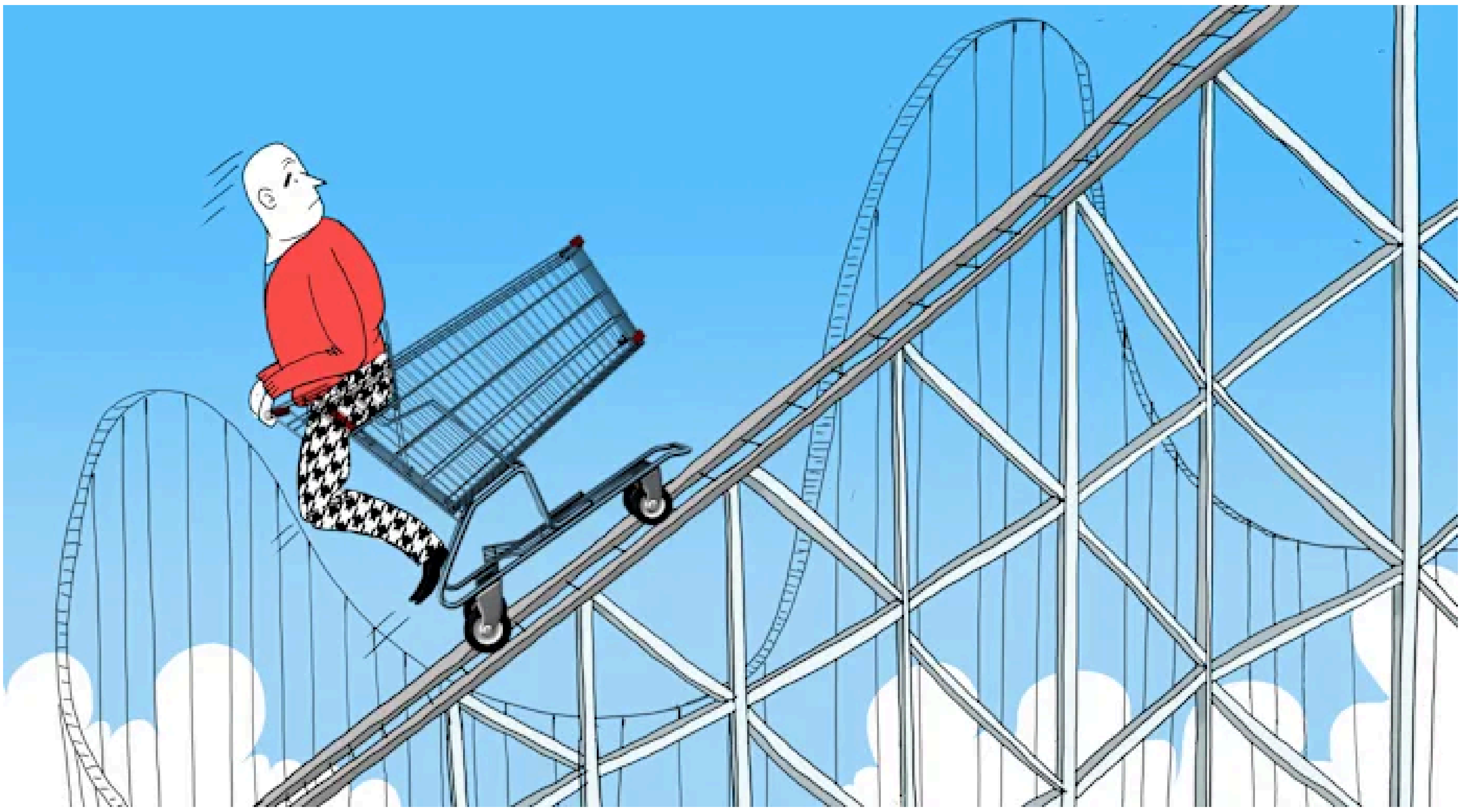


Illustration by Simon Letch

Competition tackles inflation because it forces firms to offer customers more goods and services with better quality at lower prices. When Australians have choice, and the power to exercise it, prices are kept in check.

We know competition works – because groceries at Coles and Woolworths cost less when an Aldi is nearby, because petrol prices are lower around a Costco discount petrol station, and because taxi services improved across the board when Uber came to town.

Competition worked with the introduction of Netflix and Binge, so that $20 now buys instant access to more than 17,000 movies as against three titles borrowed overnight from the local video store. It worked with the ability to switch your mobile phone number from one carrier to the next, a leap ahead in mobile plans' value for money. It also works for workers because wages rise faster in industries that are growing and competing for staff.

Beyond prices, a range of other indicators tell us that competition in Australia is on the decline. The rate of new firms starting up or shutting down is falling, suggesting a lack of dynamism and the new offers that come with it.

Industry concentration, measured by the market share held by the biggest four firms in each industry sector, is rising. On this indicator, we look to have less competition than Canada, our closest comparator economy.

Over the past 25 years, only four new companies have spent time as one of Australia's top five largest firms (by market capitalisation). There is much more movement at the top in other countries. The equivalent figure is 22 for Japan, 19 for the United States, 18 for Canada, 15 for New Zealand and 12 for the UK. The top stay at the top in Australia, while other counties exhibit greater dynamism – with new leading firms from a range of industries constantly rising and falling.

Perhaps worst of all, the rate at which workers change jobs – known as labour mobility – is declining. This means companies don't need to offer better terms and conditions to keep good employees.

Falling competitiveness measures suggest a systemic problem that will put a floor under inflation unless we tackle the underlying problem.

There is hope on the horizon. On Friday, the nation's treasurers gather at a regular meeting of the Council on Federal Financial Relations. If there was ever a group of people with amazing powers to kick inflation to the kerb, this would be it.

After the Economic Roundtable last August, the CFFR agreed to a reform agenda under the framework of a Single National Market. This speaks to last week's analysis in this masthead detailing the frustrations of federalism. When NSW has a different product standard to Victoria, a Victorian firm may not be willing or able to absorb the cost of selling their product in Sydney. Our report calls out many more examples, and a single national market is a grand idea.

But more is needed, so here is our Christmas wish list.

First, we have called on the Commonwealth to increase incentives for states to boost competition, for example by removing duplication, harmonising standards and streamlining regulation and tax administration. This would lift consumer access to more products and services, and enable more firms to start, grow and introduce new products for even more choices. A pro-competition boom all around.

Last year, Treasurer Jim Chalmers set up a $900 million Productivity Fund to pay states for pro-competition reform. We have suggested an investment of at least $20 billion over 10 years for the Productivity Fund and other initiatives to get the job done; though a big sum, the economic dividend through faster growth and higher tax revenue would repay this expenditure quickly, and many times over.

Resistance to the idea that state governments should be paid to reform runs strong. Isn't that their day job? Ideally, yes. But reform costs money and states will be worse off for the effort unless the fiscal benefit reaped by the Commonwealth is shared.

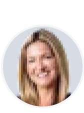
Second, we have advocated for state and territory governments to appoint their own ministers for competition, thereby tasking a senior cabinet minister with the job of pro-competition reform.

And third, we encourage those newly appointed competition ministers and the Commonwealth to actively search for the gatekeepers that unnecessarily hamper competition and remove them, for example by taking away anti-competitive powers from entities such as bar associations and specialist medical colleges, so fees start coming down.

Hip-pocket pain heading into Christmas really hurts, and the temptation will be for governments across our federation to give households more subsidies for cost-of-living relief. This is the gift of a Christmas puppy under the tree, chasing its tail, but with the vet bill to follow.

Instead, now our treasurers have the opportunity to box up what Australians really need for Christmas this year: choice.

Amy Auster is chief executive of Policy Institute Australia.



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