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Flatten barriers to competition and watch nation soar

The Coalition's ping-pong match on net zero has finished, but at the stadium next door the big ball that is our nation's economic future remains suspended in mid-air.

Our economy is running at capacity. This month's bump up in inflation and bump down in unemployment show the players are run off their feet. The field is such that we are unable to produce affordable energy, affordable housing or affordable much else.

Our inability to get the supply side of our economy kicking is a long-running problem. The speed bumps are directly related to weak productivity growth. Rising prices cancel rising wages, living standards stagnate and budget positions deteriorate.

This game has no winners. Policy Institute Australia research shows less than 30 per cent of Australians are optimistic about the future; the fraying of social cohesion must be laid in part at the feet of our economic drift.

This week we released a proposed playbook for our malaise, centred on reinvigorating competition and dynamism in our economy. A competitive economy benefits us all, whether it is families near an Aldi in Melbourne finding that prices at the nearby Coles and Woolworths have dropped by up to 5 per cent, or drivers in Canberra buying petrol for 10c a litre less near the airport thanks to Costco, or small businesses in Queensland accessing an Australia Post 24/7 parcel locker.

Competition brings lower prices and more choices. It also gives Australians more choice about where to work, and bargaining power. The Reserve Bank of Australia has found workers in more competitive markets are paid more. Unfortunately, Australia is moving backward on every competitiveness indicator.

Our industry concentration is increasing, our leading firms appear entrenched, the rate of new firm entry and exit is falling, and labour mobility is on the decline. Deteriorating indicators mean it's time for tough questions.

Do Australian firms face undue constraints in challenging industry leaders? During the past 25 years, only four new companies have spent time as one of Australia's five largest firms as measured by market capitalisation. The equivalent statistic across that time is much greater in Japan (22), the US (19), Canada (18), New Zealand (15) and Britain (12).

Should we accept that Australia's remote location means our industry sectors will be dominated by two, three or four firms, when many industries in similar-sized Canada are much less concentrated? Is the tripling in size of our key business legislation since 2000 really required to provide appropriate guardrails for commercial activity? Do our competition guardrails work or do we need to look at why there are few cases brought to court on matters of competitive conduct by private firms or the Australian Competition & Consumer Commission?

None of this is to say that Australia's large companies do not compete; they do, with domestic rivals and global multinationals. We should not expect leading firms to encourage competition; their primary obligation and critical role in our market-based economy is to grow a profitable business.

We cannot solve our competitiveness problem by regulating its symptoms, for example by forcing big firms to break up or capping prices. History shows these interventions don't work and the unintended consequences include further weakening competition.

Rather, falling competitiveness means it's time to figure out what is getting in the way of start-ups, scale-ups and challengers. Encouraging competition is the business of government, through competition policy.

Australia's first National Competition Policy was launched in 1995, took 10 years, spent more than $10bn and increased GDP by $50bn a year – in today's dollars – or about $5000 a household. This government has renewed National Competition Policy but more is required. Our playbook rests on three principal actions to kickstart what we call NCP 2.0.

First, empower pro-competition reform leaders at every level of government. Each state and territory government should appoint a minister for competition, with a focus on removing regulatory barriers to competition – painful processes around business licensing, permit and environmental approvals, occupational licensing, health and safety compliance, and compliance with payroll, stamp duty and land taxes. At the federal level, Treasury's promising start with the competition taskforce should be expanded. The ACCC should focus on its core remit of enforcing competition law.

Second, resource the effort with funding of $20bn across 10 years to pay states for reform, reduce the federal compliance burden and facilitate new competition through consumer choice, technology and entry of new firms, products and services to Australia. The economic dividend of pro-competition reform means this investment will quickly pay for itself many times over.

Finally, we recommend a systemic effort to address all gatekeepers to competition, including where private firms or industry entities have acquired the power to determine who competes with them.

The economic imperative is clear and the time for action is now.

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