Analysis

Treasury needs to breathe more life into Australia's uncompetitive sectors, new think tank says

By business reporter **Gareth Hutchens**

Productivity

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Pressure is mounting on Australia's big bank oligopoly as both the Chinese and Australian economies continue to wobble. *(AAP)*

It's time to beef up the Department of Treasury in Canberra.

A new public policy think tank has called for Treasury to become the driving force behind a new national program to reinvigorate Australia's economy.

Policy Institute Australia (PIA) says Australia desperately needs a shot of micro-economic reform to reinvigorate competition and unleash a wave of productivity growth.

It says it's time to replicate the National Competition Policy program that began in 1995, in response to the Hilmer Report in 1993, which catalysed Australia's subsequent productivity boom.

"A serious bout of pro-competition reform helped launch Australia out of its economic malaise in the 1970s and 1980s when the government launched the National Competition Policy (NCP) in 1995," it says.

"Though the Hilmer reforms are often thought of as 'big bang', in fact the reform process took 10 years.

"Policy Institute Australia believes a commitment of $20 billion in funding over a 10-year reform period ($2 billion per annum) would be consistent with the commitment to the 1995 NCP effort."

What is Policy Institute Australia?

Policy Institute Australia (PIA) is a new think tank.

It was established earlier this year with seed funding from investment banker John Wylie and his wife, Myriam Boisbouvier-Wylie.

It released its first report last week.

PIA says it wants to bring fresh ideas about how to address Australia's big economic challenges, using market-based solutions where appropriate, while recognising the role governments play in market economies.

Its board members include John Wylie, Professor Glyn Davis, former Productivity Commission chair Peter Harris, News Corp Australia journalist Paul Kelly, Jenn Morris, and former ABC news director Kate Torney.

"We believe in the long-term benefits of capitalism, free enterprise and a well-functioning market economy," its website says.

> "We recognise that capitalism can and does overshoot on occasion, and can lag in its ability to appropriately and fairly manage externalities and systemic risk.
>
> "We believe that there is an important role for governments in regulating markets that can and should occur, without unnecessarily impeding economic growth and investment.
>
> "We believe there can be a role for government investment or intervention in markets to help create new industries, address market failure, or crowd in private sector investment – but that government investment should not be a first or default option."

PIA says this is the first report in a planned series.

After identifying the reasons for the lack of competition in major areas of Australia's economy, and the causes of our poor productivity performance, it plans to use forthcoming papers to suggest solutions for big problems.

It says Australia enjoyed a burst of productivity growth in the late 1990s and early 2000s during the era of National Competition Policy.

But in the 20 years since, Australia's economy has again become riddled with issues with declining competition and deteriorating productivity.

It says key indicators show what that means.

Industry concentration worsens

First, industry concentration has been increasing in Australia in the 21st century.

In banking, supermarkets, private health insurance and iron ore mining, the top four players control between 70 per cent and 90 per cent of the market.

It says the average market share of the top four firms across all industries in the economy has increased from about 41 per cent in 2001-02 to about 43 per cent in 2018-19.

Figure 12: Industry concentration in Australia has increased

Average market share of top four firms by industry, 2001-18 (weighted by revenue)

Source: Leigh (2022) Treasury estimates from BLADE data

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The four major banks together hold about 72 per cent of banking system assets.

In private health, Medibank and Bupa, HCF, nib and HBF hold 82 per cent of the market, with Medibank and Bupa accounting for more than half.

In general insurance, IAG, Suncorp, Allianz and QBE control around three quarters of the home and motor insurance market.

In the retail energy market, AGL, Origin and EnergyAustralia serve 60 per cent of electricity customers and about 80 per cent of gas customers.

Fewer new firms, older firms sticking around

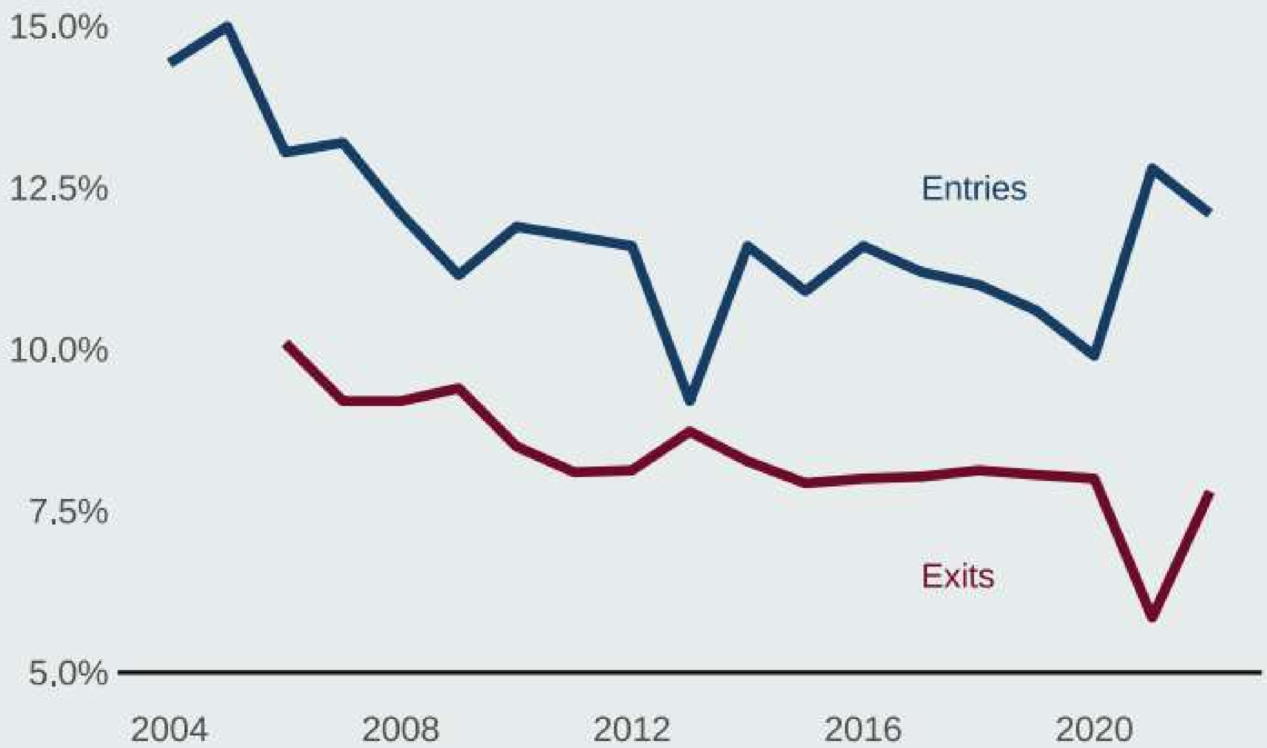
Second, it says Australia has seen a falling rate of firm entry and exit in the 21st century.

It says the entry of new firms into the economy, and the exit of failing firms, is a key marker of dynamism. That's because new firms bring new ideas and new energy, and lessons learned from business failures can sprout future success.

But with fewer challengers starting up and fewer under-performers exiting, incumbent firms are likely to stay at the top.

Figure 15: Firm entry and exit is falling

Employing firms annual entry and exit rate (2004–22)



Source: Andrews et al (2023)

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Labour mobility keeps declining

Third, it says labour mobility has been declining for 40 years.

"More competing firms means more options for workers about where to work," the report says.

"How often workers choose to switch jobs can therefore reflect how much competition there is across the economy.

"In Australia, more and more workers have been choosing to stay in their current job, rather than find a new one, with labour mobility declining over more than four decades."

The bottom line — competition is on the decline

Overall, it says measuring competition is tricky, but the pattern in the available evidence is consistent.

"Across 12 indicators that are commonly used as proxy measures for competitive conditions, all the metrics show that Australian competition is on the decline," it says.

"The pace of change is not dramatic, but it seems persistent.

"If this decline continues, the risk rises that Australians will miss out on the benefits of competition — higher productivity, greater affordability, more choice of what to buy or where to work, high-quality products, and more innovation," it says.

Table 1: Twelve indicators point to falling competition in Australia

Topic	Metric	Magnitude	Competition
Industry Concentration	Average top-four firm share	41% → 43%	↓
Industry Concentration	HHI	0.111 → 0.120	↓
Firm Dynamism	Firm entry rate	Startup rate trending down	↓
Firm Dynamism	Firm exit rate	Exit rate trending down	↓
Firm Dynamism	Displacement of top firms	61% → 69%	↓
Markups	Average firm markup	Index 1.00 → 1.06	↓
Profit Share	Operating share of GDP	30% → 35%	↓
Job Mobility	Job mobility rate	11.7% → 7.7%	↓
Wages vs Productivity	Real wages vs productivity	Prod growth 20% higher	↓
Wages vs Productivity	Real Unit Labour Cost	Down 5%	↓
Stock Market Dynamism	Listed companies	2200 → 2000	↓
Stock Market Dynamism	Turnover in top five	Four entrants in 25 years	↓

The ultimate performance metric

It says the most direct measure of poor competition in an industry relates to pricing power, which is measured by tracking "markups".

And the evidence of markups is going the wrong way.

> "A markup is the difference between the sale price of a product and how much it cost for the firm to produce or acquire that product," PIA's report says.
>
> "It is literally a 'mark up' — the amount a firm adds on top of cost to set the final price."

It says a paper released by Treasury in 2023 found that, on average, firms had increased their markups by about 5 per cent between 2003 and 2017, suggesting that competition across the economy had weakened over that period.

It says Treasury followed that up with another paper in August, which estimated the economic impact of that fall in competition.

It asked the question: if the economy had the same level of competition in 2017 as it did in 2003 (measured by markups and other measures), what would productivity growth have been?

"The authors found that if the economy had retained the level of competition in 2017 as it had in 2003, productivity growth would have been up to 3 per cent higher, worth about $3,000 per Australian," it says.

How to break the impasse

What to do about it?

PIA says Australia has become far too reliant on the competition regulator to try to manage the problem of deteriorating competition, and the ACCC can't grow a more competitive Australia on its own.

It says we need to break the policy impasse.

> "The Commonwealth should empower Treasury as the national steward of pro-competition policy reform, building on the Competition Taskforce, including a mandate and resources to design and implement a bold pro-competition reform agenda over a 10-year time frame," it argues.
>
> "In public policy, we have become heavily reliant on the competition regulator, the ACCC, on all matters to do with competition.
>
> "But the ACCC's mandate is to slow or stop the substantial *lessening* of competition, not to proactively identify problematic sectors where

> competition has declined and advance solutions to encourage more competition.
>
> "The ACCC alone cannot grow a more competitive Australia.
>
> "We need a leader of action in policy to drive increased competition, or coordinate where necessary, to spark productivity and better outcomes for all Australians.
>
> "This should be Treasury," it says.

It says to support a revitalised role for Treasury, we need to uplift the current National Competition Policy in scope and effort, creating "National Competition Policy 2.0".

And that should include a specific focus on how to remove from industry incumbents the power to set rules that determine who can compete with them, or impose unnecessary costs to impede competition.

"In its last term, the Commonwealth government led the states and territories in laying the foundations for a revitalised NCP," it said.

"Since the government’s 2025 re-election, it has laid out the case and its own ambition to lead a much-needed program of reform to boost Australia’s economic performance.

"Now is the time for action," it says.

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