

Revitalising National Competition Policy

Submission to the Revitalising National Competition Policy consultation paper,
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1 Competition in Australia

We welcome the Competition Review and steps being taken to revitalise National Competition policy.

Boosting productivity growth and improving outcomes from markets and quasi-markets should be a priority for all governments. Competition drives innovation, so can spur productivity growth and thereby growth in living standards.¹ Government policy can alter the dynamics of competition generally. Sector-specific regulation can have an even bigger effect on competition.

The commitment from Australia's treasurers to revitalise National Competition Policy to improve living standards is welcome.

This submission focuses primarily on the second of the three core areas of reform identified by the consultation paper, the 'National Competition Reform Program'. We have gathered a range of Grattan Institute findings and recommendations that we consider to be relevant to the agenda set out in the consultation paper (see Section 2.1). We also make some brief observations on the opportunity to revitalise the National Competition Principles (see Section 1.2).

Grattan Institute will continue to publish research on areas relevant to revitalising National Competition Policy.

1.1 Evidence points to problems with competition in Australia

Grattan's 2017 report *Competition in Australia: Too little of a good thing?* found that competition is not uniformly strong across the Australian economy.² The report found that firms earn relatively high profits in some sectors where scale economies are strong, in some

highly regulated sectors, and in some natural-monopoly sectors where competition is inherently weak.

Economies of scale can benefit Australian consumers. In some sectors where a few large firms dominate the market, production costs can be lower thanks to economies of scale.

Yet recent evidence points to problems with competition in Australia. 2021 Treasury research found an increase in market power and decline in competition since the mid-2000s, and that this increase in market power appears to explain part of the slowdown in productivity growth.³ Grattan's 2017 report found that the market shares of Australia's large firms had not changed much in the mid-2010s,⁴ but more recent evidence suggests that some industries, notably transport and retail, have become more concentrated in recent years.⁵

1.2 Potential new matters for the National Competition Principles

The consultation paper proposes a range of matters for inclusion within a revitalised set of competition principles.

Consumer information and engagement are essential to well-functioning, competitive markets, and cannot be taken for granted. Measures that support information and engagement are one method by which governments can enhance competition. We see the value in complementing the 'supply-side' focus of the Principles with recognition of measures that enhance transparency and support consumers to make better-informed choices, as a form of competition policy.

1. Daley et al (2012, p. 21).

2. Minifie et al (2017).

3. Hambur (2021).

4. Minifie et al (2017, Chapter 2).

5. Estimated using the market share of the top four firms: Andrews et al (2023).

For example, Grattan has recommended that the federal government should design more wholesale forms of competition to increase competitive intensity in markets such as superannuation where members are highly disengaged.⁶ Grattan has also recommended greater transparency of medical specialist fees (a bench-marking tool for GPs), as well as provider-level reporting of measures of quality such as aged care vaccination rates and hospital complications rates.

In upcoming work, we will further examine retirement income products as another area where competition is weak, leaving retirees paying too much for their super to be managed and many stuck in poorly performing options.

The consultation paper also identifies the important role governments play in many service settings that operate as 'quasi-markets'. In the development of any such principle, it is important to consider how (and whether) the characterisation or understanding of these sectors as 'markets' brings about better policy and regulation. While competition and contestability may assist in driving innovation and efficiency in some circumstances, this is sector- and context-specific. Certain sectors have features that necessarily limit how 'marketised' they may be, or a number of pre-conditions that need to be met before market mechanisms generate efficient outcomes. The primary objective should be the outcomes to be achieved for consumers and the community.

The following section of this submission details recommendations in relation to the National Disability Insurance Scheme (NDIS) (under Reform theme 4), where we consider that pro-competitive reforms would improve outcomes for scheme participants.

6. D. Wood et al (2022, Chapter 9).

2 Revitalising National Competition Policy: the National Competition Reform Program

Grattan Institute has previously recommended reforms to boost competition, including in the 2017 report *Competition in Australia: Too little of a good thing?*, the *Orange Book 2022: Policy priorities for the federal government*, and as part of other reports on migration, energy, housing, tax, disability, and other policy areas.

Grattan Institute research has also showed that major policy reform has slowed in Australia, and that institutional changes are needed to help overcome the reform gridlock.⁷

This chapter provides a short summary of Grattan's recommendations under the five reform themes, some additional recommendations aimed at boosting competition in the Australian economy, and on better ways to regulate natural monopolies.

2.1 Reform ideas for five identified reform themes

Reform theme 1: Promoting a more dynamic business environment

Australia is a relatively business-friendly environment, and ranks highly on international comparisons of the ease of doing business. But rates of firm start-ups and exits declined in the years before COVID, impeding the normal flow of resources from lower-productivity to higher-productivity firms.⁸ In addition, the performance gap between firms on the global frontier of technology and Australian firms has widened.⁹

Previous Grattan Institute work has identified restoring economic dynamism as one of Australia's economic reform priorities.¹⁰

7. See Daley (2021) for more detail.

8. Hambur (2021); and D. Wood (2022).

9. Andrews et al (2022).

10. D. Wood (2022).

Regulations and red tape that unjustifiably drag on business activity should be adjusted or abandoned.

The federal government should **reform skilled migration** so that more highly-skilled migrants are given permanent visas. This would help Australian businesses get the skilled workers they need, boosting Australia's flagging rate of productivity growth.¹¹

Grattan Institute has previously recommended that the federal government implement the following reforms to skilled migration:

- Permanent employer sponsorship should be available for workers earning more than \$85,000 a year in any occupation.¹²
- Temporary sponsorship should be available for migrants earning more than \$70,000 a year in any occupation. Labour-market testing should be abolished and sponsorship made portable across employers.¹³
- Points-tested visas should be reformed, with the points test overhauled to better reward the most-skilled applicants. State and regional points-tested visa programs should be abolished.¹⁴

The federal government should undertake **wholesale reform of Australia's tax system**. Improving the efficiency of the tax system, by shifting the federal tax mix from more-costly to less-costly taxes, could materially boost Australians' living standards. More efficient taxes that minimise economic distortion will help boost business dynamism.

11. Coates et al (2024, p. 9); and Coates et al (2022).

12. Coates et al (2022, Chapter 3).

13. Ibid (Chapter 4).

14. Coates et al (2024).

Grattan Institute has previously recommended that the federal government implement large-scale tax reform, including:¹⁵

- Broadening the GST base and/or increasing the rate.
- Investigating wholesale changes to Australia's corporate income tax system.
- Reforming income taxes by packaging headline tax cuts with a redesign of tax concessions.
- Supporting states to replace stamp duty with a broad-based land tax.

Reform theme 2: Harnessing the benefits of competition in the net-zero transformation

Increasing competition in the energy market can help lower the cost of the transition to net zero.

Competition in the renewables sector (and subsidies in that sector which were designed to encourage competition) mean that the cost to consumers of shifting to renewables has so far been kept comparatively low.

But competition has not lowered prices for most residential consumers. Privatisation and the introduction of competition, and the creation of the National Electricity Market (NEM) in 1998, reduced electricity prices in real terms between the early 1980s and the last 2000s, after which they began to rise again. Residential consumers are now paying, in real terms, what they were paying in the 1960s.¹⁶

Grattan Institute has previously recommended reforms to lower retail prices, such as changes that stopped price manipulation by electricity generators.¹⁷

Grattan has recommended a number of reforms to help keep consumer prices down during the transition to net zero:

- Use direct mechanisms with coal generators to provide insurance against early or delayed closure that creates major risks of blackouts and price spikes, or uncertainty for renewables investors.¹⁸
- Extend the role of the Integrated System Plan to support the longer-term policy decisions of the Ministerial Council.¹⁹
- For the post-coal era, signal the introduction of a clear and enduring carbon price for the energy sector, to guide investment decisions, including gas plant entries and exits.²⁰

There may be unintended consequences in the energy market from competitive neutrality principles. For example, in Queensland, when the government-owned generators borrow money, the Queensland government does that borrowing, and then charges market interest rates to the generators (to maintain competitive neutrality). Because of the higher interest rate charged to generators compared to the government borrowing rate, the government makes money on the loan. So the debt repayment is ultimately paid by electricity consumers through higher prices.

15. See D. Wood et al (2023) and D. Wood et al (2022) for Grattan's main tax reform recommendations.

16. Havyatt (2021).

17. T. Wood and Blowers (2018).

18. T. Wood et al (2024).

19. Ibid.

20. Ibid.

Reform theme 3: Lowering barriers to labour mobility

Harnessing Australia's pool of talent to reach its fullest potential by enabling people to find a higher-paying or more suitable job will help boost wages and living standards.²¹ Job switching can boost aggregate productivity by moving workers into higher paying jobs and more productive firms.²²

Rates of job switching declined in the years before COVID, with the proportion of workers who change jobs each year declining steadily for decades.²³ Recent research suggests there has been a decline in productivity enhancing reallocation of workers into new jobs.²⁴

There are a number of reforms the federal government should pursue to boost labour mobility.

The federal government should support states to **replace stamp duty with a broad-based land tax**.

Stamp duties on the transfer of property are among the most inefficient of taxes. They discourage people from moving to housing that better suits their needs, and sometimes they discourage people from moving to better jobs.²⁵

In contrast, property taxes – which are levied on the value of property holdings – are the most efficient taxes available to the states and territories. If they are designed well and applied broadly, they do little to change people's incentives to work, save, and invest.

But it is hard for states and territories to make the transition without significant revenue impacts. The federal government could ease the

transition by giving temporary revenue guarantees to any state or territory making the switch.²⁶

The federal government should encourage the states to **change planning laws and processes** to allow higher-density housing in inner-urban areas and established suburbs.²⁷ This change would enable more people to work closer to their work and move into higher-paying jobs, and increase the productive capacity of our cities. The federal government should also work with state governments to reform planning laws that affect commercial property, to spur competition.

In combination with reforms to increase labour mobility, the federal government should aim to **increase workforce participation** by:

- Increasing the availability and affordability of childcare.²⁸
- Increasing the superannuation preservation age from 60 to at least 65.
- Increasing the rate of Jobseeker and benchmarking the payment to increases in wages to keep pace with community living standards, so that it's easier for people to look for a job.²⁹

Improving Australia's **transport infrastructure** would also increase labour mobility by making it easier for workers to move around our cities.

21. D. Wood (2022).

22. Wong (2024); and Buckley (2023).

23. D. Wood (2022); and Wong (2024).

24. Buckley (2023).

25. Coates and Moloney (2023a, p. 4).

26. Coates and Moloney (2023b, pp. 20–21).

27. The federal government has announced some reforms aimed at changing land-use planning laws as part of the National Housing Accord. The New Home Bonus \$15,000 payment for extra homes above the states' per capita share of national baseline targets of 200,000 homes a year will also encourage states to reform planning rules.

28. Grattan has previously recommended increasing the maximum Child Care Subsidy to 95 per cent, gradually tapering for families with incomes above \$70,000: D. Wood et al (2022, p. 34).

29. Ibid (p. 36).

The federal government should **improve transport project selection**. For example, federal funding should not be committed until projects have been fully planned, costed, and assessed by Infrastructure Australia or the relevant state body.³⁰

The government can also make changes so that we **use our existing infrastructure more efficiently**. For example, the federal government should encourage the states to introduce congestion charging in our major cities.³¹

Reform theme 4: Better harnessing choice, competition, and contestability in human services

Market design and commissioning in government-funded markets, such as care services, education and training, and health, are emerging and important parts of the competition reform agenda.³²

Grattan has previously recommended that the federal government reform the NDIS to increase competition among providers and boost labour mobility, to improve outcomes for scheme participants. The government should:

- Make the national worker screening process as simple as possible, for example by letting workers take their screening clearance from one provider to another.³³
- Help people to self-manage their NDIS funding. The NDIA needs to foster a stronger market for people who self-direct their supports and their workers.³⁴

30. Terrill and Bradshaw (2024).

31. Terrill et al (2019).

32. D. Wood (2022).

33. Bennett and Orban (2024a, p. 3).

34. Ibid (p. 3).

- Let low-risk NDIS participants choose enrolled providers rather than registered providers for most NDIS services.³⁵
- Introduce random inspections of most housing and living support services, and report regularly on their performance.³⁶

There are opportunities to reduce barriers to consumer switching in markets for essential services.³⁷ For example, the Consumer Data Right (CDR), now active in the banking and energy sectors, could be expanded to other industries.³⁸

Reform theme 5: Leveraging the economic opportunities of data and digital technology

There are opportunities for the government to use data to develop and implement reforms that will boost competition and productivity.

To better inform migration policy design, government departments should expand their use of linked administrative data to analyse outcomes of skilled migrants in Australia.³⁹ There is also scope for greater use of linked administrative data in other policy areas, such as healthcare.⁴⁰

The federal government should collate data on completed transport infrastructure projects valued at \$20 million or more. The data should include the costs at key milestones, location and characteristics of the

35. Ibid (p. 3).

36. Bennett and Orban (2024b, p. 4).

37. Minifie et al (2017).

38. The CDR expansion into the telecommunications sector has been paused.

39. See Coates and Bradshaw (2024). Related reforms include boosting the analytical resources within the Department of Home Affairs and establishing a new body to offer independent advice to government on visa policy changes.

40. For example, to analyse vaccination rates: Breadon and Stobart (2024).

infrastructure, time estimates at key milestones, scope changes, and contract type and partners.⁴¹

2.2 Other reform ideas

The government should **reduce rent-seeking behaviour** by reducing disproportionate access and influence by certain lobbyists. Grattan Institute's 2018 report, *Who's in the Room?*, showed that heavily regulated sectors such as mining, property and construction, and gambling are characterised by high levels of political donations and lobbying compared to their economic contribution. Australia does not want to be in a situation where firms see more upside in lobbying to get a better deal from policymakers than from investing in better products and services.

The government should also **increase competition in the aviation sector**. For example, the government could change air cabotage rules to allow foreign airlines to pick up domestic passengers on a domestic leg of an international flight,⁴² and allow more international flights.⁴³

41. D. Wood et al (2022, p. 7).

42. See a list of potential reforms in: ACCC (2023).

43. Kretser and Ludlow (2023).

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