

Inquiry into Australia's productivity performance

Submission

Among the many influences on productivity to be considered in this inquiry, the Commission should include, as an important aspect, a thorough investigation of the possibilities for productivity gains by the application of competition policy principles.

A useful starting point would be the Report of the *Competition Policy Review* chaired by Professor Ian Harper (the **Harper Review**)¹ with particular attention to the Harper Review's recommendations 1 to 21 relating to competition policy, recommendations 43 to 47 relating to establishment of an Australian Council for Competition Policy and recommendation 48 relating to competition payments. A review of progress in implementing these recommendations and the possibilities for productivity gains by further implementation, with or without modifications, is likely to be most useful.

It seems clear that competition policy is highly relevant to productivity. In 2005 the Commission estimated that productivity improvements and price reductions flowing from the national competition policy² and related reforms in the 1990s raised Australia's gross domestic product by 2.5 per cent.³ The Commission had already concluded⁴ from its research that large part of the impact of reforms in the 1990s came indirectly by increasing the exposure of businesses to greater competition and opening the economy to international developments. As the Commission noted:

*Increased competition provides incentives for businesses to improve productivity in order to maintain and improve their financial positions. Competition has been a central catalyst for many widespread and fundamental changes that have brought better performance.*⁵

The Harper Review identified⁶ 'human services' as a priority target for reform, which it described as covering 'a diverse range of services, including health, education, disability care, aged care, job services, public housing and correctional services'⁷, and recommended the adoption of choice and competition principles (recommendation 2). In a 2019 address the Commission's Professor Stephen King identified human services as the 'next wave of productivity reform'⁸ and more recently the Secretary to the Treasury, Dr Steven Kennedy PSM, emphasised the benefits of lifting productivity in government services such as mental health, aged care and employment services.⁹ Dr Kennedy also suggested a broader definition of these kinds of services as 'non-market services', being services that are either provided by the government directly or where the government provides substantial funding.¹⁰ In this inquiry the Commission should investigate the possibilities for reforms in the full range of these kinds of services, including education.

¹ *Competition Policy Review*, Committee Report, March 2015.

² The National Competition Policy was adopted following the recommendations of the *Competition Policy Review* chaired by Professor Fred Hilmer (the **Hilmer Review**): Committee Report, March 1993.

³ Productivity Commission 2005, *Review of National Competition Policy Reforms*, Report No. 33, Canberra, at XVIII.

⁴ Productivity Commission November 1999, *Microeconomic Reforms and Australian Productivity: Exploring the Links*.

⁵ *Ibid*, at xxxi.

⁶ Harper Review Report at p.34.

⁷ *Competition Policy Review*, Final Report, p.218.

⁸ *Human Services: The next wave of productivity reform*, Queensland Productivity Commission lecture, November 2019.

⁹ *Emerging from the crisis: recovery and reform*, Address to the Australian Business Economists, 18 May 2021.

¹⁰ *Ibid*, at p.15.

While 'human services'/'non-market services' are obvious targets for this inquiry, each of the other subjects of the Harper Review's competition policy recommendations also warrant careful consideration.

Implementation of most reforms that the Harper Review has proposed require action by the States and Territories as well as the Commonwealth. This was also the case with the recommendations of the Hilmer Review. The co-operative inter-government institutional arrangements and Commonwealth competition payments agreed following that Review facilitated implementation of its recommendations. Similarly, it will be important for the Commission to consider institutional arrangements and incentives, such as the Harper Review's recommended establishment of an Australian Council for Competition Policy and competition payments, to maximise the prospects of implementation by all governments.

As in the 1990s, there is no shortage of scepticism as to whether reforms of the kinds discussed by the Harper Review and, more recently, by Dr Kennedy and Professor King, are feasible or even desirable¹¹, and the task of identifying and designing mechanisms for productive reforms in some of these sectors is likely to be more complex than it was in the 1990s. As the Harper Review pointed out in relation to the reform opportunities considered by the Hilmer Committee:

At that time the everyday experience of Australians pointed to opportunities for pro-competitive reforms. For instance:

- *consumers had no choice of electricity or gas provider — they paid regulated tariffs and customer service was poor or non-existent;*
- *telecommunications services operated as a monopoly, which only ended in 1992 when Australia's second telecommunications provider, Optus, entered the market;*
- *there were price controls and supply restrictions on food products such as eggs, poultry, milk, rice, and sugar;*
- *retail trading hours were restricted for most stores, with limited trading on weekends; and*
- *only lawyers could offer land conveyancing services.¹²*

Nevertheless, there are bound to be opportunities for significant efficiency and productivity gains by carefully targeted reforms in the sectors identified by the Harper Review, and it is to be hoped that the Commission will fully investigate them in this inquiry.

Geoff Taperell¹³

16 March 2022

¹¹ For example, Ross Gittins, *Reform of 'human services' sectors another example of magical thinking*, Sydney Morning Herald, 28 May 2021; *Let's not repeat our many competition stuff-ups post the Harper review*, Sydney Morning Herald 30 November 2015.

¹² Harper Review Report, March 2015, at 17.

¹³ Geoff Taperell is a solicitor, a member of the Law Council of Australia's Competition and Consumer Committee and was one of the three members of the Hilmer Review committee. This views in this submission are personal and are not expressed on behalf of any other person or organisation.