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SPEECH

A ZIPPIER ECONOMY: LESSONS FROM THE 1992 HILMER COMPETITION REFORMS

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CHECK AGAINST DELIVERY

I acknowledge the Gadigal people, traditional custodians of the land on which we gather today, and pay my respects to their Elders past and present.

Thank you to Sydney Ideas, the University of Sydney's flagship public talks program, for hosting me today. I welcome the students, members of staff and alumni attending this afternoon. Having spent six years earning a couple of degrees here, including a year editing *Honi Soit*, it's good to be back.

Given the topic of today's presentation – lessons from the 1993 Hilmer Review and the subsequent National Competition Policy reforms – it's also my pleasure to acknowledge Professor Fred Hilmer, who has joined us today. It's both exciting and daunting to have the subject of today's talk in the audience.

INTRODUCTION

As Professor Hilmer told me recently, the National Competition Policy reforms were big, bold and far-reaching.

He's right in every respect – they're regarded as among the most significant economic reforms in Australia's history.

And we're still talking about them 30 years later because they provide a powerful lesson for building a zippier economy.

Successful reform often looks deceptively easy afterwards.

But this one took many years to unfold – roughly 1992 to 2005.

It took cooperation across state, territory and the federal government, sizeable financial incentives, and countless meetings, none of them on Zoom.

And the reforms didn't receive universal support at the time (Sims 2013).

That they succeeded is a credit to Fred Hilmer and the reform's architects.

Above all it took a big idea: competition was the key to ensuring that economic reform delivered for regular Australians.

In *After Words*, Paul Keating wrote 'We brought a new word to the Labor lexicon – competition. Competition is our word, not their word. Not the Tories' word… we were tired of paying twice as much as we should be paying for cars, for telephones, for clothing, for electricity. By cutting tariffs and by lifting domestic competition, we created a low price structure, thereby allowing people's wages to go further.' (Keating 2011, 233).

Keating wasn't the first great Labor leader to appreciate the power of competition. Labor Attorney General Lionel Murphy introduced the 1974 Trade Practices Act, ending decades of businesses lawfully colluding at the expense of Australian consumers (Leigh 2018).

Keating knew it fell to Labor to again raise the whole notion of competition. National Competition Policy was how he sought to deliver for Australian households.

The objective: better prices – allowing people's wages to go further.

It wasn't just ordinary workers paying too much.

Keating also believed businesses were often paying too much for their inputs, particularly services (O'Brien 2015).

The economic reforms of the 1980s – floating the dollar, financial deregulation and reducing tariffs – exposed many sectors to international competition for the first time, promoting economic growth and efficiency.

But this highlighted that many areas of the domestic economy faced minimal, if any, competitive pressure.

Sectors such as transport, electricity, water and telecommunications were still relatively untouched by competitive forces.

For a country striving for a seamless national economy, it made little sense that competition rules didn't apply to professional services, government businesses or agricultural marketing (Hilmer 2014).

There was a recognition that if Australia's domestic economy was not competitive, then it would struggle to compete internationally.

Thirty years ago this month, the press release announcing an independent inquiry into competition policy in Australia (Keating 1992) hit fax machines around the country.

Keating turned to business leader and academic Fred Hilmer, along with Geoff Taperell, a senior lawyer, and businessman Mark Rayner.

The Hilmer Inquiry would spark the National Competition Policy reforms.

A generation on, my talk aims to answer 3 questions:

What did Hilmer do?

How did it affect the economy?

What can competition reformers learn from it today?

A TIMELINE TO REFORM

Let me start by giving a sense of the timeline, the institutions involved and where the momentum came from.

By the early 1990s, work was already underway to improve domestic competitiveness.

Australia started to see government business enterprises operate more efficiently, exposed to competition or in some cases privatised.

We started to see reform or removal of inefficient regulations in agriculture, aviation, electricity, finance and transport.

For example, the 'Two airline policy' ended in 1990.

This policy had, for decades, restricted domestic aviation to the publicly owned Trans Australia Airlines and its private sector competitor, Ansett.

Subsequently, 'open skies' prevailed. In general, that has been a good thing for flyers. Sure, airline competition did mean that we got Tigerair Australia, but competition also meant that pretty soon we no longer had Tigerair Australia.

To switch from air metaphors to ocean metaphors, the tides may have been turning slowly, but there were big waves of reforms on the horizon.

In July 1991 the Prime Minister, premiers and chief ministers agreed that a national approach to competition policy would be important.

A couple of months after the Barcelona Olympics, Keating formally announced the review into national competition policy in October 1992.

WHAT DID HILMER DO?

With almost the energy of Olympian Kieren Perkins in the pool or Kathy Watt in the velodrome, Professor Hilmer and his team got to work.

They reported back to government in August 1993.

Their proposals represented a comprehensive, coherent and detailed program of microeconomic reform, albeit one that political commentator Kerry O'Brien said might cause a journalist's eyes to glaze over. And given Kerry O'Brien's interest in programmatic specificity, that's saying something.

O'Brien later observed that the ambitious recommendations were 'riddled with political implications' but 'Keating was in thick of it' (O'Brien 2015). The fact that Keating met on multiple occasions with Hilmer speaks to the high priority that the Prime Minister placed on competition reform.

By April 1995, the Council of Australian Governments had agreed to implement Australia's first National Competition Policy, which broadly reflected the reforms Hilmer had proposed.

It was time for action.

Reviewing restrictive laws

Around 1,800 laws and regulations that restricted competition were reviewed and, where appropriate, reformed.

Capturing the scale of the impact is hard today, because it involved implementing so many things that we take for granted today.

National food standards were introduced.

A wide range of agricultural marketing boards that often set prices were abolished.

The dairy industry was deregulated and milk prices fell.

Retail trading hours were deregulated in most jurisdictions.

This meant families no longer had to do their grocery shopping in a crowded mad rush on Saturday morning before shops closed for the weekend.

Liquor licensing rules refocused on social impacts.

The list goes on and on, and includes a myriad number of smaller reforms, such as the repeal of a NSW law restricting the times when bread could be baked.

To think of a part of Australia where bakers could not bake at particular times is to imagine somewhere that feels deeply foreign. It's like Doctor Who, but with baking regulations instead of aliens.

Reforms to key markets

A second core element of National Competition Policy involved major reforms to key markets.

While the start of these reform processes pre-dated National Competition Policy, they were incorporated into it in 1995.

Energy markets had long been characterised by public monopolies that were state-based and highly bureaucratic.

As part of National Competition Policy, a competitive national electricity market was established. Today, our Rewiring the Nation plan continues that work, ensuring that intermittent renewables can offset each other to provide cheaper, more reliable energy.

Barriers to the free trade of gas within and across state and territory boundaries were removed and third-party access to gas pipelines facilitated.

Retail energy markets were opened to competition enabling consumers, for the first time, to shop around for the best deals and lowest prices.

Restructuring

A third component of the reforms was the restructuring of many government businesses so that they operated more efficiently.

While National Competition Policy didn't require privatisation, there were also a number of major privatisations or part-privatisations during the 1990s.

These included Telstra, Qantas, the Commonwealth Bank, airports and rail businesses.

While many privatisations had positive impacts, there were some unforeseen consequences, which I'll get to later.

Levelling the playing field

National Competition Policy also dealt with a range of less prominent, but still important matters.

Monopoly pricing was subjected to greater scrutiny.

Government businesses were to compete on a level playing field with their private competitors.

And the competition law that Labor enacted in 1974 would now apply to all businesses across the economy.

For example, lawyers, accountants and other professionals practising in partnerships would no longer be exempt.

Making progress

The Council of Australian Governments agreed to establish the National Competition Council to oversee progress on implementation of these reforms.

Most importantly, the Commonwealth agreed to make payments to the states and territories conditional on the implementation of competition reforms.

In the end, the Commonwealth paid around $5.7 billion in competition payments to states and territories by 2005.

HOW DID IT AFFECT THE ECONOMY?

Australia's productivity performance in the 1990s has been described as 'exceptional' (Parham 2004, see also Gruen 2001). Labour productivity grew at over 3 per cent a year, driving rapid growth in GDP and living standards. This performance persisted through the 1997 Asian financial crisis. Australia's productivity performance in the 1990s was one of the best in the advanced world, and Australia moved up the global rankings of average incomes.

There were many factors behind this productivity growth. Partly, it reflected the impact of computerisation. Partly too, the economy was benefiting from a better-educated workforce.

But the National Competition Policy reforms were clearly an important factor behind the 1990s productivity surge.

In its 2005 review of the impact of the National Competition Policy reforms, the Productivity Commission analysed the impact on the economy (Productivity Commission 2005).

That analysis estimated identified a permanent increase of 2.5 per cent in Australia's GDP from competition reform. Today, that lift equates to around $50 billion a year, or around $5000 per household.

The Productivity Commission thought that was a conservative estimate, since it did not capture the 'dynamic' efficiency gains of more competitive markets. Given the limitations of its modelling, the report concluded that the total boost to GDP from the reforms was likely to be considerably larger than this.

While the economic impacts of National Competition Policy were substantial, the reforms also transformed the zeitgeist of the nation. They were a reminder that at our best, Australia has been a world leader in social policy, tariff liberalisation, income-contingent loans and more. In those years, no country on the planet moved further and faster than Australia to implement competition reform and boost living standards.

WHAT CAN WE LEARN FROM THE NATIONAL COMPETITION POLICY TODAY?

On the thirtieth anniversary of the Hilmer reforms, what lessons can today's competition reformers take from them? Drawing on my own reading of the history, and aided by Hilmer's own reflections, I believe there are seven lessons for those of us seeking to improve the dynamism of the Australian economy today.

1. Paint on a Big Canvas.

National Competition Policy was a big, bold and far-reaching package of reforms.

It had the attention of a Prime Minister, who then got the attention of the nation.

The Hilmer Review provided the intellectual firepower: the raw material that Prime Minister Keating turned into vision, and that rapidly deglazed eyes across the press gallery.

It enabled the views of key interest groups to be heard and taken into account.

Not everyone will love the idea of a more competitive economy. Rod Sims liked to say that competition policy was the inverse of corporate strategy. Sims has often pointed to corporate strategy guru Michael Porter, who 'demonstrated that firms can attain commercial success by reducing competition, by erecting high entry barriers, by keeping suppliers dispersed and weak, by creating strong consumer loyalty, and by reducing the likelihood of other firms being able to offer your customers products that they see as substitutable for your product' (Porter 1979).

If you're challenging Michael Porter and parts of the corporate strategy world, you need a clear story about why more dynamism and more competition will make most people better off.

2. Money talks.

There are always more good ideas jostling for attention than there is time to implement them. For state and territory treasuries seeking to grab the attention of other parts of the government, it helps if they can say that there is money on the line. The prospect of receiving substantial competition payments was clearly a factor driving states and territories to persevere with difficult reforms.

3. You can only invent the Hills Hoist once.

Maintaining competition in Australia's economy is a dynamic rather than a static exercise.

The Hilmer and National Competition Policy reforms were well suited to the challenges Australia faced in the early 1990s, such as the need to reform government businesses.

But in the 2020s we face new challenges.

The focus of competition reform in our era should be on the private sector, where there are real concerns about Australia's economic dynamism.

Emerging trends – such as a fall in job-switching and business start-up rates just as market concentration and mark-ups increase – suggest our economy has become less competitive.

Almost 30 years later many industries have changed beyond recognition.

Digital platforms pose competition policy challenges that weren't conceived of in the early 1990s.

4. Look after the poorest.

National Competition Policy touched virtually every community, every business and every consumer.

While the reforms left people better off, at least overall, it wasn't the case for everyone.

For example, there is little doubt that economic reforms contributed to the challenges facing some rural communities.

There was some criticism that the Hilmer Review and then the Council of Australian Governments should have focused more on how to better manage the impact of competition reform on communities likely to be worst affected.

Today, we have better microdata than ever, allowing more precise modelling of the likely impact of reforms on different groups in the population. We should use it to ensure that reforms benefit the most disadvantaged. A more dynamic economy must not leave people behind.

5. Keep it green.

Thirty years ago, the focus was squarely on improving economic efficiency.

Today, however, reforms to improve competition must also help protect and promote the environment.

Energy markets are an obvious example. It will be important to promote competition as they transition to a low-emissions future. Australians want cheaper, cleaner energy – not one or the other.

As we transition to net zero carbon emissions, we will need to adapt our buildings, transport networks, manufacturing facilities and more. Competition policy should encourage this transition, and the many new jobs that will accompany it.

6. Privatised monopolies can be dangerous.

The Hilmer Review highlighted a danger that could arise when public monopolies were privatised. The mark of success of a privatisation is more than the sale price. If a privatisation closes off competition or fails to regulate the prices that can be charged to users, then a deal that seems savvy in the short term can look foolish in the long term – amounting to a multi-decade tax on consumers and exporters (Sims 2022).

If the aim of the game was to make money now, then homeowners could boost their bank balance by selling to investors who then rented it back to them. The fact that most of us think this would be a bad idea in the long-run should make us reflect for a moment when we weigh the costs and benefits of privatising government assets.

It would be worthwhile for state, territory and federal governments to develop a better process for scrutinising potential privatisations through a competition lens. Because everyone agrees that it's not much good for taxpayers to get a hefty price from a privatisation, only to be price-gouged by the newly formed private sector monopoly.

7. Federalism can drive reform.

National Competition Policy could never have happened without commonwealth, state and territory governments working cooperatively towards a common goal over a number of years.

Through the Council of Australian Governments, these conversations happened on a regular tempo, both between ministers and officials.

The fact that the Council of Australian Governments was the right vehicle then does not mean it is the only way to drive reform today.

It could be done through the Council on Federal Financial Relations or some other body.

But because of the nature of reforms required, and the way that competition policy straddles jurisdictions, federalism and competition reform will always be intertwined.

CLOSING REMARKS

The Australian economy today needs a good dose of competition. Compared with the 2000s, rates of startup business formation and job switching are down. Market concentration and markups are up. Productivity growth – exceptional in the 1990s – was sluggish in the 2010s.

But like most reform challenges, it's easier to outline the problem than craft a solution. That's why I've focused today on what we can learn from the biggest wave of Australian competition reforms in the past half-century: the Hilmer Review and National Competition Policy.

Thirty years on, there are seven lessons from those reforms. Tell a big story. Deploy financial incentives for reform where possible. Solve the next problem, not the last one. Protect vulnerable communities. Promote changes that improve both economic dynamism and environmental sustainability. Beware of privatised monopolies. Use federalism to drive reform.

Microeconomic reform requires cooperation and an alignment of incentives.

It also requires conversations about our vision for the nation.

The National Competition Policy reforms of the 1990s improved the lives of Australians.

A new wave of competition reforms will deliver better prices and more consumer choices. It will help improve living standards of Australian households by increasing access to the latest technologies.

It will also help Australia maintain the international competitiveness of its industries. This especially matters for service industries, which often rely on digital competition.

Australians benefited from the Hilmer reforms in many ways.

Even the lower-bound estimate suggests that the typical Australian household is thousands of dollars a year better off than if the reforms had not been undertaken.

It's a remarkable achievement and we should continue to learn as much as we can.

After all, the problems facing the Australian economy today are just as acute as those in 1992.

We desperately need competition reform.

Many of the issues are at a state and territory level.

Problematic privatisations.

Restrictive zoning laws that impede new startups.

State housing taxes that make it expensive for people to move to take up a better job.

Occupational licensing rules that make it harder for startups and job-switchers.

Energy markets that don't work as well as they should.

One of the central insights from economics is that competitive markets generally serve consumers better than private monopolies.

Today, competition provides an organising framework for tackling some of the biggest challenges facing households and the macroeconomy.

In Australia, competition isn't a purely national issue – it's a compact between states, territories and federal government.

We need to work together to get it right.

If competition policy could lay the groundwork for another 1990s-type productivity surge, the result would be more innovation and more startups, more opportunities for workers, and more choice for consumers. Better use of technology, and household budgets that stretch a little further.

In short, a zippier economy.

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