**2023 BANNERMAN LECTURE**

Professor Ross Garnaut

Professor Emeritus in Economics, The University of Melbourne

Professor Emeritus in Economics, The Australian National University

***The economic public interest in a world of oligopoly***

Wednesday 3 May 2023, 5.30–7.00 pm AEST

King & Wood Mallesons Level 61, Governor Phillip Tower 1 Farrer Place, Sydney

I acknowledge contributions to my thoughts this evening from Professor David Vines, with whom I am preparing a paper on the Review of the Reserve Bank of Australia. My discussion of economic rent draws on the paper by Ross Garnaut, Craig Emerson, Reuben Finighan and Stephen Anthony, “Replacing Corporate Income Tax with a Cash Flow Tax”, Australian Economic Review, December 2020. The discussion of the cost of capital draws on my book “RESET: Australia After the Pandemic Recession”, Latrobe University Press with BlackInc, 2021. Six friends with whom I shared a draft made important suggestions for correction and improvement.

The structure of the economy changes gradually. Structural change accelerates from time to time with big social, political, economic and technological events. Over the years, the changes accumulate to an extent that renders some old approaches to analysis unreliable and misleading. Most observers notice some unexpected outcomes, make small adjustments within familiar approaches to policy, and are surprised when we do not see the expected improvements. Bigger minds realise that something important has changed and develop new analytic frameworks.

So it was with Adam Smith at the beginning of modern economic development; Jevons, Marshall and the founders of neo-classical economics rewriting the classical approaches that had led to the dismal conclusions of Malthus and Marx; and the Keynesian revolution from the 1930s.

Sometimes innovative thinkers realise that structural relationships have changed, but don’t see the whole of the new world and prescribe incomplete remedies which make some problems worse while contributing to easing others. So it was with the influential Austro-Hungarian response to stagflation from the 1970s, from von Mises via Hayek and Friedman, with political economy roots in Emperor Franz Joseph’s empire, and glittering capital Vienna (see my Gruen Lecture, “Economic Ideas and Policy Outcomes”, forthcoming in Asian-Pacific Economic Literature).

Big trends in economic development and thought about economic policy are sometimes global in their reach, or shared across substantial parts of the world economy. But there are always national variations on the global themes. Unusual national institutions and structural characteristics require different frameworks for thinking about the economy and approaches to policy. Successful policy requires national differences to be reflected in ideas about policy. Thus there is an Australian national history of ideas about economic development, interacting with the global narratives and relating well or poorly to the Australian reality through different historical periods.

Most of the value of economics is generated in the fresh thinking every now and then—both globally and nationally. The rest, occupying the working lives of most economists, is incremental adjustment to established interpretations of reality. The marginal adjustment works well enough until big structural change again requires more fundamental re-examination of how it all works.

The modern Australian economy was born rich, with its abundant natural resources relative to population and modern economic institutions. It never faced the pressures on living standards from growth in the labour force that overwhelmed improvements in productivity through the first generations of the industrial evolution in Europe. (Freedom from crude Malthusian constraints may have been a feature of the ancient Indigenous Australian economy as well, but that story is beyond my ambition this evening). Democracy with a broad franchise emerged earlier in Australia and New Zealand than in the European and later American heartlands of the industrial revolution. The Australian Settlement of economic institutions and policy in the early twentieth century was a creative response to broad democracy and labour scarcity. Two periods of far-reaching economic reform in the second and third thirds of the twentieth century set the country up for long periods of economic expansion and prosperity. The first period of transformative change that sustainably lifted the economic welfare of Australians was postwar reconstruction, commencing in the mid-1940s and continuing into the early 1970s. The second was the reform era that commenced with the election of the Hawke Labor Government in early 1983 and continued to the beginning of the current century. Both reform eras applied new knowledge to our policy choices. My book RESET: Restoring Australia After the Pandemic Recession discussed the thinking and conditions that underpinned these periods of far-reaching reform. My friend and colleague Professor David Vines at Oxford University is currently completing a history that illuminates these periods of high economic policy and economic achievement.

There have been big changes over the twenty first century, that greatly affect Australia’s capacity to deliver rising standards of living to most people in a growing population.

Most importantly, there has been a large increase in the rent component of total income. This has diminished growth in productivity and output, while reducing the share of income accruing to the general run of citizens. More recently, it has contributed to decline in the real incomes of most Australians. These developments and their large political implications have come later in Australia than in the US and UK. But they are now important in Australia.

The recent RBA review is built on the premise that our economy has performed reasonably well over the past three decades. On average over three decades we have indeed done reasonably well. But that average hides close to the lowest growth in productivity and output per person and real per capita household income amongst developed countries over the past decade, by averaging it with the developed world’s top performance in the 1990s.

In the past, high terms of trade (that is, high export prices relative to import prices) have been associated with pressures for higher real wages. Australian terms of trade over the past year have been higher than ever before. Yet real wages in Australia have fallen more through last financial year and this than in any other two-year period in our history. The official forecasts anticipate continuation of real wage reductions through next financial year.

It is a striking fact that the profit share of income is decisively higher than ever, and the wages share lower.

To understand these developments, we must look afresh at the role of rent.

After we have come to understand the changes in the structure of the economy that have produced these outcomes, restoration of economic dynamism and growth in ordinary Australians’ standards of living is going to require policy coordination across parts of the economy that we have been managing separately.

My special focus this evening is on policy related to management of economic rent. This has close relevance to competition law and policy. But I will first take a look at the wider context,

Productive responses to large structural change require contributions from many institutions in different areas of policy, and co-ordination across them. As John Maynard Keynes once said, we need an orchestra with a range of instruments, and a good conductor. At such times we can admire a virtuoso performance on a single instrument, but it will not realise the potential of the time and place.

Competition policy is an important instrument and the ACCC an important player in the response to the increasing role of rents. They will have their greatest value as part of the orchestra with that good conductor.

**Monetary Policy and the Other Instruments**

The past month’s discussion of economic policy-making has been dominated by release of the Review of the Reserve Bank of Australia. One problem with the discussion is that it has tended to examine monetary policy in isolation from other instruments. Excessive focus on one instrument and one player leaves out the many advantages of calling on a whole orchestra.

Let me make the point with reference to two parts of the economy in which economic rents are important, and in which standard approaches to monetary policy in response to inflation lead to perverse outcomes. These are rents for houses, and energy supply.

Housing costs are currently a source of much community stress. The ABS data say that rents have been increasing at high rates and contributing substantially to CPI inflation. Rents are increasing because record high immigration rates are lifting demand, and investment in new residences is low. Higher rents feed into a higher CPI, which is interpreted by the RBA as a signal to raise interest rates again. Higher interest rates reduce investment in housing and after a time raise rents, and so strengthen the single-instrument case for even higher interest rates.

How would a conductor who could call on any policy instrument go about reducing upward pressure on housing rents? She wouldn’t think of raising interest rates first or second, or maybe at all. She would think about easing immigration until such time as demand for rented housing was more closely aligned with supply at what was thought to be a normal price over the longer term. She would look at easing any restrictions on the supply of land on which residences could be built. She would ask whether older Australian approaches to housing crises, involving public investment in housing, were warranted in current circumstances. She would ask questions about the anti-dumping measures and other import restrictions that were artificially raising costs of import-competing building materials. She would examine taxation and other arrangements that have the effect of encouraging owners of housing assets to keep some off the market. And if she thought that higher interest rates were necessary for their effects in the rest of the economy, she would think about macro-prudential measures that reduce their impact on housing investment.

Higher oil, gas and electricity prices have been the largest contributors to a higher CPI over the past year—electricity prices up over 15 percent and gas over 26 percent. The RBA with interest rates as its only instrument thinks of raising them. How would a conductor who could call on any policy instrument go about reducing upward pressure on domestic energy prices? She wouldn’t think of raising interest rates first or second, or maybe at all. She would be aware that for many household users of power, the charges for using poles and wires represent about half the power bill. Prices are regulated by arrangements that guarantee specified rates of return on past investment. The rates of return rise with higher interest rates, so higher interest rates feed directly into higher power prices. To the extent that higher interest rates reduce demand for power—and the RBA sees rising interest rates reducing inflation because they reduce demand—the reduced use of poles and wires requires a compensating increase in prices to compensate for lower volumes of sales. The conductor with access to all the orchestra’s instruments would look at regulatory arrangements that set prices for the distribution and transmission of power, to make sure that they serve the public interest.

The rest of the cost of electricity to users is in the supply of wholesale electricity, and profit margins for retailers. The increase in wholesale power costs has been driven overwhelmingly by increased prices for coal and gas. These accompanied and followed the Russian invasion of Ukraine. Higher interest rates reduce domestic coal and gas prices a bit—because they raise the foreign exchange value of the Australian dollar. But this effect is small compared with reductions that could come from driving a wedge between domestic and international prices. Placing caps on coal and gas prices as agreed by the national Cabinet is one way of doing that. Alternatively, state governments onshore or the Commonwealth offshore could increase royalties, or the Commonwealth could increase profits-based taxation, to support compensatory payments to some or all users of power. On retail margins, there are a few dominant retailers in each state electricity market, and much scope for oligopolistic pricing. So our conductor would be doing what she could to reduce or at least avoid increases in market concentration, and to make sure that retail margins were not markedly above those that could be justified in a competitive market.

For housing and electricity prices and their large contributions to the CPI and community concern, raising interest rates does more to raise than to lower prices. Good policy would bring in a range of instruments, with competition policy playing an important role alongside others.

**High Profits and Low Cost of Capital**

The historic lift in the profit and fall in the wage share of income are challenging facts. The shifts are the more striking because they have come at a time when the real cost of capital available in competitive markets is the lowest it has ever been. The real cost of long-term debt has been close to zero over the past decade.

The low real interest rates suggest the world that Keynes described 92 years ago in his essay “The Economics of Our Grandchildren”. One of the economist’s aims was to give Cambridge students hope that there could be an attractive future in a market economy, at a time when democratic capitalism was engaged in a competitive struggle for hearts and minds with authoritarian political systems. The essay explained that the accumulation of capital and technological improvement would lead to such a surplus of savings beyond the profitable uses of investment that the real interest rate on low-risk capital in competitive markets would fall to zero. If we avoided unnecessary wars and economic depressions, no-one a century forward from 1931 would have a high income simply because they owned capital. We would see the “euthanasia of the rentier”. Ordinary citizens would be liberated for the challenge of using time for good purpose. There would still be opportunity for invention, innovation and entrepreneurship, and therefore enhancement of the material human condition. People who earned high incomes would derive them only from using capital, labour and technology in new ways, and not from simply owning capital.

Real interest rates on sovereign and other low-risk debt in Australia and most of the developed have fallen steadily through the twenty first century. Over the past decade, average real returns on low-risk capital in competitive markets have been around zero. This is such a striking departure from historical returns to capital that most economists, businesspeople and officials either deny that it is true, or think it results from public policy that must change. They await the early return of “normal” real interest rates—the variations around about 5 percent that prevailed through most of the four centuries after Elizabeth funded the fleet that dispersed the Spanish Armada. They don’t understand the world in which they live.

.

The reality of near-zero real returns has been temporarily obscured by inflation following the supply disruptions and monetary expansion of the COVID years. The rise in nominal interest rates driven by the new inflation over these past 18 months is not a return to old real returns on low-risk capital. Nothing of the sort. Nominal policy rates remain well below the rate of inflation—so real rates are negative. And the longer bond rates set in competitive markets are more strongly negative than before the fiscal and monetary expansion in response to the pandemic recession.

**Durably Low Real Interest Rates**

Real interest rates in competitive markets are near zero or negative because in the world as a whole and in Australia private citizens are tending to save higher proportions and to invest lower proportions of their incomes. The changes in savings and investment reflect changes in the structure of economies, including the rise in rent and associated increase in inequality in income distribution.

Why are savings high? The twenty first century in the developed countries has seen a falling share of total income going to people on low incomes and without wealth who depend on wages to live, and spend almost all of their income. An increasing share has gone to the wealthy, who spend a much smaller part of their incomes. These effects are exacerbated by the increasing proportion of incomes held by the wealthy in international tax havens, accumulating without taxation or drawdowns for consumption. Developing countries that happen to have unusually high savings rates—first of all China—have increased their shares of global income. More of the world’s income growth has been concentrated in developing countries where incomes have been growing rapidly, and it takes time for consumption patterns to adjust upwards to higher incomes. In the developed world and China, ageing populations want to provide for longer retirement.

Among factors reducing investment, the increasing share of services in the economy has reduced investment in buildings and equipment. Information technology has allowed more efficient use of capital. A higher proportion of investment is in intangible assets like intellectual property, which does not require capital expenditure on fixed assets. A higher proportion of income takes the form of economic rent, which is sustained with little new capital expenditure. Lower rates of productivity growth in the developed countries have reduced the rates of obsolescence of old plant and the need for investment in replacements. IT network services now represent a higher proportion of consumption, requiring tiny capital and also operating expenditure in comparison with the value of sales.

**The Increasing Role of Economic Rent**

Returns to low-risk capital in competitive markets are close to zero in real terms, and yet returns to business investment are higher than they have ever been in the developed world and most impressively of all in Australia.

Attempts have been made to rationalise the facts. The Business Council of Australia and the Governor of the Reserve Bank have said that mining profits (including petroleum extraction) are more than half the total and if you exclude them there has been no increase in the profit share. The Council and Bank are speaking power to truth. Take mining out of the denominator as well as the numerator and the profit share is still historically high. This is at a time when the cost of capital in competitive markets is close to zero, and when low productivity growth demonstrates that high profits are not flowing exceptionally from innovation and entrepreneurship.

The increased profit share reflects the increased role of economic rent in the Australian economy.

Economic rent is income above that which is necessary to attract the economically optimal amount of investment into an activity. It persists where competition in the supply of a particular good or service is imperfect or, in some cases, non‐existent.

I am not talking about the profits from innovation and entrepreneurship to use capital more productively in a competitive economic system. These are what nineteenth century economist Alfred Marshall called quasi-rents. These are the temporarily high profits that follow changes in economic equilibria, which takes time for competition to erode.

Economic rent arises whenever high profits in an economic activity fail to induce expansion of supply to reduce prices and profits to normal or competitive levels. The restriction on entry may arise because production requires a specific resource, the supply of which cannot be augmented by investment. Examples include urban and agricultural land and mineral resources. Land and mines that can produce valuable product at lower costs than others, or which are favourably located, cannot be reproduced through investment. The restriction may arise because there are over-whelming economies of scale that make it impossible for a newcomer to compete—as in a network, or an economic activity where lowest cost scale of production is very large compared with the size of the market. They may arise because incumbents have established an oligopolistic position in the market and protect their market power with anti-competitive behaviour. The restrictions may exist because government law or regulation blocks new entrants.

Different sources of rent can interact with and reinforce each other. Rents from any source can be invested in influence over public policy and its implementation to maintain and extend oligopolistic positions.

Economic rent is sometimes but not always associated with economic inefficiency. Regulatory barriers to competition that serve no public interest reduce economic efficiency. It is in the public interest to eliminate inefficient sources of rent by removing barriers to competitive entry, or by actively promoting competition.

However, some rent emerges from restrictions on competitive investment that increase economic efficiency. This is often the case with exclusive ownership of a specific land or mineral resource—the allocation and enforcement of private property rights. In the absence of this restriction on competition, over-investment in the use of the resource would reduce economic value. For example, a lot of labour and capital is wasted in a gold rush—when as much or more gold might have been extracted with much less labour and capital if one firm had been allocated an exclusive right to mine the deposit.

On access to urban land, planning regulations are necessary to restrict investment to levels that maximise economic value. In the absence of planning restrictions, there may be over‐investment in favourable sites, to the point where total economic value is diminished. Here a judicious balance has to be struck between the public interest in full use of the resource, and the public interest in avoiding dissipation of value in over-investment.

A second category of efficient rent results from government protecting private use of intellectual property resulting from scientific or technological or intellectual or artistic creation. The restriction increases incentives for economically productive investment in innovation, at the same time as it restricts the value generated from access to each creation. As with urban planning, a judicious balance between competing sources of value is necessary for economically optimal outcomes.

A third category of efficient rent is ‘natural monopoly’, associated with ownership of a network, or a physical asset with overwhelming economies of scale, or the two together. Examples of network monopolies are provided by the main information technology and social media platforms. Examples of the two together include electricity transmission, gas pipeline and telecommunications hardware systems—and in the zero carbon economy, the storage and transport of hydrogen. Duplication of investments in a natural monopoly would usually waste resources. But the acceptance of monopoly allows the owner of the established assets to maintain high prices and profits at the expense of community welfare.

Some activities generating efficient rent can be subject to regulation of activity or price to increase total economic value. Whatever the source of rent, and however rent may be constrained by regulation, rent can in principle be subject to additional taxation without sacrifice of economic value. The economically efficient taxation of rent is the subject of our paper on the cash flow basis of corporate taxation (Garnaut, Emerson, Finighan and Anthony, 2020).

The share of rent in national output and income has varied widely in the course of modern economic development. Such variations have had large effects on political systems. Generally high proportions of economic rent in total incomes and the inequality of incomes with which it has been associated has blocked the establishment and undermined the maintenance of democratic political systems. Here the causation runs in two directions. Economic systems in which incomes, wealth and economic power are highly concentrated resist establishment of democracy. And democratic systems exert pressure for interventions to reduce extreme inequality.

The rent of agricultural land was at the heart of classical economics (Ricardo 1817) and the economic and political systems from which it grew, with agricultural land comprising around half the wealth in Western Europe in the early nineteenth century (Piketty 2013). The rent of private ownership of slaves contributed a large proportion of US income at that time, and the capital value of slaves constituted about half of all wealth in the southern states by the mid‐nineteenth century (Piketty 2013). Mineral rent has been the main source of income in some resource‐rich countries since the beginnings of the modern economy, and was important globally in the immediate aftermath of the oil price leaps in the 1970s. Rent from the concentration of private ownership of business assets was at the centre of the great fortunes of late nineteenth and early twentieth century America, and its reduction the policy focus of President Theodore Roosevelt. In the early twenty‐first century, rent has expanded its share of total income everywhere, notably in Australia.

In Australia, a high and increasing proportion of incomes has emanated from rent‐heavy sectors, especially mining, but also urban real estate, information technology, financial services, media and large‐scale retailing. For confirmation of the Australian trends, look at the role of mining, banking and other rent-heavy sectors in market capitalisation on the Australian Stock Exchange. Profits of mining, with economic rent contributing a considerable proportion, were larger than the whole of the rest of the economy in the final quarter of last year, the latest data available. Profits from mining were larger than the total from financial, business and legal services, hospitality, accommodation, construction, health, education, media, transport and all the rest, although mining accounts for less than 2 percent of employment.

In the United States, where the macro and micro evidence base is developing most rapidly, a range of recent economic analyses has identified an increasing proportion of rent in income from the early 1980s. From 1980 to 2016, returns in excess of normal profits as a share of GDP grew between four and five fold. The increasing importance of economic rent was the central focus of Olivier Blanchard's Presidential Address to the American Economic Association in 2019, before COVID diverted our minds. The rise in rent accompanies increases in market concentration, especially in banking, healthcare and ICT. The US economy has bifurcated into an abundance of firms with low returns and a narrow band of firms with super‐profits: returns for firms that were in the top 10 per cent by profitability rose from 20 per cent per annum in the mid‐1980s to around 100 per cent per annum in recent years. Rent has become more persistent: the odds of a super‐profitable firm still being super‐profitable 10 years later have doubled since the 1990s to 85 per cent.

Reuben Finighan in a PhD thesis nearing completion at LSE has analysed the massive increase in opportunities for rents arising out of asymmetry between information available to concentrated producers and atomistic users—an asymmetry rendered much more economically important by the increased capacity of large-scale data analysis. These same developments in information technology and artificial intelligence are increasing knowledge asymmetries between specialised large companies seeking to increase market power, and the government agencies seeking to regulate them in the public interest.

The pattern of growing rent is present in many countries. De Loecker and Eeckhout in 2018 presented analysis to show that global average mark‐ups had increased by 52 percentage points since 1980. The increase in G7 countries ranged from around 30 to almost 150 percentage points.

Ingles and Stewart (2018, p. 20) referred to various Australian and US estimates suggesting the normal return on investment represents between 30 and 60 per cent of the corporate return, with various rents constituting the remainder. Murphy (2018, Table 2, p. 6) estimated that 41 per cent of Australian corporate income tax revenue was from rent.

All of these empirical observations precede the COVID disruptions of supply chains and the energy price increases following the Russian invasion of Ukraine. Many precede the increased restrictions on open international trade introduced for protectionist or geo-political reasons by President Trump in the United States and broadly maintained by President Biden, and followed to greater or lesser degree by many other countries including Australia. These developments have substantially increased the role of rents over the past few years.

It is time for these important developments to enter the mainstream of our discussion of the economy and economic policy. Robert Solow, long-time professor of economics at the Massachusetts Institute of Technology, received a Nobel Memorial Prize for work in the 1960s. This research developed what is now the standard way of measuring the contributions respectively of capital and labour to economic value. In a letter to my long-time friend and colleague Professor Max Corden on 17 September 2017, Solow said that he was rethinking his contribution:

“We conventionally allocate all of the value added to either compensation of labour or return to capital (debt and equity). That would be fine if there were perfect competition. In reality, there is a third component, monopoly rent. …it gets allocated to labour and capital in unknown proportions. What one would like is a three-way breakdown in market return to labour, market return to capital and rent”.

**The Place in the Orchestra of Competition Policy and the ACCC**

When the Australian economy is playing by new rules, it is time for thinking from first principles about the role of all of our instruments, and how they can best be played.

Competition policy is important to achieving of all of Australia’s economic objectives: full employment with moderate inflation, rising incomes and reasonably equitable distribution of income. But it cannot deliver any of them on its own.

Greater competition can sometimes be the most effective means of expanding economic activity in an industry, and so of economically increasing employment. It can sometimes be the most efficient way to reduce prices of a product and therefore to contribute to lower inflation. It will usually contribute to greater dynamism in an industry and therefore to productivity growth and rising incomes in the whole economy. It is a source of greater equity in income distribution.

But greater competition is not always possible; and where possible, not always the lowest-cost way of making progress towards an economic objective. Sometimes it is better to recognise that monopoly or oligopoly is economically efficient, or that its removal through application of competition policy would impose costs that exceed the benefits. The national interest then requires restructuring of taxation to increase its incidence on rents and reduce its incidence on competitive activity.

The orchestra of economic policy needs an instrument that comes in when greater competition is both possible, and the best means to an important end. The ACCC, is the regulatory and not policy agency. But it understands better than other parts of Government what can work, what is best left alone, and how to make things work. It can assist the conductor in her choices of instruments and timing of calling them into play.

Let me conclude with a few suggestions on the priority role of the ACCC and competition policy. Mostly this reinforces approaches that have already been established, but there are a few lessons from our journey this evening through unusual features of our contemporary economic story.

First, we should accept that there are important natural monopolies, in which the presence of massive economies of scale prevents economically effective competition. This includes the transmission and distribution of power and gas, and now the storage and transport of hydrogen. The lesson for the future is to avoid private ownership of new assets where these can be separated commercially from established private systems. We can at least apply the lessons of analysis and experience and keep storage and transport of hydrogen in public hands. Where the horse has bolted into private ownership, as in electricity transmission and distribution in the three south-eastern mainland states, we should invest greater analytic effort into regulation of investment, access and pricing. The setting of the rules is immensely complex, and depends on information that is available more completely to the operating company than the regulator. One simple rule, easily applied but always contested in practice by operating companies, is to separate ownership and management from use of the utility.

Second, the whole range of network information services have some characteristics of natural monopolies, but some opportunities for competition at least at the margins of each company’s business. Much of this is new territory for competition agencies everywhere. The ACCC has established itself as something of a leader in the space. Australia needs more sector-specific rules to promote competition and prevent the worst abuses of market power in the digital economy, along the lines that are currently in the process of being implemented in the European Union and soon the UK.  In September last year the ACCC proposed new up-front rules for application to designated digital platforms in particular sectors. This has merit. If Australia does not act we will fall behind other countries in promoting competition and protecting consumers in these areas. The application of sound rules in the Australian public interest will require Australian governments to stand up to great pressure from large foreign companies and influential governments.

Third is the well-established regulation of competition. Avoiding additional concentration of ownership and management in industries in which genuine competition is possible is more important than ever. The challenge of introducing effective competition is increased by the asymmetry of information between consumers and producers, increased beyond recognition by the new information technology and artificial intelligence. It’s a small change, but I welcome the shift in focus currently being discussed in relation to the role of the ACCC, from focus on a substantial lessening of competition to a significant lessening of competition. More fundamentally, Australia needs to rethink its merger laws in the light of the discussion this evening. The changes recently recommended by ACCC Chair Gina Cass-Gottlieb appear to be steps that a Government seeking to increase welfare-enhancing competition would want to implement.

Fourth, we should accept that there are large areas of the economy in which restrictions on entry are important for economic efficiency, and others in which increased competition is difficult to achieve or carries risks of negative economic effects of other kinds. Resource rents are extraordinarily important in our economy. So are urban rents, network rents, and rents in natural monopolies in which private ownership will be difficult to unwind. Here we need to recognise the limits of competition policy, to accept the continued presence of the rents associated with them, and build forms of taxation that raise substantial revenues from rents and relatively little from competitive economic activity.

My fifth point is crucial to full employment, rising incomes and equitable income distribution for a growing Australian population. This relates to the interaction between trade and competition policy. Free trade in goods and services is necessary to provide globally competitive access to inputs along the whole supply chains for export-oriented industry. We can be confident that free trade will severely constrain the use of oligopolistic power in goods in which Australia is a substantial exporter. Constrain, but not remove. As we have learned in relation to gas pricing over the past few years, where there is oligopoly within Australia, free trade is consistent with a wide range of prices for exportable products, between import and export parity. (Import parity is the price in other exporting countries plus the cost of preparation and transport to Australia. Export parity is the price in importing countries less the cost of preparation and transport for export.) For much of our history, import parity pricing was the norm for many exports that were also inputs into domestic manufacturing. For example, Australia was a major exporter of base metals, but prices for these products were typically set as the price in London plus the cost of export to Australia. The difference between export and import parity prices is important to global competitiveness of Australian manufacturing and processing activity based on Australian energy and material inputs. The ACCC’s role should include ensuring the availability of exportable products within Australia at export parity pricing. This will be crucially important to building Australia as the zero carbon Superpower of the future world economy.

.