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TITLE: Big has become beautiful

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For all the talk about the rising cost of living in Australia it is amazing that there isn't more concern expressed at the high mark-ups that big Australian retailers charge. Australians pay far more for clothes, computers and most other consumer goods than customers in the rest of the world. There are two main reasons for this. First, we have some of the highest disposable incomes in the world and secondly, our retail sector is among the most highly concentrated in the world.

Once upon a time Australians were told that National Competition Policy would deliver increased diversity, choice and lower prices. Competition was the bee's knees and our political leaders, state and federal, Labor and Liberal, set about introducing competition into our electricity markets, water supply, hospitals, prisons, road building, toilet cleaning and just about any other kind of government service that could be tendered out or privatised.

The idea that lots of suppliers competing with each other would deliver lower prices and improved service delivery rapidly became accepted wisdom in the political class. Those that opposed privatisation and compulsory tendering were largely dismissed as self-interested 'rent seekers'.

But something has gone terribly wrong on the road to the neo liberal nirvana. Having introduced competition into the more unlikely spheres of our society such as operating detention centres and providing policy advice to governments the reformists seem to lose enthusiasm for their project when they approach the gates of the retail sector.

Sure we were told that lots of small competitors were essential for the effective and efficient delivery of government IT services and prison guards but when it comes to selling groceries, clothes, banking services or petrol big has become beautiful.

The big four banks control more than 90 per cent of the home lending market. The big two retailers control more than 70 per of the grocery market and Qantas has 65 per cent of the domestic air travel market.

The irony is that while we have spent the past two decades reinventing the public sector in the image of the text book 'perfectly competitive' market our leaders have sat back while the

private sector has reinvented itself into the far more profitable, and what they argue the far more efficient, shape of the Monopolist or Oligopolist. The right wing think tanks that were so enthusiastic about competition when it came to government services have been strangely silent about the steady, and profitable, consolidation of Australian business.

But despite their hypocrisy, the economic rationalists were right about one thing. Just as nature abhors a vacuum capitalism, as opposed to the capitalists themselves, abhors a giant profit. And just as our retailers were settling in to enjoy their enormous and easy profits along came online commerce looking to spoil the party by offering lower prices and driving lower profits.

Not surprisingly, Australia's big retailers have cried foul. Rather than do their job of reforming their operations and competing with the new arrivals they have opted instead for blaming the government and calling for tax and regulatory change to fix their problems. It's amazing in Australia how pessimistic we have become about the ability of the government to solve social problems but how quick business is to insist they solve commercial ones.

But just as consumers are beginning to enjoy the enormous price savings that have flowed from the ability to import goods from the competitive US retail market a new threat to the consumer is beginning to emerge. The concentration of the online market.

For example, the online book retailing giant Amazon.com recently bought one of its major rivals, Bookdepository.com. Bookdepository.com had made a name for itself by offering free postage and in turn its market share had been growing. The pressure for Amazon to match that offering has now been reduced.

If consumers are to benefit from online competition then it is essential that the offerings remain diverse and the price competition remains fierce. One of the best things about online retail is that rivals rely on low price whereas bricks and mortar retailers rely on expensive advertising to attract customers. The cost of those ads is of course passed onto consumers.

The reason that price is so much more important online is that search engines make it easy to find and compare products. Consumers don't have to rely on jingles and giant billboards to remind them where to look, they can simply rely on their trusty search engine. Or can they?

A recent report published by the Australia Institute entitled 'What you don't know can hurt you' presented survey evidence which showed that a substantial proportion of online shoppers do not really understand how search engines work, with some not even understanding the difference between the 'sponsored links' at the top of the search results page and the genuine search results.

Of much greater concern is the fact that many people do not seem to understand that websites that purport to rank products and highlight the best deals may be giving more weight to the commission paid by the suppliers than to the potential benefits to consumers.

Today's online marketplace is a fair approximation of the textbook model of perfect competition. There are low barriers to entry, there are lots of buyers and sellers and customers can easily shop around on the basis of price. But just because it is that way now

doesn't mean it will stay that way. Customers need to be vigilant, but they need to be protected with good laws that ensure transparency.

And rather than have inquiries into whether online shopping is creating unfair competition for Australia's big retailers maybe we should be having inquiries into how to make sure that the online marketplace doesn't start to transform itself into the concentrated and expensive bricks and mortar marketplace that is driving up the Australian cost of living.

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