A matter of choice

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Those who grew up in post-war Australia lived in a different country. Bob Menzies in Canberra, milk and bread delivered to our houses in horse-drawn carts, The Argonauts on the ABC...

Perhaps, reflecting my interests at that age, I remember each state had its own beer.

Outside Western Australia, Swan beer was a novelty and even Fosters was relatively unknown outside Victoria. Mexican and German beers were beyond the realm of the imagination.

There were many arrangements protecting firms from the harsh forces of competition. Local manufacturers were protected by high tariffs, and in cases, import prohibitions.

They were further protected by the absence of any effective trade practices legislation: if you wanted to buy a washing machine or television, there was no point in shopping around, for any retailer who discounted would be refused supply.

That was to change.

The Whitlam Government introduced trade practices legislation and made a one-off cut to tariffs, but these reforms were limited.

By the mid-1980s, however, Australia embarked on a vigorous program of economic reform.

The finance sector was largely deregulated, import protection was subject to phase-out arrangements and trade practices law was strengthened. In 1995, all states and the Commonwealth formally adopted National Competition Policy "designed to enable and encourage competition".

The benefits are clear and they extend well beyond pubs and bottle shops. But have we forgotten something? Has competition become an end in itself, detached from its ultimate purpose?

Competition generally brings us two benefits – lower prices and wider choice.

Although the economics textbooks focus on price competition, firms generally seek to avoid head-on price competition; they try to differentiate their products so they can enjoy some small protection from competition.

In many markets differentiation is easy: a CD of Verdi's *Il Trovatore* hardly competes with a CD of Wagner's Lohengrin and there are enthusiasts who will pay dearly for recordings by particular orchestras or conductors, without being at all attracted to the many fine budget priced classical CDs on offer.

In some markets differentiation is difficult: beer is a case in point, although connoisseurs claim they can distinguish Swan from VB. And in some markets differentiation is impossible: it's many years since refinery companies tried to sell the virtues of their particular brands of petrol. When differentiation is impossible, all that's left is price.

What governments can forget, however, is that competition, in itself, is not always beneficial and that there may be other ways to bring those benefits.

To illustrate the first point – that competition in itself does not always bring the benefits we seek – we can consider the recent decision by the Australian Competition and Consumer Commission (ACCC) not to intervene in the proposed acquisition of Borders Australia by A&R Whitcoulis (the owners of Angus & Robertson.)

As most readers would appreciate, Borders and Angus & Robertson have very different business models. Angus & Robertson is more traditional, while Borders has introduced Australians to the US-style mega-bookstore, offering a huge range of books and other media, with long opening hours and an environment where people are inclined to linger.

It is clearly differentiated from both the general bookshops such as Angus & Robertson and from the small specialist bookshops.

The ACCC's consideration of the acquisition, however, focussed almost entirely on the question of whether there is sufficient price competition in the Australian book market. It concluded, not unreasonably, that there is a large degree of price competition in the market.

Is price our prime consideration when we go into a bookshop?

If we are looking for Annie Proulx's Wyoming Stories, do we switch our preference when we find Margaret Atwood's The Handmaid's Tale is 20 per cent cheaper?

Do we not get some enjoyment from wandering through aisles of offerings?

Are we not attracted to some writers and topics we had never considered before we walked into the bookshop?

Perhaps ACCC staff are too busy to browse in bookshops. Perhaps they are disciplined people who know just what they want and buy online from Amazon. Or, is it possible that their ways of thinking are too heavily conditioned by those abstract economic models of competition that deal only with its effects on price?

Those curves drawn in textbooks and on lecturers' whiteboards do not go into the subtleties of issues such as the difference between the works of Peter Carey and Elizabeth Jolley. (Lawyers and politicians, afraid of the television impression of empty bookshelves, are known to buy books by the metre, but surely ACCC staff are not so crass.)

To illustrate the second point – that competition is not the only way to bring benefits – we can consider our utilities, particularly water, gas and electricity.

These are sometimes known as "pipes and wires" industries, or in economists' terms, natural monopolies.

In these industries, governments have gone to great effort to bring us choice, but it's choice without variety. Whoever we buy our electricity from, it will be the same stuff – hopefully 240 volts 50 cycles.

This "choice" has come at a cost – competition is not without its costs. We have had to break up our old integrated monopolies.

Each utility company "selling" gas, electricity or water, has to compete for customers and that's costly.

They have to deal with suppliers and with monopoly owners of the infrastructure; previously these transactions had been “in house”. Because they are generally privatized, they have to pay commercial returns on their capital; previously they had access to cheaper public bonds.

Governments have to sustain costly regulatory and oversight mechanisms. And we, the customers, have to devote our precious shopping time to comparing utility prices.

In response to such criticism, governments point out that since we have had national competition policy, there have been substantial real price falls in our utilities, but this argument has something of a post hoc ergo propter hoc feel about it, and, more importantly, it ducks the question of whether competition was the only way to achieve the benefit of lower prices.

Few would dispute the notion that there were featherbedded employment practices, poor capital planning and other inefficiencies in the old public utilities, but why could not governments have addressed these problems directly, and saved us the burden of having to shop around for electricity or water, when we could be browsing in a bookshop, or trying different beers?