Competition Policy:
Bringing the Community Along

DAVID TREBECK

The public interest needs more defenders—particularly business defenders.

IF this had been written three to five years ago, its content would have been very different.

I would have noted that the tariff debate had been essentially 'won' during the 1980s, once manufacturers realized that the real issue confronting them was not cheap imports *per se* but, along with everyone else, a lack of international competitiveness. Tariffs are merely a one-sided response to the competitiveness problem which, at best, deliver selective benefits—but at the expense of exporters and consumers.

I would have welcomed the fact that the industrial relations debate had also been 'won' in the 1980s as more and more people recognized the futility of centralized wage-fixing and the inadequate regard it paid to productivity enhancement and incentives at the enterprise level. The allegedly extreme views of the H.R. Nicholls Society in the early 1980s—the members of which Bob Hawke once described as economic lunatics and troglodytes—had become mainstream and self-evident by the end of the decade.

I would have expressed appreciation of the growing liberalization of foreign investment regulation, which had come a long way since planes to Canberra were half-full of executives and their advisers, beating a path to the Foreign Investment Review Board, in the hope that it, and then the government, would smile on their commercial plans for the future. Xenophobia was in retreat.

I would have cheered at the prospect of an incoming Coalition government finally doing something about monopolistic practices on the waterfront, and so delivering a billion-dollar annual boost to national income and export-oriented investment.

I would have anticipated eagerly the forthcoming partial privatization of Telstra, which was not only being transformed from a sleepy and arrogant monopoly, but which also held the prospect of creating thousands of first-time shareholders who would participate in the future success of the business.

I would still have been rejoicing at the tearing down of the Berlin Wall, the demise of communism, and the emphatic victory of market economies over central planners. With the so-called 'peace dividend' allowing a major reduction in public expenditure, and countries everywhere embracing economic liberalization, how could the future be other than rosy?

> ***Why are economic reformers now so much on the back foot ... why have we, at times, opted out of the debate entirely?***

And I would have endorsed the essential conclusion of the Hilmer Report that the case for competition was so overwhelming that the onus of proof should be such that those seeking a non-competitive status quo had to prove that this was in the public interest.

THE REFORM RETREAT

What has gone wrong? Why are economic reformers now so much on the back foot, defending against propositions we once would have casually flicked to the boundary? Why have we, at times, opted out of the debate entirely or, worse, changed our views because the tide of public opinion seems to have shifted?

Providing a comprehensive answer to these questions is well beyond the scope of this short article, not to mention my capacity. But I have some explanations, criticisms and suggestions to offer.

There's an old rule which says: 'always back self-interest: at least you know it's trying'. I think we have, in contemporary competition policy debate, an exception which breaks that rule. Let me explain. Who are the principal beneficiaries of a more competitive economy? The business community and consumers would top my list.

In this country, we don't have nearly deeply enough ingrained a political ethos of deciding policy in the light of what is in the best interests of consumers. That may seem an odd statement, given the predilection of politicians to poll swinging voters in marginal electorates every five minutes. But I am thinking here about industry policy, competition policy, and so on. How much did consumers get a look in when the last automotive policy decisions were being made, or when deregulation of the dairy industry was under the microscope? Where were consumer interests when the pay TV digitalization and Air New Zealand decisions were made? We are a long way from New Zealand where there is an entire political party—ACT, standing for the 'Association of Consumers and Taxpayers'—dedicated to these interests.

As for consumer organizations, we know they test washing machines and criticize bank charges, but what about a cohesive, effective advocacy of the consumer interest in the public policy debate? Where, for example, is the cheering of low inflation figures or record low interest rates?

I don't want to criticize consumer groups too much, because I know that they don't have much money. Instead, I want to concentrate on the real villain … business itself.

My central proposition is that the business community has easily the biggest vested interest in achieving a more competitive economy and therefore should be ensuring, quite simply, that this occurs. Further, there can be no excuses on the grounds of financial stringency, especially as individual businesses shell out so much money for their various industry organizations (many of which, I hasten to add, are valued clients of mine).

In fact, when you think about it, we have an absolute motza of business organizations pursing their members' interests—perfectly legitimately—day in, day out. For the most part, these groups are in tune with the broader interest and are contributing to a more informed debate. But not always. And so, who is looking after the broader interest and the longer term interest when the special pleaders are at work?—whether they be the car makers, textile firms, newsagents, pork producers, citrus farmers, television proprietors, doctors, CD manufacturers … the list goes on.

Ideally, that's what governments are for but, if you are like me, you've grown increasingly sceptical of the capacity of governments to withstand skilful, well-funded and, at times, brutal campaigns from sectional interests, unless there is some countervailing influence being brought to bear in the public arena. Governments of all complexions have become notorious for putting their fingers to the prevailing short-term breeze before taking major decisions. So much so that, when the Howard Government did take a courageous tax package to the electorate, it was pilloried by self-styled political hard-heads for having a death wish.

When I worked for the farmers in the 1970s and early 1980s, and was an active participant in the tariff debate, many of my antagonist manufacturers were genuinely puzzled as to why one element of business—namely, the farmers—was being critical of another. Some found it somehow 'un-Australian', others were merely confused that the fellow 'chaps' should behave like this. They didn't know, as we did, that, during a drought, the worst enemy of a sheep is another sheep.

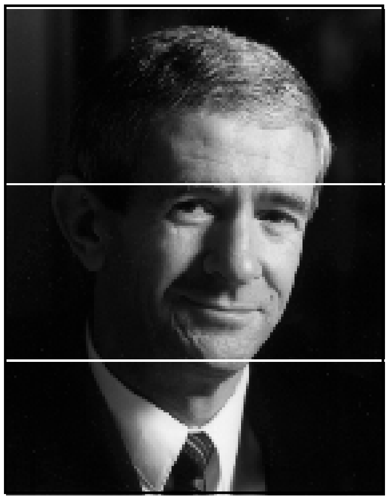
And, really, not much has changed since then. If this country does have a business organization with a national interest charter, it is the Business Council of Australia. When was the last time it issued an unambiguous statement on industry policy? Not in isolation or in general terms, but right when the government was having its arm twisted by a particularly influential business group and Cabinet was about to adjudicate on the matter?

BUT IN NEW ZEALAND …

Contrast the situation with that in New Zealand. There we have the New Zealand Business Roundtable, an organization which, in my experience, is unique. Not only does it have a clearly written charter to pursue the national interest and the longer term view, but it does so fearlessly and relentlessly. Over the past decade, many Australians have made the pilgrimage across the Tasman to see why New Zealand's policy-making performance has been superior to our own. Many simplistic conclusions have been drawn about the so-called New Zealand miracle which do not recognize the differences with Australia—for starters, it doesn't have a Senate … or State governments. Equally, now that the miracle is fading, a new round of self-serving and wrong explanations are appearing.

But what is special about New Zealand is the Business Roundtable. Who better to cite than its Executive Director, Roger Kerr? In a recent speech, after noting that public choice theory predicts organized groups of producers have strong vested interests to pursue narrow interests at the expense of broader groups—and that the former president of the Confederation of British Industry had called for a 'bare-knuckle fight' against Mrs Thatcher's market reforms—he offered three reasons for the change of heart in the New Zealand business community since Muldoonist times:

> First, from the early 1980s, a growing number of business leaders came to accept that the habits of the rent-seeking society had run the country into the ground. They did not like the results in the form of relative national decline and did not want to spend their lives struggling to grow their businesses in a stagnant, uncompetitive economy. They were prepared to take a long term view and back policies which had high short term costs for many businesses. They saw their long term self-interest as being in line with that of the broader community in promoting a growing, dynamic, economy.
>
> Secondly, business people came to understand that you can 'rent' a government privilege but you can never 'own' it—it can always be taken away. You have to spend a great deal of time and money maintaining your subsidy, tax concession or other handout. Most business people decided that their interests and those of their shareholders were best served by abandoning the old-style lobbying game and concentrating on running their businesses in a competitive environment.
>
> Thirdly, in the long run, privilege is unlikely to withstand public scrutiny. As Keynes put it, 'the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas'. Business and community interests are better served by attacking obstacles to better economic and social performance wherever they exist than by seeking advantage at the expense of the general public.'[1]



NZBR Executive Director
Roger Kerr

Modesty prevented Roger Kerr from acknowledging his own, remarkable, contribution to shaping the climate of New Zealand business opinion, his prodigious productivity, consistency and persistence, his refusal to be diverted by the abuse of critics—who, while they could throw stones, could never lay a glove on the arguments being advanced—and the unflinching support he received from two equally remarkable Chairmen—Fletcher Challenge's Ron Trotter and Lion Nathan's Douglas Myers. As one who has been privileged to conduct assignments for the NZBR over many years, and who reads every speech and submission the organization publishes, I can only say how lucky New Zealand is to have a national treasure like him, and how much we suffer because we don't.

IMPROVING THE DEBATE

I have often pondered why we have not been able to replicate the same climate of public debate in this country. Here are a few views.

First, and importantly, despite our economic ups and downs, we have never quite faced the abyss in the way New Zealand did at the end of the Muldoon era. New Zealand was a genuine basket case at that time: our lucky country has, by contrast, enabled us to carry some baggage and complacency which other countries couldn't afford.

Second, business organizations, individual companies and individual business leaders have become disappointingly timid following some well-publicized monstering by political leaders during the 1980s. I am sure I do not need to spell out the full story, but merely mention what happened to Hugh Morgan and Dick Warburton when they had the temerity to criticize the government of the day and note, conversely, that, on the occasion of at least one Federal budget, both the President of the Business Council and Chief Executive of one of Australia's largest companies tamely issued their press releases from the hallowed precincts of the Prime Minister's office.

Third, I am constantly surprised how few senior executives have a really good understanding of either the policy process or public policy principles. Far too many think running a government is, or should be, like running a business. It isn't and it never well be. As a result, business views are often easily dismissed by governments as irrelevant—which may help governments escape effective scrutiny—or they are implemented, often with disappointing results.

Fourth, while it is understandable that chief executives remain highly focused on their business fundamentals and the immediate imperatives driving company performance, it would be encouraging if major set-piece occasions, like annual reports and AGMs, were also used for more considered reflection on longer term and broader issues, rather than a few desultory paragraphs on the need for government to do better.

Fifth, in a related sense, there is still a surprising reticence among many business groups for the type of rigorous policy research that is the hallmark of the New Zealand Business Roundtable. There are, of course, exceptions to this—the current tax debates being an example—and I may be accused of having a vested interest since this is my company's stock-in-trade, but I would merely invite a comparison between the published output of the BCA or the ACCI and the range, volume and depth of material published by the NZBR.

In particular, and related to competition policy, there is simply not enough credible material readily at hand to demonstrate the successes achieved in the reforms which have occurred to date. When the emotional clap-trap is raised by the usual suspects against the latest proposal for reform, where is the solid evidence to rebut such nonsense? When ordinary citizens express understandable fears of the unknown, where are the reassurances based on past experience in other situations? What has been done to document, or publicize, the benefits of improved labour market flexibility? Or the benefits—still far from complete, mind you—of terminating the two airline agreement? Or waking up Telstra? Or trade liberalization? Or electricity reform?

We should do much more to remind people of their ready preparedness to change—despite their claimed fear of change—when positive opportunities, based on choice and technology, are presented: the mobile phone, computer, Internet or video; the increasing popularity of dining out or overseas travel associated with cheaper air fares; one-day cricket; liberalized shopping hours; plastic money and ATMs; and recipients' responses to changes in eligibility for government transfer programmes. Moreover, when people are voting with their feet on such matters, I don't observe too much concern being expressed for the victims—the displaced bank teller, the neglected street-corner grocery store owner, the stodgier test cricketer, redundant telex salesman or drive-in theatre operators.

Similarly, the next time someone condemns 'selling off the family silver' (aka privatization) ask them if they watched the recent TV documentary on the Granville rail disaster and, if they did, how comfortable that made them about public ownership of important infrastructure assets. Bert Kelly had a delightful response to people grizzling about rural unemployment: 'fixing that is easy: ban tractors and return to the horse and plough'. Messages don't have to be complex to be effective.

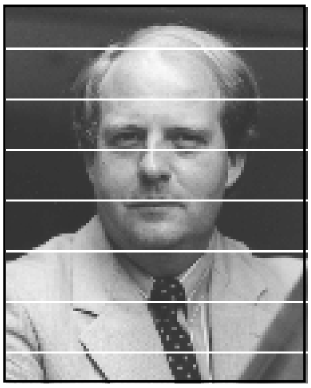
Who should be doing the research, or seeing that it is done? Who should be collecting and disseminating the anecdotes? The Government perhaps, in some areas; Tim Fischer for one has prepared some good material on the benefits of trade liberalization. But, overwhelmingly, the responsibility lies with business, with the principal business organizations playing a catalytic and co-ordinating role. If business wants to influence the climate of public opinion at the next election, there is no better time to start than now.

Meanwhile, there is an extensive agenda of issues waiting to be addressed: airport regulation (landing rights and air traffic control arrangements), telecom interconnect pricing, regulated cost-effective price caps for utilities, more effective use of port land and reducing barriers to entry in stevedoring, management of the broadcasting spectrum, the Wheat Board's monopoly and sugar pricing … to name just a few. As a consultant in the competition policy arena, I don't feel in imminent danger of redundancy.

Let me conclude by referring to a great contemporary enigma: the apparent divergence in community attitudes towards competition in the economy and competition in sport. Isn't it odd: the community spends Monday to Friday worrying about competition policy, and all weekend cheering itself hoarse in support of it. If we are seeking some new champions in support of competition policy—along with those few brave souls like Graeme Samuel, Allan Fels, Bill Scales and Alan Moran—perhaps they are to be found on the nation's sporting fields. Will business have the wit to sign them up?

NOTE

1 Roger Kerr (1998) 'The New Zealand Business Roundtable's View of Lobbying', IIR 8th Annual Public Affairs and Lobbying summit, Wellington, 18 March 1998.



David Trebeck is Managing Director of ACIL Consulting.

IPA