Submission to the Productivity Commission

National Competition Policy Review — Licensing and Standards

From:
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Competition belongs where its excesses do not imperil the system.

Introduction — A Citizen's Lens

I write not from a lobby or sectoral interest, but as a small business owner and citizen in regional Western Australia. From this vantage point, productivity and competition are not abstract debates; they shape the lived experience of households, small firms, and communities. The way licensing and standards are designed has a direct bearing on whether systems feel fair, functional, and trustworthy.

At its best, competition can drive productivity — sparking ingenuity, variety, and efficiency. But it is not a universal good. Licensing and standards are the levers by which competition is channelled, and the real task is to decide where boundaries must be drawn: where rivalry strengthens productivity, and where stewardship is needed to prevent excess from eroding stability.

Where Competition Belongs — Wants

In discretionary markets, competition is a genuine driver of productivity. Airlines, tourism, retail, professional training, software, hospitality, and entertainment show how rivalry can lower costs, expand choice, and accelerate innovation when licensing lowers barriers while upholding safety. Here, diversity is strength, and rivalry can flourish without threatening the system's base.

Where Competition Undermines — Needs

In essential domains, competition often erodes productivity. Housing, electricity, water, health, payments, and communications show how misaligned licensing and standards can allow speculation, consolidation, and rising costs without new value being created.

In some areas, the line between needs and wants has blurred. Insurance and health systems began as safeguards against real risks — hospitalisation, disability, accidents — but have stretched to cover discretionary categories: naturopathy, massage, cosmetic extras, even minor vehicle scratches. These "value-adds" compete for the same pools of funding that should secure essentials. The pie does not grow; it is sliced thinner. What looks like diversity is often dilution, leaving the safety net weakened. And when crisis strikes, these systems turn to the public purse for rescue — embedding fragility rather than building productivity.

The banking sector illustrates this at scale. Its “too big to fail” status secures shareholder value more than reliable service or fair standards. Public guarantees backstop private risk, while households and small firms shoulder fees, complexity, and mis-selling. What is presented as competitive dynamism can in practice undermine the productivity of the broader system.

These are not enforcement failures, but design failures. Licensing and standards shaped rivalry where stewardship was required. The absence of clear boundaries between needs and wants has allowed essentials to be siphoned into speculative markets, with productivity gains promised but public trust diminished.

Industrial Capability and Competition

True competition depends on the capacity to make. Australia’s industrial base has shrunk from employing one in four workers in the 1960s to less than one in sixteen today (ABS, Labour Force, Australia). Manufacturing’s share of GDP has fallen from roughly 30% in the post-war decades to around 5–6% today (ABS, National Accounts). The last domestic automotive plants closed in 2017, marking the end of a century of car making.

This is not just nostalgia — it is a shift with direct consequences for productivity, wages, and skills. Manufacturing jobs once provided secure, mid-skill employment with strong multiplier effects across the economy. Deloitte estimated in 2014 that every $1 of manufacturing output generated $1.74 elsewhere in the economy (Deloitte Access Economics, The Economic Contribution of Manufacturing in Australia). The loss of this anchor has hollowed out entire ladders of opportunity.

The result is visible in the labour share of income, which has fallen from around 60% in the 1970s to about 53% today (ABS, National Accounts). Secure industrial wages have given way to casualised service roles, and the benefits of productivity gains are increasingly captured as capital income, not shared with workers. The “pie” may look larger in GDP terms, but it is sliced thinner, with fewer broad gains for households.

The Risk of Short-Termism

Urgency may fix symptoms, but rarely builds productivity. Patching leaky systems with public funds accelerates waste rather than addressing flaws in design. If reforms settle for incrementalism, we risk exhausting public patience and imagination for another generation.

The Commission’s computable general equilibrium (CGE) modelling shows potential gains from licensing and standards harmonisation (PC, National Competition Policy analysis 2025, Interim Report). But models assume linear gains without always accounting for human counterweights. Labour mobility, for example, may look efficient on paper, yet in reality collides with housing shortages, family obligations, and the precarious nature of many roles. The projected gains can be overstated or offset by displacements in wellbeing, trust, or stability. Productivity is not simply what equations measure — it is also what people are willing and able to sustain.

Finding the Right Balance

Productivity flourishes in balance. Essentials require consistent, nationally aligned standards that give citizens confidence in safety and stability, while discretionary markets thrive on diversity and low barriers. Licensing should reflect this difference.

Too often, scrutiny falls on non-essentials while the foundational productivity of stable, needs-based systems is assumed. In a nation as vast and resource-constrained as ours, productivity depends on rules that safeguard essentials so that distance, scarcity, or fragmentation do not compromise them.

A New Frontier — Artificial Intelligence

AI is drifting from a "want" into a "need." It will underpin health, education, payments, communications, and governance. Treated as a commodity, it risks capture and concentration. Treated as infrastructure, it could embed safeguards that strengthen productivity for decades. How we license and classify AI now will determine whether it builds resilience or amplifies fragility.

Enterprise and the Role of the Umpire

Enterprise is vital, but productivity depends on clear rules. Privatisation of essentials has often grown the pie for some while shrinking trust for all. A game without an umpire may be fast and exciting, but it unravels quickly.

Licensing and standards are that umpire: protecting the essentials, while giving enterprise wide room to compete at the edges. In this way, innovation can thrive without compromising the stability that true productivity requires.

Recommendations

1. Distinguish between wants and needs.
Licensing and standards should make this boundary explicit. Essentials require stewardship, while discretionary markets benefit from rivalry and diversity.

2. Apply public-interest obligations to essentials.
Energy, water, housing, health, payments, and core communications must be governed by consistent standards that protect stability before profit.

3. Retain sovereign authority over critical systems.
Licensing in areas such as energy, payments, data, and AI should remain under national control to safeguard resilience and avoid capture by offshore intermediaries.

4. Calibrate licensing to scale and structure.
Micro and small enterprises should not carry the same compliance load as large corporations. Obligations should be proportionate to size and structure: sole traders and partnerships already face personal liability, while incorporated entities enjoy limited liability and can bear greater compliance requirements.

Conclusion — A Public Good Legacy

Productivity is not lucky or incidental. It is designed into the systems we build, visible in what we choose to measure and value. If National Competition Policy can distinguish clearly between wants and needs, steward essentials, and allow competition to flourish where it belongs, it will not only sharpen markets — it will leave behind a legacy of stability and productivity that serves the public good.