

A fortnight ago the bells of the Churches in Australia rang out, at the request of Government, to commemorate the 100th anniversary of the declaration of the First World War. In the neighbourhood where I live, the Clergyman read out the names of all those local boys who died in that war, their names, their age, their rank, and their occupation.

As I listened to those names, I could not help but think of how young they were. They were all volunteers, but they had such little idea what they joining up for. And their occupations? Well everything-farmer, brick maker, labourer....Do you know, in my community, the most common occupation of those who fell in the Great War? It was “Grocer”. Afterwards my daughter asked me what a grocer did.

I was born around 40 years after those first Australians went ashore at Anzac Cove. I can just remember our local grocer. As a very young child I would go with my mother to his local Store. The Grocer wore a White Apron and stood behind a Counter with these huge containers on huge shelves behind him. My mother would order a pound of flour, or half a pound of sugar, and he would measure it out, wrap it up and sell it to her. If I was very good, he would reach inside a big glass Container and give me a lolly – a humbug.

I Loved that Grocer. He knew my name. If my mother didn't have the money with her he would sell on credit. My mother didn't have a car. The Grocer's boy would bicycle deliveries around to our house. I think a lot of those boys who died at Gallipoli and on the Western front would have been grocer's delivery boys.

Then, one day in the early 1960s, a Supermarket came to the end of our Street. It was a very modern looking building. In the Supermarket you had to serve yourself. That meant my mother didn't have to wait while the Grocer served

Mrs James, and Mrs Jones before he could attend to her order. Everything was pre-packaged. It meant there was less personal service. But it made things quicker and cheaper. In due course my mother got a car so she could drive home from the Supermarket with all her groceries. We didn't need the Grocer's boy any more.

Eventually that Grocer closed his shop. Today, I think it is a Pizza shop. I guess the Grocer went out of business or went to something else. I never heard anyone say the Government should pass a law to keep him in business. This was the 1960s. It was the era of progress.

Those of you familiar with Classical economics will recognize the invisible hand at work here. A market is a place where a willing buyer meets a willing seller. My mother valued the flour and the sugar and the service of the Grocer. But come the 1960s she was willing to put a higher value on convenience and price. Consumer preferences were changing. The supermarket was a response to those changes. Its business boomed. Customers, through their buying decisions, rewarded the owners and investors who anticipated and responded to the change.

Technology was also changing retailing. In this case it was the car. Consumers with mechanical transport were able to travel longer distances and cart larger volumes. This meant that the supermarket could draw its customers from a far wider area and utilize economies of scale. Later the availability of cars would lead to the Mall. Some technologies not only re-shape their own industries, they reshape others as well.

Long before the 1960s the car had begun to reshape urban and rural geography. Towns originally sprang up along transport routes that were a day's ride apart. Each had a farrier and blacksmith and oat merchant to service and refresh the horse for the next stage of the journey. These towns began to go into decline

once the car made it possible to travel first 50, then 100, now 200 miles in a day. The car began the decline of the strip shopping centre as well.

Many of you who are of my age will not be surprised if I tell you I think the American movie Star Meg Ryan is a bit of a dish. I've watched all her movies - Sleepless in Seattle, When Harry met Sally-"I'll have what she's having". One of the movies that I've always liked was called- "You've Got Mail". It's the first movie I ever saw where people communicated by email. Long before I ever did.

Unbeknown to Meg, the person she is talking to via email is Tom Hanks, a greedy sort of guy whose family owns a mega Bookstore Empire that is threatening to put her little shop: "The Shop Around the Corner", out of business. She is the individual owner and proprietor. He is the greedy Corporate Titan. As you would expect in retailing, evil wins.

I've thought it might be time for a sequel, a kind of "You've Got Mail II". But, of course, to show we are up with the times we will call this sequel: "You've been Facebooked." In "You've Been Facebooked" the evil Mega bookstore owned by Tom Hanks is now threatened itself. It risks going out of business because a book publisher and distributor is selling on-line and delivering directly to homes. People do not have to go into bookstores any more. The bookstore is declining as a retail business. What shall we call this mighty on-line behemoth? Let's name it after a mighty unstoppable river. Let's call it "Nile.com". The evil Tom Hanks wants a law to prevent a corporation engaging in conduct that is likely to have "the effect" of substantially lessening competition in the bookselling market. He's not going to let anyone do to him what he did to Meg.

Our film can follow the twists and turns of Politicians as Tom attempts to lobby and preserve his business with the introduction of an "Effects test" to the Competition statute.

What has made it possible for this Corporation- Nile.com- to adopt this business model? It is the Internet. It is re-shaping retailing just as it is re-shaping media.

Now we could make our movie-You've Been Facebooked-at one of the big Hollywood Studios. But it will be faster to make it through HBO. That way we can put it on the "Showcase" pay-channel. That way people can stream it. My wife likes to watch Internet TV at home. My kids can watch it on their Tablets. I'm always in Airports so I will watch it on my I-Phone.

One of my day jobs is to be a Director of a Free to Air TV network. My point here is that the internet is not just revolutionising the retailing of goods. It is revolutionising the retailing of entertainment.

What should we do in the face of this? Well, of course many retailers are harnessing the Internet to promote themselves and their products. I get emails- yes I've got mail- all the time telling me what specials are on at the local supermarket. I am on these address lists because I used to get great shopper docket discounts at Petrol stations. Somebody has now made those illegal. I am not happy.

In the light of these competitive challenges, some manufacturers are moving down the production and distribution chain to open their own retail stores such as Apple. Some retailers are removing back up through the distribution chain to get their own branded products to sell. The retail industry is changing, adapting, re-inventing itself as it always has. Those retailers that are adapting the best will do the best. They will attract investment dollars.

This process is called innovation. Innovation by definition means a break from the established order. The Austrian Economist Joseph Schumpeter called it The Creative destruction of Capitalism:-

"The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U. S. Steel illustrate the same process of industrial mutation-if I may use that biological

term-that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.”

“The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates.”

“Old and less efficient forms of production are replaced by better ones, old and less efficient forms of retailing are supplanted by better ones, investment flows into those businesses that give better returns, productivity improves.

Productivity can simultaneously deliver lower prices for consumers and better returns for shareholders”. That’s a quote from the Australian Peter Costello.

For 12 years I administered competition law in this country. Before that I was Shadow Treasurer and Shadow Attorney General with responsibility for the Trade Practices Act. For 20 years I have been hearing demands for inquiries, and changes, to legal controls on anti-competitive conduct. As Treasurer I would stand in our Party room every Tuesday morning and field complaints on every economic matter imaginable. I cannot tell you how often people complained about unfair competition. And I want to tell you in every case the complaint was that unfair competition had led to prices going down. In every case they were demanding the Government do something-not to bring prices down but to push them up in the interests of local business!

Now some were quite honest about it. Some MPs from rural areas take the view that agricultural prices should go up to lift producers incomes- consumers should pay more so producers are paid more. In Australia we used to operate schemes with this object until quite recently- schemes like the Dairy Industry support scheme.

Others are less honest about their intentions. They do not want to let on that their proposal is to make consumers pay more so they argue that it is a timing issue-if prices creep up in the short-term that is only to preserve competition which will bring them down in the long-term. Of course these proponents have no real interest in whether they do come down again. It would not worry them if that never happened. What they are concerned about is the short term and that, coincidentally, is where they want price-cutting to be ended.

As you are aware there is an Inquiry going on at the moment into Competition Policy. It is chaired by Professor Ian Harper. It will report by March of next year. The Panel was keen to meet with me as part of its deliberations. My advice was that before they decide anything, before they write anything, they should first settle the most basic question. Who does competition policy exist for? Is it for the benefit of the competitors, producers, consumers, or somebody else? In my view competition is not an end in itself. It is a means to an end. The end is to benefit the Consumer. If we set competition policy with the aim of producing benefits for consumer-the most obvious of which is lower prices-then the Review will not go too far wrong.

The so-called “effects test” is designed to protect competitors, in particular less efficient ones rather than consumers. That is why it has never previously been adopted despite heavy political lobbying by interested players. Since we are going down this path for the nth time, let us hope it will be the last. There was a feisty piece published in Opposition to a so-called effects test in the Financial Review last Tuesday. It was written by former ACCC chairman Graeme Samuel. I completely agree with the views he published.

It is not the job of the Government to try and write laws that will keep some forms of business viable and shielded from competition. The way a community increases its collective wealth is by adopting ever more efficient methods of production, distribution, retail, and consumption. Savings and investment are

naturally drawn to those businesses that are more efficient. Consumers are drawn to better product, more variety, and better prices.

Innovation disrupts the established order. Sidney Myer disrupted retailing with his Emporium. The Supermarket did it 30 years later. This is creative destruction. Some occupations will disappear- blacksmiths, farriers, grocers, but overall the community improves its standard of living. The Government will have a role in helping people who are thrown out of work to develop new skills and supporting them where they cannot decently support themselves. But a Government that tries to stop change, or stop efficiency, is a Government that is stopping the prosperity of its people. Trying to stop innovation, trying to close an economy is the road that ultimately leads to Pyongyang in North Korea.

So what should a Government do?

1. Keep a society open to innovation. Innovation is the process by which we take leaps and advances. Not all will be positive. Not all will survive. Consumers and investors will decide which do and which don't. It is not the Government's business to decide which business flourishes.
2. Treat demands for Government intervention with a healthy dose of scepticism. The fact that a business has turned to the Government to help it probably means it is not much of a competitor
3. If there is a pressing need for regulation make the rules clear and resist the temptation to constantly change them. Business should be worrying about their customers rather than the uncertainty of what the Government is doing.
4. Help Australian businesses compete with the world on equal terms. And when foreign companies are competing in our markets ensure they do so on equal terms. We have no obligation to exempt foreign businesses from laws that Australian companies have to comply with.

5. If you want product markets to be productive and flexible, help business by allowing labour markets to be productive and flexible.
6. Remember that consumer confidence is a delicate thing that can easily be undermined by poor decisions, poor communication of decisions, and poor execution of decisions. In politics it is not enough to have pure intentions. Outcomes of decisions and their effect on others is what matters.
7. Run a good economic policy

I could go on to expand my list into Ten Commandments but I will stop there at the 7th commandment. Those who keep the 7th commandment should get a bonus anyway.

I will leave it there except to say one thing. This is an industry that touches the lives of every Australian. Most of us have worked in it at some time, or our children have. It is constantly inventing and re-inventing itself. It has had more makeovers than Madonna and I am sure there are many more to come.

In my experience retailing in this country is highly competitive. That's lucky for us because it is such a big part of our economy. The overwhelming proportion of Australia's economy is the production of goods and services which we sell to and consume ourselves.

I can't tell you what Retailing will look like in 20years time but I am confident it will be here and profitable for those who have wisely invested and listened to their customers. As long as there are customers there will always be Retailers.