When we see excessive spikes in fuel prices, rapid annual increases in health insurance premiums, and a confusing array of electricity options to choose from, it is easy to conclude that big companies are using their market power to gouge their customers.

But the latest report from the Grattan Institute finds claims about Australia being dominated by oligopolies are overblown. Only about 15% of the economy is dominated by large firms.

In the "natural monopolies", such as electricity distribution, a single firm typically serves the market. And where the largest firms enjoy strong scale advantages, such as in mobile telecoms, just a handful of options are available to consumers.

Then there are sectors where competition is constrained by regulation, such as banking and pharmacies. In such sectors, the largest four firms earn more than two-thirds of revenue, on average.

Read more: Should monopoly businesses have an obligation to create competition?

Australians have long been concerned about oligopoly power. But in the largest sectors with barriers to entry, markets are not much more concentrated in Australia than they are in other economies of a similar size. Supermarkets in Australia are the exception to this rule.

While the United States is less concentrated at a national level, much of this is explained by its larger population. In Florida, for example, a state with a population of 21 million, its sectors are typically just as concentrated as Australia's, if not more so.

The report also finds no clear trend toward higher concentration in Australia, unlike the case in the US. The revenue of the top 100 Australian listed firms relative to GDP has changed little since the early 1990s.

While the market share of Australia's big four banks increased through mergers and acquisitions, Coles' and Woolworths' dominance appears to be in decline with the rise of Aldi and Costco.

Whether high concentration in Australia is a problem depends on its impact on consumers. Our report finds that sectors with high barriers to entry are about 20% more profitable than sectors with no significant barriers, although there is plenty of variation.

The most profitable sectors include supermarkets, telecommunications (wireless and fixed-line), internet publishing, electricity distribution and transmission, airports and gambling. The banks' profitability has fallen since the global financial crisis, while their cost of equity has risen due to increased risk.

In some regulated sectors, consumers could clearly do better. Banking regulations push up costs and can weigh heavily on smaller firms as well as on consumers. In the pharmacy sector, competition is directly restricted.

In natural monopoly sectors, where super-profits account for 10% of what consumers pay, on average, it's also difficult to conclude that consumers benefit.

But less concentrated markets may not make consumers better off. Many profitable big firms must have lower costs than smaller ones; otherwise they would lose market share.

For example, average prices at Coles and Woolworths are lower than IGA , even while profits are higher: it seems that some of the large chains' scale economies are passed on to consumers. Regulation that limits the size of the largest firms might reduce profits, but could push costs and prices up.

What can policymakers do to get better outcomes for consumers? In the natural monopolies, regulators need to get tougher. For example, they could start regulating prices at airports, rather than just monitoring them.

Across the economy, regulators should continue to focus on protecting competition and preventing the misuse of market power. Government should increase the penalties for cartels and other concerted practices.

Governments could help cut entry barriers, for example by harmonising product standards to reduce trade costs, or freeing up zoning to make it easy for competing supermarkets to expand. And they should make it easier for consumers to switch between providers and control their own data in sectors like banking and even social networks.

There is also much that can be done where retail competition is not working well, such as in superannuation and in retail electricity.

But overall, Australia's oligopoly problem is a lot smaller than many believe. It's also not getting worse; our competition policy and regulation is broadly working well.

Grattan Institute began with contributions to its endowment of $15 million from each of the Federal and Victorian Governments. Corporate affiliates, disclosed on our website, also make contributions. In order to safeguard its independence, Grattan Institute's board controls this endowment. The funds are invested and Grattan uses the income to pursue its activities. Jim Minifie does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond his academic appointment.

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