Last Thursday eve[illegible]

BOMA2 HOW DID WE GET IN THIS MESS? John Hyde

Eight years ago, when the Australian dollar was about 140 cents US, Professor Wolfgang Kasper of the Defence Forces Acadamy wrote, "...to rely on mass immigration and protection is no longer viable." Professor Dick Blandy of Flinders University, David Trebeck, then director of the Woolgrowers and Graziers Council, the IAC, politician/columnist Bert Kelly and some others were warning us that by running away from competition we were losing our ability to compete. We were so besotted with the resources boom that we did not listen.

We blocked imports so foreigners could not obtain Australian dollars to buy our exports. Far from being a great trading nation, Australia was trading a small proportion of its production.

We believed the contradiction that transport and public utilities were natural monopolies which must be protected from competition. Thus we saddled all our industries with high air, land and sea transport costs, expensive electricity, telephone and postage.

In defiance of known principles of micro economics and natural justice, we encouraged the labour market to be the preserve of monopolist unions, monopolist employer councils and an Arbitration Commission which has demonstrated that it is not worried about either efficiency or justice.

The trend of some indicators of economic performance also portended trouble. Living standards had been slipping behind other countries for a long time -- from the wealthiest nation in the world at the turn of the century we had slipped to the lower half of OECD tables. Our inflation was high and when other nation's inflation came down in the eighties ours did not. Budget deficits were adding to public debt. Labour costs were moving ahead of prices and corporate profits. Annual investment in capital equipment was low and would have been falling if it had not been for foreign capital and the beginnings of a foreign debt problem. The debt problem was exacerbated by the Foreign Investment Review Board which insisted that foreign capital come in the form of debt rather than equity. Too much of the available investment was going to housing.

With hindsight it is easy to wonder how we could have been so foolish. Political failures lie beneath the economic failures.

Government is compulsion and politics is about privilege. They are about oiling squeaking wheels with other people's grease.

An example of privilege is the tariff raised on imported textiles. It is paid for in the first place by buyers of clothing, napkins, curtains etc. Another is a minimum award wage; the immediate losers are the unemployed and consumers. Another is the power to indulge in wasteful work or investment practices without bearing the cost oneself. The two airline agreement confers such privileges.

The English Tudors and early Stuarts, and the French Bourbons bought friends and collected revenue by granting monopolies and privileges which had extremely deleterious effects on their economies. The Marxist, Christopher Hill, in "The Century of the Revolution" wrote: "It is difficult for us to picture ... the life of a man living in a house built with monopoly bricks, with windows (if any) of monopoly glass; heated by monopoly coal ... burning in a grate made of monopoly iron ... He slept on monopoly feathers, did his hair with monopoly brushes and monopoly combs. He washed himself with monopoly soap, his clothes in monopoly starch ... His clothes were held up by monopoly belts, monopoly buttons, monopoly pins. They were dyed with monopoly dyes. He ate monopoly butter, monopoly currants, monopoly red herrings ... monopoly salt, monopoly pepper, monopoly vinegar. etc"

We should be able to imagine it: ours too is a grace and favour society. It makes little difference that the monopolies and privileges are ordained by democratic governments. We know about the life of a man living in a housing commission flat, burning monopoly electricity, in a heavily protected stove, burning monopoly gas in licensed heater - protected itself and made of protected steel. He sleeps between sheets, the price of which are doubled by protection, wears protected underclothes and shoes. His baby is swaddled in protected toweling. He eats monopoly butter, drinks monopoly milk, travels in a monopoly bus, a licensed taxi or a monopoly train. If he should go interstate he travels on a monopoly airline. Worst of all, to work he must join a monopoly union accepting a monopoly minimum wage, monopoly conditions and monopoly work practices or be unemployed.

I wonder why Hill did not mention that his 17th Century worker faced a similar problem from the monopoly guilds.

Producers who should be clawing and struggling to make the things society most wants as cheaply as possible are by edict enabled to produce goods and services that are less wanted or higher priced than they would be if the government were not to come between buyer and seller.

Protection from competition is the lotus blossom which causes sturdy entrepreneurs to lend their hearts and spirits to the influence of a mild-minded melancholy and makes customers a bother. When old ways are protected from new ways, owners, managers and workers will not attempt new products, they do not try out new ways of making old products, they do not give extra effort. Why run risks, inconvenience oneself, disturb the narcotic somnolence?

Economists measure the cost of using given resources in the wrong places -- these are allocative inefficiencies. They cannot measure the value of the things no-one has thought of, nor of working harder. They call the gains they cannot measure 'x' efficiencies and, less formally, 'animal spirits'. Economies where animal spirits are suppressed stagnate.

The American economist Mancur Olsen showed that the economies of societies which had suffered no upheaval for two or three generations ran down: examples are Britain, Canada, Australia, New Zealand and the North Eastern United States. Societies which had been overturned invariably went through a period of high economic growth: examples are Japan, West Germany and that portion of the US which lost the civil war or was recently pioneered.

He explained this in terms of the ability of vested interests in old economies to build up monopoly or quasi-monopoly privileges.

Two other Americans, Gordon Tulloch and James Buchanon, explained why politicians grant privileges they know full well are not in the national interest. Tulloch and Buchanon assume, not unreasonably, that politicians are no more saintly than the rest of us. Most politicians will therefore look after themselves most of the time and re-election may have a higher priority than other goals.

Voters defend privileges. They lobby for tax loopholes but not for lower taxes or other widely dispersed benefits. There has never been a campaign for lower taxes one half so vehement as that against the payment of any tax at all on gold mining. Vested interests are rarely concerned by logic, many defenders of the gold exemption claim to want flat tax. BHP demands a steel plan and tariffs on cold rolled steel even though it knows that community losses far exceed its gains because even the Big Australian bears only a small portion of the community's loss.

Governments get elected by selling privileges for votes. (The Tudors et. al sold them for arms and cash.) General considerations such as lower taxes, lower inflation or defense receive a low priority.

Grace and favor government and the associated slide to Banana Republicanism can be overcome only by a strongly held public view that it is improper -- as indeed it is.