

The Perils of Regulation

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For the time being, Mr Keating, Senator Walsh and the other privatisers in the Federal Cabinet seem to have done their dash. They have run up against a formidable combination of socialist ideological preference and self-interest. The Labor Party conference willing, deregulation is still on the agenda. But deregulators, such as Mr Kerin, are also running up against ideology and self-interest.

What moves caucus is a mystery best left to the initiated. Nevertheless, I know this much: many Labor MPs want to improve the material welfare of the least well-off. In the intimacy of bars and aeroplanes they confide that they became socialists out of a concern for the under-privileged. These socialists should be open to persuasion in terms of the welfare of poor people, but many of them are not.

Although they claim that their socialism is based on concern for the needy, their vision about means to secure this end is impaired by the grand socialist design. The socialist faithful are thus almost immune to evidence that socialism has failed to deliver more material welfare to the poor than its alternatives. They know with a blind certainty that their socialism is sound; therefore its visible failures must have other causes. Before they can accept deregulation and privatisation these people must become apostates. Caucus members need to be shown why Australia cannot be made into an exception to the general rule that where market competition is absent, living standards rise only slowly, and the few enrich themselves at the expense of the many.

They must understand that it is not sufficient to point out that markets sometimes fail and sometimes produce "undesirable" outcomes. They must compare the limits of the market with the limits of government. Central planners must work out how to allocate all the known resources---capital, labour, and know-how---to all the known users. To properly allocate the resources associated with a single activity, such as telecommunications, would require a data base of unheard of size (with ID cards and forms to match). It must show who wants what, where, when, how much and in preference to what. Since they cannot obtain such knowledge, the bureaucrats who control state owned monopolies and regulated industries

standardise services and prices---try getting a once-off service from Telecom.

In theory, superhuman bureaucrats might mimic a perfect equilibrium market which would allocate all known resources so as to maximise community welfare. Since markets are not perfect, if they could acquire the necessary data, they might in theory even do better than markets. For instance, through a series of trials they might work out the "right" postage rates for letters from Darwin, Perth and Bullamakanka. They might even learn to pay the postman at Bullamakanka extra during a month of high labour demand. And pigs might fly!

Of course, the bureaucrats in Canberra, Melbourne and elsewhere do not even try to understand such things. Prices are set to satisfy political criteria, disguising subsidies, which, if paid in cash, would raise Merry Hell. It is no secret that government-owned instrumentalities featherbed their employees and people who have political pull.

Even if we could allow our socialist planner a team of super bureaucrats and ensure the absence of skulduggery; even if he could mimic an equilibrium market; he would still have an insurmountable problem: he cannot mimic entrepreneurs.

A common left wing criticism of markets is that markets do not, in fact, approximate perfect equilibrium---not for long anyway. In this the left is correct. Markets are indeed unstable, and are made that way by entrepreneurs with new ideas. By offering big rewards (pure profits) to the people who destabilise them, markets are discovery mechanisms. To do the work of markets, socialist mandarins must not only know all that is known, but they must offer a mechanism for discovery.

Sometimes planners import old ideas, such as technology parks, from the free economies, or the free sections of their own economies, and they offer these in lieu of innovation. But they seldom produce new ideas themselves. They are also slow to adopt other people's technology, only using it well after the pure profits have been extracted.

New products and methods come from competition among money-grubbing entrepreneurs driven by fleeting opportunities to make big profits. When others copy them the market comes back into equilibrium and the pure profits disappear.

Moreover, it is in the nature of "good" ideas that most turn out to be not so good in practice. Without rivalry between new and old ideas we will never know which ideas are good. Without freedom to enter the market place, competition between ideas is impossible, and the economy, or that portion of it which is not allowed competition, must stagnate. The stagnant, uncompetitive parts of the economy then become added burdens on the remainder.

Wealth is created when competition causes new, and previously unnoticed, opportunities to be grasped. Yet, in

Australia, opportunities are unlikely to be noticed in communications, transport, education and health because these sectors are dominated by the public sector. It is these areas which some members of caucus will not allow their colleagues to privatise or deregulate.

Economic stagnation prevents the politician who wants to help the poor from realising his objective. If the economy is not growing faster than the population, then to help the old, the sick and the unemployed he must reduce the living standards of employed workers---and the ACTU doesn't like that at all. By contrast, if average living standards are rising he can divert bigger shares of the new wealth to the under-privileged. If he cares about relative wealth, he can also reduce the gap between rich and poor. It is no coincidence that only the market economies lack a substantial underclass living in grinding poverty. And only the market economies offer social mobility.

Socialists must decide between their abhorrence of markets and helping the under-privileged. Around the world, Labor Parties are increasingly deciding in favour of the poor. It is time the backwoodsmen and zealots in the ALP joined their own front bench in the 1980s.

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