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The Politics of Deregulation

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The last decade has seen some remarkable changes in politics. Prior to the 80s, a century of slowly increasing regulation and taxation enlarged the public domain at the expense of the private, but in past few years that trend has slowed and in some places reversed.

This has happened because fundamental ideas changed: just when belief in a regulated, and therefore hierarchical society, seemed paramount, words such as "competition", "deregulation" and "privatisation" re-entered political discourse. The status of the politicians, bureaucrats, heads of statutory monopolies and union bosses, which had seemed unassailable, is being challenged in terms of individual liberties and responsibilities.

Ten years ago most people thought that handouts, once granted, could not be taken away, but now reforming governments are selectively reducing some welfare payments. The public is becoming increasingly offended by the privileges of such diverse groups as unions, WA Inc., Queensland's white shoe brigade and uncompetitive industries.

Politics may be partly explained in terms of public choice theory, where small groups of voters trade votes (or funds) to secure laws, such as tariffs, licences which restrict competition, subsidies and tax breaks. In public choice theory the winners are few in number and are concentrated, whereas the losers are many, dispersed and without influence.

Take the semi-hypothetical case of a tax exemption: it costs the revenues, say, $150 million, and each of 10 million taxpayers $15. The principle benefits go to 12,000 people, concentrated in three marginal seats, each of whom gains $10,000 per year. (Other people save smaller amounts, but these barely enter the calculation.)

Naturally, the tax-favoured industry (it might be gold) attracts resources from disfavoured industries (they might be the overtaxed coal and oil industries). For the sake of argument, say this misallocation of scarce resources costs the whole community another $150 million. Even if he identifies the dead weight cost, the average taxpayer is only $30 worse off. $30 will not cover the cost of the organisation and information necessary to bribe a politician with votes or money; whereas $10,000 certainly will.

The Australian economy is cursed with thousands of similar costly economic privileges. In nine years in parliament I don't think I was lobbied for lower taxes once, but many times I was lobbied for tax breaks, licences, tariffs and other concentrated benefits.

To understand more, we must ask why the Hawke Government could remove some tax anomalies but could not tax gold or housing, why it could deregulate the financial markets but not telecommunications, why it could deregulate stockbrokers but not trade unions, and so on. We also need to explain why it deregulated what it did---the concentrated vested interests, which cowed previous administrations, were still there.

One possible explanation could be the growth of countervailing interests. Competition from outside the regulatory framework can cause a regulated industry to want to leave its cocoon before other semi-related species devour all the best cabbages. The Australian trading banks, prior to deregulation, were losing business to merchant banks and building societies, so they did not actively oppose deregulation. However, so far as I can see, a countervailing interest is not the cause of rural deregulation, tariff reduction, the promised airline deregulation, oil pricing or tertiary fees. It might, however, account for the introduction of the two-tier wages system.

Thus, it seems public choice theory is better at explaining the deregulators' failures than their successes. In practice, ideas, as well as interests, count. In the 1980s the ideas changed, or were changed, but, plainly, the ideas could not prevail over some interests.

Three conditions seem necessary for deregulation. First, a convergence of elite opinion: the experience so far is that economists, political scientists, lawyers and the moderately disinterested civil servants in Treasury and the other non-administrative departments need to broadly agree. Further, it is almost impossible to overcome the vested interests unless both major political parties agree. For instance, while it was possible to deregulate banking and introduce tertiary fees, the Liberals prevented telephone time-charging. The Hawke government has been able to do as much as it has (little though it is by New Zealand or United Kingdom standards) because the Opposition has not opposed it. The National Party might yet torpedo rural marketing reform.

Second, an issue must be ripe. Before it became possible to scrap the two airline agreement, five to six years of public campaigning were needed. The Campbell Report was needed to deregulate the financial markets. Experienced politicians do not idly speak of becoming a Banana Republic and of being on the Argentina road: Mr Keating and Senator Walsh were consciously building up a concern about the budget and foreign account deficits that would allow them to take action that some interests would oppose.

We must ask why NZ and UK have done better than we have. Although both have been blest with leadership, surely those leaders have been assisted by a sense of crisis---a belief that things could not go on as they were. Pervasive disillusionment engenders change.

Third, some leadership is needed. This may come from party leaders who are more exposed to general interests than are other players. However, they are not suicidal. Mr Hawke has not touched the labour markets or the maritime laws and he has retreated, under pressure, from taxing gold, occupational superannuation and the capital gains of peoples' homes. Nevertheless, within limits often set by colleagues, a Prime Minister may be willing to trade present political gain for an honourable mention in history.

Politics has always been a battle between interests, between ideas, and between ideas and interests. In the 80s, it is the ideas which have been changed most.

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