

I know of no good reason to expect governments to put our interests ahead of their own, except that they always say they have the community's welfare at heart. Like Marie Antoinette, modern rulers really would like us to eat cake, but they do things which deny us bread.

When governments do things which conventional economic theory says are not congenial to the public interest I often become quite cross. I admit that anger of which its object is ignorant is a pointless emotion and that one should never be angry with the ignorant or foolish.

Assuming that cabinet appreciated the harm it was doing, with textile and motor car protection, the two airline policy, the deficit budgets, the superannuation deal with the ACTU, and other lick-spittle support for monopolies, I have criticised it in moral terms. In each case it seemed to me that Ministers of the Crown sacrificed the general good for those vested interests who would most affect their political fortunes. After all, senior politicians should not have been ignorant of economic theories two hundred years old, and even if they were they had Treasury and Reserve Bank officers to guide them.

Much as the ABC commissions the Boyer lectures, the BBC commissions the Reith Lectures. The 1985 Reith Lectures were presented by David Henderson, an eminent economist with the OECD. It seems I may have been a bit hasty with those moral judgements. He says that cabinet members do not ignore the economic welfare of their people but believe in a do-it-yourself-economics (which throughout the lectures he calls DIYE). And DIYE favours protection of inefficient activities, embargoes on export of the produce of efficient activities and centralised decision-making.

Henderson quotes Keynes' famous passage about the ascendancy of ideas over interests. He concurs up to a point, but goes on to say that the economic ideas which prevail are not necessarily those of economists.

He likens government at the cabinet and bureaucratic levels to soap opera. Attitudes to economic issues are determined by the ideas and values of 'Sons and Daughters' and 'Country Practice' and there is little room for economic orthodoxy.

DIYE has three so-called 'common sense' tenets.

The first is an assumption that outcomes have to be planned by governments and that governments are principal actors on the economic scene. Dr. (of economics) Fitzgerald, Prime Minister of Ireland provides the example, but it could have been any of several Australian Prime Ministers. When Dr Fitzgerald said "...

attempts to compete on an equal basis in the economic sphere with [US and Japan] by independent, individual action, are simply bound to fail." he assumed that competition in markets is between states, and that only large states can successfully engage in it. Both propositions are false.

Henderson goes on to describe how Britain 'as a nation' felt it necessary to build uneconomic nuclear power stations. Australia 'as a nation' built pipe-lines, railways and dams.

He calls the second tenet of DIYE 'essentialism'. Commodities such as water and energy are essential, therefore, says DIYE, the nation either has enough of them or it does not. But who is to say how much is enough? Water remains essential during a flood but the last unit is a nuisance. DIYE does not think in terms of incremental gains and losses and demand which depends on price. Energy consumption has fallen in the UK not because the government failed but because the price rose. Australian examples might be the energy debate during the seventies and the education debate now.

The third tenet is good old-fashioned autarky - the idea that a nation, the EEC, or a State of Australia (why not a shire) should be self-sufficient in food, energy or whatever. We and the British tell developing countries to be self-sufficient in food. Why? It is against their interest and our own. We know that the cost of making Australia about three-quarters self-sufficient in motor cars exceeds #####1000 million per year.

Centralism, essentialism and autarky, often fail even in their primary aims. In 1973, the United States launched 'Project Independence' to raise that country's 85% energy self-sufficiency to 100% by 1980. It in fact reached 86%. The synthetic fuel target was 500,000 barrels of oil equivalent per day by 1987. It is now expected to be only 10-15,000 barrels per day and failure must be regarded as fortunate.

DIYE is mercantilist. It favours exports, except of 'essential' products, but not imports. There are international rules to which countries commit themselves by treaty but in trade policy, statesmanship is seen as evading rules without actually breaking them.

When interests draw support from DIYE they are most likely to succeed. Then DIYE supporters do not want to hear about free market Switzerland having only 1.25% unemployment or Hong Kong and Singapore which are self-sufficient in nothing yet prosper.

Henderson is careful to stress that he does not equate economics with statesmanship, but produces evidence that statesmen would serve their people better if their brand of economics was more orthodox. In part he blames the failure to communicate orthodox economics to the public and politicians upon his own profession's preoccupation with macro economics.

The pre-eminent macro economist, Lord Keynes, was not a socialist, nor did he recommend that governments discriminate among citizens and industries but his theories encouraged pessimism about the stability of economies - their ability to right themselves after shocks - and optimism about government policy. This encouraged interventionism by the do-it-yourself economists. Their concern, and those of the vested interests was with things Keynes did not discuss and which the profession for many years largely ignored.

'Stagflation' gave rise to another school - Henderson calls it 'new-classical' - which has less faith in government intervention and more in self equilibrating forces. Debate produced a measure of consensus that functioning markets, particularly labour markets, matter, and that better results are often achieved with less government.

That our politicians have been influenced by this new consensus is evidenced Keating's success in deregulating new home loans. His decision to regulate established home loans could be taken as evidence that DIYE is alive and well. But is the cabinet room occupied by knaves or fools?