

WESPAC TO THE MARTIN COMMITTEE*Republished
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Over the course of a recent seminar called to discuss a Free Australian Society, several speakers and tea break conversations compared the Australian economy now to eighteenth century mercantilism,- an economy dominated by authority and more subtle versions of seventeenth century patronage. Adam Smith ridiculed arguments advanced by the many who benefited from the patronage of tariffs, occupational licensing and monopolies. In the process he laid the foundations of 'economics'. Smithian arguments won the day; the British economy, freed of the shackles of vested interest, exploded into the industrial revolution; living standards rose quickly; ~~some~~ years were added to life expectancy; and Britain rose to pre-eminent world power.

Authority finds it very difficult to ignore well organised lobbies. It is unlikely that the intellectual force of Smith's insight alone so impressed the crown, parliament and all the machinery of authority that they just put aside the special pleading of vested interests in favour of the general good. It is clear from Smith's writing that vested interest then was defended with the same ad hominem abuse that it is today. The following from "The Wealth of Nations" sounds as though it was born of experience:-

"The member of parliament who supports every proposal for strengthening..... monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, **and still more** if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services, can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists."

Laissez-faire Capitalism could not have won enough support to produce such spectacular success had it not been for a group of Britishers whose interests

were enhanced by the Smithian arguments. Not only did the cloth and iron and ceramic makers of the Midlands derive great benefit from a free and open economy, but the free and open economy itself was a creature of the political clout of the Midlands industrialists. The new expanding industries' interest coincided with economic strength and growth, and their interest was able not only to countervail, but overcome that of the status quo.

In debate, the market economy is again gaining popularity and understanding. In some places it is almost fashionable. But the questions asked several times over the course of the seminar were: - Where are the vested interests that will so benefit from free enterprise that they will force governments to withdraw patronage in favour of a freer economy? - Who will countervail the political influence of the big unions, the textile manufacturers, the airlines, the motor manufacturers and all the other powerful establishments? - Who are the growth industries that are already powerful enough to be heard? - Can they be found in the tertiary sector?

The Hawke government set up the Martin Committee to second guess the Campbell Committee, or in the hope that it would repeat in circumstances more acceptable to Labor Party members, Campbell's condemnation of patronage in the financial markets. Wespac's submission to Martin makes interesting reading.

The Bank finds itself hemmed in by a maze of regulations that prevent it from competing as well as it might with other Australian financial intermediaries. Further, it sees its position getting worse if Wespac's ability to compete remains impaired by controls and other competitive disadvantages. On the other hand, the controls give Wespac some protection from foreign and new domestic banks.

Wespac would apparently like to keep this advantage as long as possible, but is hesitant to ask for it lest by example it encourages patronage granted to others, which makes its own life impossible. The means by which the bank tries to cope with this dilemma is to ask for deregulation while damming new bank entry with faint praise. The result is Gilbertian, particularly as the language employed occasionally approaches that of those used to exercising, rather than receiving, the royal prerogative. -- "Wespac does not object..etc."

On the other hand, there can be no doubt that Wespac is a powerful voice - vested interest - on the side of the angels. Like the eighteenth century industrialists, the bank quite plainly sees itself as efficient enough to compete in the market place without props, if that must be the price of an efficient capital market. Its interest coincides with economic strength and growth.

Now is the right time to deregulate interest rates. Banks are now charging lower interest on unregulated overdrafts over \$100,000 than on regulated small overdrafts. Regulated housing loans are still below free market rates but the gap is less than it has been. The government is still two years from an election.

(The Labor Party ought to favour deregulation as the vested interests favoured by banking regulations are clearly not traditional Labor concerns, and the Campbell Committee made it quite clear that interest rate regulation is regressive.)

Prudential requirements aside, regulation makes the capital market less efficient than it need be, and prejudices employment opportunities. Regulation increases the margin between borrowing and lending rates. Banks that are not allowed to borrow for terms longer than four years are in a poor position to provide the much talked of long term fixed interest loans demanded by small business and home buyers. As it is not possible to control both the supply and price of anything, interest rate control ensures a very uneven and reduced flow of funds to housing.

Rate control encourages non price rationing, discriminating against people with few assets to mortgage, forcing them into the more expensive hire purchase market.

All these points are obvious but pitted against a rational decision by the government is a group of home buyers with subsidised loans. The banks, acting in their own self-interest, find themselves on the side of freer markets and on the side of the poor. Adam Smith's invisible hand is as always on the side of efficiency, and the banks, if not efficient now, are at least potentially so.