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Is it Wayne the bold or Swan the Unready?

Henry Ergas | November 06, 2008

SPEAKING in Brisbane last week, Wayne Swan said that "as Treasurer, I'm effectively minister for markets". His job, he explained, involved more than merely promoting the benefits that markets could bring. Rather, it required taking the lead in "designing markets that can serve the public without blunting the incentives that enable them to allocate resources effectively and generate prosperity". But these needed to be "the right type of markets", which were not "those that reward greed". To that end, they needed to be "creatively constructed and informed by evidence".

There is much to commend in these sentiments. It is indeed crucial to harness market forces in areas such as education, health and the environment. But Swan's statement highlights considerable naivety about markets and an ever-growing gap between the Government's market-friendly rhetoric and the reality of its policies.

Nowhere is the naivety clearer than in the demonising of greed. Whatever the causes of the global financial crisis may be, greed can be among them only in the same way that oxygen is required for there to be a fire. Greed is a constant in human affairs. The genius of markets as a social mechanism is that they make good use of greed, and of other motivations such as our innate desire to succeed and to derive satisfaction from what we do, to drive the unending search for, and response to, new opportunities.

But at the same time, crucially, markets protect us from greed, and from instincts such as laziness and arrogance, more effectively than any other social mechanism that human society has evolved. That protection comes from the scope for choice and the vesting of ultimate sovereignty in consumers, who exercise that choice through myriad decisions markets allow them to take.

However greedy a bank may be, I am not obliged to deal with it. And no matter how intensely the cafe owner across the road dislikes people who do not share his views, the fact I can take my business next door makes me invulnerable to his prejudices.

Great British economist D.H. Robertson made this point well when he said that what markets truly allow us to economise on are those scarcest of resources: altruism and love.

That Swan fails to understand this is worrying because it leads him to underestimate markets. But even more worrying is how he overestimates government. It is absurd to think that greed, or any of humanity's weaknesses, ends where government begins. What makes government different is that we usually have little choice but to accept what it decides to give us.

And as the fallout from the deposits guarantee so starkly shows, while markets react immediately to the unintended consequences of public policy, governments can stay frozen in the headlights of panic, uncertainty and surprise. As the chickens come home to roost, yesterday's Wayne the Bold shrinks into today's Swan theUnready.

Market-designing government therefore may be intended to be the great clockmaker but, in reality, that clockmaker is not merely blind but all too often deaf and dumb.

Reducing consumers' vulnerability to government by expanding choice is consequently crucial.

Why not build on the Howard government's initiatives in education and move to a fully transferable voucher system?

And, in health, why not adopt Australian National University economist Francesco Paolucci's bold plan for a means-tested, risk-adjusted payment redeemable through Medicare or private insurers?

But making more effective use of markets seems far from what this Government is doing. Rhetoric notwithstanding, we are witnessing an enormous expansion in market-distorting intervention.

The labour market is an obvious case in point, where the Government seems intent on introducing new

rigidities just as a slowing economy demands greater flexibility if persistently high unemployment is to be averted. So is industry policy, where the Government is proposing to provide vast subsidies to the car industry without a shred of evidence that they will yield any socially worthwhile effects. Rather than incentives to promote likely winners, these are payouts to proven losers, where all that has changed is the much greater scale on which the flood of taxpayers' dollars will occur.

It would have been better had the Government stuck to higher tariffs: they would have been franker in their protectionist intent, would have raised some revenue and would have been less distorting of competition.

As for infrastructure, there are huge risks the Building Australia Fund will merely throw good money after bad. The criteria announced by the Government for its spending decisions are a joke in poor taste, given how many billions of dollars are at stake. The criteria's vagueness, combined with a process that does not provide for real accountability, threaten to replicate nationwide the endemic cronyism that has proved so harmful in NSW.

Then there is climate change, where the interaction of the mandatory renewable energy requirements with an emissions trading scheme seems set to deeply distort market outcomes, imposing unnecessary costs on businesses and consumers.

What makes these moves all the more disturbing is the lack of transparency. Not only will taxpayers simply have to accept what they are given but they will not even be able to understand how decisions were made and how much they cost.

In infrastructure, for example, why won't the Government release to public scrutiny the data and cost-benefit analyses on which decisions are supposedly being based? And, in climate change, how can the Government defend not releasing the models it has used to assess the costs of its policies, so that those models can be properly tested and scenarios other than those the Government has chosen to release run?

Senator John Faulkner claimed that this Government would set new standards of transparency. It has, but not in the direction he promised. Now is the time for it to set that right.

As for Swan, it is well and good that he wants to be minister for markets. Plainly, he has in mind Tony Blair's government, where that role served as a proponent for market forces. What he doesn't seem to know is that for many years Australia also had ministers with that title. Their job, however, was to do the precise opposite of what the title suggests: it was to suppress markets, especially for agricultural output, and to distort trade domestically and internationally.

So far, Swan's efforts in the role amount to being the minister for FuelWatch, Grocery Choice and the Green Car. If this is what he means by being minister for markets, the book he is reading from must be Black Jack McEwen's, who knew a thing or two about ministers for markets and what they can do.

The sooner he changes his reading, the better.

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