

TITLE: Rationalists silent on monopolies

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Many may have bemoaned the dominance of “economic rationalists”, but I’m beginning to miss them. Sure, they often used simplistic and narrow assumptions to justify a wide range of bad ideas but, compared to the economic irrationalists dominating today’s policy debates, at least they were willing to have a fight with vested interests.

The economic rationalists of the 80s and 90s raged against a few main targets, primarily monopolies (therefore the need for competition policy), public sector service provision (therefore the need for privatisation) and high taxes (therefore the need for tax cuts).

Who could have foreseen however, that by 2014, their desire to privatise and cut taxes would see them supporting the creation of monopolies in order to “generate revenue” for governments.

The NSW government, for example, has recently announced it wants to end the healthy competition between two private providers of ferry services between Manly and the CBD. Both providers will have to tender for a single licence in a move that will increase revenue to the government, and profits for the successful bidder. The losers, of course, will be the customers who will pay higher prices. But in the new world of economic irrationalism, no one seems concerned about them. These days, policymakers think companies need certainty, not competition.

The whole point of economic rationalism was that the consumer was king. The econo-crats of decades past really seemed to believe that, under a narrow set of circumstances, competition between multiple providers would deliver low costs and high quality. But only if government barriers to competition were removed. So concerned with the need for competition were the economic rationalists that they created a National Competition Policy, and a National Competition Council to oversee it.

Big business and economists were united in their calls for privatisation, deregulation and competitive tendering of government services, to ensure that market forces could drive efficiency and cost savings for consumers.

How far the debate has come. Leaving ferries aside, the privatised Sydney airport is not only one of the most expensive and poorly performing airports in the world, but its owners have first right of refusal for any second airport. Seriously. Not only was a local monopoly privatised, but the contract for its sale ensures that, when rapid population growth creates the need for a rival, the current owner gets first dibs.

GOVERNMENT IGNORE RATIONALISTS WITH GOOD REASON

There is a simple reason that governments like to ignore economic rationalists when it comes to selling off government services; monopolies attract much higher prices than competitive firms. Politicians can deliver a “magic pudding” of lower taxes and lower levels of debt simply by transferring government monopolies into private monopolies.

While the high prices charged by privatised monopolies do not show up as “taxes” in the national accounts, they are even more distortionary and inequitable than publicly collected taxes. Excessive high prices for airport parking, ferry services, toll roads, electricity and water create just as much cost-of-living burden for families as taxes do, but, compared to taxes, monopoly profits are easy to hide.

Governments around the world have a long history of selling lucrative monopolies to their friends as a way to both build power and generate revenue. The East India Company, backed by the British Navy, had the monopoly right to trade with entire continents. Ironically, even the champion of free trade, the economic rationalists’ hero, Adam Smith took up a lucrative sinecure overseeing the customs monopoly in Scotland when he finished writing about the benefits of free trade.

Selling monopolies may help governments raise money in the short term, but it hurts both consumers and the economy in the long term. While it’s easy to see why politicians with three-year time horizons would be willing to sacrifice long-run efficiency for a short-term budgetary illusion, it’s harder to explain why the economic rationalists have gone so quiet. Maybe they don’t believe in markets any more. Maybe they don’t care about consumers any more. Or maybe, like Adam Smith, they have all just gone to work for the monopolists.