

## **National Competition Policy Productivity Commission Inquiry**

### **Submission**

*Es hört doch jeder nur, was er versteht [Everyone hears only what he understands] –  
Johann Wolfgang von Goethe*

*The reformer is always right about what is wrong. He is generally wrong about what  
is right – Gilbert Keith Chesterton*

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Along with many other Western nations, Australia has had a bitter-sweet experience when it comes to the “market” reforms of the last twenty years. On the one hand, trade liberalisation, economic reform, user-pays and commercialisation have contributed greatly to improved general standards of living through a growing and robust economy. Productivity has increased and past inefficiencies have been confronted. Australia is now a potentially more dynamic and prosperous community as a result.

The change initiated by policies such as National Competition Policy (NCP) has also brought many challenges and, in some cases, contradictions. There is now a much sharper distinction between the narrow self-interests of a commercial organisation and the social objectives of a civil society. Corporations exist to make profits – social equity is a matter for governments. This view has been entrenched, even though the micro-economic reform agenda of the 1990s was sold as something that would benefit the community as a whole.

The response of the economics fraternity to such developments has been found wanting. People feel life is tending toward an impersonal, box-ticking existence and that government policy-makers have no real answers.

Policy-makers remain focussed on implementing more ready-made solutions. That is, add to the box-ticking: more regulation, more controls, more competition, more privatisations. Our approach to economic policy – and a variety of other matters – is devoid of imagination, as it is obsessed with defending the intellectual superiority of initiatives such as NCP, rather than account for how the stakeholders feel about its impact. Cynical justifications have replaced objective debate, with perceived criticism dismissed by mere fact that others lack a solution or represent “vested” interests.

Past economic gains are sunk, yet “opposition” to reform is countered with an often condescending “look at what it has achieved!” response. Harking to the past as a basis for a continuation of the current paradigm has no credibility. Moreover, such a position is reflective of the limitation that is manifest in present economic thinking: our policy approach has become an ideology, with success being encapsulated in a “magical” formula – namely, competition. Placating words are publicised – competition and regulation aren’t encouraged for their own sake – yet the policy reality is devoid of anything vaguely different to what has come before.

The Commission asks if the NCP agenda has been an important part of our economic success. It certainly has. But the more relevant question is: where to from here? What happens when we get to “optimal resource use”? Do we just keep striving for further productivity, so as to create greater material wealth in order to distract ourselves further from the suspicion that no-one understands what it is we are searching for?

As a former Australian Prime Minister put it:<sup>1</sup>

While the great wish and want of society will be for economic growth and the pursuit of income, people always yearn for something else as well – and that is: to belong, to be included. ... [They wish for] a sense that change is directed to a point, which extends beyond economic growth to individual and community happiness and fulfilment.

The question is, where do we go from here? Much has been achieved, but what do we do now? How do we do things better? How do we move on a wider front, yet move together, and how do we make the interests of any one of us work for us all?

The issue of what constitutes this “next step” is tied-up in the paradoxical nature of the free market goal.

What is the stated objective of NCP? Despite its name, competition is more a consequence than an objective.<sup>2</sup> NCP is about efficiency as a means of not minimising the welfare of the community. The ultimate policy objective is facilitating personal liberty – using our resources better can only ever be a platform for this goal.

Governments generally have a commitment to promoting personal freedom, but this is easily forgotten when we engage on the more tangible (yet less important) issues, like legislation and competition. Moreover, because we presume an element of inefficiency, the notion of absolute freedom must first be set aside in favour of the additional interventions and controls needed to address our anxieties concerning a lack of freedom.<sup>3</sup>

What this approach risks overlooking is that the “problem” is due to a growing sense of repression and coercion brought about by government on behalf of those that expect a “solution”. The contradiction does not readily occur to us: any demand that a particular policy or piece of legislation be initiated to “fix” the problem must only add to it. Similarly, asking what government must “do” in order to become “nothing” (ie *laissez faire*), does not make sense. The cycle of regulating to address our fears and confusion will remain unbroken while ever we look for a formula that provides for a

<sup>1</sup> Keating, P. J. (2003), “The New Global Mosaic”, Speech to the Local Government Unlimited Conference, Queenstown, New Zealand, 28 July.

<sup>2</sup> Indeed, it is neither “national” nor a “policy”. A more accurate term for the essence of what the Commission is inquiring into, would be the Universal Efficiency Principle.

<sup>3</sup> Implicit in the drive towards economic efficiency is the belief that the ideal situation is something different to what exists at present. The idea of perfection, however, must forever be less-than-real, as “now” is the only true form of reality. Thus a statement such as “we need to become more efficient” must incorporate an element of counter-factual vagueness and thus uncertainty. The current policy approach attempts to bridge this reality sacrifice by focusing on “real” policy means such as NCP, albeit simultaneously acknowledging that such measures always bear something less than a one-to-one relationship with efficiency. Because this gap is unassailable, we end up forever chasing “something” we cannot catch and in the process fail to enjoy what we have already procured. This theme and the paradox-within-a-paradox that causes it, have been discussed previously in submissions by *in tempore* Advisory to Commission inquiries into First Home Ownership and the Gas Access Regime.

mechanistic solution, as the disquiet stems from a misguided belief that such a prescription exists.

This growing “deafness” is founded in the ironic fact that the smarter we get the less likely we are to actually accept the truthfulness of what we cannot understand, yet ultimately believe in. This is the case, regardless of what we call that part of life that is forever an experience beyond our rationality – freedom, liberty, utility, happiness, social capital, efficiency, satisfaction. Believing that one cannot rationalise what lies at the core of its founding theory should be relatively easy for economists, given we already have the utterly a-rational trademark of the invisible hand!

Without an acceptance of the necessary leap of faith, one cannot “let go” of what has been achieved in order to see a context for how our progress connects with something grander than economic security alone. The market is a celebration of human connection – not an aimless, mechanical process centred on the individual. What we have now cannot, therefore, be what was intended.

The Commission has been at the forefront of the economic policy debate in Australia for over 30 years and has played a significant role in our economic success. Being asked to review NCP presents an excellent opportunity to step outside the existing square by delving into the essence of what we have been really doing under the banner of economic reform. With this in mind, the following three questions are presented for consideration by the Commission:

1. What is the ultimate goal of all policy, including NCP?
2. If it is “happiness” through the removal of controls, how then can it be possible to rationally understand our goal (and measure its achievement) if one also accepts that utility is an innately personal phenomenon?
3. Does it therefore not also follow that one must choose either of the following alternatives, when it comes to policy approach:
  - a. accept the paradox that the goal is absolute and thus beyond a formal objective that can be measured or proved, as the human connection between cause and effect in the market place, while being real, is effectively invisible; or
  - b. continue to think that one can understand utility (or whatever) on the presumption that it can eventually be modelled perfectly and therefore contradict the essence of free market economics, insofar as the resulting formula would render the market unnecessary?

It is respectfully suggested that NCP and like have had a marketing pitch of (a), while the actual policy product delivered to the community has been (b). While the gains were easy, this inconsistency was largely overlooked. There is mounting evidence to suggest that this is no longer the case and that a further push along the same lines will place in jeopardy all that has been achieved thus far.

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*I believe because I do believe – Percy Bysshe Shelley*

*He who confronts the paradoxical exposes himself to reality – Friedrich Dürrenmatt*