

Rudd throws out the baby

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One of the enduring questions about Prime Minister Kevin Rudd, and his philosophical position on economics, is now being answered.

As little as six months ago, there were still uncertainties about Rudd's views. Was he really the "economic conservative", committed to lower taxes, budget surpluses and economic reform, that he painted himself before last election? Or an "economic interventionist" who believed that Howard and Costello created an economic "brutopia" and that financiers developed global "extreme capitalism"?

Kevin Rudd's latest 7700-word essay on the economy (published in The Monthly magazine) reinforces the idea that perhaps he is an economic interventionist, and not a conservative, after all.

In it he calls for a new era of "social capitalism" to wipe away a 30-year epoch of unrestrained "free-market neo-liberalism". To achieve this, Rudd believes that governments should impose new market regulations, embrace Keynesian fiscal pump-priming and increase public investment.

If anything, Rudd is keeping to his word about getting his Government more involved in the nation's economic affairs. Late last year, a Government bank deposit guarantee was put in place, followed by "nation-building" infrastructure spending, a \$10.4billion cash spree for families, pensioners and first- home buyers, and bail-outs of car makers and child-care centres.

Even though Rudd has a clear distaste for the free market, his essay begrudgingly states that it should "not be thrown out with the bathwater". Yet this is exactly what his Government is doing.

The bank deposit guarantee distorted financial markets by freezing deposits in non-bank institutions. The \$10.4billion stimulus package failed to boost retail spending as much as hoped at first, with many people pocketing the money as savings.

The problem with the ill-defined social capitalist approach is that it encourages governments to interfere even more with the economy. Last month the Government proposed an arrangement with the big banks that in effect would bail out existing commercial properties.

It has now announced a whopping \$42 billion nation- building and jobs plan, spraying everyone with cash today to be financed by debt obligations tomorrow. Included in the package are spending initiatives devoted to low-return infrastructure projects such as

schools, social housing and home retrofitting. The Government also plans to boost welfare entitlements, paradoxically in aid of "supporting jobs now".

The price to pay for this return to Keynesian pump priming is a persistent budget deficit, expected to be in the order of \$22.5 billion for 2008-09 and increasing thereafter.

The Prime Minister's least favourite economist, Friedrich Hayek, explained more than 60 years ago that governments are largely incapable of planning the economy in micro-level detail.

In light of this, Hayek said, governments would spend and regulate more and more to fix up the unintended consequences of their failed policies. The ultimate consequence of these actions would be the dilution of economic freedoms in other words, throwing the market baby out with the economic bathwater.

The other problem is that the PM justifies his pro-government philosophy by opposing a "free market" which has never actually existed, at least in modern times.

Governments have been extensively involved in economic affairs over the past century. For example, corporate entities including those in the financial sector are hamstrung by regulations such as corporate reporting and accountancy standards, credit codes and guidelines issued by regulators.

Enforcement issues and changes in interpretations of existing laws by government authorities add to the endemic "regime uncertainties" of not knowing when or how governments will interfere next.

The Prime Minister has developed an intellectual straw man of free market "fundamentalism" to divert attention from his failed interventions and create a climate for more of the same. This is not the approach befitting a once self-avowed economic conservative.