

# Why we could do with a little light regulation

One of the fundamental arguments supporting a free-market economy, where individuals are free to own the means of production and make profits, is the emergence of real competition and society-wide benefits.

An insidious correction to the free-market model occurs when sections of an economy are controlled or dominated by one player (private or state). When monopolies operate, societal gains evaporate and new entrants to the market are stifled. With no regulatory bodies, inequities can and do occur.

In the United States, the original free-market economy, a plethora of bodies exists to protect minority interests and prevent market dominance.

In Britain, similar institutions exist and for historical reasons the heavy hand of regulation remains.

The United States, unlike Britain, has never known state control in industries like public utilities, steel, coal and transport. The result, in the British and United States environments, has strengthened the equities market and real competition has emerged.

Market valuation has more than doubled in 10 years, whereas New Zealand's remains at around half its pre-crash level.

When the word "regulation" is uttered in New Zealand the same spokespeople emerge from the woodwork to chant the benefits

of the free market extolling the benefits of the "Kiwi experience".

Yet the facts tell a different story: International travel costs make for

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an interesting comparison. Seat costs per kilometre for flights across the Tasman and to London are excessive when compared with the Northern Hemisphere. Tickets costing \$1775 in London (a London-Auckland-London tourist class ticket) cost more than \$3000 here. Flights across the Tasman cost over \$100 more than transatlantic travel yet are less than half the distance. Is this a competitive free market in operation or exploitation of a dominant position? Telecommunications costs are another example. Toll calls in the United States and Britain, are generally cheaper than here by up to 50 per cent. A \$5 off-peak toll call in Britain will buy you more than an hour to any domestic location. Cellular calls are cheaper in Britain than anywhere.

The examples listed here are a

few of many which support the view that de-regulation has a price.

There is little doubt that the 1997 New Zealand economy is an improvement on the earlier models with their inexorable wait for a new car, the prohibition on margarine sales and even the "six o'clock swill".

But it may now be time to examine the changes and ask whether the model we are developing can be improved.

With a little more forethought and planning, existing agencies could be given the teeth to prevent the excesses that occur when state-owned monopolies become private fiefdoms. Is it irrational to consider empowering the Commerce Commission or similar to examine operations like NZ Rail's Cook Strait ferry and commuter rail prices and then seek to impose "controls?" After all, it can reasonably be argued that Cook Strait is part of Highway One.

Would the sale of Telecom have been frustrated if tariffs had had to be approved and even controlled by an independent agency? To those who disagree, I suggest they look closely at the Dow Jones industrial average of the FTSE 100 index over the past 10 years.

The lightly regulated economics are performing far more successfully for all their citizens, unlike here, where the benefits are few and inequitably spread.

The over-subscriptions at British privatisations by individuals and institutions alike has not prevented generous capital gains, bonuses and more than comfortable dividends, despite the power of the regulators.

It is the lightly regulated capitalist economics that have enjoyed steady increases in real wages and seen the spread of the capital base to include large sections of society.

With little or no regulation New Zealand runs a serious risk of creating a divided society that encourages a few robber barons. The very absence of regulation has enabled a privileged few to tilt what 'purports to be a level playing field to their own advantage. Whether they would survive the rigours of true competition has never been tested.

Questions remain: Is New Zealand too small an economy to promote real competition? Can the community, expect to have access to the same range of goods and services as elsewhere when the entry cost to the market is high and the gains, in global terms, minute?

Given the small scale of the New Zealand economy, genuine free competition cannot work effectively. Thus, there is a compelling case for light-handed regulation — not self-regulation by the companies themselves, but dispassionate third-party regulation.

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