



# Reason sunk in a torrent of emotion

*The Prime Minister's Snowy Hydro backflip is a depressing reminder of the dangers when governments cave in to populist hysteria*

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THE Howard Government's backflip on the sale of the Snowy Hydro scheme may have been politically astute and financially irrelevant, but it was philosophically unsound and economically foolish. And worst of all, it breathes life into that ubiquitous phenomenon: the collective letter.

First to John Howard's folly. Behind the political points he has earned for pulling the plug on the privatisation of Snowy Hydro, his decision is a depressing reminder of the dangers when governments cave in to mob hysteria whipped up on little more than the smell of an emotional rag. In this case, opponents began waving the "national icon" flag. And how do you spot a national icon? Propose that something public be privatised and, bingo, it becomes a national icon. It's a neat way of saying hands off without having to grapple with the pesky economic arguments in favour of privatisation.

Think back to the sale of the Commonwealth Bank of Australia. A national icon, to be sure. But that hardly justified it staying in government hands. This time around, when the Howard Government reneged on the sale of Snowy Hydro, it was clear that reason and logical thinking had been snuffed out by emotion.

Given the competition, it's quite a task picking the winner of the award for the most mindless emotional claim. But (drum-roll) it's a dead heat between Independent MP Peter Andren, who said the sale was wrong because the Snowy scheme is "the Vegemite of Australian infrastructure", and Industry and Resources Minister Ian Macfarlane, who fronted up on the ABC's *Insiders* program to

defend the Government's indefensible decision on the basis that Snowy Hydro is "an engineering feat... It's talked about not only in our history books, but in folklore".

Where to start? Vegemite is owned by US giant Kraft — yes, the evil foreign private sector — yet the black icky stuff is still flowing. And it's true that migrants did a fine job building the Snowy. As Howard said in his capitulation press conference, "it's part of the great saga of post-World War II development in Australia". But so what? Schmalzy talk about national icons is not the same as acting in the national interest.

In 2006, Snowy Mountains Hydro Limited is a business. In the late 1990s governments took the deliberate decision to corporatise it. To be efficient, it needed to be run like a business, a business that uses publicly owned water to generate electricity. It does not, and would not after privatisation, own the water in its dams. Like other businesses, it needs capital to maintain its assets and to build new infrastructure to grow in a competitive industry.

The sooner people realise that the most efficient and effective businesses are those able to tap the capital markets and subject to the forces of the free market, the better. Being labelled a national icon does nothing to secure the future of Snowy Hydro. On the contrary, now it is left scratching around for a future. Our great engineering feat may well be consigned to the history books and folklore as a national relic.

While governments enjoy grabbing dividends, it makes little sense for the Victorian Government to pump more Victorian tax dollars into a business based in NSW. Likewise, pouring

more tax dollars into a NSW business that also owns electricity businesses in Victoria makes little sense for the NSW Government. And it makes no sense for the federal Government to have money tied up in a corporate venture when, as Finance Minister Nick Minchin said last week, "it is better for governments to be devoting their energies and their funds towards their basic obligations in health and education and law and order". The sale made so much economic sense that we saw that rare bird: bipartisan support.

Until Howard caved in last Friday. At that moment, Snowy Hydro became an orphan. It will be starved of capital by owners who do not want to own it. NSW Premier Morris Iemma made that clear on Friday: "Capital is not going to come from the taxpayers of NSW." And it may be deserted by management, whose aspirations for autonomy, growth and, yes, share options, have been dashed.

Howard knows that keeping Snowy Hydro in government hands is lousy policy. He knows the price of appeasing the vested interests, the sappy sentimentalists and the agrarian socialists opposed to the sale will be paid by future generations.

Keeping the pork flowing to today's noisy mob of special interests means inefficient, overpriced services for the future.

No doubt he justifies his political pragmatism with his longstanding belief that it is better to be 85 per cent philosophically pure in government than to be 130 per cent pure in opposition. And there is much wisdom in this approach.

But only up to a point. The point at which pragmatism — or giving in to special interests — becomes counter-



productive is best illustrated by the French disease of capitulation.

Successive French governments have given in to vehement opposition from sectional interests so often they are now unable to take any decision that may adversely affect any interest group. As the French Government has found, once you start yielding to special interest blackmail, it's hard to stop. That caper has left France with impossibly rigid labour markets and unreformable pension and social security systems.

Of course, Howard has been responsible for so much sound policy that it is perhaps unfair to suggest that the odd piece of populist pork-barrelling is a portent of incipient surrender disease on a French scale. But it does encourage tomfoolery. Take Bill Heffernan's assertion that "this is a really good demonstration of democracy at work". If this is democracy, it is the ugly underbelly of

democracy where those who scream loudest get noticed.

Instead, it's a really good demonstration of the basic rule of economic reform: the costs (or in this case perceived costs) often fall heavily on a small but noisy minority. But the benefits of reform are invariably diffuse, enjoyed by a much larger, less vociferous group of people, called consumers. With less at stake individually, they are less passionate about reform. The Howard Government has committed the fatal error of economic Neanderthals by mistaking the lack of passion in that last group as justification to give in to the former.

But perhaps most irritating is the fact that Howard's backflip only encourages our collective letter writers to keep on writing. The apparent victory by the 57 assorted luvvies, political has-beens and political never-beens will make them think their sentimental jottings have policy

substance. These letters are blots on the political landscape that invariably feature artistes trying to prove they can do more than memorise scripts by signing up to something drafted by retirees suffering relevance deprivation syndrome.

One hopes that their saccharine superficiality has been carried prominently by newspapers such as *The Australian* as a cute reminder that collectivists are now reduced to the pathetic business of writing collective letters. But after Howard's surrender last week, they received a fillip. The Prime Minister's decision means that the Snowy Hydro is now truly a national icon: it symbolises the folly of allowing emotion to bushwhack rational economic decisions.



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