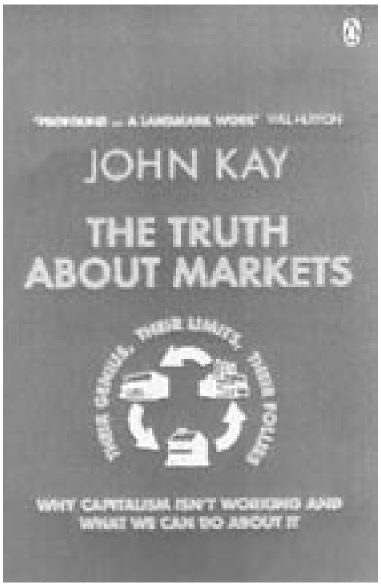
Uncovering the truth about markets

Tom Quirk reviews
The Truth about Markets: Why some nations are rich but most remain poor
By John Kay.
(Penguin UK, 2004, 496 pages)



For someone untutored in economics, it is easy to be perplexed by the question: how did Australia manage to enjoy uninterrupted economic growth for a period of 14 years?

It is the same question that John Kay attempts to answer on a grand scale in his much-acclaimed book, *The Truth about Markets: Why some nations are rich but most remain poor.*

The explanation for Australia has been given in its most elegant form by Gary Banks, the Chairman of the Productivity Commission. The relaxation of constraints on our economy—such as floating the dollar, reducing tariffs, forcing competition, privatizing government business and freeing up the labour market—has stimulated action. But what did we actually do? These explanations always seem to be the equivalent of giving the patient plenty of fresh air or some really nasty medicine to treat the symptoms. Thus it was a delight to discover *The Truth about Markets* and to be carried to a fuller explanation of economics in its broadest context.

Successful economies are very complex. It is not merely the availability of capital, labour and technology that creates success, but rather social, political and cultural institutions interacting in an economic environment. The book is a mix of example and explanation with a few scattered statistics. Starting with a list of 19 rich countries, it is striking to see that only six are outside Europe—Australia, Canada, the United States, Japan, Singapore and Hong Kong.

New Zealand is not on the list and is described as on the way down. 'If ever a country has been run by economists, it was New Zealand. From 1984 to 1999 New Zealand followed policies of privatisation and deregulation…. During this period the country experienced the worst economic performance of any rich state'.

Various fundamental issues are discussed, sometimes with delicious illustrations. The UK Whitehall mandarins are not spared as Kay describes the nuclear planning disaster of Advanced Gas Cooled Reactors. Nor, for that matter, are idiosyncratic tycoons treated any better. Kay eloquently illustrates how the scale of economic and business decisions determines big success and big failure. But, on the other hand, he contrasts this with the Hayekian tenets of diverse, independent decision-making and spontaneous order in the Information Age.

It is distressingly easy to find Australian examples of centralized planning of the sort Kay criticizes. From railways and dams to ethanol and windmills, our politicians continue to pick winners.

But the prize would probably go to those who have sought to regulate communications and media. They have an almost perfect record of getting things wrong—starting with early radio regulations of one receiver set to a radio station through to the introduction of high definition digital television.

Perhaps the most interesting chapters cover the attempted development of the poor states, as Kay's analysis helps illuminate the economic forces that created the established rich states. The discussion of early theories of development and whether countries can be lifted to the wealth and standards of the richest states shows how the complications of economic growth frequently confound the best and brightest of planners. This does not bode well in the medium term for our nearest neighbours. His conclusion says it all.

> Rich states are the product of—literally—centuries of coevolution of civil society, politics and economic institutions, a coevolution that we only partially understand and cannot transplant. In the only successful examples of transplantation—the Western offshoots—entire populations and their institutions were settled in almost empty countries.

Kay's conclusions are controversial—any explanation of institutional economics is bound to be—but it is a stimulating and fascinating book with clear explanations helped by some of the best examples drawn from the way we live now.

Tom Quirk is a member of the board of the IPA.

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