Interview with Emeritus Professor H.M. (Ted) Kolsen
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Abstract

This interview is a partial biography of Ted Kolsen, who migrated to Australia after the Second World War. It is an oral history of an orphan boy sent to England to escape the Nazis. It touches on his time in a Barnado orphanage, his military service in post-War Germany, his work in Australia training as toolmaker, his undergraduate study, his time at the LSE doing a PhD, his work on transport economics, his ascent to a Chair at the University of Queensland, and his appointment onto the Interstate Commission to report to the Commonwealth government on transport policy.

The interview illuminates both post-war social history and how economists strive to apply theory to complex practical problems.

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INTERVIEW WITH EMERITUS PROFESSOR TED KOLSEN, March 15 2016—transcript revised Oct. 4, 2016

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BL This is an interview with Emeritus Professor Ted Kolsen, long retired from the University of Queensland's School of Economics. I am Bruce Littleboy, a former student of his, now Senior Lecturer at the same institution. This is an interview of the life and times of Professor Ted Kolsen. I suppose the obvious place to begin is biographical material, early life and how you got to Australia, and then we'll move into how you got into economics.

TK Born in Berlin, April 1926, unfortunate ancestry was revealed in 1935 with Jewish connections. Nobody told me about this until about March 1939, when it was revealed that I was not all kosher, and I had the opportunity, if that is the right word, to go to England, to which I agreed, and when I arrived in England I finished up in the Barnardo homes which was somewhat drastic for someone coming from an upper middle class home. But the settling in was fairly rapid because shortly after getting there, which was May 1939, the war broke out and after that, although I was first labelled as a German boy, this all disappeared over time and I was just another Barnardo kid.

BL You spoke German only in those days, or you picked up English quickly?

TK No, German and French.

BL Oh, very useful.

TK It was actually because the administration at the Barnardo home spoke school French which was the same as mine, so we managed to communicate quite well, but I learned English very rapidly and I am willing to boast that after five months nobody was able to pick me as a German kid.

BL OK, but would it have been a working class sort of accent that you picked up?

TK Absolutely, East End. The kids where I was were from East End, London and the vocabulary is very small, so it was easy to learn and there were lots of words I spoke which I only knew roughly the meaning of and I had never seen them printed in my life.

BL OK. Now schooling would have been interrupted. What age are we talking about?

TK We are talking about just 13 when I came to England. At 14 I went to the William Baker Technical School which was a Barnardo home, and I studied to become a turner and fitter and toolmaker. Then as the war progressed I had to get a job. In the meantime I had to be reclassified since I was not English, and I was, technically speaking, of an enemy nationality and I was given a little book with all the details and the classification was, I remember very well, friendly enemy alien, and I remained a friendly enemy alien virtually until I came to Australia.

BL So you would have had a British passport?

TK No, I was a friendly enemy alien.

BL Did you ever get a passport? It is something that just entered my head because you were German, no passport?

TK No. I was offered a German passport but I said no thanks. I would have been embarrassed and I finished up with what was then called a Nansen passport which was for the stateless. It is a large piece of paper from the United Nations which had all my details which enabled me to travel and so on. Then, just to finish it off, I almost finished my apprenticeship as a toolmaker at ICI making wall plugs, when an opportunity arose to join the American Army civilian intelligence, which I did in 1946, and served in Bavaria and then in Berlin and then returned and asked for my job back, explaining to my employers that I was only going to be there for a year because I was going to Australia. They were very cooperative, delighted to allow me to finish my apprenticeship, and it was a very happy time at that particular factory where I learned the last few bits of my apprenticeship.

BL Was that essentially your ticket to Australia, you were an attractive skilled worker.

TK I was a toolmaker, a fully qualified toolmaker, of which there were very few and in fact when I came to Brisbane where a job had been arranged for me through my landlady who had been an exchange teacher in Brisbane before the war. I worked at the Mars Machine Tool Company and I had to explain that I was a toolmaker not a turner and fitter and they said we don't have any use for high class toolmakers so I was only paid a turner and fitter wage. However, eventually need arose for a

toolmaker for some specialist things which I then offered to do and did with the help of a fairly skilled foreman and when the press tool was presented to the man who ordered it he took it away on Friday and came back on Monday and said he has never had a tool like it, could he have two more, and at that I began to be paid as a toolmaker which I did until the coal strike in 1949 when somebody called me to Sydney and I went to Sydney in 1949 to become a supervisor of a biscuit company.

BL The strike of '49 meant that people weren't making tools?

TK No it meant that you didn't have the electricity to make the tools. Just since you also want some interesting sidelines, they were, when I was in the American army intelligence, I was arrested for a minor breach and was hauled before the local Provost Marshall who looked at my CV and said "Oh that's interesting, you've come from Berlin". I said yes. "Have you seen your parents since the war?" I said no. He said "why not?" I said "I'm in the army, I haven't been able to go", and he said "well you are going now" and there and then issued me with travel orders for 14 days to go to Germany, to Berlin right there and then, so that was very nice. The second rather interesting thing was that when most people were dismissed, given their discharge, I was retained to go to Berlin, so I had a few days with nothing to do and I was appointed night watchman by the American army and I was given a 45 Colt, wandered about looking important, I think I was about 20 at that time, when a man came rushing up to me and in bad English said to me "I am a doctor **… (10)….** I must have a Jeep to rescue this man. So I said "Oh my God, yes, here's a Jeep" and off he goes. He was about to go to the gate outside when another man come up to me and says you're in trouble. I said "Why?". He said "He steels Jeeps". So I waved my gun around and he took off and we got the Jeep back. Anyway there were a few little events by and large pleasant, I can't remember any unpleasant episodes all the time I was there.

BL It sounds like you weren't terribly senior in army intelligence if you were getting these almost menial sort of tasks to do. You must have been a translator or …

TK No, no. I wasn't all that senior to begin with. As a matter of fact that is another story we could talk about. When we first arrived, the newly inducted civilian intelligence men, we all got army uniforms, officer status and all that sort of stuff. We were given a five day course and told at the end there would be exams and if we performed well we would get good jobs. So of course I put my mind to it and from memory I was in the 90 per cents and the next one after me was in the 70 per cents, so I thought this will be good. The job I got was turning the handle on a duplicating machine which was

very upsetting and so I protested to the Captain who ran that section. He said "Son, you don't want to worry about that, it's all done alphabetically". I said OK. Later on I was told that a one star General was coming to inspect, and I thought well, perhaps he would listen to my objection. One star Generals are not very high up in the hierarchy. Anyway he came along, he had a piece of paper and he was writing and I was sitting typing and he said to me "That's business correspondence". I said no. He said "Who are you writing to?" I said "My father". He said "What, in business time?" I said "Yes, there's nothing else to do". He said "But they're all very busy over there". I said "Yes, they're packing and unpacking things because they knew you were coming. There are seven people here, that's far too much." He's writing it down, and the Captain is looking at him. Anyway after he'd gone I got a call "Kolsen to the Captain" and I thought, well I'm for it now. He said "You know you could have told me that". I said "Well I didn't think you would listen". He said "You've got a bit of learning to do. You know what is going to happen now?" I said no. He said "We'll promote you and put you in charge and take two people away." I thought well, that's a good way of doing things. Anyway I got promoted until in the end by the time I got to Berlin I was in charge of the watch-list which was a confidential list of people that were being watched at that time, not because they were Nazis necessarily but because they might be pinched by the Russians. Again, there was absolutely nothing sinister or anything like that about it, but it was again one of those jobs, but in those days there was so much goodwill everywhere, with the Russians as well, that it was most pleasant, that's what I thought.

BL So you were decommissioned in the usual way?

TK Decommissioned in 1947, had a year finishing my apprenticeship, then I came to Australia. That's just about it.

BL Now from biscuit factory to University of Sydney I guess is the next step.

TK Yes. Well that has an interesting background, if I may. On the ship coming to Australia I befriended, or he befriended me, a Hungarian from Switzerland who was a doctor of economics. A nice chap he was. I thought to myself if it's easy to become a doctor of economics, that's for me. I'm joking a little bit of course, but I thought well, if he can manage it, so can I. So that thought was still in my mind when I left Brisbane and came back to Sydney, and I thought the best thing I can do is to do a quick Senior exam, in those days it was called a Leaving Certificate, and I rushed around seeing whether I could do the two year job in six months. I just wanted it to go to university. And there's another interesting reflection on how things go. I decided I had to do economics. I went to see the

teacher at the tech college in Balmain, and he said to go away and do an essay, something to do with economics. So anyway I got hold of Stigler's theory of price and studied all that to the extent where I understood something, and I wrote the essay on pricing and economics, handed it in, the man read it, and said, "Look son, if you think you are ever going to make a living in economics, forget it. You don't get any idea what it's all about." So I went home feeling very depressed, and there was in the boarding house where I was, a man who had been a returned soldier who was actually doing economics, so I showed him this thing. He said, "You mean you've not done any economics?" I said, "No, I haven't". He said "That's absolutely bloody good". He said "You know what's wrong?" I said no. He said "You've got an idiot for a teacher. Go and get another one," which was what I did. A teacher who was known to various people who had recently graduated, who said "Right. Well you can do it with me, you'll get through with an A in six months." And that's what happened. In the meantime I was working in an insurance company, the Prudential, who promoted me when I did well and got my Leaving Certificate which meant that I made a few mistakes because insurance is not something that you acquire overnight, so there are a few amusing stories there – they can be for another time. So then I finished doing first year in 1951, three subjects, a four year course. It was a compulsory first year, some subjects you had to do anyway if you were going to do economics, you had no choice.

BL Did you find it inspiring or just, well if I want to be an economist, if I want to do this I need to do this course?

TK I never had any thoughts of becoming an economist. I was enjoying myself no end, and my enjoyment was sometimes taken up by the teachers, particularly one Herman Black, who interrogated me a number of times even though I was in a class of hundreds, and he thought I was on the right track, and I finished the first year as the top student, and after that, well things got a bit tough because although I won a scholarship, I thought that I couldn't really afford to take it up, which was £4/2/6 a week, but they did pay all your fees, and about halfway through the first term, when I had chosen to take only two subjects instead of three, I thought to myself well I've come all this way from Europe and I'm doing the same bloody thing, working five days a week, surely if I've come all that long way I should give all that away. So I went to see the scholarship people and said that, look, I'd like to change my mind. Do you mind if I take the scholarship up now, you pay my fees, and they said well you've got to take three subjects, if you want to take less than that you have to get permission from the Dean who was Professor Syd Butlin. So I went to see him and he said "Well it's not up to me. What other subject do you want to do?" I said I might do politics, political science. He said "you have to go and see the lecturer, a chap named Myer, if he says it's alright, well most of the first term is gone, but if

he says it's alright, it's alright with me." I said thank you very much and I went to see Myer. Myer interviewed me and he said "it seems to me that you are reasonably intelligent, so yes, you can join my course right now. Come tonight." So then after that I took up the scholarship and for two and a half years that's what I did, including a part time job for a baker, delivering cakes and stuff like that at six o'clock in the morning. He was in Castlereagh Street. From six o'clock in the morning until about midday and then I went off to university. And I said to the scholarship people, look I am earning some money, I should report that to you. He said, "Son, we know that you can't live on four pounds a week; don't tell us any more about it". And that's how it stayed until I graduated. [So I gather you got more money!]

BL In those days would the path have been Honours and then PhD, or did you...

TK No, just Honours. Nobody thought about PhDs in those days. It was far above us.

BL Well you ended up at the LSE, presumably to do your PhD.

TK I didn't actually. I mean I ended up at the LSE but not to do a PhD initially. What happened was that I had – well I ought to say something more about my early days as a teaching fellow. I applied for a job. I had first class honours in economics, second class first division economic history, and top credit in history of economics, so I was pretty well credentialed, but nobody said anything about a job, and there was a job going at the University College of Newcastle as a teaching fellow. I didn't know about this but a fellow student rang me up and said listen, I am going up to Newcastle, I'll probably take a car. I said well I've got nothing else. So he said you'll need a referee so I rang up Professor Butlin, the Dean. He said, "What do you want a referee for?" I said well I want a job a Newcastle. He said "I thought you understood, you've got a job here, you don't need a reference. Come and see me when you're ready." That was the interview. I then went to see him. He said "We have a few problems here, we don't have any rooms, you'll have to find somewhere to sit. I suggest the library stacks, that's about the only thing. What else?" I said "Thank you very much, sir". He said "The first thing is nobody is sir around here, I am Syd with a y". Thank you. Then he said "What would you like to teach?" and I said "The one thing I don't want to teach is descriptive economics". He said "Well that's what we've got you down for". I said "Thanks very much". He said "We've got another one which is a second year course in the pure theory of international trade". I had never heard anything about the theory of international trade, so I said yes. Was there anything else? These words have been with me all my life. He said "If you need any further advice, I've made a mistake in appointing you", and he walked

out. And so it was that they expected you to make up your own mind and the only time he would object was if you did something that was stupid, but otherwise you were free to do exactly as you saw fit. And if I may say another thing about Professor Butlin, he was a truly great man in many ways. My first contact with him was when a fellow student, a girl, had become unwell before an exam and needed to be driven in. So I borrowed a car which was a Model A Ford, I drove out to pick her up, and drove in to the University, where a little man in a uniform of some kind stepped out and said "Stop". So I stopped, and he said "you can't go in, if you're a student you can't go in". He could see the student was distraught. I said, "I am just going to bring …". "Well you can't." "We've only got a minute." He said "I'm sorry, but you can't". I said "Step aside." and then I drove in. The man jumped to one side and wrote things down, and in due course I was called before the Dean, and I tell you this is word for word. I knocked on the door, a very imposing woman by the name of Joyce Fisher opened the door and said "Are you Mr Kolsen?" in a stern voice. I said yes. "Come here." She went to the next door, opened the door and said "Excuse me Mr Dean, but Mr Kolsen is here". He said "Alright". So I stepped in. He said "Wait, are you Mr Kolsen?" I said yes. He went back to writing, so I was a bit nonplussed. He looked at me and said: "The statutes require me to see you. I have seen you. Goodbye." And that again set the tone for reasonableness within a university that didn't stick entirely to every tiny little bit of a rule that was imposed by some bureaucrat or other. So, where are we?

BL You're a teaching fellow I think you said at Sydney.

TK I was a teaching fellow, yes. The lowest form of academic life.

BL Was that why you thought "I need to go to the LSE?"

TK No, no. This was a long way away. I didn't go to the LSE until five years later, four years maybe. And what happened really was that we were all so busy teaching in those days. I don't think people realize these days what it was like. I'll give you an example. When I was doing my first year, as a student at night, probably at least once every night all the lights would go out, a blackout because there was not enough generating capacity, and we all carried a little stub of a candle and some matches, and the attendant came in with a hissing kerosene lantern for the lecturer, there was a scraping of matches, and everything went on as before. Nobody thought that was peculiar in any way whatsoever. Even by the time I became a teaching fellow, I had no room, the facilities available were those that had been there in 1939. Nothing much had happened in between.

BL Were there colourful characters who were sort of your contemporaries at the time?

TK Yes, when you say colourful, you've got to remember I was an evening student most of the time because I had to work, and I worked even when I was on a scholarship. The colourful people were all in the day, the day students. The evening students were colourful in a different sort of way. They were returned servicemen, people working heavily during the day and studying at night, rushing off to the Union for a quick meal. There was not much room for colourfulness, but there was plenty of colour during the day.

BL So you wouldn't have been part of the theatre and literary crowd?

TK Not until after I graduated. And then there were some very good things that I was able to pick up. But don't forget, as a teaching fellow I was paid about the basic wage, if I remember rightly, so again there was not that much room for big jumps, but nobody minded in those days. I can't remember any meanness about anybody, I can't remember people bitching about having only a few bob, we were all happily doing whatever we were doing.

BL You were a teaching fellow for a handful of years?

TK For two years. One and three-quarter years to be exact, and the neighbouring University of New South Wales was established at that stage. Professor Rowan came over and said "Ted, I'll give you a lectureship". I said I was waiting for Syd Butlin who was on leave to come back, but then Herman Black came and said "Look, Ted, you'd better take it because we don't have any money". So I said OK. He said "Well tell them you've got two years up.", so I said to Rowan "How about a couple of steps up the ladder?" He said OK. Over I went. Well shortly after that Syd Butler came back and said "As soon as you can, will you come back?" I said of course I will. So after two years I was back to the University of Sydney. I was only on step two so I took a cut in pay but I was back at Sydney University where I wanted to be, and from there on I clawed my way up the lecturer scale without any particular intent of doing anything other than teach and write articles. I actually wrote a couple of articles while I was in these lowly stages, and I had no intention of doing a PhD. So when the time came, and Syd said to me "Look you'd better get some international experience" and I said "What do I do?" He said "Well we've got a Rockefeller Social Science Fellowship for the year 1961. Would you take it?" I said airily "What do I do?" He said "Well, you go to various universities in the United States and then in England,

and then you come back here." OK. Which was what I did. So I made some very nice contacts, again everybody was very pleasant. I eventually finished up at LSE. Now at LSE I was interviewed by a very nice academic named Gilbert Ponsonby who said "If you want to get the full benefit of your attendance at the LSE, you should enrol for a PhD". And I had just met Professor Rowan who was in England at the time and he said "Well you don't need a PhD; you've got a First from Sydney". Anyway Gilbert Ponsonby said "That means we will give you our attention which we give to all our PhD students, but otherwise you'd just be hanging about doing nothing". So I wrote to Syd Butlin and said "Look, I've got a sabbatical coming up, can I have the sabbatical now?", which meant that I would have enough time to do the PhD if I could do it in 18 months. I went back to Gilbert Ponsonby and said yes, I would be happy to do that. Went to see the Registrar who said "Well you can't do it now because you're three months too late for the academic year." I went back to Mr Ponsonby and said obviously I can't do it because I've got to be back. He said "Oh, don't worry about that" and grabbed the phone, rang up the Registrar and said "It was actually my fault that Mr Kolsen did not register with you in time, and I deeply apologize, and he shouldn't be made to suffer for it". As a result I was backdated to the beginning of the term and we went happily on after.

BL And your supervisor?

TK Was Gilbert Ponsonby, and he insisted, at first he said "look I want to see you every two weeks with a little paper on something. We'll decide what it is." I said "could I suggest that to begin with we make it a paper every week." "What?" he said. I said "well I've come 12,000 miles, I haven't got any time to waste. If you don't mind, I'd like to get your comments." And from there on in, I was giving papers left, right and centre, to other students and to other people and so on. It was just a whirl, we never stopped.

BL It sounds an informal type of thing. Was there any coursework or was it all just thesis?

TK No, no. There was plenty of coursework but there weren't any exams. But you then did a paper on almost everything with all the big gurus that were there. I mean they didn't rely just on the people that were at LSE, they also had access to people from Oxford and Cambridge and so on, so it was, what can I say, it was a hotbed of intellectual activity which dragged me along, which I was very happy to do.

BL Who were the stars – either the lecturers doing the coursework, primarily that's the obvious place to start – who were the star teachers there?

TK Well one teacher of course was Gilbert Ponsonby who was well known in the transport world, that's how I came to be dragged into that. Who were the stars? I'm trying to think. You'd have to give me time. Well there was a famous mathematician, he wrote a wonderful book …

BL Was it Allen by any chance?

TK Yes, Allen. He was the only one who lectured in all three terms. He was brilliant. Who else was there? The people who visited were Hicks, he appeared every now and again, he wasn't actually there. Who else? Names don't come readily to mind.

BL Similarly, were there great seminars that you attended? Hicks, for example, was not a magnetic personality by all accounts.

TK He wasn't, but his wife was – Ursula - and she was not only very charming but very bossy about the whole thing, and she was a good conversationalist. I'm trying to think of a few more. And of course we had one of the men who became quite friendly and I spent a lot of time with him at Columbia University, he got a Nobel Prize, Bill Vickrey.

BL I was just thinking also of fellow students, were there other Australians there by any chance?

TK The other people were from all over the place, as you know LSE had people in all the colonial jails (**38:06**) at one time or another and we did have a couple of really nice, what you might call colourful people, one who was the secretary of the Department of Transport of the Sudan. We became very friendly, it's a long story associated with that which I won't tell unless you ask me to, and who else was there? There was a chap from Chile who became a reasonably big wheel with the World Bank. Who else? I can't think of anybody else. It was very difficult in a way because many of the other, well there weren't very many PhD students, only a handful, and most of those had another axe to grind so to speak, so our paths didn't cross as much as you would think they would, and in fact because I was trying to do a PhD in a record short time, my head was down far more than anybody else's. I will say a couple of them I did help because their English wasn't as good as mine, but otherwise, I mean I just beavered away and I managed to do the PhD in the minimum allowed time

because we had to go back to Australia. We were running out of money. My wife Beryl had borne the burden of low income in a foreign place with good spirit. She typed the PhD, filed all the bits of info, cooked all the meals, etc. Being a very great looking woman, she attracted considerable attention—by academics and others. She was now pregnant, so we had to get home. Arriving to board the ship, the Italian doctor said that they did not allow pregnant women to travel on this line. Disaster? No. A quick smile and we were on board, with first class food for her and third class for me!

BL Why LSE in particular? Did anyone suggest Oxbridge might be the best place to go?

TK No. A very good friend of mine, Ken Buckley, was a graduate of LSE and he had suggested it because of my interest in public utility economics, and he thought that the more hands-on stuff was done at LSE rather than Oxford or Cambridge. He thought therefore that because I was interested in hands-on stuff, that would be the right place for me. And as it turned out of course I spent a lot of my life in London during the war and the Blitz and so on, so going back to London was also much easier than going someplace else.

BL OK. So presumably you came straight back to Australia after your sabbatical, back for duty?

TK I certainly did.

BL Did they drop you into public enterprise economics or was it back to descriptive economics?

TK Oh no, no, it was into Honours programs and so on, and welfare economics. The big thing at that particular time, not now, was IMD Little whom I later met, and we used his book to some extent as a text, *A Critique of Welfare Economics*. I was invited to Oxford by the then editor of the *Journal of Transport Economics and Policy*, Dennis Munby. He was one of my examiners and he wanted me to spend a little bit of time at Oxford. But at that time the London Business School was just beginning to flex its muscles and I was asked to come and give some talks on welfare economics. The point of my story is that IMD Little was at Oxford at that time and at lunch time I made my way over when I was there to the bowling green. If he was there I would buttonhole him and at first he wasn't terribly happy but eventually, when I started quoting from his book, he became more amenable and we had lots of good discussions. He was a nice man, another one of those true intellectuals, a man with whom conversation was an absolute pleasure.

BL Did you get a report, a written PhD report that you've got in a filing cabinet somewhere, do you think?

TK What I got was a statement saying I should publish the stuff as soon as possible, which unfortunately I didn't. It was good stuff. The theory part of it was very enjoyable. The rest of it, was OK. I had to answer a few questions about theoretical matters.

BL You got a viva.

TK Yes. And there was another funny story because not being used to the way academia worked in the United Kingdom, I was startled to find a note from my supervisor which said "My dear Kolsen, your viva is in such and such a room at such and such a time, …." So I took this to a friend of mine who was in the transport section at LSE and asked does that mean anything? He said "Of course it does." I said "Well couldn't you have said "My dear Mr Kolsen"? And he said "It means you've got your PhD." I then found out right before I left; I had a little note saying "My dear Ted". That was the pinnacle of achievement at LSE. All very formal, and because it was formal it was therefore easier to live with. The whole thing was a pleasure.

BL And the PhD was turned into a book though, in due course?

TK That was another story, well in due course. It was rather sad. I was urged by Syd Butlin to make it into a book as soon as possible, which alas I did not. So when I finished it three years later it was sent out for comment to various people in the United States because it dealt with the United States and Britain, and eventually the comments came back and said yes, it is very publishable. Then another year went by. Alas in that two years, the regulatory arrangements in Britain totally changed, so that the bit that I had written about Britain was sadly out of date.

BL That part was now economic history.

TK Yes. I made reference to that and said well I'm more interested in developing the background scenery to all of this, which were the first few chapters, but in actual fact I had to admit that the chapter on Great Britain was already out of date, there had been significant changes and I had not had

time to make the appropriate adjustments. Nobody read that, and it was reviewed in the *Economic Record,* reviewed in the *Economic Journal* and nobody made any reference to the theoretical part which was my pride and joy, but everybody said well you know really it is now years out of date, and it's a pity because the book was otherwise alright. Although only one small part of the book related to Great Britain, that was the only thing that they focussed on.

BL I wonder if that is what you're focussing on, because I've read a book review about a book I've written and I thought well that's a bit depressing, but then I came back six months later and read it and realised that I was focussing on the negative bit and there were some nice comments.

TK Oh yes there were nice comments, I'm not saying for one moment that there weren't, but I actually thought the one in the Record was rather unkind, by someone I knew quite well, but that's a horse of a different colour. The one in the *Economic Journal*, I didn't enjoy reading. The question arises, why then publish the book? Because I was told by various people that you're never going to get a chair if you don't have a book, and since by that time I thought other people were getting chairs who knew half as much economics as I did, I thought I had better get this book going. So the book's purpose was, among other things, to qualify me for a chair if and when it came up, which it did.

BL Did you go straight to Queensland?

TK Yes. Well that is a slightly interesting story I'm not sure to what extent I will be publishing a confidential matter, but I was an applicant for the chair at Sydney but I had already more or less aimed at the chair in Brisbane, so I could afford to be rather nasty when I was being interviewed. For the first time in my life I became stroppy. I won't go into details but when I came out one thing was for certain – I wasn't going to get the Sydney chair because one of the applicants had already had a chair elsewhere and he was a friend of the new Vice Chancellor, so I knew I didn't have much of a chance anyway. But I did enjoy being stroppy, which is the only time in my life I think I have been stroppy in an interview.

BL So, University of Queensland. Who else was professor there? Would have been …

TK Gates. Ron Gates

BL Was that all?

TK No, the other bloke who had a chair was John Gifford - the nicest bloke and very well known. He was just about to retire. He had actually been given a couple of extra years, he was 67 by that time, because he lost all his superannuation when he went bush with his son after the war. He was actually in the bush for two or three years, and he told me no rain fell during that time. When he came back the then Vice Chancellor said, look we haven't filled the chair so you can have it. I was his replacement. He'd been given an extra couple of years and they said bye-bye, and that's how that came about. So there were then two chairs, Ron Gates and I.

BL And it would have been a while then before, would it have been Don Lamberton who came next?

TK Yes, but that was some little while later. What happened was that in a way it was a strange time because we were growing at some enormous rate and all sorts of appointments were being made left, right and centre, from about 1970 onwards. Ron Gates was very good at this. In fact he was a very good administrator but I can't claim the same thing for myself, and in the process there were some appointments that were perhaps not as good as they might have been, but by and large what Ron Gates was doing was expanding the department as rapidly as he could. It was a once in a lifetime chance, we were getting money from all over the place and students were flooding in, and I think we were overwhelmed, I was overwhelmed by the rate of change.

BL Was Whitlam pumping money in and students coming in?

TK It was before Whitlam actually. Whitlam helped, yes.

BL Well that's pretty much when I enrolled, in 1973.

TK And we did get some very good people undoubtedly, so I was hammering away at the Honours side of things, hoping that we wouldn't get overwhelmed. At Sydney University you could have hundreds of students in your first year class, I think at one stage there were 900, but you only had 15 in your Honours class, and they slowly fell by the way so that you were able to do what I think a university has to do, that is to look after the very best to the best of your ability, and I was hoping to do that in Brisbane, but things got very hectic indeed. There was a student revolt which was vastly

overdone because people were extremely pleasant about it, that's all I can say, I remember, and I'll tell you a couple of revolt stories.

BL Yes, go for it.

TK The first one was that the Economics Department was in the administration building, we didn't have our own building, but that is another story.

BL That must have been circa 1970 though, before Whitlam. (Bruce – note from Marie – Economics and Accountancy (later called Commerce) moved into the new extension of JD Story Building in 1967 or early 68. They were on the third floor next door to Committee Section where I was working at the time. I left in 1969 and they were still there.)

TK The protests were going on and people were occupying rooms in the administration building, and they burst into my room and I said look I think you are making a mistake. They said why? I said I am not Administration, I am Department of Economics. Oh, sorry, but we do want to let you know what our desire is in this whole business, we want to do some things, we want no exams, no certification, just education for education's sake. I said oh yes I am very much for that, that's always been my wish. Oh, they said, wonderful. They were just about to go and I said excuse me, have you worked out who is going to sign your degree certificates? Presumably you are going to want to get a degree at the end of all of this. Yes. I said well who is going to sign them. They said well you would. I said how can I, if you haven't had any examinations how do I know. I can't just sign a degree certificate for any Tom, Dick or Harry who comes in and says I want one. Oh, I hadn't thought of that, thanks for that. And he left. There were quite a few others once again where people were never rude. My abiding memory is one of the Acting Vice Chancellor, Hartley Teakle. A nicer bloke you wouldn't find but he was totally at odds with what was going on, so when the students came up with placards and all that sort of thing and swarmed in front of the administration block, the then Deputy Vice Chancellor said to Hartley, do you want me to deal with it? Oh no, I am the Acting Vice Chancellor. And he went out and said, excuse me, that loud hailer, we don't have one, can I borrow it? And the bloke gave him the loud hailer. He then gave what was effectively a lecture on how to grow grass faster in developing countries who need this sort of thing – had no connection whatsoever with what was going on, but it was a very good lecture. They started to disperse because obviously they were not going to get anywhere with this. When he finished he said well I thank you very much and handed the loud hailer back to Brian Laver, I think. He had another go at Hartley Teakle about democracy in a university and

so on. To my surprise Hartley went down again and said can I borrow that again. Anyway he got more of the same. By the time he finished there must have been no more than three people in front of him, of whom one was Laver because he needed to get his loud hailer back. They had all dispersed and he gave him the thing and said thank you very much, and there you go. Whether this was done deliberately I don't know, but what it showed was that the students as a whole had a high respect for all the teaching staff, and at no stage did anybody offer any rudeness or anything like that, it was a revolution and a rebellion, done to the best behaviour you could possibly get. So when people describe it as something terrible they're nuts.

BL Yes, well there are no roses in gun-barrels, in the Australian context.

TK And nobody broke any glass, and nobody did anything.

BL That sort of thing came a bit later of course, when things got angrier.

TK There was one day when I was actually an observer, when people actually got bonged on the head, was at the Windmill when the South African rugby union team was here. And that was badly handled and unnecessary, but there you are, that's the only time people became really violent. It was just some people at the back somewhere started throwing stones and a couple of policemen got hit and that set it off. But anyway, by the time it all settled down it was not much ado about nothing but much ado about not all that much.

[Lunch break]

BL Now we got before lunch to the 1970s, but I recall you saying two stories about Brisbane circa 1949 should be recorded, and that's the period when you had just arrived from England and you were in Brisbane and were discovering that Australia and Britain are two different places.

TK Yes, actually the first experience was at Fremantle, since I was on a ship which was full of Italian migrants, I had a dispute with the purser because he insisted that I be inoculated against all sorts of things even though I had already been inoculated and I had a certificate from an English doctor to say so, and he said well that doesn't matter, you have to be inoculated again because you are not English. So I tried to explain to him that the reason why this rule is that you have to be inoculated if you are not English is because there is no certainty about Italian doctors being up to scratch. He was most annoyed about that and said I will report you to the medical officer when he comes. The medical

officer came, he was in shorts, he was probably a bit older than me but not much, "Kolsen to the purser", the purser was talking to the medical officer, the medical officer turned to me and said, "Do you speak English?", I said "Yes I do", he said "Well what's this all about?", I said "Well I tried to explain that the reason for the rule that non English speaking people have to be inoculated is because they do not have a certificate of inoculation from an English doctor". He said "Yes, that's correct". I said, "I am a German, but I am now stateless but I have spent most of my time in England and I have a certificate from an English doctor." He said "That's right". I said "I don't have to be inoculated again?" He said "No, of course not". I said "He says that I have". He said "Oh well, they don't really understand why we have these rules", and that was the end of that. I was most impressed with the bureaucracy. The second one was when I landed in Melbourne, and after coming backwards and forwards a few times, because one minute it was freezing cold, the next minute it was boiling hot, I saw a man with a barrow load of bananas. I hadn't seen a banana for several years, so I rushed over and I said "Can I have six pennyworth of bananas please?" He said yes, and he gave me a big bag of twelve bananas. I raced back to the ship, I said "Here fellas, have a banana", and they looked at me and shook their heads. OK. That was one experience. The second experience of the difference was my landlady in Brisbane had already had some strange feelings about me and she said "You've got to take it easy Ted, you've got to learn what's going on". And a man came down the street with a horse and a barrow full of pineapples. Now I hadn't seen a pineapple since 1936. I rushed out and said "How much are they?", he said "For threepence you can take the biggest one you like". So I gave him threepence, grabbed the biggest pineapple, rushed inside and said "Mrs Hall, look at what I've got". "Oh" she said, "you've done it again". And she opened the cupboard and it was full of pineapples – her uncle had a pineapple farm. There are a few more tales like that.

BL The innocent abroad.

TK Yes, there was a lot of that.

BL If we jump back to the 1970s, you're a professor at UQ, and we've just reached the Whitlam era and we are right at the period, I guess, around when you're doing work for the Interstate Commission and/or the Queensland public service, or is it a couple of years …

TK No, not yet. No, you're quite a few years out. The Interstate Commission Act did not pass until just a few minutes before Whitlam was dismissed, so although it was on the books, there was no Interstate Commission and it didn't reappear until considerably later. The only thing that had

happened in the meantime was that I had been asked to write an article about the micro policies of the Whitlam government. When I submitted a draft it was rejected because it was too enthusiastic and I was asked to tone it down, which I refused to do. Otherwise I had no direct contact with the powers that be until somewhat later, so you have to take a bit of a jump now to 1983.

BL That was when Hawke came back.

TK Yes, that's exactly right. And that's when the Interstate Commission was re-established and I was asked to serve as one of the Commissioners, to which I agreed, after I talked to the Vice Chancellor at the University of Queensland to see whether I could get two years leave without pay, without any detriment to my status at the University of Queensland. He was delighted, that's fine, just insisted that I continue paying my contribution to the super, and other than that he thought it was an honour for the university to have somebody on the Interstate Commission, and off we went. But there are some nice little stories about the Interstate Commission. One of them was that we were asked to examine the Tasmanian freight equalisation scheme which paid a subsidy to the transport of goods from the mainland to Tasmania and from Tasmania to the mainland. The initial problem was that there was some opposition to any kind of subsidies to anything and the idea was that you should have fewer subsidies willy-nilly, so to speak. Now I had with me eventually my senior economist, economic adviser, George Docwra and with his backing I was able to carry on based on second best arguments. There were some funny times. One of the other members suggested that the problem was that the distance between the mainland and Tasmania was too short to get the economy of long journeys, to which we as economists replied that's easily fixed, you just go round Tasmania three or four times before you land. This was not taken in the spirit in which it was given.

BL I am suspecting that frankness is perhaps one of your faults in public office.

TK Yes, and so that was a little bit difficult. There were a couple of other interesting difficulties. One was that when we came to Brisbane we were very enthusiastically received by the Transport Department who knew me, and as soon as we started the President of the Commission who had been in Tasmania, called us up and said "you have got the map on the wall and there is no Tasmania", and one chap who was quite shaken said to him "No Mr President it's there, we've just stuck it on the mainland." That was a very bad start and after that he took a very dim view of what was going on. Another one which I am sure every economist will love is when we got to New South Wales and we were talking about railways because we were talking about the subsidisation of land transport as

against the lack of subsidisation of sea transport; it was an application of the theory of second best. We sat as the Commission and the first man up was somebody from the Railways Department, NSW government railways as they then were, who said they made $200,000 profit in the last year, and the President was scribbling away, and the second one was from the NSW Treasury who said this that and the other thing but they actually made a $1.5 million loss, at which the President of the Commission said "somebody must be lying". So we grabbed him and said hold on a minute and we dragged him out and we tried to explain to him that they were both perfectly truthful because the loss so far as the Treasury was concerned included the subsidy which was paid to the railways, whereas the railways took the subsidy as an income and didn't spend all of it so they made a $200,000 profit. He failed to be able to understand that and was very upset for the rest of the trip.

BL Well it sounds like then the Interstate Commission was not predominantly economic although I thought that was the point of it in the Constitution.

TK Well it was, and I think its report is predominantly economic. There was nothing else really to report. But what the other members of the Commission wanted to ensure was that there weren't any other conflicting views being given, that's why we had all these hearings where people were asked. The Commission put forward roughly its arguments and we were asked if there was anything wrong with it as far as I can remember, since mostly we talked to transport people and they said no. So the final thing was that when the report was ready to be delivered we had a meeting with the Minister and with the Head of the federal Transport Department. When I gave head of the federal transport department an outline he was absolutely aghast. He said "You can't possibly mean that this is going to be another subsidy, that you are not only continuing with a subsidy but you're giving reasons for it. This is intolerable." So I explained to him that since he had been at university, theory had moved on a bit and the theory of second best suggested (**1:16**) this was the obvious thing to do, at which stage he stormed out. The Minister was most embarrassed. He was a nice man.

BL So it was the head of the department that stormed out? The principal bureaucrat.

TK Yes. And then when it was handed to the Minister, instead of the usual charade, a hand shake and thank you very much, there was a very grim looking Minister who grabbed the report and made off to his office as fast as he could.

BL Do you remember his name?

TK No, not off hand.

BL It slipped my mind too. I used to be able to name ministers. [Check]

TK I wouldn't be able to name him. He was a nice lad. He was caught between the head of his department on the one hand, his Mr Humphrey on the one hand, and us on the other.

BL In those days there would have been an imperative for free market improvisation or efficiency in some sense.

TK Yes, you're absolutely right.

BL You were swimming against the intellectual tide.

TK Yes, definitely. 100% correct.

BL And proud to be so, by the sound of things

TK Yes, well you go by what the theory tells us is the right thing to do, or you don't. The fact that everybody else wants to swim with the tide is of no concern to me.

BL I think the theory of second best is not common knowledge, although you have hinted at it in what you've said. I suppose that if one sector of the economy is being subsidised, then it's appropriate to balance that out by subsidising the competing sector of the economy that is not being subsidised currently.

TK Yes, competing and substitutable, and it should really be obvious that you either remove the subsidy or you subsidise the competing service.

BL Then you get the right relative prices.

TK Right, yes. In fact if people had read the beginning of my book they would have known about it. Nobody had read it.

BL Now the Interstate Commission though, after you delivered your report the Commission was very much on the nose and wasn't …

TK It was totally on the nose because what was said, if we can't tell what these buggers are going to do, well we are not going to give them anything to do. But by that time we had already had a second job which was going to be the last, and that was road transport pricing, the pricing of roads for road transport. We had already made a report which said they should be taxed by measuring the distance the travel to pay in proportion to the usage of the road system, depending on the size of the vehicle that was using it.

BL Was that controversial in any way? It sounds like it could have been.

TK I don't know because I resigned from the Commission shortly afterwards and it seemed to disappear without a trace. The Commission went on, I might say, because the others didn't resign, under the constitution you cannot dismiss.

BL So they were still being paid.

TK They were still being paid, and I think they did some useful work by being asked to hold hearings about certain things, particularly on the waterfront which produced lots and lots of reports, none of which I read but which I understand helped those who contributed to them. It certainly wasn't useless.

BL So I take it the Interstate Commission nowadays is a dead letter in the Constitution. It exists but it has nobody appointed to it.

TK Correct. And the problem with the Interstate Commission, and I wrote a few things about this, was that I thought it was a very good idea and so did Whitlam I might say, and the problem with it was it was amended in the debates in 1899 by one thing that said "there shall be an Interstate Commission etc. etc. with such powers as shall be provided by Parliament", or words to that effect. Of course they could please themselves what powers they gave it. What they did though – the first Interstate Commission was in 1912 and ran amok – they investigated everything they felt like.

BL Was that exposing State rorts or something like that?

TK That's what it should have been doing, but no it was actually looking at monopolies all over the place. It was useful in its own way, and what happened then, just talking off the top of my head at the moment, is they said they had the right to make an enforceable decision, and the High Court said no, that the only people that could make enforceable decisions was the High Court. That was effectively the end of its power. It had no effective independence after that.

BL It was administrative, it had no judicial function.

TK And in the end it petered out. Then they simply didn't reappoint the Commissioners, that's all you've got to do.

BL Nowadays so much of Australia is already globalised, so to speak, that trade and transport and electricity flows across state borders anyway. I'm wondering if there's ... Are you thinking that there's a need to bring back the Interstate Commission or do you think it's passed by.

TK Oh I think there is but not for that, no. It's worthwhile talking about that. Again I have an interest in this. Section 92 says "there shall be free trade between the states" effectively. It was the interpretation of that which caused all the trouble. It was not until a few years ago that we got it right and initially the thought was that what that meant, obviously it wasn't free in the sense that people didn't have to pay for it, and the issue was always what it was free *from*. For a while they said it was free from regulation, which caused anomalies with Queensland for example, about which I will talk in a minute, which still had a road tax. If you were an interstate trade you didn't pay the road tax, but if you are an intrastate trade you did. So consequently it was cheaper to bring beans from New South Wales and take back beans from Queensland than it was just to bring the beans from Queensland to the markets here. So it was a huge anomaly and it was one of the things I worked on when I first came, pointing out what an anomaly it was.

BL Presumably that doesn't exist now?

TK No. Can I tell you how it was removed? Again bits of inside knowledge which you will like. Joh Bjelke-Petersen was then the Premier, and I don't want to abuse anybody's confidence, but the then president of the farmers' federation talked to Joh and said this was a bit of an anomaly and said

well you know, do something about it. So he engaged somebody from Sydney Uni. who came up here to make a case against the road tax, so he took my stuff and he did his own stuff, and he gave it to the then president who took it to Joh. And the story goes, and I only have it as a telephone conversation, that they met and Joh said "hello, how are you, how's your family" and all that sort of stuff, and he said "what do you want to see me about?" He said "Well it's about this road tax". "Oh, what about the road tax." He said, "Well I've got a very carefully put-together report on why it should be removed.", and he handed it over to Joh, and Joh looked at it, it was quite long, and said, "Just answer me one question, is it OK if I take it off, is it OK for the farmers?" And the bloke said "Yes of course, why do you think I am here". He said "OK, it's off". And he threw the report in to the waste paper basket. (**1:24**) It's second-hand stuff; I wasn't there, but it's very credible.

BL Well it may corroborate someone else's interview. You never know how diligent economic historians are.

TK Yes, but there were a few other things. You see I was very busy when I first came with several things. Alan Duhs got me to look at the weighbridge problem.

BL I haven't heard about that one.

TK Well again because of the various taxes, trucks had to be weighed when they passed the weighbridge stations. There was one at Goodna on the Ipswich highway which I went and inspected and the trouble was that every now and again it was congested so people would have to wait, and my finding which I wrote down somewhere was that sometimes they are also weighing empty vehicles, all the vehicles had to go through, and there's no point in weighing an empty vehicle, so it should save about half the vehicles that came through and there would be no congestion. Remove it overnight by a simple statement that says empty vehicles don't have to be weighed. There were some problems with enforcing that. The net result was that they just did away with the weighbridge, which was the simplest way out.

BL I assume you know the weight of an empty truck anyway, is that the logic?

TK Yes, but they also didn't bother to weigh the full ones either, just did away with it, which was a very sensible thing to do, so it was too much trouble anyway.

BL So the revenue from the tax doesn't warrant the cost of collecting the tax by the sound of it.

TK Well no. It was part of this other business which removed the tax anyway.

BL Yes but that was a political sort of thing. Of course the theory of second best might have said that you should ... I suppose there wasn't a way to actually tax interstate transport anyway.

TK That's exactly right, and that's where Section 92 comes in, right.

BL So that created the second best problem.

TK Yes, it did.

BL So Joh did the right thing economically and by the farmers.

TK Yes he did, but it didn't stop there. There were other interpretations of Section 92 which messed the thing up because quite obviously they were totally unable to do any kind of sensible regulation of some trucks because they were on interstate trade and that clearly wasn't intended in the original Section 92, so finally, and it wasn't until a while ago, it was settled by some sensible High Court decision that said that there must be no discrimination between interstate traffic and intrastate traffic, which did not mean that you don't regulate either of them, which took a hundred years to get sorted.

BL Yes, with some "assistance" from the Privy Council early on.

TK Well actually I don't think the Privy Council was so stupid. I think the High Court missed the fact that this had economic implications. It had nothing to do with state rights or anything like that. They missed that it was simply a matter of economics.

BL But they were free market economists, essentially, on the Privy Council.

TK No, absolutely not. Nor was the High Court. You can't blame the High Court. I think the High Court in the end got it right. They were the first ones who really looked at it in what I might say was the proper way. After all this time.

BL You've had a life as consultancy for the state government and also in the private sector. Are you still notionally a consultant?

TK Well notionally, but I haven't done anything for the last two years or so, but I was first a member and then the chairman of a Transport/Main Roads advisory group for about 19 years, and in the process ran into a lot of state problems which weren't only transport but then after the Part 10 [of the Trade Practices Act] investigation which we talked about a few moments ago, it was quite interesting, there were a few things which arose because of the mindless interpretation of what was meant by free trade and we suffered a few rather abusing episodes if I may put it that way.

BL Don't get me started on Hilmer.

TK No, the Part 10 investigation followed Hilmer, and what we said in principle was exactly the opposite, which said horses for courses and unfortunately the rest of the world is not going to follow Hilmer and therefore we had to look after those bits.

BL We might need some backfill about part 10. This would be the Interstate Commission work is it?

TK No, it's a bit more than that because the Interstate Commission only has a remit within Australia. Part 10 of the Trade Practices Act as it was then dealt with the relationship between shippers and a few other things but mainly between shippers of goods from Australia and to Australia. Part 10 deals with that part where you don't have jurisdiction, because it's a foreign supplier or a foreign country or foreign somebody else. So you can't use it – they thought you could. The idea was to remove part 10 altogether. **[Oct. 4]** The rules and regulations which you can impose on the domestic economy cannot be imposed on those who trade within the domestic economy but are outside its shores, namely the conferences which are cartels who deal with all the international shipping and there are several amusing pieces because we had a wonderful triumvirate, one member was a former Attorney General, he was the Chairman, and the other one was the former chairman of a very large shipping company in Australia, and me as an economist. So we did have access to an enormous amount of information through the man who had been a chairman of a very large shipping company, Captain John Evans AO.

BL What was the status of this committee? Was it set up by …

TK Appointed by the federal government.

BL So it was just an independent committee of inquiry

TK Yes, it was the same as the examination of the first nine parts by **t**he Hilmer Committee but this one was a lot smaller. Then again it attracted the ire of everybody because we refused to follow the Hilmer Committee because as we pointed out, the rules and regulations that you apply domestically cannot be made to apply internationally. We have no jurisdiction over the cartels. I could tell you heaps of stories about the people who were supposed to be well-informed who said oh well, we will be the first ones to have fully international, fully competitive international trading. I said well you can't do that because they are not under Australian jurisdiction. My information about various things was that there were people who knew nothing about transport whatsoever who were pushing for this whole bit. It reminded me a bit of Hilmer who knew nothing about domestic barriers to competition.

BL Well, the Hilmer philosophy is that if it is generated automatically then it must be competitive, do you think?

TK Yes, so because of that we asked the federal Transport Department to send somebody, one of their economists to do a paper which was quite independent of what we were doing. We were going around talking to people, particularly sea transport people to understand the industry context. (**1:34:34**) He used that context in an excellent study of cartels and so on which we published in our report.

BL So what was the upshot of your recommendation, was it to cartelise coastal shipping, or how would you …

TK Coastal shipping had nothing to do with it because this is international. So if it was something to do with coastal shipping it was something for the Hilmer mob. What happened here, just one little story that you would like very much. The general feeling was that we could do away with Part 10, and Part 10 gave at that stage ability for the Australian shippers to cartelise themselves. Our blokes could cartelise themselves, to confront cartelised shipping companies, so the people who sent their peas

and beans and that sort of stuff overseas were able to form a cartel. A group that would argue with the cartel, so that the market power of the individual was melded into all the other individuals who were also sending products at the same time, so that they could make contracts based on at least some equivalent market power. Of course that was an anathema to the Hilmer mob.

BL Would that have meant higher freight prices for the exporting Australian businesses, was that the argument against?

TK Well no it wouldn't be because you were arguing on behalf of your shippers, so you are representing the Australian shipper, so you should get lower rates.

BL So the Australian shippers would want to collude to undercut?

TK No, they weren't undercutting anything. There were the shipping companies who offer you a price, and you come along a say, well I've got 100 shippers with immense amount of cargo, I will not accept your bid, I will go to another shipping company and see if I can talk to them, or if really things get bad I can get shipping of my own, different charter ships, so these people couldn't just say take it or leave it, so as a result of this you get lower rates for Australian exporters.

BL So this is the shippers and not the ship owners.

TK The ship owners want higher rates, shippers want lower rates. And we had a bit of a cartel but it wasn't terribly well developed. But the old Part 10 allowed that. So there were some strange things as a result of this. Some of the shippers actually argued against cartels, against cartelisation of shippers. Why did they do that? Well it's in our report. The National Farmers' Federation argued that we should remove all constraints on everything. Their constituents, because they were a federation, nearly all argued that we should retain them. So we wrote to the NFF and they said the reason is that their members don't understand the problem. The stood by their argument. The fact that their members wanted to retain them meant nothing to them whatever, and we then examined why that was so, and of course they represented the big shippers – wheat, meat and so on – and they don't have any problem arguing for good rates, it's the smaller ones. And so we met with a collection of Asia Pacific cartel representatives, we met, the three of us, they were all around 10 or so Filipinos, Japanese, Chinese, the lot, all ship owners together having a wonderful time, and they had asked the Australian representative on this conference to address us, which he did. He gave a paper saying he

couldn't see anything wrong with the way it worked at the moment, it seemed fair enough, and they liked to work with a steady and known environment so that they know whom they are dealing with, and it's been working well for them for many years. Then our chairman said well we are actually looking at the possibility of removing some of the exemptions that exist in the present Part 10. There was an astonished silence, and then one person asked "What do you expect to achieve? What does your government expect in return for giving up cartelising the shipping? " Nothing, they just believe that's the right thing to do at the moment. He said "We don't believe that. There must be something that you want". No. "It looks to me like there is nothing on the table. This is what you must give us in return for the potential of abolishing some restraints of trade effectively."

BL So our position was to negotiate, as for iron ore prices.

TK Anyway they mumbled amongst themselves, and then they got out and as they went out you could hear them mumbling and one of the blokes said "They don't believe a word of it". And that's how silly it was. Anyway to cut a long story short, we came up with our report which said Part 10 was a good idea, it should be strengthened and perhaps even widened, everybody was horror stricken, the government were horror stricken, the *Financial Review* said it was a throwback to the bad old days, etc., etc., and our chairman felt rather bad about it because it was largely an economic thing, but he stuck by it so did the captain who was the other member. Anyway five years later it was reviewed by the Productivity Commission who lo and behold said it was a good idea. In some form it is still there but it has been drawn into sections of the Trade Practices Act which allow you to, what do they call it again, it's a special device by which you can get an exemption if you can show the Commission, look we need it for this particular purpose, so therefore exempt us from the application of the other nine parts of the Act. So I am not sure actually if there's still a Part 10, but the ideas of Part 10 are enshrined in whatever amendments have been made.

So let me, while I'm on about this because I've been *persona non grata* for many governments but I am pleased to say I was not *persona non grata* in the Transport Department of Queensland who have always been willing to discuss matters. So a classical event occurred, it's got a lot of history which I won't go into, when the fad of competitive economics everywhere was attached to the marine port pilots of the port of Cairns. So as a consequence the contract for marine pilotage for the port of Cairns was put to tender and the lowest tender won. Now people had not observed that you have to have pilots, you can't just have a company which gets the tender, then the pilots say obviously we are not going to work for you because you got the tender because you are going to pay us less, or whatever it might be, and anyway we are not interested in working for you. Alas this meant that there would

have been no pilots. It's a long story about how you can't replace marine pilots just by going out on the street and saying "Hey, do you want some work?"; it's a long business and it needs experience for that particular port etc. So they came to me and said well it looks like there are not going to be any pilots for the port of Cairns on the 1st July. They came to me because I gave a paper at the international pilots' conference here which gave the economic reasons why you had to have regulation of pilotage and why it should be supplied by the state, which is something again I wish they had published but they never did.

BL These papers exist in your filing cabinet somewhere I guess.

TK They exist elsewhere as well as far as I know, but the paper showed something which I wished I had made more of, which is that if you don't have a totally independent and neutral arbiter, as a pilot, then there are problems that were discussed in the courts of Britain for 100 years which arise because whomever you put there, if he represents the shipping companies, he takes decisions which are based on what's best for the shipping company, not what's best for the port. If you engage somebody from the port, which many people did, well they might be overcautious as far as the port is concerned and more concerned with that, and so it went on, and in the end in Britain the pilots were engaged by the state on the ground that they had nothing to gain or to lose other than as experts in the question of whether it was safe to go into the harbour or it was not. So the government, the Transport Department said what shall we do? I said "well it's very simple, you just go back to where you were". It was one of those cases where if it ain't broke, what are you trying to fix? You don't even know what you are trying to fix. "Oh" he said, "do you think that will work?" I said "or course, you just write to all the pilots and say as of 1st July you will be the same as you were on 30 June, and they'll all be happy." He said "oh we've got to put it out for objections and so on and so forth, so will you be the guy who takes the can?" "Yes, give them my home phone number, give them three weeks or something like that to object". So I received phone calls from various pilots, most of them said well it's about bloody time, or words to that effect, and there was only one objector. I don't know, he might have had shares in the company. But the whole thing went down very smoothly and everything went back to where it started from.

BL Was the tender honoured? Was it the case that the monopoly tender company provider had to hire the pilots at their old conditions, or did that just disappear?

TK No. He just had to find pilots to provide a service, and he couldn't.

BL Exactly, so he just sort of disappeared because he couldn't honour his contract.

TK Yes, that's right. Well it happened elsewhere, didn't it? We had somebody who won the contract for Northern Territory surveillance, he had no aircraft they found out, so again I don't know what happened to him, hopefully he disappeared as well. It's not their fault, it's the fact that people don't recognise what the reasons are. You could spend 100 years getting it right about pilots and then somebody comes along and says well let's put it all out for tender. The idea that people were all stupid until a couple of years ago is absurd. We meet it time and time again, you only have to look at electricity pricing, my hair stands on edge when I read what they are doing, and the fact that people debated this for many years and there is stuff in very good journal articles, and even the Americans got caught, although I must say they were the only ones who didn't get caught up in this business of competition and everything. They didn't deregulate everything, and the bits they did deregulate had absolutely horrendous results as of course we know. That somebody doesn't know that electricity flows through wires and the instantaneous demand is met by instantaneous supply, that they didn't know that, I mean it's just beyond me.

BL Is it all inventory?

TK There's an inventory of electricity suppliers, that is the machinery, right, which is ready to provide more electricity when you need it, so we have what's called spinning reserve, so some generators are just spinning, they're not producing anything, just in case, so as you approach the peak you bring in some of the spinning reserve which used to be about 7 at night (**1:50:10**) My first article was on the subject of the theory of public utility price which was again 100 years old and leant heavily on Ian Little.

BL All the controversy about electricity companies and gold plating the pricing and so forth, it sounds like somebody has made an elementary mistake in terms of regulatory economics. I thought we had a big literature on how to prevent that sort of thing happening.

TK We do, but once again there is a misinterpretation of the gold plating. The gold plating originated in the United States because of the type of regulation which they had which wasn't bad but there was regulation by rates of return, so you got the bond rate or some fixed rate plus 2%, two percentage points, and you got that no matter what, so to buy a share in an electricity utility in the

United States was like buying into the government. That induced people to invest in as much infrastructure as possible because for every dollar that you invested in infrastructure you were able to earn 2% above the bond rate, so it was the regulation that was at fault, it wasn't anything else. If you'd have said well look we'll make it 1% above bond rate or you put somebody on top of it like the Interstate Commission which then would say that's too much, it wouldn't happen. So you can have ineffective regulation, you can have harmful regulation which induces the reaction, the very reaction that you are trying to prevent. Now let me give you another example. A friend of mine became an economist with the Department of Transport in Britain and imported me a couple of times while I was there, which was lovely, and they had to worry about – I don't know if you want to record this, it's OK – they had to worry about getting the buses to run on time, and one bright spark said let's pay them a small bonus if they bring the bus in on time, and the test results showed that would mean that if they were running behind time they just wouldn't pick up passengers. They had forgotten in the process that the bus wasn't there to run on time, the bus was there to pick up passengers. That's one example. Another one - all test tried, I mean the Brits have got the brains to try these things out – was to give people a small percentage of the takings of the ticket sales. The result of that was that they skipped past the ones that only had one bloke standing there waiting for the bus and went straight to the one where there were ten.

BL Tow truck operators perhaps.

TK So again the reason being they rationalised it by saying that the results of that sort of regulation were worse than if you left the thing alone. We then had – I don't know whether I invited him – but here in Queensland you might remember a man came from LSE, knew about me, said hello, and gave a paper on bus timetables, do you remember that?

BL No, I don't remember that.

TK He was an econometrician. So he gave this quite interesting but hard to comprehend paper, and at the end somebody asked him, so what do you do in practice, because you can't give your bus drivers equations to follow. He said well what we do now is we use these equations to determine roughly what it ought to be, the time, and then we say to the driver "Look, you ought to be able to do better than this, so do your best, this is only the initial timetable, after that we'll do a timetable in consultation with you." The context at last was understood. It's immensely difficult, every intersection

is different at different times of the day. You should talk to a taxi man. I've always said this, talk to the taxis, they know what's going on. So that was another one where regulation went berserk.

[Break for tea]

TK Then there is the recent problem with road tunnels. Some of the tunnels were a good idea for the people who invested in them. It's an interesting observation that the tunnels that we've built around Sydney and Brisbane have all been financial failures, but from a transport point of view they have been a great success, and the reason being that some of the benefits are not capturable, not financially anyway, so while you improve the facilities of getting from Point A to Point B in areas which have lost some of their transport to the tunnel, we haven't yet devised a means by which we charge them for it. So this is a classic example of a public investment which creates uncollectable benefits for the public as a whole. Now we've been very fortunate that the private sector has been willing to pay for them and they've been willing to accept the losses, except that unfortunately some of them of course were worthy things like superannuation funds and so forth, but generally speaking it demonstrates, if you total the value of all the benefits and look at all the uncaptured benefits as well as the captured ones, they would almost certainly exceed the cost which therefore shows that on a benefit/cost study it would have been a good investment.

BL Which raises that broader point about context mattering.

TK Absolutely. And not just transport and public utilities but in almost everything that economics touches. It can't touch it without some sort of context, you have to know what you are applying it to, like the old Part 10; you can't wave a magic wand and create perfect competition everywhere. It's not possible. And it would be stupid, and for that matter it wouldn't actually do anything that would be valuable for human beings as we know them.

BL Do you think that you would become an economist or an academic economist now if you were 20 again would you be dreaming, do you think, to go to university? Can you imagine an alternative, or would you say to yourself, no my son is doing this and that is really what I would like to be doing today, or do you think we still need economists?

TK Oh I think we need economists very badly, but what I like to call proper economists who are not devoid of context. But as to the question whether I would decide to be an economist now, I don't know. I never decided to be an economist in the first place, it just happened. I mean I got a job, I liked

it, and away we went. I had little idea what an economist was when I went to university. I knew there were such people but I didn't know what they did and I'm not sure that I've … I don't think that as a child I ever sat down and said I wanted to be anything. Oh yes, I wanted to be an explorer when I was younger, that's why I went to Australia.

BL I'm thinking about your undergraduate studies, you went into economic history and so forth, it's not as though you were a cookie cutter economist.

TK No, well I did three years of history. The first year was ancient history as it was then known, then two years of economic history which I enjoyed very much, which gave me the context. By the way you know as well as I do that when Marshall had done his great work on the great principles, he spent the next years writing context, a thing called *Industry and Trade*, and what was the other one, commerce and something or other. I read all those because I felt as Marshall did, that he was looking at and trying to understand what really was going on in industry. He was a bit apologetic about it. Remember all his footnotes, he was very apologetic about it.

BL It's almost a cliché to say that economists these days have never set foot in a factory, for example, and that's the sense in which he began, in a factory.

TK Well that's an interesting point to be made there. Recently, very recently, a number of ports in Australia were privatised. One economist who was very strong on privatisation was astonished to find that with each one of them you had to give some sort of undertaking about preventing any kind of competition for the next 15, 20, 30, 40 years, privatisation created a monopoly. Now they were surprised to find that even though I wrote up a thing about the Melbourne link road which had 412 pages I think. What you had to do was you had to compensate private owners if you did anything which affected them. Only now are they finding out that Sydney Airport when it was privatised they had to give some sort of undertaking that for 50 or 60 years no airport would be built within 100 kilometres, and if there was an airport built, they get the first dibs on owning it. If that's not creating a monopoly, I don't know. Go a bit further, the Port of Darwin, it too had to give undertakings about what it was not going to do once the private owner took over. And the classical one is Newcastle – all these are in the last five years – in Newcastle they foolishly privatised it without any undertaking and within six months of taking over, the port charges were increased by 40%, and when they were asked were there some cost increases they said no, it was just that there hadn't been any increase in prices for 20 years. So if you are going to privatise monopolies, you've got to recognise that you are creating

something which will interfere with the way in which you can plan your future transport network because if your plans include another airport or another port or even another road where you've got toll roads, then you've got to pay somebody compensation or you'd better not do it. So you put transport systems into a straightjacket every time you have private/public partnerships, or worse still if it is completely privately owned. And there are some very good examples where people have played this game – elsewhere, not in Australia – to the detriment of the investors as well as to the detriment of the government that allowed the establishment of a monopoly. Do you want to hear one? I think it was in Bangkok, not sure, an airport road was to be built by - and don't quote me on this, I've got it out of newspapers and things – an airport road was built on the understanding that some of the other ways of getting from Bangkok to the airport would be curtailed, put it that way. OK, the thing was built and because these other approaches were not curtailed, it got very little traffic because people wouldn't pay the toll to use it. The German company, I think it was, withdrew, they said you can have the bloody thing, and no sooner had they withdrawn, then they curtailed access by the other roads. So that was one victory.

BL One up for the public sector.

TK Yes, one up for the public sector. That should not be interpreted to mean that I approve of that sort of thing. I'm just saying it's not always the private sector that gains the upper hand. And it has had happened with other things, when you buy something that turns out to be a flop. Unfortunately most of the things we've sold in Australia, like Queensland Rail, have paid a motsa, but they should never have been sold, and there are lots of reasons for that which will take another 50 pages.

... (2:05 pm)