

Essay title : **Hidden cost of good intentions : what is seen and what is not seen.**

Introduction.

It is the purpose of the present essay to analyse three government actions, which despite being well intended, comport hidden cost. Because "*one of the great mistakes is to judge policies and programs by their intentions rather than their results*"^[a] and government solution sometime not only fail to solve problems, but even make it worse^[b]. The problem with government is *neither evilness, nor incompetence*^[c], but because not only central planning is impossible^[d], but it can not do much other than prohibit, coerce and restrict. Instead it is liberty, enables individuals to solve problems and create wealth, because *Governments never learn, only people do*^[e].

The three selected actions are : Subsidy to electricity, market relocation and transportation price control.

Expensive Subsidized electricity.

With intent to guaranty affordable and widespread access to electricity, thus promote economic development, the government instituted public companies to provide electricity. But despite consecutive years of investment and the creation of more accountable, at least size and administratively wise, companies which handles production and distribution separately, black outs and a poor grid is still the norm, especially during the rainy season. Will there are certainly myriad of technical reasons for the situation, what is at work is likely **Subsidies**.

It is intuitive to see the positive effects of subsidy, especially in Angola, since instead of taxation, most of the financing is done from the petroleum rent. Therefore tax extraction costs and distortions of the economy, such has dead-weight cost^[1], are not the problem because financing is *somewhat* neutral in this aspect. The question is rather what is subsidized and not how it is financed.

The subsidies are central to the state-owned companies and creates such a structure of incentives different to most commercial ventures. First of all it is an explicit guaranty of revenue independent of service. The problem is that prices has the economic function of conveying information. For instance, high prices signals that there is high demand, since individuals are outbidding each other to claim parts of the scarce resources, and that *whoever* have capital, *might create value* by satisfying the demand. Low prices, in the other hand, usually signals that demand is somewhat satisfied and thus that there is no reason, to invest more resources other than *waste*. This important economic function of prices^[2], is what enable free individuals to coordinate economic activities despite the lack of **central** planning.

In the other hand, central planning making depend *much* on subjective considerations, such has political winds or personal bias, is blind of supply and demand. Therefore investment is concentrated in cherry picked areas, such has the dwindling old town, at the detriment of the growing suburbs and in building eye pleasing white elephants. This has led to a mismatch, not only in term of capacity, but also of geographically distribution, between the distribution grid and the consumers.

But this miss-allocation of resources, created by subsidies, is just part of the problem, since most of the damage arise from laws^[3] that transform it in *costs*. Under said laws, there is a state monopoly, under which private ventures *might* be tolerated, provided the purchase of an *expensive* and *valueless* licence. These private ventures, in the pursuit of profits tries to provide electricity in areas neglected by the state companies. In this incarnation of Adam Smith *invisible hand*^[4], the underlying free market tries to correct the miss-allocation of resources, but the cost of doing so is passed to the consumers ... which happen to be low income people living in the suburbs. But this impromptu extension of the grid lead to consumption far exceeding planned capacity.

This overloading of the grid is at least beneficial, since the information that there is a scarcity of electricity have finally made it to the state companies in a channel other than price. But because the opportunity cost of rationing is *lower*, than the cost of increasing service, with no effect to revenue, the state-owned companies prefer rationing to expansion.

While subsidies are a politically elegant solution, cheap and accessible electrical power have not been achieved. Instead it has caused a large scale miss-allocation of resources on large scale and the cost of correcting it is passed on the private initiative or in other word subsidy has created cost that would otherwise not exist. It seems preposterous to assume that a private sector *might* emerge in such poor country and that government is indispensable ... but individuals already tries to satisfy their energy needs now, being it by private ventures trying to complement the deficiencies of the grid and importation of fuel powered generators. There is in principle no impediment to private efforts to marshal enough capital and satisfy demand except the current regulations, licensing and especially monopoly of state companies.

Markets, waste and transit

In order to solve transit and excess waste problems, the government once decided to relocated one of the capital's busiest markets, to a location farther from town. Such relocation obviously required mild police force, to deal with whoever would defy the removal order. Indeed the cheer number of anti-mutiny police easily overcome the small crowd which protested by mounting a road barricade. But the planers would soon discover that not only there is a limited set of things individuals can do at the end of the barrel of a gun, especially when is involved Opportunity cost.

The supposition made by the planers, that the vendors simply had choose that spot to set up market and thus they could be ordered to move to another, was mistaken. Because "*there are things that are the fruit of human action and not of humans minds*"^{[5][6]}, the location was not the choice of the sole vendors of the decision or of any particular individual, but the result of social interaction among individuals.

The said market was the point were two major transportation axis crossed. It was therefore the local were not goods from both sides could be brought at the cheapest price, but also clients. From a lengthy process of trial and error, both vendors and clients, which had chosen to conduct business there prospered in relatively to people in other place. Therefore it became *evident* that this was the best place to have a market and the relocation was against this social decision.

Contrarily to the assumption of the planners, the decision created an additional cost not only for the vendors, but also for the clients. Because the increase of cost was not connected to any increment in value, customers voted with their cash to nullify the relocation decision. The vendor faced the *choice* of accepting the relocation and loosing business or the next cheapest option, being to uphold their clients decision and face the increased cost of persecution ... and took the later.

The government reacted to the unexpected civil disobedience by resorting to ever greater levels of violence, even using mounted police officers. Despite spending much resources, the effort ultimately failed either to solve the transit, the waste problem or relocate the market.

But if the "*invisible hand*" is so good in finding place for a market, why is it not good to treat of the transit and waste problem ?

Firstly, having ownership of the roads, the state have *sole* responsible capacity of the roads and therefore traffic. What is really interesting is why individuals, which likely don't let mountains of waste accumulate in their homes, would do it in their workplace ? The difference is property rights.

Because the market was public place, no vendor had *incentives* to bear the cost of cleaning and instead instead opted to the next cheapest option by transferring it to others by dumping it in the vicinity. Instead of resorting to violence, the problem could have been solved by making the vendors bear the cost of their action, through a shared ownership over the space and therefore give them incentives to keep it clean.

Taxi expensively cheap.

After public outcry following yet another price hike by the private taxis operating in the capital, government decided to keep fare *affordable*. While what was seen was that under the pressure of the police, the taxis lowered the fares, it wasn't seen that costs effectively increased.

Every economic activities have *costs*, these are generally capital, operational and risk-related. When the the return is superior to the aggregate of the costs involved, the activity makes economic sense or otherwise it will not continue.

What happened was that the method used by the police to impose lower fares, was an *additional* cost. Falling in the police net meant at best, losing one day of income and at worst having the vehicle confiscated indefinitely against a hefty fine, or in other words not only loosing expected income but previously earned. To cope with this additional cost, prices fares needed to adjust.

But since by increasing fares also increased the chance of trouble with the police, taxis made took the next cheapest option and reduced services by running shorter routes. While technically abiding to the government *orders*, real prices increased. The situation could have been temporary, but by confiscating vehicles and putting providers out of business, the government had succeeded in severely reducing the supply of taxi service and therefore increased the price even more.

The use of force did not address the causes of the price hike, which are stiff tariff to import

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cars, expensive licensing, degrading roads and constant harassment. The tentative of price control by the government simply added an additional cost of on top of these and increased the fares even more. But when "*when faced with problems caused by interventions in the free market, the government generally double down*"^[7]. Simply declaring lower fares does not change the reality that cost are high and even if individuals might at first curb to arbitrary, the situation is untenable since "*if something cannot go on forever, it will not,*"^[8].

References

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- [2] **F. A. Hayek**, (1945) *The Use of Knowledge in Society* in "**The American Economic Review**".
- [3] Including as some of the main ones: A ENE.U.E.E. rege-se pela lei nº 11/88, de 9 de julho e pelo presente estatutoe, no que não estiver especialmente regulado, pela legislação aplicável em vigor no país; Lei nº 14-A-96 Conduta de todos os que produção, transporte, distribuição e utilização de energia eléctrica; Lei Geral de Electricidade O presente diploma estabelece os princípios gerais do regime jurídico do exercício das actividades de produção, transporte, distribuição e utilização de energia eléctrica; Decreto nº 45-01 Regulamento de distribuição de energia eléctrica; Decreto nº 41-04 Regulamento de licenciamento de instalações de produção, transporte e distribuição de energia eléctrica; Decreto nº 27-01 Lei geral do exercício de actividades de produção, transporte, distribuição e utilização de energia eléctrica; Decreto Lei nº 4-02 Criação de uma entidade reguladora das actividades exercidas no sector eléctrico nacional; Decreto-Lei nº 3-00 Criação do Ministério de Energia e Águas; Resolução nº 21-02 Estratégia de desenvolvimento do sector electrico de Angola; Resolução nº 13-03 Proposta do saneamento financeiro do sector electrico de Angola, Empresa de Distribuição de Energia de Luanda.
- [4] **Adam Smith** (1776) *The Wealth of Nations* , Book IV, chapter II, paragraph IX.
- [5] **Adam Ferguson**, *An Essay on the History of Civil Society* (1767), Part Third, Sec. II, Paragraph 7.
Sic : "the result of human action, but not the execution of any human design".
- [6] **F.A. Hayek**, *Kinds of Order in Society* (1966), paragraph 2563
Sic : It is also a very complex order. And it is an order which, though it is the result of human action, has not been created by men deliberately arranging the elements in a preconceived pattern.
- [7] **F.A. Hayek** *Law, Legislation and Liberty*, volume 1
- [8] **Herbert Stein** (1997-05-16). "Herb Stein's Unfamiliar Quotations". Slate magazine. Retrieved 2010-03-30
- [a] **Milton Friedman** - Interview with Richard Heffner on *The Open Mind* (7 December 1975).
- [b] **Milton Friedman**, *An Economist's Protest* (1975), p. 6 – *sic*: "I think the government solution to a problem is usually as bad as the problem and very often makes the problem worse". Often quoted as "The government solution to a problem is usually as bad as the problem."
- [c] **Steven Horwitz** (2010) *Neither Evil Nor Incompetent: What's the problem with government?*
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- [d] **Ludwig Von Mises** (1920) *Economic Calculation In The Socialist Commonwealth*.
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- [e] **Milton Friedman** - Statement made in 1980, as quoted in *The Cynic's Lexicon : A Dictionary Of Amoral Advice* (1984), by Jonathon Green, p. 77