Bigger or Smaller Government?

Academy of the Social Sciences in Australia

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Bigger or Smaller Government?

PAPERS FROM THE SIXTH SYMPOSIUM
OF THE ACADEMY OF THE SOCIAL SCIENCES IN AUSTRALIA, 1982

Edited by
GLENN WITHERS
(Australian National University)

Academy of Social Sciences in Australia

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Contents

Preface

The Academy of the Social Sciences in Australia discusses at its annual symposium a topic assessed to be of major contemporary significance. In November 1982 the Academy met at the Australian National University to discuss the topic of *Bigger or Smaller Government?*, an issue which has been central in political debate, not only in Australia but also in the United States, Great Britain and elsewhere.

For the 1982 meeting some of Australia's leading scholars in the fields of social philosophy, politics and social and economic management were invited to lead discussion on this topic. These contributors were requested to address the issue of the desirable size and nature of government within the framework of our political democracy and federal structure. What really are the options open for Australian government, whatever the party in power?

To render such a question manageable four subsidiary questions were asked:

- Is there an accepted philosophical basis for *good* government?
- Compared with other countries where does Australia stand: have we big or small government?
- Does small government meet the test of equity? Who are the winners and losers under either system?
- Can large government manage the economic and social system to attain stated goals?

Major papers were commissioned to address each of these themes and smaller papers were commissioned to open discussion in each of these areas. The five parts of this volume (including summation) reflect this organisation of the topic. Unfortunately it was impracticable to include a complete record of open discussion, but a list of all registrants is provided and the 'Review and Major Conclusions' section seeks to reflect the full proceedings of the symposium.

In attempting to respond to the important issues defined, the papers herein illustrate both the strengths and the weaknesses of contemporary social science. The papers are reproduced as provided by the authors, with only minor editorial changes. In some cases the papers do incorporate authors' revisions subsequent to the symposium, but alteration has been kept to a minimum in order to appropriately reflect the spirit of the Academy's symposia, including the diversity of views, styles and methods that characterise this branch of learning.

Particular thanks are due to Phillip Hanratty for creative editorial assistance and to Cherie Cromwell and Erica Harriss for excellent typing and administrative support.

Glenn Withers
Research School of Social Sciences
The Australian National University
September 1983

List of Tables

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I

Small Government: Some Issues

J.A. Passmore

At the level of ideals we can range governments on a scale which runs from the zero of anarchism, through the minimal government of libertarianism, to terminate in that form of totalitarianism in which government is omnipresent. No actual government satisfies these extremes; actual governments lie in the middle ranks, if, of course, at very different points.

In the decades following the Second World War the tendency of governments throughout the industrialised world was to move ever further up such a scale. This was not in response, at least in the West, to a widespread enthusiasm on ideological grounds for 'large government'. 'Large government' was not, in that period, a slogan, as 'small government' is now a slogan. Rather, governments enlarged, by any of the criteria I shall later be enumerating, in response to specific demands. The money was there, in a period of increasing affluence, to subsidise, to initiate; the demand was there for greater social equity, for welfare services, for protective regulations, for a more developed culture, scientific and artistic. The enlargement of government was a by-product of the satisfaction of these demands, not an end in itself.

Except perhaps in the United States, it met with very little in the way of protest or intellectual opposition. An occasional maverick like Hayek or John Anderson might argue that this was the primrose path to the servile state. But they were unheeded. That is not at all surprising. Each individual, each institution, was more interested in securing the satisfaction of immediate demands than in the resulting growth of government. And the government was able to satisfy a wide range of such demands, whether in response to middle-class consciences or less disinterested petitioners. Some countries moved farther up the scale than others: Sweden, for example, much further than Australia. But the general movement was everywhere in the same direction and in a manner which began to seem irresistible.

The situation now is very different. Even in such Eastern European countries as Hungary and Poland the trend has been towards small government. I shall concentrate my attention on the English-speaking world, on the Fraser-Thatcher-Reagan parties, here-in-after abbreviated to FTR parties. One ought not to ignore the fact, however, that there is one striking exception to this trend: the election to power of Mitterand. This might arouse the suspicion that we have been witnessing nothing more than the familiar tendency to vote out of power whatever government is in power when a depression strikes. But that is not, I think, the whole story. The Conservative parties, no less than the Labour parties, had presided over enlarging governments; their conversion to small government is the interesting thing, the movement from Heath to Thatcher, together with the fact that even socialists nowadays are to be heard busily dissociating themselves from what they call 'governmentalism'. Indeed, Mitterand himself is trying to reduce the powers of the central government and reinstate rural, communal, virtues, for all that he is simultaneously nationalising.

To characterise the FTR parties as 'small goverment' parties is, however, in certain respects, misleading. They have not been converted to a thorough-going libertarianism. Of course, like any other political party in a democratic state, they represent a coalition of views; some of their members stand close to doctrinaire socialism. And, in general, libertarian economists and philosophers supply such parties with an occasional slogan rather than a detailed guide to practice, just as German Social Democratic parties used to quote Karl Marx until they discovered Karl Popper. A less misleading description would be 'smaller government' parties. 'Smaller' here means smaller than we have been accustomed to expect; the general expectation, in the present historical context, is for a very considerable degree of government intervention. FTR parties are trying to arrest a trend, and in some measure to reverse it, rather than to construct a libertarian Utopia.

Furthermore, 'smaller' means 'smaller in certain respects'. If in some respects the FTR parties set out to diminish the role of government, in other respects they do not. One government can be smaller than another in many different ways, such as: the percentage of the work force it employs, the percentage of the Gross Domestic Product which comes into its hands as taxation, the range of activities in which it directly engages, the range of activities which it supervises or regulates, the range of activities which it subsidises, and the range of advisory assistance which it offers.

(3)

'Smaller government' parties generally let it be understood that the governments they lead will be smaller in each and every one of these respects than the governments of their predecessors, even if they place particular emphasis, for electoral reasons, on the first two of the objectives cited. That is not implausible. These various ways of becoming smaller are not only perfectly compatible, but can stand in a means-end relationship. There is no other way of seriously reducing either taxation or the number of public servants than by substantially cutting back on activities. True enough, when FTR governments first come to power, they normally demand all-over cuts in expenditure on the assumption, not wholly unjustified, that there is a degree of wastefulness and inefficiency in the public service which will allow expenditure to be reduced without any considerable reduction in its range of activities, thus postponing the politically more uncomfortable decision of what to cut. But reductions of the across-the-board sort can easily be reversed by more spendthrift successors. In so far as FTR governments wish to make permanent structural changes in their society, to destroy institutionalised patterns of expectation, they have no option but to remove themselves from particular areas or, at the very least, to diminish their participation to a degree which involves institutional changes, that is, some dismantlement. Of course, what has been dismantled, a later government can, in principle, reconstruct: but not easily if, for example, a team of scientists is broken.

Nevertheless, these ways of becoming smaller are in some measure independent. A government can become smaller in respect to the number of persons it employs by contracting out, or by privatising a profitable enterprise, or by setting up statutory authorities—here the question arises, of course, as to who counts as a public servant—without in the process reducing its expenditure. It can reduce expenditure by not making large defence purchases, while being forced, as a consequence, to employ more manpower on maintenance and repairs. 4

More obviously still, a cut in the range of activities does not necessarily bring in its train a reduction in taxation, if at the same time it is accompanied by a rise in expenditure in some other area. But why should a 'smaller government' party permit such rises? Well, it has to be remembered that the policy of major parties in a democratic society cannot be summed up in a single objective. The FTR parties could also be described as 'stronger government' parties; they want to spend more, not less, on defence and on law and order. There is nothing paradoxical in this conjunction of the traditional conservative emphasis on stronger government and a quasi-libertarian emphasis on smallness. One of the more powerful arguments for 'smaller government' runs something like this: a government has central functions, which are the primary reason for its existence; in the course of multiplying their activities governments have lost sight of their central purposes and are not performing them efficiently. Of course, it is not denied that the government of the Soviet Union succeeds in being both large and strong. But democratic governments are subject to constant criticism and pressure. If they enlarge their range, they spend so much time, so the new conservatives argue, replying to critics of activities which they should never have embarked upon, that their proper business is neglected. Add to that general argument a conservative specification of the central tasks of government, namely to defend the life and property of its citizens and to maintain their established values, and one can see how naturally a party can set itself up as favouring both smaller and stronger government.

Defence, however, can be expensive. If the 'smaller-stronger' policy can be acquitted of the charge that it is ideologically inconsistent, the fact remains that governments can find it politically very difficult to trade off strength and smallness at a politically acceptable level, so as to achieve strength and yet reduce taxation.

Governments become large without too much difficulty. Why should they find it harder to become smaller? Well, in the first place, governments became larger, I said, in response to social demands. Consider the case of regulations. The idea of regulating a particular form of activity—let us say the sale of pharmaceutical products—did not originate within the government, even if the intricacies of its final formulation may owe more than a little to the professional caution of bureaucrats. It emerged out of social pressures, in response to what were seen as peculiar dangers. Sometimes it will meanwhile have become plain to the interested parties that the regulation is ineffective or has undesirable, unintended consequences. Then there may be no problem in repealing it. In general, however, the demand for the regulation does not immediately expire on the election of a new government. Meanwhile, those who originally opposed it have learnt to live with it, to take advantage of it; they have institutionalised around it. So even though there may be general agreement that there are too many regulations, it does not follow that there will be a corresponding enthusiasm for the abolition of any particular regulation. Far from it. In pursuance of its strength-through-smallness policies, indeed, a government may actually find itself introducing new regulations rather than abolishing old ones.

Something similar is true of financial supports of one sort or another. Let us remember that 'smaller government' parties are not made up of fanatical libertarians. They have a great many other interests, including an interest in staying in power. In the unions, they have extremely powerful opponents, who must be in some measure placated; they have supporters who must be gratified. We need not be at all surprised that one of Mr Fraser's first actions was to replace the superphosphate bounty. Rural areas are the most faithful supporters of smaller-stronger governments.

Furthermore, expectations have been built up during the years of larger government; institutions have been built around them. Take the case of support for culture, for the arts, for science, for scholarship. This is a relatively new form of subsidy and its abolition would not damage the interests of the government's powerful friends, or evoke powerful union protests. It is, then, a prime candidate for abolition. Yet that has not happened. True enough, both the arts and the sciences have suffered cuts. But the cuts have been distinctly discriminating. In all three of the FTR parties there has been much talk about 'excellence'. Their objection, it is explained, is not to subsidising, but only to subsidising the second-rate. The very expensive arts of ballet and opera have come off well; much cheaper experimental theatre, with its reputation for political and sexual radicalism, has come off worst. In the sciences, the social sciences, tainted by their association with sociology, are particularly under fire. And the emphasis in science has shifted towards the technologically applicable. In other words, special interests, particular antipathies, govern the cuts rather than 'smaller government' principles. The fact is that support for the arts and for science is now entrenched in our society; opera and ballet have established friends, buildings have been constructed around them.

But is it not 'smaller government' policy to 'hand back' such activities to the private sector? To talk of 'handing back' implies two things: the first, that there once was support for these activities on a scale sufficient to maintain them, the second that this support still exists. On the first point, pure science has never been substantially supported by private enterprise—that is why the United States contributed so little to science before the Second World War—and private support, outside the United States, did not sustain the arts to a degree which would now be regarded as acceptable. (In the case of the United States, one might ask whether tax-deductions are very different from subsidies). On the second point, much of such support as did exist relied upon the voluntary efforts of women, seeking a substitute-career. That source of strength has now largely vanished, as have the institutions through which it was channelled. One might still talk, of course, of handing <u>over</u>, as distinct from handing <u>back</u>, support for the arts and sciences, but then without any implicit assurance that they would still continue to exist.

In the financially more important case of welfare, a similar stiuation applies. There are now expectations about the level of welfare payments which are very different from the expectations of the 1930s. There is still a considerable body of support for the view that they are too low. The institutions which, on a private basis, used to dispense charity have been attenuated during the period of public support and the recipient of such private charity has come to see it as more demeaning than dependence on the public purse. To talk in terms of handing over responsibility for welfare to private charity is to think in terms of institutions which no longer exist. Governments can make certain cuts in welfare payments by introducing means tests and implementing them more rigorously. They can take advantage of inflation to reduce the real cost of welfare payments by not indexing them. But to attempt to go further than this, to eliminate whole classes of welfare payments, may alienate supporters—for, as I have already said, support for 'smaller government' does not entail support for those particular forms of smaller government which affect one's own interests, and many welfare payments now go to the middle classes—and at the same time arouse ungovernable opposition.

The situation is at its most difficult, perhaps, when what is proposed is the withdrawal of established modes of support for industry and agriculture. Here, the expectations generated by public support, whether in the form of subsidy or tariffs or special allowances, have been institutionalised in the purchase of property, the setting up of industries, the making of careers and the like. The FTR parties have in fact often been compelled to increase rather than to reduce these forms of support. This may be set down to the fact that they came to power in a recession. But a recession, so it is often argued, is from the standpoint of 'smaller government' a test of efficiency, a case when, particularly, the weaker should be permitted to go to the wall. The fact that FTR parties are prepared to use this argument in the case of bankrupted small concerns but not in the case of publicly conspicuous industries, where corporations and unions join forces against them, is a good indication of the difficulties they face in maintaining consistent policies.

One other thing such a party may try to do is to privatise government activities. It could, in principle, sell off the post office, telecommunications, and those tranport industries which it controls, to private bidders. To what degree it can do this, of course, depends on how far nationalisation has gone; the Thatcher government has more to sell off than the Fraser or the Reagan governments. But in every case the selling government finds itself confronted by a trilemma:

(1) If the enterprise is profitable, then to sell it will not be a contribution towards the lowering of taxation, although it may reduce the number of public employees.

(2) If it is intrinsically unprofitable, it is scarcely likely to attract purchasers, except on conditions which a smaller government party is unwilling to accept—subsidies or something equivalent to a subsidy.

(3) If it could be made profitable under certain special circumstances, these special circumstances may involve actions which are unpalatable to its supporters—for example, cut-backs, by a privately run post office, to rural services or a pricing policy which makes them more costly—or would arouse ungovernable hostility amongst its opponents—for example, granting the right to import cheap labour or to ignore labour laws.

Nothing in these remarks is meant to suggest that 'smaller government' parties are bound, when they assume power, to find all their efforts frustrated. Reagan did deregulate the airline industry, even if neither Fraser nor Thatcher look like following his example; subsidies to the arts have been reduced and so have many welfare payments; some government activities have been privatised. All that I am suggesting is that the path of a government which sets out to become smaller is not an easy one. Expectations for larger government have been institutionalised, not least on the part of that very private enterprise which such a government relies upon to take over from it. The idea that it need only withdraw so that private enterprise could proceed unfettered has proved to be untenable; in area after area the option has been either to let a form of activity disappear entirely or to support it governmentally, whether the activity in question be agriculture, industry or the arts. To accept the first alternative, of letting an activity disappear, is easy enough when the activity in question is either positively unpopular or regarded with general indifference. But more often than not it is supported by powerful friends, or its disappearance would provoke great public hostility, or support for it has been so institutionalised that it is difficult to dismantle—as very obviously is the case of the automobile industry.

So far I have been talking about the kind of problems which, in our sort of society, any smaller government party is likely to encounter when it tries to put into effect its policies without producing consequences it is unwilling to suffer. I do not apologise for this approach. For if we support smaller government it is not enough, in my view, to do so as an end-state; we have to face the question how that end-state is to be brought about, from the point where we now are, and what are the likely consequences of doing so.

At this practical level the position of the anarchist or the pure libertarian is a particularly difficult one; I do not believe that he or she has any hope of achieving his or her ends. At the theoretical level, however, he or she finds life relatively easier. Every government, however small, ought for the anarchist to be smaller; every actual government ought for the libertarian to be reduced to a point at which it confines itself to the protection of life, liberty and property—especially, in my experience of libertarians, the last of these. The only problem is with the theoretical foundations of these positions, with whether we are willing to believe, with the anarchist, that government is actually the source of those evils it pretends to protect us against or with the libertarian that human beings have natural rights which no government ought to touch. But these are very serious problems indeed.

Suppose, however, we are trying to argue for the actual position taken by 'smaller government' parties, that government ought to be smaller than it is but still larger than the sort of government envisaged by the libertarian, let alone the zero government of the anarchist. Then we are put into the theoretically more complicated position of having to construct special arguments in order to show that a particular government is larger than it ought to be in particular respects; that a smaller government would solve the problems that the larger government is confronting without having other disadvantageous consequences. We cannot rely on the premise either that all government is bad or that all government is bad when it goes beyond protecting natural rights.

The demand for smaller government arises out of a dissatisfaction with the way things are going, especially when programs of economic management issue in stagflation, and welfare programs do not seem to be fulfilling the high hopes held out for them. Like many forms of contemporary socialism, the smaller government view is often nostalgic; as socialism looks back to a time when there was 'genuine community', so smaller government parties look back to a time when private enterprise flourished. They descry four principal sources of the decline in private enterprise: taxation, regulation, welfare schemes, and a swollen bureaucracy. They commonly add that the State schools have inculcated the wrong values and that academics have weakened public confidence in private enterprise.

The first issue, then, is this: 'Has the welfare state in fact failed?'. To discuss whether it has indeed failed one has first to spell out the nature of the supposed failure, perhaps as follows:

(a) Has the welfare state failed to relieve suffering?

(b) Has it failed to raise the level of culture?

(c) Has it failed to equalise, whether wealth or opportunities?

(d) Has it given rise to an economic collapse, so that such gains as it made could only be temporary?

If the answer to all these questions is 'Yes', then pretty obviously the welfare state has failed. But it does not immediately follow that smaller government would be better; what is needed might be larger government.

Two other things are worth noting. The first is that if the answer to some of these questions is 'Yes' and to others 'No', some would dismiss the negative answers—let us say to (b)—as unimportant. The second is that even though these are questions which cannot be settled without empirical inquiry—and I would want to insist on this as against those who suppose the answers to be self-evident—empirical inquiry cannot determine whether it is indeed unimportant what answer is given to (b) or what is to count as 'culture'. In the case of (d), one might add, the question of whether the welfare state has given rise to an economic collapse, as distinct from finding itself confronted by a collapse which has other sources, involves a great deal more than straightforward observation. Only too typically, it involves counter-factual hypotheses about what <u>would</u> have happened if... One can readily understand, then, why it is easier to assume that the welfare state has failed, than to demonstrate that it has done so.

As I indicate, there is, in any case, no immediate deduction from 'the welfare state has failed' to 'we should have smaller government'. To establish that conclusion we need the additional premise that it failed because it intervened, at inappropriate points, in the economic life of the community. I say 'at inappropriate points' because proponents of smaller government do not usually argue that all such intervention is disastrous; they make an exception of monetary control. If we go on to ask what are the inappropriate points then we get such answers as 'it taxed too highly, it instituted too many controls, it subsidised too extensively, it took over too many functions'. But how is it to be determined that a government has gone too far, in any or all of these respects, and that private enterprise would do better?

To this the 'smaller government' answer is that a government goes too far when it weakens certain forms of willingness: to work, to invest, to take risks, to take responsibility. At this point, then a number of issues arise:

(a) Do the actions of the welfare state indeed diminish these forms of willingness?

(b) Would the actions of a larger government do so even more?

(c) Would the actions of a smaller government do so to a lesser degree?

(d) If a smaller government weakened these forms of willingness to a lesser degree, would it in consequence succeed where the welfare state has failed, or in respect to those failures which are important?

and (e) Would smaller governments act in ways which have other effects, which the actions of welfare governments do not have, and which would be undesirable?

In terms of my earlier discussion, these issues are, of course, even more complicated that they initially seem to be. Some kinds of smaller government party, particularly coalitions, might act quite differently from other smaller governments; the question always arises <u>in what respects</u> a government would need to be smaller if its smallness were to have the supposed desirable effects. Even questions about the effects of lowering taxation might have different answers depending on what kind of tax it is, direct or indirect, whether it is imposed on the consumer rather than on the producer, whether it lends itself or does not lend itself to evasion. And a great many other issues are raised by the smaller government movement. Here is a selection:

(a) Is it true that what is done by the public service is always better done by private enterprise? If not, when is it better done?

(b) Is it true that state schools weaken the qualities, the kinds of willingness, which smaller government parties take to be desirable? If so, do private schools weaken other, equally desirable, forms of willingness?

(c) Does every sort of welfare payment lessen the independence of the recipient?

(d) Will smaller government increase the welfare of the most disadvantaged members of the community? Or will is simply make the rich richer?

One could spend all day disentangling and discussing such issues. In fact that is the very task of this symposium. But I hope I have already been able to justify four very general conclusions, affecting the form of all such discussions:

(1) As soon as one begins, from any other than an anarchist or strictly libertarian point of view, to consider whether a particular government should become smaller in particular respects one is confronted with not one, but a maze, of issues.

(2) Some of these issues, and sub-issues, can in principle, be resolved by empirical investigation, even if such investigations are often peculiarly difficult, as when they depend on judgments about how people <u>would</u> behave under

unrealised circumstances.

(3) In other cases the debate really turns about such questions as whether the continuance of certain activities is desirable or whether one form of society is better than another, questions which empirical investigation cannot settle.

(4) This does not mean that there is an absolute distinction between questions of fact and questions of value, such that the first can have no bearing on the latter. By showing in detail what would have to be done in order to move to a society which would accord with their ideals, we may persuade people to give up taking that state of society as their ideal, although they might still say, for example: 'How nice it would be to live in the sort of society the anarchists envisage'.

II
Where Does Australia Stand?

D.A. Aitkin

Some Introductory Remarks

Most of those who have written about 'big government' have been against it. Most of its defenders have made clear that they perceive its costs, even though they feel that its benefits outweigh them. Most of the disputants write and speak with unusual force and passion. That much can be said with some confidence. Nearly everything else in this currently fashionable debate needs to be approached with some caution, for there is some confusion about what 'big government' is, and little argument about what ought to be measured or what ought to be compared. Those fond of measuring seem to rely on indices like the proportion of Gross Domestic Product (GDP) represented by government expenditure or by some component of it thought to be especially significant. Another favourite is the proportion of the total workforce made up by government employees, defined in various ways.

There are, it will be apparent, very real difficulties involved in (a) deciding on whether or not a given item ought to be included in a measure, (b) producing accurate statistics of this kind for any country, and (c) producing truly comparable sets of statistics for a group of countries. Even were there no such problems, it can be argued that one essential index of 'big' government must be its 'reach', or ambit. How involved is government in regulating economic activity, or social behaviour, or industrial relations? How much does it promote cultural activity, or sport, or religion? What sort of behaviour is prohibited, and how seriously are prohibitions enforced? The size of the government workforce or of government expenditure is an unreliable surrogate here, for obvious reasons. You do not need large increases either in public spending or in the public workforce to increase government control in many areas of economic or social life. Indeed, the costs of such control can be largely passed on, to the private sector, as in the regulation of motor vehicle use. No simple measure of ambit has yet been developed, and it is permissible to doubt that it can be. The volume of rules and regulations put out by governments won't do. Like the enumeration of Cabinet 'decisions' published for a time by the Whitlam government, such a collection will always include the trivial as well as the important—and reasonable people will not always agree on which is which.

The term 'big government' carries with it the seeds of comparison, but of course, not always the same kind of comparison. People variously claim that our government is bigger than it ought to be, or bigger than it once was, or bigger than that of some other country, comparisons with which are useful to their purposes. Comparisons over time and between countries bring with them familiar problems. Quite apart from methodological bogs, there is the problem of changing statistical bases. For example, Australian spending on social welfare increased substantially throughout the 1970s, partly because of changes in eligibility criteria and the introduction of new benefits. These changes represented, if you like, an enlargement of the welfare state, and therefore, on one argument, an example of big government getting bigger. But the increase in welfare spending owed also to simple demographic causes, especially an increase in the number of the aged, and to changes in economic conditions which produced more unemployed (Social Welfare Policy Secretariat, 1980). I would, myself, be reluctant to argue that an increase in the number of old-age pensioners or unemployment-relief recipients is equivalent to an increase in 'government'. Or compare Australia and Denmark in this same area of social welfare. Denmark spends much more on social welfare than does Australia. But then Denmark has a much higher proportion of aged and elderly people. Does Denmark have bigger government than Australia in this respect? I would want to ask more questions.

The debate over big government is in fact a series of interlinked debates, which have different foci and take place at different times. The more important ones seem to be the following:

(a) Western democracies are becoming 'ungovernable', as public expectations of what governments can do now exceed governments' real capacity to deliver. The result is a decline in the authority of governments and thus in the level of civil order (Brittan, 1975; Rose, 1978; Rose and Peters, 1978).

(b) In any case, governments ought not to stray into the private world. A government not only has no business in the bedroom of the citizen, but it has no business either in broadcasting, cultural matters, sport, or even education (that is, in making rules about what should or should not be taught, though, no doubt, there are root-and-branchers who deny that governments should tax citizens in order to provide school buildings and staff).

(c) There is a somewhat mysterious level in the size of government beyond which communities will revolt. (This level seems to rise over time: Gladstone apparently set it at 11 percent in 1860, Colin Clark at 25 percent in 1945, Milton Friedman at 60 percent in 1976.)[1] In any case, too much government is bad, both for the society and for the individual (Friedman, 1980, and many others since and before, including Adam Smith).

(d) There is an international race to be Most Productive, or to be Best Country to Live In (= wealthiest per capita), and Australia is losing it because of the stranglehold that big government exercises over private enterprise, among other things (Gutman, 1982).

(e) Per contra, Australia is losing the race to be Most Civilised or Most Humane Society (= highest proportion spent on social welfare) because Australians and/or Australian governments are selfish, keep the level of government expenditure below its proper level, do not tax the rich enough, etc. (Stretton, 1980).

(f) High levels of taxation reduce incentives, and the community pays for that eventually (Carnegie in Wilkes (ed), 1980, pp.19-21, and many others).

(g) The public sector/private sector distinction is not a helpful one. Economic activity pays no attention to it in practice (Stretton, 1980), and institutional variations are immense, from statutory corporations that act like private businesses to quangos which are formally quite outside the public domain yet instrumental in governmental policymaking or administration.

'Big government' may not mean very much outside the world of rhetoric; perhaps we need a better term.

Some More-or-less Meaningful Measurements

It will be clear, I think, that these perspectives cannot be reduced to a single one, and that some of them are ideological positions as much as contributions to a debate. But a degree of simplificiation is possible, and it emerges from an attempt to set Australian experience in context, using available statistics. The caveats entered above should be borne in mind.

1. Government is big when a substantial proportion of the workforce is employed by it. How big is substantial? (How big is 'big'?) Whatever the answer, it is abundantly clear that the world-wide trend is for the proportion to have risen in the postwar years, and no less clear that Australia is something of an

exception to the rule. Table II.1 provides an example, using a wide definition of public enterprises. A narrow definition, restricting public employment to civilians employed in the public or civil services, reduces the proportions considerably (by half, if you want a rough measure) but emphasises the tendency to increase.[2] Employment in general government, excluding armed forces, nearly doubled as a proportion of the total civilian labour force for most nations in the Organisation for Economic Cooperation and Development (OECD) between 1950 and 1975 (OECD, 1981a, p.217). In Australia, on the other hand, the increase was tiny, from 19.4 percent to 21.2 percent (Barnard, Butlin and Pincus, 1977, Table 1), and, indeed, there has been a marked degree of stability in that proportion since 1942. At the same time, it ought to be noted that, historically, Australia had a much higher proportion of the workforce in government employment at the turn of the century than did the United Kingdom and the United States (Butlin, Barnard and Pincus, 1982, p.6).[3] We return later to a consideration of the reasons for the relatively high level of public employment early in the century and the failure to follow the trend after the Second World War. But so far we can say that <u>to the extent that public employment serves as an index of big government</u>, (a) government is now not as big in Australia as it is in most OECD countries, and (b) it isn't growing either, and hasn't grown significantly for 40 years, in proportionate terms at least.

2. <u>Government is big when a substantial proportion of Gross Domestic Product is taken up by its expenditure.</u> The range of this measure must even in theory fall short both of 0 and 100 percent. In practice it seems to run from about 10 percent to about 60 percent. The <u>World Handbook of Social and Political Indicators</u> placed Australia 18th of 28 countries in 1959 in terms of its expenditure on general government, social security and public enterprises as a percentage of GDP (Russett <u>et al</u>., 1964, p.63); its proportion, 30.5 percent, was a little below the median, 33.7 percent. Below it, among Western industrial democracies, were only Denmark and the United States. Sweden led the league table, at 52.9 percent, and therefore is well on its way towards Milton Friedman's dangerous 60 percent.

Another way of doing it, given that ~~governments~~ have to be paid for, and that governments are paid for by taxation (sooner or later), is to compare across countries the level of taxation as a proportion of GDP. Table II.2 provides a recent set of measures of this kind. In the larger comparison from which it is taken Australia ranked 17th of 23 OECD countries, and its proportion, 30.0 percent, was well below the median, 36.7 percent (shared by West Germany and the United Kingdom).

TABLE II.1: Public Employment in Selected Countries as a Percentage of the Total Labour Force, 1951 and 1976

	1951 %	1976 %	Change 1951-1976 %
Australia	20.5	21.4	+0.9
Ireland	14.5[a]	26.3[b]	+11.8
Italy	8.9	21.2	+12.3
Sweden	21.1[c]	32.2[d]	+11.1
United Kingdom	27.0	30.4	+3.4
United States	16.4	18.5[d]	+2.1

[a]1953; [b]1978; [c]1952; [d]1975

Source: For Australia, calculated from Barnard, Butlin and Pincus (1977); for the other countries, from data assembled by Richard Rose (1980).

TABLE II.2: The Level of Taxation in Selected Countries, 1976

	% of Gross Domestic Product				
	Income %	Social Security Contributions %	Indirect Taxes %	Property Taxes %	All Taxes %
Australia	17.0	..	7.4	2.8	30.0
Ireland	11.1	3.9	16.8	3.2	36.8
Italy	8.1	16.4	9.6	1.2	35.8
Sweden	23.7	11.3	11.7	0.5	50.9
United Kingdom	14.7	6.9	8.7	4.5	36.7
United States	12.7	7.0	4.7	4.1	29.3

Notes:

(a) The items do not sum because some minor taxes have been excluded.
(b) Income taxes come from individuals and companies, the latter forming the smaller proportion in every country. Social security contributions in Sweden are paid by employers only, and mostly by employers in the other ocuntries. Social security in Australia is financed from general revenue.

Source: OECD Revenue Statistics, adapted by Mathews (1980, p.121) and further adapted for the purposes of this table.

In summary, Australia is on the face of it neither a highly taxed country nor a country where government consumes a relatively high proportion of GDP. This seems to have been true for the last twenty years or so. (It is also true that taxation appears high in Australia, and that is because such a high proportion of government revenue is raised through income tax—see Table II.2 again.)

3. Government is big when it assumes a substantial proportion of the responsibility for the ordinary citizen's welfare throughout life. To some extent this is a gloss on the previous proposition, but I distinguish it because the debates on the future of the welfare state and on big government cannot easily be separated, and because a large government sector may be caused by, say, defence expenditure rather than by social welfare. It is not very difficult to measure the proportion of government spending that goes to social welfare ends, broadly defined, and Table II.3 does this for the set of countries distinguished in Tables II.1 and II.2, save for Ireland, for which the data are not available. Since the importance of governmental initiatives in this area depends on the size of the government sector itself, the last rows of Table II.3 express the 'social welfare endeavour' as a proportion of GDP. I have some qualms about the status of education as a social welfare item, but my qualms about leaving it out of the calculations altogether are somewhat greater.

On the evidence of Table II.3, Australia in the mid-1970s was hardly prominent in the provision of publicly funded social welfare. And those worried about selfishness will point to the big contribution made to the Australian total by education (then, as it happens, at the height of its power to draw from the public purse), and the fact that on the more strictly welfare items (numbers 3 and 4) Australia shows the lowest proportions in each case. Sweden is the undoubted welfare champion, the United States is perhaps the wooden-spoon holder. Setting transfers aside, the four countries other than the United States seem to spend in roughly similar proportions.

Of course, these statistics do not touch on many interesting aspects of social welfare and its connection with big government. Three come to mind. First, no-one has found a way of quantifying the contribution made by voluntary organisations to the provision of social welfare, so these figures may be misleading. A publicly-paid deliverer of 'meals on wheels' (the Swedish case) is counted; a voluntary worker doing the same (Australia) is not. My impression is that the extent to which voluntary organisations are involved in social welfare is higher in Australia than in any of the other countries. Second, for more than 70 years Australia has enjoyed the benefits of a basic-wage system and an arbitral method of settling industrial disputes which incidentally fixes wage and

TABLE II.3: The 'Social Welfare Endeavour', Selected Countries, 1975/6

	Australia (1976) %	Italy (1976) %	Sweden (1975) %	United Kingdom (1976) %	United States (1975) %
Percentage of Government Final Consumption Expenditure going to					
1 Education	30.7	27.6	21.7	22.0	26.5
2 Health	20.3	22.0	24.7	21.7	6.3
3 Social Security & Welfare Services	2.7	6.3	12.6	6.5	2.7
4 Housing & Community Amenities	1.3	2.7	2.1	2.7	3.2
5 Other Community & Social Services	3.6	0.7	5.6	2.0	3.3
Total (1-5)	58.6	59.3	66.7	54.8	41.9
6 Social Welfare (1-5) as a percentage of GDP	9.4	8.8	15.9	11.8	8.0
7 Welfare Benefits (transfers) as a percentage of GDP	9.1	15.6	13.4	9.6	11.5
Total (6-7)	18.5	24.4	29.3	21.4	19.5

Source: Calculated from OECD, National Accounts 1962-1979 (Paris, 1981), Tables 1, 3a, 9 for each country.

salary rates.) Two consequences are that Australia (a) has one of the most equal distributions of income in the world (Russett *et al.*, 1964, pp.243-7; Taylor and Hudson, 1972, pp.263-6), and (b) that there has been a floor under the wage system throughout the twentieth century. Given affluence, both consequences seem to me likely to have reduced the need for certain types of social welfare relative to other countries.

Finally (a society (like Australia's) in which some 70 percent of families own, or are in the process of buying, their own residence, will have less need of rent subsidies and public housing, but more need of cheap housing finance. Public housing is likely to lead to the employment of public servants and to the enlargement of budgets; that is one sort of big government. Control of interest rates and the provision of house-buying subsidies and grants should have smaller consequences for the size of the government workforce and the government budget, but they can be thought of as a demonstration of the reach or ambit of government— that is, big government in another sense. I shall touch briefly on these matters again later in the paper.

4. Government is big when it assumes the right to say, over a wide range of matters, what citizens individually or collectively may or may not do. Again, it seems safe to say that 'control' by governments has increased considerably over the century. The necessity for some of these controls seems almost beyond question (e.g. the allocation of frequencies for broadcasting or television), some controls have arisen as part of universal attempts to regulate economies and provide more ordered conditions of economic life, some represent a continuing determination to protect virtue, but against new moral hazards (e.g. censorship of films), and some are new versions of familiar attempts to control the movement of people in and out of countries (e.g. regulations governing international air traffic, in which airlines are made responsible for their passengers' having valid passports, visas, etc.).

I know of no metric which can be applied across the nations of the world to give a statistical presence to this trend. It is pretty clear that the growth has been faster at the level of central government, but my guess is that growth has occurred at every level of government, from central to local. To use another 'people' measure, in Australia there has been nearly a quadrupling of the number of ministries in the federal government in the last 80 years (which is a faster rate of growth than that of the Australian population), and there are now approximately twice as many State Ministries as there were after the transfer of powers to the new federal government in 1901. The number of members in Australia's lower Houses of Parliament, by way of contrast, has hardly increased at all (Aitkin and Jinks, 1980, p.6).

The number and description of ministries is some indication of the ambit of government, but it may not be a universally valid measure; I am not aware of any comparative research. My guess is that Australia would prove to rank high in the world in the extent to which governments regulate the lives of their citizens. But does an increase in ministries mean an increase in laws? Probably it does. The rate at which new legislation is appearing on the statute books, at least in the United Kingdom and the United States, seems actually to be declining (Rose, 1981). In Australia, according to Pincus and Withers (1983) in the third volume of Surveys of Australian Economics it is increasing: in the 20 years to 1979 our state and federal parliaments passed, in all, 16,631 Acts and 32,551 Regulations —and the rate of increase in the 1970s was greater than the rate of increase for the 1960s. I think there has to be an open verdict.

Some Suggestions about Australian Experience

We may summarise the section above (but tentatively, for we should not be too confident about the meaning of comparisons drawn from such data) by saying that Australia was once notable for the bigness of its government, but that now other comparable countries have caught up with, or surpassed, it in this respect. We could also say that the level of publicly provided social welfare in Australia has declined relative to other countries. It is worth remembering that Australia had an innovatory period in social welfare in the first dozen years of the twentieth century, which saw the introduction of old-age and invalid pensions, the basic wage, and maternity allowances (Kewley, 1965; Butlin, Barnard and Pincus, 1982, pp.335-9). Three questions arise. Why has there been a trend towards big government in the twentieth century? Why has Australia not taken part in it to the same degree? Why has the publicly funded provision of social welfare not kept pace with other Western industrial countries, especially given Australia's head start? 2

The first question is probably the easiest to answer. A common explanation is the emergence of the mass electorate, with its demands for the state to involve itself in the regulation of life and in the provision of services, all in the interests of the ordinary citizen. I have never been very happy with this as an explanation, as mass electorates existed in Australia, France and the United States in the nineteenth century, without such consequences. There need to be some extra engines of change, and I propose four.

The first is the revolution in communication and transport, which forced governments to extend their regulatory activities, and, both directly and indirectly, gave them much greater capacity and power. The second is the exigencies of modern war and economic depression, which pushed governments into attempting new and large-scale forms of control. The third is the growth of the social sciences, especially after the Second World War (when the most rapid advances in the power of government occurred), which provided governments with new tools and new programs—for example, the tool of economics and the program of management of the economy. The fourth is the much greater affluence of Western countries in the twentieth century, which made much of this financially possible.

Although such explanations can be separated only at some risk to understanding, I would want to suggest that demands from the electorate were by no means the most powerful engine in the increase of government power. It would have occurred, I sometimes think, in the absence of any popular call whatsoever. However, that is probably over-cynical.

In these respects Australia seems to me to have been like any other Western country. But as we have already noted, Australia began on this track (as on some others) somewhat before the rest of the Western world. We turn, then, to the second and third questions, answers to which are linked. Answering them requires an excursion into Australian political culture, and something should first be said about that. I mean by the phrase nothing much more than the political values and practices that can be seen to prevail in Australia over time, those which its citizens grow up to accept as natural, those that in their mix tend to distinguish Australia as a polity from New Zealand, or the United Kingdom, or Sweden. That is simple enough. Identifying those values and practices is harder, and getting others to agree with you is harder still. One influential school denies that 'political culture' means anything (e.g. Rowse, 1978), and it has not been a popular field of research, at least under that rubric, for Australian historians, sociologists or political scientists (but see Hughes, 1973; Emy, 1972).[4] But go that way we must; disagreements can wait until later.

White Australia ~~began with big government, at least in embryo.~~ In 1788 the government of New South Wales was centralised, omnipresent, and authoritative to a high degree. Had New South Wales been like Virginia, or the Murray-Darling system been like the Mississippi-Missouri system, the early heritage of the gaol period would have been submerged in the new values of a prosperous and expanding small-holder society. In fact the nature of the land, the climate and the potential of the colony quickly placed a responsibility on central government to take the initiative in matters of development, first in providing such basic social capital as roads, bridges, wharves and public buildings, then in fostering immigration, developing railways, building and staffing schools, and protecting, enhancing or regulating industries (see Butlin, 1959). The accepted instrumental role for government which Sir Keith Hancock[5] spoke of was there from the beginning. And it was a central government which took initiatives. In contrast to American experience, local communities in Australia remained dependent on the centre, and local government was a relatively late devolution of central power, always hedged about with rules and regulations, and subject to quick withdrawal if locals misbehaved themselves (for example, the 1982 suspensions of elected representatives in Eurobodalla Shire in New South Wales, and in the suburb of Richmond in Melbourne).

So Australians faced with a political problem learned to respond with 'what will they (= the Government) do about it?', whereas Americans in a similar situation could be heard to say 'What will we do about it?' And colonial governments developed a sense of agenda: they were there for the purpose of development. Development was expensive, and much of it was financed from borrowing; the burden of interest payments came to have an oppressive effect on state governments in the early twentieth century. In short, development was the priority for Australian colonial governments, and has remained so for Australian State and Federal governments until very recent times; Sir John McEwen was its most recent advocate. Had there been a popular and politically powerful movement for large-scale social welfare it would have met determined opposition in parliament, in government, and in the bureaucracies from those committed to 'growth' and its requirements. And, in a sense, that is what has happened from time to time in the last seventy years or so.

So turn-of-the-century Australia already had a powerful initiating government, or set of governments. They were large employers because they ran railways, postal and telegraph/telephone systems; they were 'big' governments in the third sense because they already 'interfered' with the economy, borrowed capital in large quantity, conducted immigration schemes, built and ran schools, and so on. In these respects the rest of the world simply caught up, and because other countries started later, they could travel further. Quick success in government, as in business or other activities, often breeds caution and conservatism: the Australian way of doing things is in many respects more than a century old, and much of it has undergone little change. The great majority of Australians have not sought profound changes in their political or social structures for several generations now. Convinced for a long time that economic growth was the important thing, and unable (through distance) or unwilling (through national pride) to see that other nations have developed other ways of doing things which might be worth trying out here, they have been content with small changes, and even those have been fiercely contested.

But the growth merchants had an easier time of it than they might have had, because the push for social welfare in particular was rarely very powerful or sustained, quite apart from the dominance of non-Labor parties at the Federal level. For one thing, Australia was not devastated in either World War. Had that occurred, it seems to me, the 'can do' traditions of Australian government would have produced some general social welfare institutions at least as efficiently as

Western Europe learned to do after 1945. Demography played some part: Australia has had a continuing preoccupation with the young rather than the old, and therefore with schools rather than with old-age pensions, not only because of the 'growth' lens which affects the way people see political choices but because immigration helped to produce a lot of children and to lower the proportion of the aged. Countries of Western Europe, which had lost young men in war and other young people through emigration, found themselves faced with social problems at the other end of the life cycle. But there was more to it than that.

First, the provision of welfare by the State in other countries was handled by local bodies of various kinds. In Australia, as already explained, local government was a late developer, and burdened in its own way from the beginning by the need to develop municipal services. Second, and in consequence, the primary responsibility for social welfare fell on citizens themselves, in their collective persona as voluntary organisations. Third, the custom developed of governments funding or subsidising the work of these organisations, but without incorporating them. This welfare partnership is very old indeed: in 1821 the Benevolent Society of New South Wales opened an asylum that had been built for it by Governor Macquarie; the master and matron of the asylum had their salaries provided from public funds, and from time to time the colonial government made grants to help the Society keep the asylum going (Kewley, 1965, pp.8-9). 'Bricks-and-mortar' grants and ad hoc payments and subsidies are still characteristic elements of the public/private welfare partnership, 160 years later.

Fourth, the sectarianism of the Australian colonies (South Australia perhaps excepted) played a part. Sectarianism has been most important in our political development, as I have argued elsewhere (Aitkin, 1977, pp.162-6), because of the way in which several important social dimensions overlapped: thus the Irish, overwhelmingly Catholic, largely working-class, and relatively powerless, eventually formed the core of the Australian Labor Party (ALP), while the English and Scots, overwhelmingly Protestant, dominant in the middle class, the professions, and the landed gentry, and relatively powerful, were from the beginning the core of the Liberal and Country Parties. These sectarian and ethnic animosities have cooled since Irish immigration came almost to an end in the 1920s (a consequence, of course, of a change in United States immigration rules), but the institutional consequences of sectarianism, as of any other major social division, do not change quickly. Our educational system still bears the imprint of the sectarian battles of the 1860s and 1870s over the form of public education. And so, in a rather less marked fashion, does the way in which we cope with social welfare problems.

Had the ALP not become so heavily influenced by Catholics it is conceivable that Australia could have developed party and trade union systems not unlike the Dutch, in which unions and the party system are organised on a denominational basis, and political accommodation has to be reached at the level of government by the forming of coalitions in which each side has a stake (Lijphart, 1968). In Australia, however, the Catholics could for a long time look to the ALP and the unions as a source of power which, if not exclusively their own, would not be used against them and was certainly sympathetic on basic issues.

The sectarian line added a new dimension to the voluntary organisation principle: separateness. Many Catholics, and especially the leaders of the Church, felt themselves to be besieged. Many Protestants found it easy to see Catholics as over-fecund and improvident, and given to drink and gambling. These tribal positions were reinforced by separate schooling, and by an understandable tendency to marry within the tribe that has begun to weaken only since the Second World War.[6] So the tribes learned in part to look after their own, following the model of the school system. Orphanages, old people's homes, hospitals and general charities (like the St Vincent de Paul Society) were started either by churches or by lay groups connected to churches. In time, governments began to support these institutions financially, but without incorporating them. Instead, 'charity work' became a familiar and honourable form of social activity (it 'gets people out of their houses'). Governments relied upon private organisations to alert the State to the need for new forms of welfare, which were typically provided as matching grants to organisations or as 'bricks-and-mortar' endowments. The level of general, publicly provided, social welfare remained parsimonious, perhaps even grudging. When universal benefits were established, they were in no sense generous.

This account telescopes a century and more of history, and we need comparable accounts of the experience of other nations to provide a perspective. Nonetheless, it seems likely to me that Australia has developed a social welfare system which is a special blend of public and private, and to that extent figures showing the proportion of government expenditure going to social welfare understate the level of social welfare provision in Australia—just as such figures understate that provision in Japan, where firms accept a major responsibility for social welfare. Of course, this way of doing things finds favour most of the time with Liberal and National Country Party politicians, but it is so well established now as to have generated some acceptance among Labor MPs too. For what it is worth, my feeling is that there has been a tendency to exaggerate the collectivistic ethos of Australians generally, and that there is, and has been, an important individualistic, self-reliant strain in Australian political culture, even among working-class people, that commends the kind of self-help embodied in voluntary activity.[7] (That is to say, the first duty of multiple sclerotics, or the dyslectic, or the spastic, is to organise, or to have people organise on their behalf.) No doubt there is an important strain of selfishness as well, and I would want to find part of its cause in an ancient sectarianism.

The size of the private welfare sector is very large. The Social Welfare Research Centre of the University of New South Wales and the Australian Council of Social Service have commenced a major study of non-governmental welfare organisations (NGWOs); a conservative estimate is that there are some 37,000 of them. These bodies call on the services of 1.5 million volunteers, or about 13 percent of the population aged 15 and over. If these workers were paid for the work they did the wages bill would be around two billion dollars, or about 1.5 percent of GDP (Hardwick and Graycar, 1982). At the local level, a recent list of voluntary associations and committees in the Australian Capital Territory (Department of the Capital Territory, 1982) lists more than 70 in the field of welfare and health, the first dozen of which cover the areas of adoption, alcohol and drugs, allergies and intolerant reactions, better hearing, the disabled, problems of early childhood, and kidney diseases.[8] The numbers actively involved in these organisations in a city of some 200,000 people must run into the thousands, and their unpaid effort represents a large element in the provision of social welfare in Canberra. There has been no Australian study yet like the British Wolfenden Committee's enquiry into voluntary organisations (1978) or the Canadian National Advisory Council on Voluntary Action's report <u>People in Action</u> (1977), though the Social Welfare Research Centre's analysis of NGWOs is an important beginning.[9] Such a study would, I think, demonstrate not only the Australian zest for starting, joining and maintaining voluntary organisations of all kinds, but also the extent to which public and private are intertwined in the areas of health and welfare.

Conclusion

A political culture in which voluntary organisations have an honoured place, (and the basis of success in politics is the capacity to organise), is not perhaps the best soil in which to germinate the seeds of a universalist welfare system. That is perhaps why we lack one, and why our level of support for, say, aged pensioners or the unemployed does not seem especially generous in comparison with the levels ruling in some European countries. You could argue that Australia puts more of its publicly funded welfare money towards those in greatest need, but that's not an argument I want to get involved in here (which is not to say that it's unimportant).

In fact, international comparisons in this area do not carry much weight. When in the 1950s Australia used to come third after the United States and Canada on GDP-per-capita scales or their equivalent, I wasn't overjoyed, since I lived in a house with a rainwater tank in a town where many of the streets weren't paved. Now that Kuwait is Number 1 and Japan is displacing us from our currently modest rank I find it hard to become dismayed. The Swedes seem to live amicably and productively in a nation where both the level of taxation and the provision of public services far surpass our own, and I have no doubt that Australian society will hang together if we ever get to those levels. If we do, we will take a long time to do it, in part because we have a less homogenous society and in some respects a longer history as a modern polity than the Swedes, and we therefore have more institutional baggage to cart around with us.

At the same time, I don't see any special virtue in big government as such, and am not persuaded that governments always know best how to deal with social problems. As a case in point, I would draw attention to the National Health Scheme (NHS), which in 1968 was in need of improvement, but which was a pretty decent thing for all that: something like 85 percent of the population were covered, and at costs which were not prohibitive. What has happened to the NHS in the last 14 years can be analysed from many perspectives, but I find it hard to see that any of the subsequent schemes has in fact been a major improvement, and it is beyond question that they have been vastly more expensive. If the above account of the importance of NGWOs has anything to do with it, then the changes to the NHS that emphasised the universalistic aspects of health care may have been shaped against the grain of Australian culture. That does not rule them out, but it suggests that such changes should have been made patiently and after considerable attempts at public education.

Big government, in my view, is not our problem: if we need to go that way we can certainly absorb a much bigger level of government, and we do have nearly two centuries of reliance on the omnicompetent initiating government behind us. The principal use of the kind of statistics presented here has been partisan point-scoring. And the principal purpose of the debate about big government seems to be to distract us from paying attention to problems which are at least potentially soluble; big government seems to me to be a shadow problem, and might well be left in the shadows.

If that seems too tough or too cynical, let me set out some aspects of Australian political culture and political society which seem to me especially important in affecting the output of governments and the quality of our political life:

(1) the tendency of people to owe their loyalty to primary groups, and to be partisan, even confrontationist, in public affairs;

(2) widespread authoritarianism, especially in government, together with a perversion of the majority principle in which getting the numbers is a surrogate for persuasion;

(3) a suspicion of debate and reason, combined with a profound anti-intellectualism.

These characteristics infect our public life and make all our governments both less efficient and less humane than they might be. In these respects we are much less modern than Sweden and Norway, and I doubt that it is reasonable to expect a better society in this country until we have begun to overcome them. In comparison, the largeness of our government, however that is defined, seems a much less important matter.

Notes

1. Neal Blewett is the source of the Gladstone reference (Wilkes, 1980, p.61). Clark (1945) and Friedman, in an article in Encounter (1976), are easily accessible.
2. Should you count public enterprises as part of government? Does it make a difference if they are mostly money-losers or profit-makers? My answers (yes to both) are not confident, but the incidence of the public enterprise (Trans-Australia Airlines and Telecom and their international equivalents) varies across countries, and inclusion or exclusion changes rank orders. Since Australia is fonder of them than many countries, inclusion gives us a higher standing in the big-government rankings than does exclusion.
3. And it is only fair to point out that the first edition of the World Handbook of Social and Political Indicators (Russett et al., 1964, Table 19) placed Australia second to New Zealand in 1961 in the ranking of nations according to proportions of the working-age population employed in general government and public enterprises. This is a different base, of course. The second edition of the Handbook (Taylor and Hudson, 1972) did not provide any such measure.
4. And of course Hancock (1930). It is properly a responsibility of historians, and the work of Gollan (e.g. 1960), Roe (1965) and the Greenwood team (1955) have been especially important. See also Connell and Irving (1980).
5. From a much quoted page in a much quoted book: 'Australian democracy has come to look upon the State as a vast public utility, whose duty it is to provide the greatest happiness for the greatest number... To the Australian, the State means collective power at the service of individualistic 'rights'. Therefore he sees no opposition between his individualism and his reliance upon Government.' (Hancock, 1930, p.55).
6. By 1967 marriages contracted across the denominational divide were one third

of all marriages; by 1979, nearly one half. These estimates are based on national samples of electors (Aitkin, 1982, Chapter 22) and probably overstate the proportions for the population as a whole.

7. Christopher Mayhew, a former British Labour MP and Minister, has written well of the anger felt by many English workers who saw universal benefits make senseless the thrift of a lifetime (Mayhew, 1969, p.68). I am sure that there are Australian analogies. It ought to be noted that collective thrift and providence have been an aspect of Australian trade unionism. In the Newcastle coalfields area, at least, the ALP, the union, the cooperative movement and the lodge (providing sickness and funeral benefits) have all been important parts of social life.
8. The Australian Capital Territory Council on the Ageing lists more than 160 providers of services for the ageing, under the heads of accommodation, emergency services, health and counselling services, nursing homes, senior citizens' clubs, social and recreational organisations and support services. The great majority are voluntary organisations.
9. David Scott of the Brotherhood of St Laurence has written an account of NGWOs whose title and subtitle says it all: Don't Mourn for Me, Organise: The Social and Political Uses of Voluntary Organisations (1981).

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WHERE DOES AUSTRALIA STAND?: DISCUSSION

HUGH STRETTON

We should be grateful to Don Aitkin for his cool expert review of the subject and the state of the art. Anything I could add is added more thoroughly by Peter Wilenski. I will simply endorse one common theme of them both: we are stuck with big government in one form or another, so we should make it as good as we can.

That calls for as much history as science. By that I mean that government is not like a natural substance or force with constant properties. It's no good asking what it essentially is or what it does in any timeless universal sense. It's more of a narrative. Government changes, it works differently at different times and places, it learns as it goes, and so can the people who suffer or benefit from it. Where it's bad we shouldn't dismantle it, we should reform it.

All the preceding papers emphasise three things: (1) No country has ever got very productive without fairly big government of one kind or another. But beyond that, (2) there are no regular relations between the size or span of government and personal liberty or economic performance—among affluent capitalist countries the two free-est and richest in the world, Sweden and the United States, are at opposite ends of the scale of government size. So (3) 'bigger or smaller' is too simple. The useful questions are more detailed ones.

Of course people who argue for bigger or smaller government are not usually concerned about size for its own sake. They are concerned about particular qualities and effects of government. Those particular concerns are often important, and well worth debating. They include straightforward class and group conflicts. Most campaigners for small government want the poor to pay more of its costs and the rich to get more of its benefits—or in Australia, they want rich manufacturers to get less and rich miners to get more. But there are also issues which can be argued in more dignified terms. What might be good patterns of centralised and decentralised decision making? Collective and individual choice? Acquisitive and non-acquisitive motivation? Those connect with many questions about the quality of life and culture, as well as questions about the distribution of power, wealth and income.

So it may waste time to debate the crude size of government, but there are plenty of useful and important questions about particular patterns of government at particular times and places. Which economic activities go best—and of course, best for whom—in which kind of ownership, and in what relation to what level and style of government? I'm happy to agree with one thing Ross Parish says: 'getting an appropriate division of labour among market, bureaucratic and political institutions [is] of fundamental importance' (p.92 below).

That's as far as our agreement goes. There are many different divisions of labour in the affluent non-communist world, and in every one of them the interdependence of the sectors is intricate, much too complicated to allow anything as straightforward as increasing the size or efficiency of the private sector by simply reducing the public one. First, those sectors include more complements than substitutes: they vary together more than they vary inversely. Second, the 'market' and 'bureaucratic' classification, or the simple division into public and private sectors, is incomplete and unhelpful. Not every private enterprise goes to market, not every public enterprise doesn't. For many purposes it helps to think of four or five sectors at least. For example: (1) private producers for profit; (2) government in the narrow sense of the word; (3) government as producer, whether or not for profit, by statutory corporation or as owner/shareholder of ordinary firms; (4) an independent sector: universities, building societies, ordinary firms owned by charitable or other non-acquisitive institutions, independent welfare services, churches and charities, clubs and associations—i.e. productive organisations not owned by government or by private profit-seekers either; and (5) households.

It would be neat if each sector had its distinct kind of organisation and motivation. But in practice they all suffer the same human nature and organisational imperatives, if in uneven proportions. Once again the questions worth asking are more detailed. Here are samples of some small questions, and some bigger ones:

There are no apparent differences between the performance and potentiality of public Renault and private Fiat. But there <u>are</u> differences between the way they both perform in the capitalist West, and the way they both perform (as they both do) in the communist East. There are some differences between private Leyland before its collapse and public Leyland since; but few, if any, differences between private Shell, public British National Oil Corporation (BNOC), and half-and-half British Petroleum. But if public ownership seems to make no necessary difference to manufacturing or mining efficiency, why does it often seem to make some real difference to the efficiency of building and farming and retailing, and some (opposite) difference to the efficiency of railways, blood banks, and the patronage of the arts? What kinds of research go best respectively in the Commonwealth Scientific and Industrial Research Organisation (CSIRO), in universities or in profit-seeking firms and think-tanks? And when you've answered those questions and others like them, how general are the answers—or how historical, specific to time and place, to particular firms or governments or national cultures?

Besides small detailed questions there are also bigger ones. For example: How and to what extent can we get the market efficiencies of decentralised decision making without the capital inequalities that go with private capital-ownership? How can we get the benefit of competitive and acquisitive motivation where those seem useful, without eroding the culture and morality which competitive capitalism itself relies on, and which we also value for many other reasons? What should we do about the permanent structural unemployment the market is generating? I will rephrase that question to make its assumptions more acceptable to orthodox economists: If technical change proves to be steadily increasing the proportion of labour whose clearing price is below subsistence, what are the comparative merits of our responding by work-sharing, by more welfare transfers, by more inequality, by more death—or by what mixture of the four?

Those examples are from my list of big questions. Folk with other values will have other questions. Perhaps: 'As private enterprise depends on getting services from a bigger and bigger public sector, how can we nevertheless direct all profit flows accurately into private capitalist hands?' i.e., how can we privatise the profits and socialise the losses more perfectly than now; and then, perhaps, move to increase the rate of profit, by increasing the rate of loss while ensuring that the rising profits escape the rising taxation that finances the rising losses? (You can't say this list of Big Questions isn't impartial between the interests of capital and labour.)

What all these big and little questions point to is the task of improving government rather than dismantling it. How to go about it?

For 'pure' government we might start by implementing the Coombs, Corbett and Wilenski reports properly. For public producers we should of course attend to the bad cases by the usual remedial means—the public interventions in meat and dairying seem to need urgent attention. But I think we should also spend much more time and care than we have commonly spent in studying and learning from the success of the best public enterprises. What really accounts for the performance of Renault? The Anglo-European aircraft manufacturers? The many good public airlines? BNOC and the Norwegian Oil Corporation? The port of Rotterdam? Our own

Commonwealth banks? CSIRO, the Commonwealth Serum Laboratories, the agricultural institutes which have developed almost all our wheat and barley strains and pasture improvements? To mention three I see at first hand, the Adelaide Festival Centre and the State Electricity Trust and Housing Trust?

Most of those have managed to keep some capacity for invention. That can be difficult in big organisations. It's a double difficulty: to get inventive individuals, then to keep the bureaucracy open and responsive to the inventive ideas. It is a problem for private as well as public organisations, as many private firms are aware. American corporations have developed various kinds of talent scouts, wild-cat subsidiaries and 'venture capitalists' to maintain the innovative capacities which big organisations tend to lose. Public producers and bureaus need to do likewise. The provenance and fruitful use of public-interest entrepreneurs is a fascinating subject. There have been some spectacularly good ones—but their supply and use needs continuous attention.

As for government enterprises, so for independent ones: we should study and learn from the successes. Considering where most of the most productive research and researchers come from, why are both our political parties so keen to cut back the universities? In welfare, most invention and a lot of innovation have come from voluntary organisations. They are often also the most constructive critics of the public welfare services. But some of them are much better than others, and it pays to study the differences.

It sounds trite to say, as I am saying, that we should study the best performances in all these sectors, then work to make the rest more like the best. But we do surprisingly little of it. In Australia that seems to be true of the private as well as the public sectors. Australian capitalists are accused of being unadventurous, risk-averse, and slow to copy others' innovations. In the public sector the world at home and abroad is dotted with excellent examples which other institutions and governments fail to copy. We have lots of charities which haven't learned what they could well have learned from the Brotherhood of St Laurence. There is abundant scope for folk like us in government and business and academia to focus on the successes, to study them, anatomise them, publicise them, learn and teach from them, copy them wherever appropriate, and work to improve them further.

That is one view of the mixed record of government and of public, private and independent enterprise. But to be impartial, here are three alternative lines of argument if you want to persuade people to reduce government and public production rather than improving it:

(1) Imagine an impossible Utopia, then show that government isn't implementing it. This is the usual method of Marxists and neoclassical economists.

(2) Simply select. From the patchy performance of both sectors, select the private successes and the public failures: perhaps Henry Ford and Xerox to represent the private sector, and the Ord River dams and the Fraser government's health policies to represent government. Then—

(3) Assert that private enterprise changes with the times but public enterprise doesn't. See how Ford developed his cars—and how the private sector developed Trans-National Corporations and offshore havens and other evasions of government when it needed them. By contrast, don't mention trifles like Renault cars—or limited liability or antibiotics or solid state physics or women's shelters or small claims courts. Stick to government as depicted in Parkinson's Law and Pickering's cartoons, with its inefficiencies determined by immutable laws like gravity and entropy.

To any hard-nosed positivist inductive social scientist, past failures undoubtedly prove that government can't succeed. National economic management was decreasingly successful through the 1960s , so it can never work. Efforts to rescue it with price and income policies have proved that those can never work either. That's all solid inductive thinking. Indeed, it's a shame we didn't learn to think like that earlier. For example a modern student of the South Sea Bubble would have seen immediately that Trans-National Corporations can never work. If a proper social scientist had observed the thousands of deaths and bankruptcies in the first decades of the industrial revolution he would have known for certain that private enterprise can never work. As for all those failed attempts at powered flight—any competent statistician would have put a stop to that nonsense about 1902.

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III

Small Government and Social Equity

P.S. Wilenski

as Result of the Growth of the Government

What this paper argues, in brief, is firstly, that the growth of government seen in most industrialised capitalist democracies, especially in the years after the Second World War, has been (inter alia) the mechanism by which many groups have improved their position in society and a more equitable distribution of power and resources has resulted; secondly, that for various reasons, some evident and others less clear, there has in recent years been a backlash in some English-speaking countries against this trend, as powerful or privileged elements who lost in relative terms in this process have fought back and the 'small government' movement has been one of the ideological weapons that they have used. The arguments offered in support of the small government movement are examined and many are found to be lacking empirical support. Finally the evidence, principally from Australia, but also from the United Kingdom and the United States, is examined to demonstrate that the 'small government' movement has not resulted in a reduction, but (at this stage at least) a regressive redistribution of government activity.

'There has been a battle for power and the state has been the battleground'

The liberal state was, especially in its early days, a reflection of, and a necessary support for, the changes in society associated with the growth of capitalism. While the state continues to provide this public support to private investment and economic activity, changes in the nature of society in capitalist democracies and the consequent change necessary for the survival and legitimation of the liberal market system have greatly expanded and altered the role of the state. It now provides services on a far wider—and in many respects more equitable—basis, and its activities serve the interests of far more groups and sections of the community.

Government in the early days of the liberal state, when the franchise was still restricted constructed the legal and institutional framework and provided the services for the growth of private business in a market system. It was at this time that there was an elaboration of the basic laws relating to private property in the means of production, the labour market and the master-servant relationship in the industrial workplace. A number of the changes related to industrialisation could be introduced and maintained only by the use of force either instituted or supported by the state. At the same time the state in a number of countries was providing the basic infrastructure on which private capital relied. For Australia in the nineteenth century it is suggested that

> specific business interests sought to limit their capital commitments in the generation of private growth by distributing widely, through public intervention, the costs of borrowing, of infrastructure and of immigration and by minimising foreign interest obligations ..., on both public and private 'sides' the expectation and intent was to introduce a strong supportive role of government aiding the development of private business.[1]

The philosophy of individual choice on which the market system rested demanded an expansion to all citizens of the individual liberties at first restricted to the few, and, finally, the granting of the universal franchise. This slowly changed the structure of political competition. It provided the political avenue through which people could organise to carve out for themselves their own place in the power structure and, even though denied economic power, could fight for a redistribution of economic benefits and for a redirection of government activity in their own interest. Capitalism itself had already previously undermined the accepted faith in the immutability of the established order and the position of each individual in it; the separation of the political and economic spheres was now also gradually destroyed as people came to believe that government could and should change the outcomes wrought by market forces.

The expansion of the state and the changes in the nature of its activities reached their fastest pace in the period after the Second World War when democracy became more effective because the universal franchise was for the first time combined with almost universal secondary education, higher incomes and adequate non-work time to organise. Trade unions and labour groups in most countries had already been sufficiently politically powerful to extract from the state an expansion of its activities to provide protection of the right of workers to organise, enforcement of laws on minimum ages of work, hours and conditions and, in some countries, the establishment of what was held to be a more equitable framework for the conduct of industrial relations. The post-war period saw some expansion of this activity but at the same time other newly organised groups in society learnt how to use democratic processes to fight for what they saw as their rights and to direct state activity into areas of concern to them: women's groups, aborigines, environmentalists, consumers, ethnic groups and sectional groups of various sorts, all began to use government to advance their own positions.

What they did was of fundamental importance. Power in society is usually measured in the media by the ability of one group or another to win some particular battle on the political agenda. The far more important question is how the political agenda is set—what forces in society determine whether a problem is regarded as a public policy issue at all. This subtle agenda-setting influence is perhaps the most important way that holders of power in society retain it. It may be argued that power is exercised most significantly when defenders of the <u>status quo</u> devote their energies 'to creating or reinforcing social and political values and institutional practices that limit the scope of the political process to public consideration of issues which are comparatively innocuous' to them.[2] What most of the newly organised groups had to do first, therefore, was actually to impose on the political agenda the issues important to them. Once this had been done, the subsequent battles were fought over the role the government should play in altering the <u>status quo</u> in the direction that the new participants in the political process favoured. A major element of the strategy of the small government movement is to remove some of these issues from the public policy agenda.

It should be emphasised that much of this shift in power relations, and in the distribution of goods and services, centred on the role of government and government intervention. Trade unions did not attempt to take over directly a share in management functions but through political pressure gained government legal guarantees of their right to organise and legal regulation of the industrial bargaining process; city dwellers and environmentalists did not directly breach the power structure of capital by demanding and getting places on the board, but had laws passed which government enforced to restrict the freedom of capital to site its industries and send its effluents where it pleased; women did not begin to force their way into elite structures directly by gaining entry into, say, male establishment institutions such as the Melbourne Club but campaigned for government enforced anti-discrimination legislation; aborigines did not take over land by force but used government institutions and legislation to begin to change their status. Each slowly and painfully came to understand how the formal democratic system could in some cases be worked to their advantage and used government to achieve their ends. The expansion of government functions was, in part, the expression of the slowly changing balance of power.

The growth and change in government activity during the post-war years was considerable. Measurement of these changes is not an easy matter since some activities or methods of intervention, such as regulation of competition or the raising of tariff barriers, can have considerable effects which require little in the way of expenditure or personnel. It is extremely difficult, for example, to assess the growth of regulation: a recent survey by the Organisation for Economic Cooperation and Development (OECD) noting the sparseness of the available information, concludes that 'it is difficult to decide if on balance the trend is towards more or less regulation'.[3]

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To measure the growth of government activity we therefore have to fall back on expenditure and employment figures, bearing in mind that they are only a rough guide. Public expenditure rose, as a proportion of Gross Domestic Product (GDP), in industrialised capitalist countries (OECD averages) from 28.5% in 1955-57, to 34.5% in 1967-69, and to 41.4% in 1974-76. The comparable figures for Australia are 21.7%, 26.4% and 32.8%.[4] While expenditure in OECD countries on most government functions (other than defence which fell from 4.0% to 2.7%) grew during this period as a percentage of GDP, the fastest increases were in health, education and welfare which from the early 1960s to the mid-1960s grew from 13.2% to 18.8%.[5] In terms of economic category the largest element in the overall rise of 12.9% in the OECD average was transfer payments to households (7.3%). Final consumption and investment expenditure rose by 5.5%[6] but the fall in defence spending allowed for a considerable increase in real social expenditures.

Comparable figures to those for expenditure are not produced for total public employment for the OECD area but taking the 'regular'[7] public sector only, its unweighted mean share (for countries where comparable data are available) increased fom 11.6% of total employment in 1960 to almost 18% in 1978.[8] In certain individual countries figures for total public employment as a proportion of the labour force are available. In a quarter century, using 1951 or 1952 as the base year, these show an increase in the United States from 16.4% to 18.1%, in the United Kingdom from 26.4% to 30.2%, and in Sweden from 21% to 32.3%.[9] In Australia, public sector employment as a proportion of the total workforce grew from 19.1% to 21.6%.[10] These relatively smaller changes disguised a major shift in the functions of public employees as the numbers in defence (and in the United Kingdom in the nationalised industries) declined in absolute terms and the numbers in other areas expanded at different rates. As a result, the proportion of public employees in education, health and the social services increased as a percentage of the total labour force from 5.6% to 12.4% in the United Kingdom, from 3.0% to 8.9% in the United States and from 9.6% to 15.0% in Sweden.[11] Thus

> upwards of one-half of all public employees are providing social benefits to individual citizens, benefits often so taken for granted that the doctors, nurses and teachers providing them are not considered a prototypical 'civil servant' or bureaucrat.[12]

Of course this expansion and redirection of government activity did not flow solely to the relatively poor or previously powerless; many advantages flowed also to business and to higher income earners and, indeed, it was not the poor but the rich who made the most intensive use of many universal services because they had the time, knowledge and other resources to enable them to do so.[13] However, the available statistics indicate that the differential use is certainly not so great as to be proportional to income differences.[14] The growth of government services has had an overall equalising effect and has provided to the less-well-off a floor of essential services and opportunities that had not existed before. In addition, of course, transfer payments have had a significant redistributive effect. The degree of redistribution has varied from country to country. Studies by a number of authors of various industrialised market democracies have concluded that the redistributive effect has been greatest when public spending is high and taxes are progressive and that this occurs when the labour movement is strongly organised and socialist parties have controlled the government for long periods.[15] 5

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The trend to greater equality cannot, of course, be measured solely in economic terms. The period has, for example, also seen the use of government to reduce the traditional powers of capital: urban zoning and pollution regulations have limited the ability of business to determine the location and nature of private investment, industrial laws and awards have reduced managerial prerogatives, increasingly stringent health and safety regulations have enforced restrictions on the conduct of industrial operations, tenancy laws have changed the nature of the contract between property owner and the renter, consumer legislation has modified the traditional rule of 'caveat emptor' governing relations between seller and buyer.

The expansion of government under electoral pressure has thus greatly widened the opportunities and choices for most people by providing them with education, mass transport systems, recreational facilities, basic health support and so on— all services in areas where the market had failed. It might well be argued that the growth of government, both by its provision of services and by laws which changed the power relationship between large business on the one hand and workers and consumers on the other, has been the greatest force in the past century ~~for~~ 2 the expansion of the individual freedoms of ordinary people. The overall position is described by Philip Green in the following terms:

> In the last quarter of the twentieth century the majority of people in the capitalist democracies are not free from repression and mistreatment at the hands of governmental or corporate bureaucracies. But they are much freer from such repression and mistreatment than they were at the turn of the century, or at the turn of the nineteenth century. There has been a significant extension of individual liberty during that period, and it has usually been a result of the struggle against market capitalism, and for unionization, government regulation of business and working conditions, and the provision of fundamental social security. There has been a battle for power and the state has been the necessary battleground. After a century and a half of struggle, the capitalist welfare state is certainly much too far out of control, but it is not nearly as out of control of the average citizen as was the capitalist state of 1850.[16]

This, is of course a far different view from the liberal conception of the state as a disinterested arbiter of public policy or one Marxist view of it as always acting in the interests of capital. Nor does it mean that government action is always going to be either wise or just—government action is the result of conflict and compromise, but this is now a conflict in which the interests of a far greater proportion of the population are represented. Thus, in analysing the United States position, Piven and Cloward argue:

> The new programs ... produced pervasive new linkages between the state and the democratic publics that paralleled older linkages between the state and business. The structure of state bureaucracies linked to business facilitated the federal role in subsidizing investment, maintaining aggregate demand, and smoothing the way for overseas investment. The agencies established to administer the new benefit programs, services, and regulations represent another set of linkages, not with business but with the unemployed and the poor, women and blacks, the elderly and the disabled, and unions and environmental groups. By incorporating so wide a range of an enfranchised population, the state itself has become partially democratized. ...The doleful justice meted out by the invisible hand [of market forces] is giving way to a struggle over the justice and injustice meted out by the state.[17]

As this quotation suggests, the organisation of previously acquiescent sections of society has put considerable strains on the democratic system and on government operations—strains that are part of the argument about government today. In the 1860s Bagehot had already asserted that a necessary prerequisite of cabinet government was that the mass of the people be 'politically deferential'.[18] The American neo-conservative Samuel Huntington, in calling for greater moderation in democracy by the exercise of self restraint, suggests that 'the effective operation of a democratic political system' requires some measure of apathy and noninvolvement on the part of some individuals and groups. In the past every democracy has had a marginal population and this 'inherently undemocratic' marginality 'has been one of the factors which has enabled democracy to function effectively'.[19] Thus the involvement of these previously marginal and acquiescent groups in the political process and the resulting competing and incompatible demands on government and on societal resources, as well as the unwillingness of individuals and groups any longer to accept as authoritative, government decisions simply because they are made by government, is seen by some as evidence of the 'ungovernability' of modern democracies. Another way of interpreting this trend is to suggest that government was in the past less effective for most people than it is today; the illusion that it was more effective in the past derives from the fact that it was then able, without great protest from the rest of the population, to respond to the demands of the powerful and well organised and it was this that made it appear, to commentators drawn from those groups, that government was working smoothly and efficiently. As more and more interests have become politically successful, and government has expanded, governments have had to take into account a wider range of interests; life has become more difficult for those whom government originally benefitted, and thus government is seen by them to be less effective. The increased strains on government are real, but what is seen by some previously excluded groups as an increased responsiveness to their needs (albeit with some undesirable features) is seen by those who now have to compete for government resources as a crisis of governability.

The Backlash

The changes in state activity resulting in the redistribution of resources and restriction on the prerogatives of capital were of course resisted at the time by those with a vested interest in the existing state of society. But, and by and large, they finally acquiesced in them—in part because they were seen as the necessary price to be paid for maintenance and legitimation of the basic social and economic structure (and the maintenance of conservative political parties in office), and in part because government was at the same time continuing to provide the necessary framework and infrastructure for capitalist growth as well as providing the better off with many direct benefits of their own. This process was made far less painful during the post-war period when, insofar as economic redistribution was concerned, government reallocation of resources could be financed out of economic growth.

How far such redistribution might have proceeded if economic conditions had remained buoyant remains problematic. Hirsch[20] points to the importance of 'positional goods': that is goods which are scarce in some absolute or socially imposed sense (e.g. a secluded country cottage or being first in the queue) or goods whose value to the individual is partly dependent on their level of consumption by others, such as higher education, which is less useful as a means of getting ahead if it becomes accessible to all. Thus economic growth provides in some ways an illusion of future prosperity since it cannot provide all the goods which by definition can be enjoyed only by the few, and over which the few will fight to retain exclusive possession. As primary material wants become satisfied such goods become more important, and, Hirsch predicts, the distributional struggle will become more divisive. Social limits to growth, he argues, 'intensify pressure for equalisation ... on the part of the worse off and stiffen the resistance to equalisation by the better off.'[21]

There are also other factors which suggest that the amount of change and redistribution compatible with a market capitalist system is limited. One is that the principle of equality and of distribution on the basis of need in the longer term must undermine and threaten the value system on which capitalism rests.[22] And perhaps the most important is that in a private enterprise system or a mixed economy vital decisions on the size, nature, direction and location of investment (and thus on the wellbeing of the society as a whole) remain in the hands of businessmen. They must therefore retain, in relation to government, a privileged position. As Charles Lindblom argues:

> constitutional rules—especially the law of private property—specify that, although governments can forbid certain kinds of activity, they cannot command business to perform. They must induce rather than command. They must therefore offer [market and political] benefits to businessmen in order to stimulate the required performance: income and wealth, deference, prestige, influence, power, and authority, among others. Every government ... accepts a responsibility to do what is necessary to assure profits high enough to maintain at a minimum employment and growth ... to make the system work government leadership must often defer to business leadership. Collaboration and deference between the two are at the heart of politics in such systems ... to understand the character of politics in market-oriented systems requires ... no conspiracy theory of politics, no theory of common social origins uniting government and business officials, no crude allegation of a power elite established by clandestine forces. Business simply needs inducements, hence a privileged position in government and politics, if it is to do its job.[23]

What did bring the fragile political consensus over state activity and redistribution to an end in a number of countries was the generalised economic downturn of the 1970s. There are specific economic factors such as the aftermath of the Vietnam war and its method of financing and the oil 'shocks' that have been blamed for the timing of this downturn, but it has also been argued that Western economies would sooner or later have been in difficulties as a result of the political processes described above. On one level it is argued that as different social groups and strata have become more equally matched and conflict between them for incompatible shares of the national income has become more intense, the inevitable result has been inflation,[24] which has in turn undermined economic growth. On another level it is argued that since the state must attempt to fulfil two basic functions, namely accumulation (creating the conditions for private investment) and legitimation (creating the conditions for social harmony), the pressures on government resulting from the socialisation of capital costs while profits continue to be privately appropriated, and from the 'private appropriation of state power for particularistic ends' result in a tendency for state expenditures to increase more rapidly than revenues. This leads to a 'fiscal crisis of the state', cutbacks in government expenditure and economic downturn.[25] While then there may have been both exogenous and endogenous factors resulting in the downturn, the simplistic view that it resulted from the effects of government growth per se are hardly compatible with the fact that it hit at the same time a number of countries whose governments played very different roles in the economy and the public sector. For example, the public sector in the largest and in some ways leading economy—the United States—is relatively one of the smallest as a proportion of GDP.

While the economic downturn occurred at much the same time in most Western industrialised countries it did not everywhere result in the major attack on government activity that has occurred in the English- speaking democracies. Certainly most OECD governments, faced by a downturn in economic growth and by increased 'uncontrollable' welfare expenditures associated with increased unemployment, had to restrict (and sometimes reduce) activity in other areas. There had everywhere (Australia being just about average) been a rapid rise in government expenditure as a proportion of GDP in the 1972-75 period and there was also everywhere increased discussion of the appropriate level and effectiveness of government activity. But, by and large, in Europe, both governments and their mainstream critics regarded cutbacks in state activity as a regrettable necessity. Left or centre parties with a basic commitment to a major role for the state have remained in or been elected into government in recent years in most major Western European countries (the recent West German shift in parliamentary alignments excepted). It was only in a relatively few countries—and primarily the United States, United Kingdom, and Australia and to a lesser extent Canada—that those extolling cutbacks as a positive virtue came to dominate the ideology of a major political party or indeed captured government itself.

One can only speculate on the reasons for this. The small government movement started in earnest in the United States even before the economic downturn. This may seem ironic because of that country's already relatively small public sector but it is not really surprising that, in a country where corporate interests have always been powerful enough to restrict the growth of a social democratic consensus on the functions of government, they should also have been powerful enough to bring the growth of government to an early halt. And while the public sector was not large it had—because of the activities of consumer groups, environmentalists and others—become active in intervening in industrial health and safety, pollution and product safety and thus severely affecting some portions of the corporate sector. Piven and Cloward, from another perspective, argue that the principal motivating force was that income-maintenance programs had expanded to the point where they were intruding on the dynamics of the labour market to the detriment of business in the determination of wages.[26] Whatever the truth of this latter view, by the late 1960s, business, which had become increasingly restricted in its lobbying due to changed political campaign contribution laws, had reason enough to re-enter the political arena in strength. In the Political Action Committees it had a new vehicle for doing so and one that was liable to change the nature of lobbying from seeking concessions for specific firms towards a broader pro-business base. By attacking government it was able to attack the new interest groups that had used government to restrict corporate activity. And by supporting heavily conservative 'think tanks' it was able to find the intellectual justification for doing so.

This is not to suggest any form of crude 'conspiracy' theory in these countries: it was simply that the economic and political conditions were such as to motivate owners of capital to act independently to protect their own interests—and they found a legimating ideology ready to hand. An influential group of former liberal (in the United States sense of that word) intellectuals were drifting to a neo-conservative position—propelled in part at least by what they saw as the excesses of the New Left. Epstein argues:

> It took the political madnesses committed in the name of the left to make conservatism not merely intellectually respectable but to many intellectuals deeply appealing ... In response to theories of conspiracy in places high and low ... the new conservatives answered with the soothing voice of social science; to cries about the wretched of the earth, with cool displays of statistics; and to hysterical shouts of 'Fascist Amerika' with historical perspective.[27]

At first their positive attitude to the New Deal muted their hostility to government intervention and pro-business concern but as the heat of the debate has increased, neo-conservatism has become far more market-oriented and 'business, long unhappy about the relative lack of ideological support it receives from the academy, has welcomed the neo-conservatives enthusiastically'.[28] This is not to deny the intellectual integrity of leading neo-conservatives but rather to explain their new found status. One is at the same time, in relation to some of the newly popular writings, reminded of the words of C. Wright Mills:

> The very size of the private powers that have emerged has made it necessary to work out new justifications for their exercise. Clearly the power of the modern corporation is not easily justifiable in terms of the simple democratic theory of sovereignty inherited from the eighteenth and nineteenth centuries. Many an intellectual earns a good income because of that fact.[29]

The rise of neo-conservatism and the small government movement was certainly assisted by the failure of intellectuals of the liberal-left to come to the defence of state activity. Left-liberals have been worried not only by the real problem of growth of the power of the bureaucracy but also have been all too ready to proclaim the failure of the Great Society programs and to use that to generalise as to the futility of intervention in social problems by government. After the revisionism of the 1970s it is now, however, being acknowledged that many government programs have indeed made considerable headway not only in alleviating poverty and distress but also in restructuring the patterns of life chances of ordinary people.[30] Furthermore, these policies have been seriously pursued for only about thirty years (and for most of that period with a paucity of resources)—surely far too soon for left-liberal intellectuals to have admitted defeat in altering a pattern of poverty developed over two centuries. But their position was also undermined by the fact that further to the left, neo-Marxists who have become increasingly influential in United States universities, have tended to regard the role of the state as solely furthering the interest of the capitalist class. They have tended to describe the changes associated with the development of the welfare state as providing the minimum services necessary to maintain social harmony when coercion will not work or is more expensive, and as ensuring the reproduction of labour. Only recently has the neo-Marxist literature seen the possibility of using the state to advance the interests of labour and, in Marxist terms, viewed the 'apparatus of the state as a field for pursuing class struggle'.[31] This failure of intellectuals of the left and far-left throughout the 1970s to stress the positive aspects of state intervention has made the task of neo-conservatives far easier.

~~In~~ summary, it is suggested above that the end of growth in the 1970s precipitated what may have been inevitable: a far more bitter struggle over who makes decisions about the organisation of the private sector of the economy and over the distribution of economic shares. And just as the previous shift in the balance of power had been marked by an expansion of government, so the renewed struggle for supremacy in decisions about the economy has to a degree been disguised by what has been presented by its main protagonists as a debate over the appropriate size and role of government, and over the effects of government activity on the economy and society. While there are many facets of this debate, the key issue is the attempt to restore the ideological and institutional separation of the political and economic spheres, to challenge the ability or legitimacy of state activity in changing market outcomes, and to remove from the public policy agenda a range of issues as inappropriate for government intervention. It is in other words, 'to revive the nineteenth century doctrine that economic activities are regulated by the laws of the market rather than the laws of the state and thus persuade people that the state is not the proper arbiter from which to seek solutions to their economic problems'[32]—indeed that to do so will only further damage the national economy.

The Arguments of the Small Government Movement

It is of course not unusual, in public discussion, for the proponents of their own self interest and the preservation of their own power to cloak their arguments in terms of the national interest—indeed it is almost a prerequisite of democratic debate. But it is remarkable that so many of the arguments— especially the economic ones—for small government have so weak an empirical basis. One should, however, bear in mind Joan Robinson's comment that economics 'has always been partly a vehicle for the ruling ideology of each period as well as partly a method of scientific investigation'.[33] The United States and Australia are represented by small government enthusiasts as overgoverned and the growth of government and government regulation is claimed to be a drag on economic growth, with high taxes reducing personal incentives. Furthermore, the growth of government is seen as the major threat to individual freedom and is blamed for the breakdown of traditional community ties and values. These claims gain in force because a number of them contain some elements of truth, and because genuine problems, in particular the growth in power of the bureaucracy and growth of particular regulations which inhibit business competition, have arisen as government has expanded. But the plausibility of most of the arguments is only superficial. What is perhaps more to be expected is that few of the major arguments for smaller government are couched in social equity terms—other than in the expression of the hope that once growth has been generated some of its benefits will eventually flow to the disadvantaged.

A number of these issues have already been examined above, and it is not possible in the space available to deal comprehensively with all the various arguments put forward for small government. But if the case that they are the intellectual gloss on an attack on social equity is to be sustained, then some critical examination of their empirical and logical basis is required.

(a) Large Government, High Taxation. ~~Both~~ Australia ~~and the United States~~ have been represented as overgoverned and overtaxed. It has already been noted above that Australia, like the United States, by the standards of industrial countries, has a relatively small public sector measured in public expenditure terms and is relatively lightly taxed. On the most recent available comprehensive comparative figures (1980) total outlays of government as a percentage of GDP in Australia are 34.1% and in the United States 33.2% which is near the bottom of the OECD league; this is about 5% less than the OECD average and 13% less than the average for the European Economic Community (EEC) of 47% (the comparable figure for the United Kingdom is 44.6%).[34] It has also been noted above that the proportion of the workforce in public employment is smaller in Australia (around 21-22%) and the United States (around 18%) than European proportions of 30% and above. There is some evidence that the level of regulation may be higher in the United States than elsewhere (in part because of greater pressure of environmental legislation and in part because many activities undertaken by public corporations elsewhere are carried out in the United States by regulated private companies) and that the costs to business of this regulation may have been rising in the 1970s,[35] but that the growth of regulation declined from about 1978.[36] It is difficult, however, as has already been noted, to assess the relative importance of forms of government intervention such as regulation or planning in different economies, e.g. to compare industrial regulations in the United States with, say regulation plus the effects of the National Plan in France.

Total tax receipts tend to parallel the figures for government outlays—on the most recent comparative figures total tax receipts in Australia are 29.8% (1979 figure) and in the United States 30.7% as compared to the 1980 OECD average of 36.6%, and European figures such as 35.9% for the United Kingdom, 37.2% for West Germany, and around 45-50% for the Scandinavian countries. Furthermore, the increase in the proportion of GDP taken by taxes in Australia over the 25 year period since 1955 has been only 7.2%, and in the United States 7.1%, as compared to the OECD average of 11.9%.[37] Government is, on these measurements, thus already smaller in Australia than envisaged by the most enthusiastic of European advocates of small government.

(b) Cutbacks and Economic Prosperity. While it is a relatively unsophisticated argument, it is sometimes alleged that, because of the economic downturn, Western countries in general, and Australia in particular 'cannot afford' the expenditures that were financed in the late 1960s and early 1970s. It is apparent from the following table that Australia's GDP has grown steadily over the past 7 years and even on a per capita basis Australia is a richer country than ever before.

Table III.1
Growth of Gross Domestic Product, Australia, 1976/1977 to 1981/82

Year	Income Based Estimate	Expenditure Based Estimate
	Change on previous period (per cent)	
1976-77	2.8	3.0
1977-78	0.9	0.4
1978-79	4.8	5.7
1979-80	1.2	1.8
1980-81	3.7	2.6
1981-82	3.0	2.7

Source: Australian Parliament, Budget Statement No. 2, 1982-83, p.13.

Indeed, in the period of recession 1973-80 real GDP per capita grew at the rate of 1.3% in the United States, 0.9% in the United Kingdom, 1.2% in Australia, 2.0% in the EEC and averaged 1.7% for the OECD as a whole.[38]

(4) (c) Big Government and Economic Growth. It is claimed by small government advocates that the expansion of government inhibits economic growth. The specific mechanisms by which this is said to occur (e.g. effect on incentives, 'crowding out') are discussed below, but the claim should first be looked at in broad and comparative terms. If it were true that big government had a major influence in inhibiting growth then a comparison of the growth rates of industrialised countries since the Second World War should reveal some tendency for those with the smallest public sectors to have the highest growth rates. In fact there has been no such correlation between the size of the public sector and rates of growth and standards of living. Countries with both small and large,

public sectors have at times grown very fast, though by and large those countries with the largest public sectors have the highest standards of living.

These arguments also ignore the very considerable contribution government makes to economic growth in the form of provision of infrastructure, direct investment in industry and other assistance to private capital accumulation which has been growing in recent times. Of particular relevance, in the light of references to government's inhibiting effects on enterprise, is the size of its contribution to research, development and innovation. It has, for example, in the United States had a major role in the growth of high-technology industries[39] as well as in industrial innovation in general.[40]

The leader of the movement most genuinely associated with small government in the federal parliament—the 'dries'—John Hyde, notes that Australia has slipped during the 1970s from the ninth to the sixteenth wealthiest nation in the OECD group, and then attributes this decline to 'the weight of government regulation, manipulation and preservation of established interests'.[41] There is much truth in this statement as far as it goes but it could well be that what was required was not less government intervention but a different form of intervention to promote, rather than restrict, structural change. For what goes unremarked is that of the seven countries which passed Australia on the league table all except Japan have proportionately a ~~larger public sector than Australia.~~

1500 (d) Taxes, Inequality and Incentives. It is argued that the higher levels of taxation associated with bigger government reduce work effort, and that their reduction would release entrepreneurial energies, as well as encouraging saving which would promote investment. Such claims are not new. The modern-sounding assertion that 'exhorbitant taxes, like extreme necessity, destroy industry by producing despair' and that it 'is to be feared that taxes all over Europe are multiplying to such a degree as will eventually crush all art and industry' was made by David Hume in Of Taxes in 1756[42]—on the eve of the industrial revolution. (4)

While this argument may have some validity at an anecdotal level and we find the occasional doctor or lawyer reducing his or her work day because of high marginal tax rates, others may be motivated to work more to maintain their incomes. One cannot predict a priori the relative strength of the income and substitution effects of tax changes (greater work effort to maintain post-tax income and substitution of leisure for work, respectively); both effects will be reduced to the extent that non-pecuniary factors, such as status and job satisfaction, determine work incentives. The test therefore must be an empirical one, and repeated studies have failed to provide support for the view that higher tax rates reduce incentives to work. A series of surveys were carried out by different workers on samples, principally of high income groups, in the United Kingdom, Canada and the United States over a period of years from 1951 to 1973. There are certain methodological problems about such surveys but their findings were very similar: the tax effects were very small and the incentive and disincentive effects tended to cancel each other out. (There is also some evidence that increases in taxation tended to increase the age at which individuals retired.) Most of the econometric studies have been carried out in the United States and there has been a wide variation in results. There is, however, support for the conclusion that both income and substitution effects for male family heads are small, whereas the corresponding (especially substitution) effect for married women are somewhat higher.[43]

In sum, a 1975 OECD survey of all of the empirical work available suggested that 'the net effect of taxation on labour supply is not large enough to be of great economic or sociological significance'.[44]

Most recently an important, though not universally accepted, econometric study has appeared that has challenged some of these findings. It has concluded for example that 'husbands work about 8% less than they would in the absence of taxes' and suggested other welfare losses. It does not, however, add any weight to the argument that relatively small changes in the marginal tax rate have any significant effect on labour supply, but does suggest alternative tax systems involving proportional tax which could collect the same amount while eliminating these claimed effects.[45]

The only other evidence that incentives among high income earners are changed in any significant way at all by taxes is that high rates of income tax may increase incentives to waste productive time and energy on tax avoidance schemes. It seems however that the wealthy need little incentive for tax avoidance in Australia and there is no evidence that reductions in the late 1970s in the marginal rate of tax on high incomes reduced the popularity of this pastime.

There is slightly more evidence that a lowered marginal rate of tax on high incomes may increase savings. For example, some studies of the United States Social Security system (in effect a tax and transfer system) have claimed to show a significant effect on reducing private saving but a recent careful analysis of all the results has concluded that the measured impact of the system is small and probably statistically insignificant.[46] A discussion of the overall effects of tax on saving and the interaction with the rest of the economy would require a full critique of supply-side economics which is beyond the scope of this paper. There are, of course, also many ways of increasing savings other than by increasing inequality through the lowering of marginal tax rates on high incomes.

Klein, in summarising the most recent United States evidence on the effects of changing tax rates both on labour supply and on savings, is quoted as concluding that the measured effects were 'small, slow and sometimes not statistically significant'.[47]

At the same time advocates of tax changes of this type are little concerned with their effects on equality or social equity (or with urgently needed changes in the tax system which would promote both equity and efficiency). Would advocates of tax cuts engender the same support if, instead of the immediate tangible benefits of their proposals going to the rich and powerful and the predicted long term benefits to the poor, the immediate benefits went to the poor and powerless and the alleged long term benefits to the rich and powerful?

Possibly a note is required here about the alleged trade-off between equality and economic efficiency, since small government advocates do sometimes concede that their policies will result in greater inequality in the interests of economic growth. Economists often argue that as equality increases, efficiency is likely to decline because incentives and income differentials are required to stimulate enterprise and work effort. This is a reasonable case, though, of course it is argued by egalitarians that 'incentives are ultimately unnecessary and the need for them is merely the effect on human motivation of the competitive ethos of capitalist society'.[48] But if one accepts that in the type of society we are likely to see for the foreseeable future there will be a trade-off between efficiency and equality, there remain two important caveats central to public policy. First it is far from clear at what level of equality such a trade-off would begin to operate. Thurow, for example, has pointed out that the income inequalities in the United States population as a whole are far greater than those among employed white males alone. Since few would suggest that inequalities among white males are insufficient to provide incentives, would it not be reasonable to conclude that income inequality for the population as a whole could be reduced so that it was the same as for white males (a very considerable reduction) without loss of production?[49] Secondly, many commentators believe that increasing inequality would in itself at the present time be a contributory cause of continuing inflation and economic decline. Whether or not one considers that an incomes policy or a 'social contract' is desirable, if one accepts, at least in part, the sociological explanation of inflation as arising from incompatible income claims, then a new value consensus over a just distribution is needed and this is unlikely to occur if trade unions see a widening gap between the earnings of those on high incomes and their own members.[50] Even the Federal government , in seeking salary restraint from high income earners, is acknowledging at a pragmatic level the possible undesirable effects of perceived inequality. The public policy conclusion to be reached is that though there may be a trade-off between efficiency and equality, one cannot a priori determine that in any given economic situation an increase in equality of income will increase, reduce or have no effect on economic efficiency. This conclusion is in part supported by the fact that among industrialised countries there is no rank order correlation between economic performance, the degree of income equality and the extent of governmental redistribution.[51]

(e) Regulation and Its Effects on Costs and Investment. No issue is more bedevilled by ideology than the question of the growth of regulation, the costs it imposes on industry and the consequent effects on innovation and investment. Most of the objection by industry is to increased regulation associated with industrial health and safety, pollution and consumer standards, and the very use of the growth of this type of regulation as a starting point in measuring costs is ideologically loaded. It assumes a world in which the externalities associated with production such as pollution, injury from dangerous products, or injury to workers are not the responsibility of the firm. Regulation is therefore seen as a transfer of costs from the public to the private sector and thus the costs are in some sense 'additional' costs to the firm imposed by government. There are two possible responses to this: one is to suggest that, in the absence of such regulation, workers, consumers and the local community would not passively absorb these costs but would in 'the state of nature' retaliate against the firms. The costs to the firm of such retaliations and the cost of attempting to protect the firm from them would then be the point from which we should start our calculation of any additional cost due to regulation. (To put this in more practical terms, if one is to measure the costs of worker safety measures or product safety regulation, then it is the net costs that should be measured, i.e. the costs after deducting the higher compensation or insurance payments that would otherwise have to be made.) A more fundamental objection is that if one is to measure the effects of government regulation on the firm it is illogical and illegitimate to select some forms of government intervention and not others; the borderline between regulation and the ordinary law is arbitrary. Thus, in making calculations one might include the protection that the firm has been granted by government regulation of the conduct of business by laws on the enforcement of contracts, criminal penalties against fraud, the limited liability of stockholders for the firm's debts and so forth. Without government the firm could not exist and it seems rather odd to select out only the actions of government which appear to impose costs, rather than a net balance.

A more logical starting point than any of these might therefore be to recognise that it is industrialisation and the complex interdependence of modern society that has resulted in an increase in various undesirable side-effects of productive activity. The question then becomes who should rightly bear the costs of the damage caused or the costs of its prevention, and how might such costs be minimised?

A further (and more legitimate) line of criticism of regulation then appears, namely that its costs are excessive. This argument may take three forms. First, that the standards are too stringent. This is a question on which opinions will always differ, benefits and costs (whether to the firm or to the consumer through delayed introduction of new products or increased prices) will have to be weighed, and the issue can be settled only by the weight of community opinion through the political process. Secondly, that regulations are unnecessarily petty and 'bureaucratic'. Undoubtedly this is sometimes true. Thirdly, that market measures could be utilised which would be more efficient. These may take a number of forms. One is that a more efficient solution would result if decisions and payments were left to be made among those directly affected where this is technically feasible, or by use of market forces. However, both transaction costs and less than perfect information make equitable solutions of this type difficult to find in practice. Those who believe, for example, that product and worker safety can be left to the market and the legal system would appear to have little knowledge of the social costs incurred in the past which precipitated public demand for the introduction of statutory regulation of these matters. It is argued, secondly, by critics that the government itself might make better use of the market, e.g. by selling rights to a certain degree of pollution rather than issuing regulations. There probably are situations where this is correct though it is by no means clear that they would result in any decline in government activity (e.g. inspectors would be required to ensure that those who did not buy pollution rights did not pollute and that those who did, refrained from polluting excessively). In practice, of course, moves are made to reduce regulation but it is rare indeed for market schemes to be developed and proposed in their place.

A second set of arguments, normally put forward by economists rather than industry itself, apply to regulation of industry in relation to entry, price, competition, etc. Here it is quite legitimately argued—not least by the 'dries' in the Australian Federal Parliament—that sometimes 'regulation is acquired by the industry and is designed and operated primarily for its benefit', e.g. by controlling entry, and that 'the benefit to the industry will fall short of the damage to the rest of the community'.[52] Undoubtedly there are often considerable public benefits to be obtained by deregulation in these cases. But some public choice theorists go so far as to insist that the laws of political behaviour are such that the results noted above are inevitable in every case. However, the models of political behaviour they use are so removed from reality as to be of little use.

The onus is, of course, on the regulator to prove that the benefits of regulation of the structure of industry outweigh its costs in terms of economic efficiency and this may be true in only a minority of cases. There are, however, very clear benefits at least in those cases where government regulation is designed to prevent anticompetitive practices such as monopoly concentration, oligopolistic collusion and resale price maintenance, and thus actually to improve economic efficiency. These, however, have been some of the first areas to see a reduction in regulatory activity both in the United Kingdom and United States. This trend has to some extent also been evident in Australia—although one of the most prominent members of the parliamentary deregulation lobby has conceded that there is a case for increasing regulation in those areas where it is needed to improve or maintain competition and thus economic efficiency.[53]

Regulation, like other forms of government activity, does have costs but many of the arguments about its costs appear simply to ignore the benefits. A pragmatic judgement comes from the Economic Council of Canada:

> The greatest potential for 'improving' government regulation may not lie in total or even partial deregulation. In the long-term, we may find that the greatest benefit comes from less glamorous changes that simply alter the 'machinery' by which regulation is produced and perpetuated.[54]

(f) Cutbacks and Inflation. Perhaps the argument that has been impressed most forcefully on the public is that reductions in government expenditure are needed if inflation is to be controlled. This is sometimes a complex argument and takes a number of forms. But it may be useful to pick out three central elements.

First, 'small government' advocacy is often equated with monetarism. While it is true that the advocates of one are often advocates of the other, and that an expansion of government spending without increases in revenue or borrowing will increase the money supply, there is no necessary correlation between the pursuit of a strict monetary regime and any particular size of government. Leaving aside the validity of monetarist claims, restriction of the growth of the money supply to the long term GDP growth rate is quite consistent, say, with a considerable increase over the course of time in the size of government financed by increases in taxation.

A second element of this argument is that the growth of public sector expenditure over the past twenty years has, in some sense, 'crowded out' private expenditure. Most popularly, it is argued that public investment requires public borrowing which raises interest rates and thus reduces private investment. This is, again, not really an argument for small government since, to the extent that increased expenditure is covered by increased taxes crowding out will not occur (though it must be conceded that there is some evidence for a degree of tax-push inflation in some circumstances as workers strive to retain real wages). Even when increases are not covered by tax increases the effects are complex and Groenewegen argues that the financial crowding out argument

> ignores the effects of such public borrowing, and the associated capital works on the level of economic activity and hence future levels of saving ... when there are idle resources and excess capacity, increased investment (including public investment) generates its own savings to finance the investment.'[55]

Thirdly, at a more general level, the argument that depressing effects on private activity—'real crowding out'—result from increases in public activity *per se* have no empirical basis and ignore the symbiotic relationship between private and public capital expenditure pointed out so often by Hugh Stretton and others.

(g) Contradictions and Unintended Effects. It is part of the argument against the increase in government programs that such programs have unintended consequences and that 'the growth of big government will increase *contradictions* between government programs because of a disproportionate increase in the interdependence of programs'.[56] It is certainly true that both these effects occur. However, there is no reason to assume *a priori* that unintended consequences will be undesirable. Indeed, where they are undesirable one would normally expect some feedback so that the program can be altered to eliminate them, while desirable unintended effects will continue. Similarly, while some programs will be contradictory, other programs will reinforce one another (e.g. the combined effect on aborigines of health programs, land rights, general youth job-training programs, and general antidiscrimination programs).

Perhaps this should be regarded as a particular example of the view, in the Prime Minister's words, that 'the State is likely to be in many ways an inefficient and wasteful provider'.[57] There is, in fact, little systematic evidence to suggest that public enterprise will be less efficient than private enterprise. Monopoly public enterprise is likely to be inefficient (whether measured as economic efficiency or X- efficiency) but so is private monopoly. In theory, inefficient private enterprise will be driven to the wall by more efficient competitors (a process, incidentally, often extremely wasteful of human energy and productive resources) but in practice such automatic adjustment is likely to happen only among small businesses and not the large corporate sector. Comparative studies of management styles suggest no systematic differences based on the profit motive.[58] However, there are United States and European studies of small-scale labour intensive activities such as office cleaning and waste disposal which do demonstrate that they are more cost efficient when contracted out to private firms.[59] In general, the greater need for public enterprises to maintain services or follow rules based on equity considerations, to pay award wages and to conduct operations in areas which private firms find unprofitable makes comparison difficult and no generalisation is really possible.

(h) Government and Individual Choice. It is argued that since individuals know their preferences better than does government, the substitution of centrally determined resource allocation decisions for individual market ones results in a misallocation of resources and a reduction in consumer satisfaction. There are consumer decisions in relation to which this argument is valid, but it usually focuses on such other areas as health or public transport where it is much more contentious.

First, it is agreed by all that there are some goods ('public goods') that by their nature can be provided only through the public sector, and 'merit' goods which will be undersupplied if left to the market sector, though what items should be included under these headings and how much should be spent on them is a matter of dispute. But the problem goes further than this. Economically efficient resource allocation through the market requires perfect information. But in many areas there is widespread consumer ignorance which is difficult to eradicate. This does not apply only to areas of professional expertise; it might well be argued, for example, that most people have little idea of how to go about allocating present income so as best to provide for vaguely discerned possible future requirements. Consumers in their capacity as voters are often quite happy to see decisions taken out of their hands and put in the hands of government—whether in the type of health services to be provided or in the removal from sale of dangerous products or in government provision of security for old age or illness. There can be (and are) excesses of bureaucratic zeal in all these areas but in each case, whether the government or the individual can make the best choice is an open question.

The problem goes further than that because the effects of some individual decisions are in principle unknowable by the individual in advance, since they depend on the decisions taken by others. I may opt for private transport, as it will get me to my destination more quickly and comfortably than public transport but if others make the same decision the desired result will not occur. While this problem is acknowledged in standard economic analysis, Hirsch argues that the standard view

> has understated the limitation of consumer demand as a guide to an efficient pattern of economic activity. It has obscured the extent of the modern conflict between individualistic actions and satisfaction of indivualistic preferences. Getting what one wants is increasingly divorced from doing what one likes.[60]

In such circumstances collective choice may result in a far better satisfaction of individual wants than individual choice can possibly do.

One might note in passing that the advocates of withdrawal of government to leave the field free for the individual often argue for the reduction of legal protections for trade unions but do not seem to be interested in the withdrawal of government laws protecting the corporation in the marketplace, particularly in relation to limited liability of individual shareholders. This is an odd and revealing omission.

(i) Small Government and Individual Freedom. It is not possible in this paper to tackle the issue of government, markets and freedom, but some preliminary comments on the standard arguments relating to smaller government and individual freedom may be made.

Society without government is not, as the free market romantics claim, an association of more or less equal individuals and small firms with no power over the market to influence price. There is an inevitable inequality in a free market society between those with capital and those without, and an inevitable tendency toward concentration of capital. The political power that this unregulated concentration generates will be used not only to frustrate market competition—to engage in 'conspiracy against the public' as Adam Smith himself pointed out—but also to maintain the income status and privilege of the economically powerful. It is the intervention of government that has on balance been the equalising and liberating force—and incidentally has often been necessary to ensure market competition, rather than oligopoly or monopoly concentration.

Critics of government intervention thus stress the problems associated with public power, and defenders those associated with private power. There is a further difference. Critics concentrate on the restrictions placed on the individual by government laws and regulation. Defenders stress the new opportunities to exercise freedom that government intervention has provided. It was the intervention of government and the growth of regulation that freed individuals to pursue a better life by liberating them from the burdens of industrial deaths and injuries, urban blight, exploitation of their labour, and consumer fraud and providing them with means through public services to self-fulfilment. While excesses and errors have occurred, they argue, it flies in the face of history for opponents of government to argue that its growth has reduced personal freedoms for the mass of the people or to speak of some previous 'golden age'.

This division is sometimes postulated as that between 'negative' freedom (i.e. between absence of coercion by someone else) and 'positive' freedom (the capacity to do what one wants, 'to act as a fully human being').[61] At the same time negative freedom emphasises the coerciveness of human agents exclusively, whereas positive freedom acknowledges the coerciveness of social structures and other impersonal forces. However this formulation is unconvincing to those who are fearful of claims made in the name of positive liberty, and in any case raises questions as to whether this distinction is satisfactory. MacCallum has suggested a formulation of the concept of freedom[62] which overcomes the difficulties of what is felt by some to be a false dichotomy; and Goodin, after making the points noted above about positive and negative freedom, has used MacCallum's formulation to carefully examine the various claims relating to reduction of freedoms by the welfare state. He reaches the conclusion that while there are losses there are also gains in freedom from the welfare state, not only to welfare recipients but to all citizens. He argues that the 'alleged negative impacts are equivocal at best ... Three of the positive impacts, on the other hand, seem unequivocal and quite important ... the gains to freedom outweigh the losses.'[63] His analysis is confined to the welfare activities of the state. If it were extended to regulatory activities the conclusion would, in my view, be reinforced.

In any particular public policy decision the balance sheet may be complex and the concept that coercion can be the result not of action by individuals but of the impact of social structures may become important. Singer provides an analysis of the situation referred to above where individual decisions by drivers have led to congestion and pollution, but a public transport system is uneconomical when in competition with private transport. Suppose that a law

> is enacted prohibiting the use of private vehicles in a defined inner city area. In one sense the range of choice of transport open to people has been reduced; but on the other hand a new choice now opens up—the choice of using a fast and frequent public transport system at a moderate cost. Nevertheless, because the choice of driving oneself to work has been eliminated by a deliberate human act, the defenders of laissez faire will regard this restriction as an interference with freedom; and they will not accept that the nonexistence of the option of efficient public transport, if private transport is not restricted,

is a comparable interference with freedom, the removal of which compensates for the restriction of private transport. They will argue that it is circumstances, not deliberate human acts, which preclude the coexistence of efficient public transport and the unrestricted use of private vehicles ... that freedom is not restricted, and rights are not infringed, by 'circumstances', but only by deliberate human acts.[64]

(j) Dependence on Government and Social Breakdown. Among the undesirable social effects attributed to the growth of the welfare activities of the state has been the creation of dependence on government 'handouts' and the concomitant breakdown of traditional values, splitting of communities and changes in family structure.

Where behaviour has sometimes altered in what may be seen as an undesirable direction (e.g. nonparticipation in the workforce by welfare recipients in the face of benefits reducing on a dollar for dollar basis as earnings rise) it has often been the result of poorly structured programs. As Passmore has noted, government programs need not encourage dependence but can instead encourage independence.[65]

There is also a ~~strong argument~~ which suggests that the primary cause of breakdown of traditional social values lies elsewhere than in the growth of government. Two forces are ~~at work. First,~~ free market forces demand ~~a more mobile~~ labour force ready to change jobs and move home to new locations, thus encouraging the breakdown of traditional community ties and relationships. Secondly, there is the impact of the spread of liberal values. Walzer has cogently summarised the view that

> what we are living with today is the crisis of liberal triumph. Capitalism, the free market, governmental laissez-faire in religion and culture, the pursuit of happiness: all these make powerfully for hedonism and social disintegration ... They open the way for individual men and women to seek satisfaction wherever they can find it ... but the effects of all this are revealed only gradually over decades, even centuries ... From this maximising game ... the majority of men and virtually all women were once excluded. They were too poor, too weak, too frightened. It is this exclusion, I suspect, that figures in neoconservative writing as the moderation and civility of times gone by. And what is called hedonism is in reality the end of that exclusion ... hedonism is a way of life newly available outside the upper classes. More people pursue happiness and they pursue it more aggressively than ever before...[66]

The end of that exclusion has thus brought not only the changes in the power structure discussed above but the spread of values that must be seen as a further stage in the development of liberal capitalist democracy—the pursuit of economic self-interest has now become almost universal. It is the social effects of this process (such as the fact that the aged can no longer rely on care in the extended family) to which government has had to respond.

Nevertheless, arguments as to the social effects of welfare payments are often used with emotional impact. Thus Hyde notes that

> the supporting parent's benefit in its first year, 1974, was paid to 26,286 mothers; seven years later 101,583 mothers received it; the size of the increase can be reasonably explained only [emphasis added] by a change in social attitudes in which the existence of the benefits must itself have played a part ... Clearly, the government should decide, in creating and perpetuating such benefits, whether or not its secondary aim (the primary being income security) should be to strengthen the family unit.[67]

In fact however, when the figures are more closely examined a different picture emerges:

Table III.2
Supporting Parent Benefit Recipients and Unemployed, Australia, 1974-1981

Year	A Number of Women on Supporting Parent Benefit as at June 30	B Number of Unemployed (May Figures)	A as a Percentage of B
	Thousands		
1974	26.3	95.3	27.6
1975	36.0	229.6	15.7
1976	45.5	247.6	18.4
1977	51.0	314.2	16.2
1978	55.4	396.3	14.6
1979	59.4	396.6	15.8
1980	66.6	413.6	17.0
1981	101.6	375.5	28.4

Sources: Social Indicators No. 3, 1980 (ABS).
The Labour Force (ABS 6203.0).

It may be seen from the above that once allowance has been made for the time needed for the availability of the new benefit to become known the rise in numbers was not rapid before 1981 , and more likely explanations are available. It would be expected that, as economic conditions declined, more women would be unable to get jobs. They would seek either unemployment or supporting parent benefits and increasingly opt for the latter as changes in the relative levels of payments and associated benefits made it increasingly more attractive. The jump in 1981 is largely due to the Commonwealth taking over responsibility from the States for supporting benefits in the first six months (a transfer of approximately 22,500 beneficiaries), rather than a substantial increase in the number of mothers on benefit. This is not to suggest that the existence of the benefit has had no effect on behaviour—rather, it illustrates a general pattern, that whilst the simplistic 'small government' case may have a grain of truth so as to make it plausible and striking, the refutation is longer and more complicated as complex social and economic relationships need to be analysed.

Clearly it would be absurd to claim that the growth of government never restricts economic growth, never promotes inflation, never gives rise to inefficiency, and never restricts personal freedom. It has done all these things. Rather, what is suggested is that the growth of government does not <u>necessarily</u> have any of these effects, very often does not have them in practice, and where it does they can often be corrected by changes in policy. The weakness of the arguments that the size of government must be reduced if growth, stable prices, and personal freedom are to be promoted—and the vigour with which such arguments are pursued—arouses some scepticism about the purposes for which they are being used.

Big Government and Big Bureaucracy

One further serious objection to the growth of government needs to be noted, namely that too much power has passed into the hands of an unelected and unaccountable bureaucracy. There are undoubtedly grounds for the feeling that the public (and, at times, politicians) are not in control of the government machine that is supposed to serve them and that mechanisms of accountability have broken down. Solutions to this problem are difficult but probably lie in pursuing changes in bureaucracy and society that will remove the barriers between the bureaucracy and the general public. The list of democratic reforms to the public service, ranging from effective freedom-of-information legislation and provision for appeals of administrative decisions, to a breakdown of traditional notions of career service to ensure a representative and politically responsive bureaucracy, are by now well known and have been widely canvassed.[68] These might be associated, where possible, with the breakdown of 'big' government, in the sense of a large central administration, into smaller administrative units close to those whom they serve. The other necessary brake on the power of bureaucracy is more difficult to create: the development of a more politically aware and more continually politically involved populace prepared not only to maintain vigilance against abuse of power but also to promote active participation in administrative decision making, sometimes in conflict with bureaucracy.

In Australia some 'dry' members of parliament have supported elements of this package of reforms, e.g. freedom-of-information legislation, but, in general, conservative parties have been reluctant to tamper with the traditional public service system. The solution of smaller government (with all the costs that this would entail) would not seem necessary till the option of better government has been attempted.

No Reduction—but Some Redistribution—in Government Expenditures

If the small government movement has been the ideological expression of strong political forces acting in their own self-interest, the paradox is that (despite some reduction in Commonwealth payments to the States while responsibilities were transferred to them) the Commonwealth government sector in Australia has not significantly decreased as a proportion of GDP, and the total public sector has slightly increased over the past six years. Income taxes collected by the Commonwealth have, as a proportion of GDP, also increased as have total Commonwealth receipts (see tables III.3 and III.4). A similar picture emerges in the United Kingdom under the Thatcher government where public expenditure has risen from 41% of GDP in 1979-80 to 45% (estimate) in 1981-82 and while this may be attributed partly to increased welfare payments, general government expenditure on goods and services has risen from 22.5% to 24% (estimate) of GDP in the same period.[69] In other words, the overall government growth trend in countries where the small government movement is strong is much the same as in other OECD countries without such governments and where the size of the public sector has continued slowly to grow. (The United States and United Kingdom 'small government' administrations are too recent for comparable international statistics to be available, but, for Australia, government outlays as a percentage of GDP on standard definitions grew between 1976 and 1980 from 32.9% to 34.1%. Similar figures for the OECD as a whole are 37.7% to 39.3% and for the EEC 45.5% to 47.0%. Figures for final consumption expenditure are 16.0% to 16.6% for Australia, 17.0% to 17.1% for the OECD and 18.0% to 18.7% for the EEC.)[70]

This paradox is resolved in part by the growth of welfare payments induced by economic recession and in part by the fact that, although there are purists in the small government movement, most of its advocates want the state to maintain, if not expand, its traditional roles both in assistance to private investment and in defence, law, order and public safety (the latter areas also in some countries

Table III.3

Public Sector Outlays as a Percentage of Gross Domestic Product

	Commonwealth sector outlays(a) (per cent)	State and local government sector outlays				Total(d) (per cent)
		Financed by			Interest payments to Commonwealth(c) (per cent)	
		Commonwealth assistance(b) (per cent)	Own funds (per cent)	Total (per cent)		
	(1)	(2)	(3)	(4)	(5)	(6)
Year						
1973-74	24.6	8.1	8.4	16.6	1.4	31.6
1974-75	29.4	10.4	9.0	19.4	1.3	37.1
1975-76	30.6	11.6	8.5	20.1	1.2	37.9
1976-77	30.3	10.8	9.2	20.0	1.2	38.2
1977-78	31.1	11.1	9.9	21.0	1.3	39.6
1978-79	29.5	10.6	9.7	20.3	1.3	38.0
1979-80	29.0	10.1	9.9	20.0	1.2	37.7
1980-81	29.0	9.9	10.4	20.3	1.2	38.2
1981-82(p)	29.2	9.5	10.3	19.8	1.2	38.3

(a) Budget and non-Budget sector. The latter comprises mainly capital expenditure.
(b) Direct assistance from the Commonwealth Budget.
(c) Interest payments on specific purpose advances and on securities allocated to the States under the Financial Agreement from the Commonwealth. These are the only transfers from the State and local government sector to the Commonwealth.
(d) Net of all transfers between Commonwealth and State and local government sectors. Column 6 is equal to column 1 plus column 3 less column 5.
(p) Preliminary.

Source: Budget Statement No. 2, 1982-83, p.29.

Table III.4

Receipts of Public Authorities as Proportions of GDP

	All Commonwealth Authorities		All State and Local Authorities			All Public Authorities(b)
	Income Taxes(a)	Total	Grants from Commonwealth	Own Revenue Raising	Total	
	(1) %	(2) %	(3) %	(4) %	(5) %	(6) %
Year						
1972-73	13.3	22.8	6.5	7.8	14.3	29.0
1973-74	14.6	23.9	6.7	7.5	14.2	30.0
1974-75	16.4	25.3	8.4	7.5	15.9	31.5
1975-76	16.2	25.8	9.7	7.8	17.6	32.4
1976-77	16.8	26.6	9.2	8.0	17.2	33.3
1977-78	17.0	26.8	9.7	8.1	17.8	33.6
1978-79	15.6	26.0	9.4	7.8	17.3	32.5
1979-80	16.2	26.9	9.3	8.0	17.3	33.6
1980-81	17.1	27.8	9.2	8.0	17.2	34.6
1981-82(p)	17.8	28.5	8.9	8.3	17.2	35.6

(a) Comprises income taxes on individuals and companies and withholding tax.
(b) Net of all transfers between Commonwealth and State and Local Government sectors. Because such transfers — which comprise Commonwealth grants to the States and interest payments by the States on specific purpose advances and on securities allocated to the States under the Financial Agreement from the Commonwealth — are included as receipts of the relevant sector, columns (2) and (5) do not add to column (6).
(p) Preliminary.

Source: Budget Statement No. 6, 1982-83, p.323.

being activities substantially supporting the private sector). Within a democratic system it is not easy to maintain such expenditures while cutting back on health, education and welfare, and while there has been some success in doing this the difficulties have naturally prevented any overall reduction in government activity.

In the United States, budgeting is a far more public activity and the political process maintaining public expenditure is well illustrated by the evolution of the United States Budget in 1981 as recounted by a genuine small government enthusiast, David Stockman, Director of the Office of Management and the Budget. Stockman set out to reduce the budget projections of the previous administration on a rational basis, subjecting all claims to critical scrutiny:

> We are interested in curtailing weak claims rather than weak clients. The fear of the liberal remnant is that we will attack only weak clients. We have to show that we are willing to attack powerful clients with weak claims.

However as time went on and bargaining about the budget continued, this objective became increasingly difficult to achieve. Thus, one of Stockman's original major cuts in the interests of equity, to the Export-Import Bank whose operations offended free market principles and two-thirds of whose loans went to major manufacturers, was largely restored after business lobbying. It should be noted that some areas of welfare expenditure—such as the basic Social Security system—also proved to be inviolable if they had a sufficiently wide and active constituency. Other programs, more specifically targeted on disadvantaged groups, were cut severely. As Stockman's chronicler noted:

> To reject weak claims from powerful clients—that was the intellectual credo that allowed him to hack away so confidently at wasteful social programs, believing he was equally tough-minded on the wasteful business subsidies. Now as the final balance was being struck, he was forced to concede in private that the claim of equity in shrinking the government was significantly compromised if not obliterated.

A similar process occurred on the revenue side with the important tax cuts going to the rich and the corporate sector—or as Stockman described it: 'The hogs were really feeding. The greed level, the level of opportunism, just got out of control.'[71]

On the revenue side there has been, of course, in Australia a considerable redistribution of the tax burden. This is reflected not only in widespread tax avoidance and the increasing proportion of income tax paid by Pay-As-You-Earn (PAYE) taxpayers, and by the introduction of new sales taxes regressive in their impact, but also by the restructuring of the income tax scales as a deliberate act of government policy so as to favour higher income earners. Collins has prepared detailed tables on nominal tax liability (i.e. not taking into account avoidance and evasion) and has concluded:

> Between 1969/70 and 1974/75 households at low real incomes experienced reductions in real tax burdens but all other households experienced increases. Between 1974/75 and 1976/77 almost all households experienced reductions in real tax burdens. Between 1976/77 and 1980/81 households at 1959/60 real incomes of $3,000 or less (a substantial proportion of all taxpayers) were subject to constant or increased real tax burdens while for all family compositions at higher real income levels real tax burdens fell.[72]

These broad trends are confirmed by a separate study of the changing differential impact of tax rates on lower and higher incomes measured not in constant real terms but as a constant percentage of average weekly earnings over time.[73]

It is not surprising, therefore, to see evidence of a similar pattern of redistribution when we turn to expenditures. Thus, the proportion of the Commonwealth budget spent on defence and industry (other than primary industry) assistance has gone up while that on health, education, housing and urban and regional development has gone down. Given that changes in the budget occur at the margin, these shifts are not insignificant.

Table III.5

Percentage of Commonwealth Budget Spent on Selected Functions of Government, Australia, Selected Years

	1975-76	1977-78	1981-82
Defence	8.5	8.9	10.0
Education	8.7	9.0	8.1
Health	13.5	10.1	9.9
Social Security & Welfare	23.0	27.8	27.8
Housing	2.6	1.9	1.1
Urban & Regional Development and the Environment	2.6	0.6	0.2
Transport & Communication	6.1	3.2	2.9
Industry Assistance & Development			
Primary Industry	0.8	0.7	0.5
Other	0.8	0.2	1.7

Source: Budget Statement No. 6, 1982-83, p.330.

The one area in which this redistribution is not seen is in social security and welfare whose budget share has increased from 23.0% to 27.8% (though it has remained constant since 1977-78 while the other shifts have continued). This rise in social security expenditures was not, however, as a result of any increase in the level of services, but primarily due to the recession-induced increases in the number of recipients. Indeed, the percentage of families without an income earner had increased from 9.3% in 1973-74 to 15.3% in 1978-79.[74] If these expenditures on pension and benefit payments are regarded as 'uncontrollable' and the proportion of the remaining budget spent on different functions is calculated, the differential trend of increases and decreases on different items is again very evident. While the Thatcher ~~government has been in office for only three years the start~~ of a similar trend to the Australian one may be discerned.[75] ~~The cuts are~~ already most evident in the field of welfare housing with a sharp decline in the number of new houses being built.[76] This is also an area heavily hit in Australia and it is pertinent to note that it has been identified as probably the most redistributive of the services provided by ~~the British welfare state.~~[77]

While these broad functional categories indicate the shift in priorities that has occurred there have also been shifts within the categories. Thus, for example, in the education sector there has been a shift in expenditures from the public to the private sector, and within the private sector, the collapsing of the School Commission's original six categories into three has had the effect that the wealthiest independent schools now get much larger per capita grants.[78] This sort of shift is also reflected in relatively small areas, e.g. within the arts sector, subsidies for the national Opera and Ballet companies have been maintained by separate line item appropriation and the squeeze placed on remaining Australia Council activities.

In sum ~~therefore,~~ despite 'small government' rhetoric the end result of conflicting pressures has been continued growth of the public sector at much the same rate as in other countries but with taxation burdens and government expenditures, at least at this stage, being redistributed in a regressive direction. Given the desire of capital itself for many forms of government intervention, the contradictions in rhetoric that this creates, and the mobilisation of groups adversely affected by cutbacks to protect their own interests, it is even doubtful that the small government movement as a powerful political force will be more than a transient phenomenon. The state is now, however, likely to remain as the main arena for the more fundamental conflict over economic shares and political power.

Conclusion

It is not the purpose of this paper to suggest that every extension of government activity has resulted in a desirable increase in social equity. Many examples to the contrary have been cited. But it has been suggested that the growth of government has, in general, been associated with greater equality of material resources, greater equality of opportunity and greater individual freedom. At the same time, this growth has resulted in problems about the growth of government power and about democratic accountability for the exercise of that power. Each further extension of government functions must be considered on its merits both as to its purposes and to the problems it may create. This is a far cry, however, from the view of small government advocates. They have attempted, and to a considerable degree succeeded, in setting a tone for public policy discussion in which most forms of government intervention are seen to be undesirable, inefficient and a bureaucratic invasion of individual freedom. Issues of social equity and the impact on equality of reductions in government activity have received little attention, and their arguments have been far too readily accepted. Just as claims for increased government power in the name of some overriding good have in the past received close academic scrutiny, so the claims of small government now require similar scrutiny and the central question, 'Who benefits?' needs constantly to be asked.

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SMALL GOVERNMENT AND SOCIAL EQUITY: DISCUSSION

JOHN HYDE

Professor Wilenski has made my task somewhat easier by referring to a little publication of mine: The Year 2000: a radical liberal alternative (Hyde, 1982). That gives me some licence to defend myself and those whom Professor Wilenski says, much too generously, I lead. More importantly, it makes it possible for me to comment in a coherent fashion on his paper without chasing every wild goose, for I could not possibly exonerate every alleged small government advocate in every country of every alleged sin committed. Perhaps I should start by saying that a perceptive observer might actually find a large number of similarities between Professor Wilenski's politics and my own. We would seem to agree, for instance, on the importance of tariff reform, on the need for structural change, on such administrative issues as freedom of information, and on the needs of such groups as Aborigines. I am sure we could find many more. These points should not conceal, however, the enormous, and probably unbridgeable, distance between us.

Our disagreement begins in the title of Professor Wilenski's paper. Discussions in terms of 'small' and 'big' government are, I suggest, misleading and I think that others might have suggested that before. In the absolute of course, no one on my side of politics, or on Professor Wilenski's, has any notion of the optimal government size. The false trail is even more confused in practice by international comparisons, which incidentally utterly distort matters by omitting countries in which the public sector is all-encompassing. It should not surprise us that what strikes an American liberal as intolerable is perfectly tolerable to a Swedish conservative, while an enlightened Governor of Hong Kong would have an altogether lower limit of tolerance. Comparisons which ignore generations of accumulated political and economic habits are not very useful. They rather reinforce my first point, viz. that we should not be discussing 'big' or 'small' government, but appropriate government.

Even here, I suspect, there is no common ground on which Professor Wilenski and I can discuss these matters with reasoned dispassion. The problem lies in what amounts to matters of faith, for Professor Wilenski tends towards that position which holds that the State is in everything and is everything. This is an approach which some might recognise as Marxist, others as medieval, and others again as Fascist. No doubt Professor Wilenski can explain which. It is important to understand this, otherwise we do him an injustice. When, for instance, he identifies the so-called 'small government' movement with the forces of reactionary capital, that is not mere conspiracy (which point Professor Wilenski has made himself), or conspiracy theory, but rather the explanation made necessary by his faith. When again he describes the same movement as basically attempting 'to remove some of these issues from the public policy agenda'(p.39), that is not wilful misconstruction but methodical thoroughness.

This comes to the heart of Professor Wilenski's paper for it leads him to assert that government has been the mechanism by which many groups have improved their position in society. However, this is a view which has encountered a number of insuperable objections, both theoretical and empirical. I would assert, to the contrary, that in general the overall material and political standards of society have risen rather out of the growth caused by private industry and that government's role has been at best secondary. This is not merely an historical argument about the benefits or alleged evils of the industrial revolution. It is also directly relevant to our present economic difficulties. It is not simply that those countries like Great Britain and the United States which experienced the industrial revolution also achieved widespread prosperity, but also that those which continue in the ethos of the industrial revolution continue to experience both prosperity and rising individual standards of living. Compare the rates of economic growth over the past 20 years of the market economies of East Asia with Western Europe and then again with Eastern Europe.

Further, Professor Wilenski's view of the State leads him to a view of government in which, if I read him rightly, it is government's essential role to be arbiter of interests, vested versus vested, and vested versus non-vested. He assumes an understanding and capacity to exercise disinterested judgement on the part of politicians and government apparatchiks that is not of this world, and certainly does not fit my observation of politics in action either now or from 1972 to 1975. That again is very relevant to our present economic difficulties.

My final prefatory observation is again directed at the title of Professor Wilenski's paper. Ostensibly it is about equity, but whenever equity becomes central the discussion veers off into equality. That too reflects a confusion which is unhelpful to discussing our present economic difficulties.

I have already mentioned my pamphlet The Year 2000. It is not so widely read that I can assume general familiarity with it. Essentially, what I tried to do in that small work was to say that prosperity, and particularly increased prosperity arising out of increased economic growth, was a precondition of all those things that we hold highest in society—security, liberty, dignity, self-fulfilment. We have done, and continue to do, many things that have prejudiced our prosperity to the extent that, although we continue, quite slowly now, to get a little wealthier, we are comparatively becoming less wealthy than an increasing number of other countries.

Professor Wilenski's paper seeks to make the point that the redistributive effect is greatest when the labour movement is strongly organised and socialist parties have controlled the government for long periods. I would like to see the evidence of this as I have often been told that income disparities are wider in the Soviet Union and in Eastern Europe than they are in Western Europe. But even if it is true, it is not evidence that a larger share of a small cake will be bigger than a small share of a large cake. On the contrary, the evidence is that the poorest people in a society gain most when their economy grows most. The nations of the Western Pacific have struck the point well, even though the redistribution mechanisms in most of them are much weaker than either Professor Wilenski or I would settle for. Nonetheless a lot of the poorest, say 20 per cent, must have improved at a far faster rate than the poorest 20 per cent in Western Europe or in Sri Lanka.

Professor Wilenski notes that some of the wealthier countries have larger public sectors than our own. I have already pointed out that it is irrelevant. It also misrepresents my own point which is not just that Australia's public sector is too big, which it is, nor that there is too much government in Australia, which there is, but especially that we have too much inappropriate government in Australia. Some examples looked at with some regard to Professor Wilenski's central thesis will illustrate what I mean. Professor Wilenski finds that some of the 'dry' arguments on tariffs are cogent. I would have thought, however, that those arguments might have given him pause in his eulogy of government. The principle argument for tariffs these days is one of equity in that they are an elaborate form of unemployment benefit. The argument is, of course, fallacious and to the extent that tariffs destroy jobs they are clearly inequitable. To the extent that the consumer tax equivalent of tariffs is regressive they are even more inequitable. Tariffs are a huge factor in economic life in Australia because of a failure of will on the part of government. It is not that we don't know what we ought to do, we just don't do it.

While government is no more than an arbiter of vested interests, that failure of will shall prevail. The essence of the problem is that while the beneficiaries are few, they are vocal, relatively affluent, and all too readily identifiable in electoral terms. Those who suffer are considerably larger in number, but because of the nature of the issue, are unlikely to be able to combine into any influential coalition. This raises a serious question in Professor Wilenski's own terms. If all remedies for inequity are seen to come from government, then what happens when the aggrieved cannot enter the political process? Indeed the whole matter of group mechanics in the theory of public choice is notably absent from the paper.

The same sorts of problems affect issues on which Professor Wilenski and I explicitly disagree. We are asked to believe that the present status of trade unions represents an improvement in political and economic equity. I don't deny that trade unionism represents the end product of an intrinsically desirable process. But how does it work today in terms of equity and efficiency? In effect, trade unions in Australia today exercise monopoly powers over the commodity of labour, with consequent inefficiencies. In terms of equity, minimum wage laws guarantee inequity to the extent that they protect the privileges of the employed at the expense of the unemployed. I love monopolies as little as does Professor Wilenski. Why then should trade unions be exempt from the ambit of the Trade Practices Act?

Environmental issues again offer a fruitful area of disagreement. Most environmentalists' victories in Australia have decreased equity and increased inefficiency. Yet there are efficient solutions to environmentalists' questions, involving market solutions which allow scarce resources to be priced realistically, and which produce results which are often more equitable.

Professor Wilenski singles out tenancy laws. Sadly, such laws also decrease equity by reducing the supply of housing and increasing rents. These examples could go on. Professor Wilenski even calls Adam Smith to his cause, employing part of Smith's famous quotation about producers' tendency to conspire against the public. That conspiracy is most effective when the conspiracy is with the government, whether it be a Navigation Act, a two Airline Policy, the tariff or closed-shop agreements.

In other areas our disagreement is much less radical. Overall welfare, or income security to be more precise, has increased equity, but of course the effect is considerably muted by the provision of welfare on a universal basis. I very much doubt whether health expenditure has increased equity and yet I suspect that the wealthy get far more than their share of open-heart surgery and the other expensive treatments. In all these cases and many more, (e.g. the provision of free post-secondary education, the maintenance of monopoly in communications) the end result is inefficiency and less than optimum equity. In all these cases then the government has failed.

What then are we to do? Does the answer lie simply in better government, as Professor Wilenski seems to suggest? Now that may well be the case, but Professor Wilenski's paper hardly begins to suggest the mechanisms whereby that might be achieved or even a framework within which those mechanisms might be devised. We could do worse, I suggest, than to return to the concept of appropriate government. Consider taxation as an example. Professor Wilenski comes close to suggesting that there is nothing greatly wrong with our tax system. His statistics are largely beside the point. Comparisons in growth between ourselves and other nations in the Organisation for Economic Cooperation and Development (OECD) ignore comparative structures and, more importantly, the effects of those structures. The same consideration largely vitiates his discussion of the disincentive effect of taxation. What is at stake is not simply the size of the tax take, although I would argue that it is too large, but the outcome of its structure in terms of equity and efficiency. As was pointed out eight years ago (Taxation Review Committee, 1975), the Australia tax system was clearly both inequitable and inefficient. Yet we seem to be unable, still, to reach any substantial degree of bipartisan agreement on the remedies.

Other issues raise different considerations. Here I might start by quoting Professor Wilenski. In his closing remarks he states that 'just as claims for increased government power in the name of overriding good have in the past received close academic scrutiny, so the claims of small government now require similar scrutiny' (p.70). This, I suggest, is to stand matters on their head. Of course the claims of small government need scrutiny, but part, a very large part, of our problem in Australia has been that for too much of the past very few increases in government power have been subject to rational scrutiny, academic or otherwise. And such scrutiny has usually been sacrificed to pragmatism or expediency. The characteristic habit has been to identify a market and to assume that the remedy is government provision of whatever service or good is needed. Professor Wilenski himself shares this curious cast of mind when he identifies among market failures the following: education, transport, recreational facilities, basic health support and so on.

Even if we assume that the market did fail in all these cases, and that is an assumption I could not share, it is enormously instructive to consider what would have been the appropriate response. Here I think Professor Wilenski has confused the nature of the response, and incidentally, and consequently, the nature of thee so-called small government movement. In this context the use of the phrase laissez-faire is a give-away. The broad centre of the movement in Australia represented by, shall we say, the economic rationalists and utilitarian liberals in and out of parliament, is not laissez-faire; on the contrary, we all, so far as I can tell, and as far as I can speak for all of us, recognise the constant possibility of market failure and the need for government remedy. But it is vital at this stage to distinguish between intervention, regulation, and control, and more so since the habitual reflex of both government and the governed has been to resort to the latter two. It is difficult to choose from Professor Wilenski's examples any but the most obvious instance. Transport is so clearly an area of gross government failure that the Two Airline Policy merely vies with the Navigation Act as an example of the crowning folly. Here indeed it is difficult to see why government ever intervened. There was no readily definable public good element, while the virtues of competition in a free market are more than usually apparent both in terms of equity and efficiency.

Let me rather ask you to consider education. Most of us would agree that there is a public good involved here, at least in terms of school education. Yet clearly the public good can be provided without any degree of control at all by resorting to intervention. The voucher system is a mechanism which can do just that. By breeding competition between schools and reducing the need for a large bureaucracy it will almost certainly increase efficiency, while, by funding all pupils at the same level it would be an improvement in equity over the present system. It has other appealing qualities to liberals, although they are not directly relevant to the present discussion. In the case of post-secondary education the present system involves some quite large inequities. A new system of funding is required which takes into account the gratuitously high rates of return afforded to all post-secondary graduates on the student's investment in time or income foregone. An alternative is much needed and it is not beyond the wit of man to devise it. To an old-fashioned liberal like myself it will also have the singular virtue of restoring to universities their proper autonomy, which the present system necessarily compromises.

Again, these examples can be multiplied indefinitely, but I think I have made my point. I have tried, as much as possible, to consider the problems of government within the terms of reference adopted by Professor Wilenski himself. I have therefore avoided many traditional liberal issues. There is one however that cannot be avoided which is relevant to these matters, and which grows out of the traditional liberal distrust of the unfettered growth of government power. Professor Wilenski is reticent about the mechanics of intervention, regulation and control, but those mechanics, however humdrum, are too important to be neglected.

Australian experience in recent years, as for instance in the workings of the Senate Standing Committee on Finance and Government Operations, has made us all too well aware of the imperfections of government instrumentalities. It is a very serious question as to whether those imperfections are intrinsic or merely accidental. We do not know, in empirical terms, how regulatory authorities presently work, nor indeed do we have any definitive theoretical notion of how they can be made to work. Are they just collections of utility-maximising individuals, or indeed disinterested guardians of a public interest? How do they work on the regulated? Are those authorities hapless victims of the capture theory, or indeed, incorruptible monitors of a corrupt market place? Who guards the guardians? Can parliament do the job? We really do have to answer some of these questions before we put into place any scheme of regulation, however well-founded in equity and efficiency. And just in case anyone should suppose that these are merely rhetorical questions, my own answers are: largely yes, only to a small degree, largely yes, hardly at all, I haven't a clue, and not very well.

Further, there are more circumstances than Professor Wilenski presumes where the citizen, fallible though he is, is a better judge, advocate and executor of his own welfare than any elected proxy can be. There are some tasks demanded of government, the marginal consequences of which are beyond the State's possible understanding, such as the imposition of minimum wage laws. Regulations which are continuously variable cannot be written, let alone enforced. Neither can regulations be designed to change incrementally, so government is forced to categorise people, making discrete changes to the rules over time and across circumstances. In short, the State is less than god-like in performance, let alone motive.

Professor Wilenski says that economically efficient resource allocation through the market requires perfect information. I say perfectly efficient resource allocation requires perfect information, whether by bureaucrats or markets or even by gods. The question is not whether markets are perfect but whether they are better in particular circumstances.

To conclude. This has, by its very nature, been a partisan exchange. Professor Wilenski is, in his own way, as much a politician as I am. But the lessons from it, some of them at least, should go beyond partisan interest. Professor Wilenski has shown, not altogether uncontentiously, how his guiding principles have been neglected by our present socialist-conservative government. But if we are ever to have a Labor government which is seriously interested in equity, let alone efficiency, then these arguments will be as much of concern to it as to any authentically liberal government which might happen along some day.

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IV
Government and Economic Management

R.M. Parish

What is 'Economic Management'?

I think it will be useful, and not just pedantic, if I consider, at the outset, some possible meanings of the term 'economic management'. Perhaps the most natural way to understand it is as government management of economic activities and entities. This interpretation corresponds to a rather old-fashioned definition of the subject matter of economics, viz. the production and exchange of marketed goods and services. Roughly speaking, activities and institutions concerned with the making and spending of money thus comprise the economic realm, and economic management consists of attempts by governments to control, influence, or manage what goes on in that realm.

Another possibility is that 'economic' refers not to the things being managed but to the method or aims of the management. This interpretation corresponds to the modern, imperialistic, notion of the subject matter of economics, as being, roughly, rational behaviour in the context of scarcity. Management might then be said to be economic if it made use of economic expertise, or if it was directed toward economic ends.

I thus distinguish three possible meanings of economic management: (i) the objects of management belong to what is commonly thought of as the economic realm; (ii) the management makes use of economic expertise; (iii) the objective of management is the promotion of economic ends. Of course, particular examples of government management may qualify as economic under more than one of these headings.

I take it that the ultimate economic end that might be promoted is wealth maximisation, or economic efficiency. This is the social maximand explicit or implicit in most economic theorising.[1] It also corresponds closely, I think, to what the ordinary man has in mind when he inquires as to 'what are the economic consequences' of some proposal. Other economic ends can be regarded as intermediate objectives which are themselves conducive to the larger end of wealth maximisation.

Wealth maximisation is only one of the many ends that are or might be pursued by governments. No one would expect economic efficiency to be pursued to the disregard of all other values. One that is frequently seen as being in major conflict with economic efficiency, and hence as dictating the need for substantial compromise between the two, is a 'just', or otherwise appropriate, distribution of income or wealth. Some would classify distributional justice as an economic end—as in the public finance theorists' emphasis on the equity and efficiency aspects of tax arrangements. I put it in the non-economic category because, although economists have expertise in devising and analysing the effects of redistributional policies, they have no particular expertise in defining the aims of income distributional policy (though on this point my Utilitarian colleagues would disagree).

So much for preliminaries. I will now make some assertions about the nature and scope of government involvement in the economy in modern democratic states. If some of my assertions appear to be mere assertions, let me plead the pressure of a time constraint, and invoke 'debater's licence'.

'Economic Management' in Practice

Most government interventions in the economic realm are not designed to promote economic efficiency, or even to improve the distribution of income according to Utilitarian or egalitarian criteria. In other words, most instances of economic management according to my first definition do not seem to be instances of economic management according to my third definition. I say 'do not seem to be' in order to allow for the possibility—indeed the near certainty—that some of them countervail other deleterious interventions, and hence promote economic efficiency inadvertently.

Consider some examples. Intervention in agriculture has largely consisted of facilitating the creation of marketing cartels with the aim of raising returns to farmers by monopolistic pricing (discrimination between the home and export markets, and/or between different segments of the domestic market) and, in some cases (e.g. sugar, rice, tobacco, eggs) by coercive control of supply.[2] Trade policy has protected domestic industries by made-to-measure tariffs and quotas, thus inhibiting structural adjustments according to the changing patterns of comparative advantage and fostering an isolationist and dependent attitude among the favoured industries. Labour policy has been to legitimate forms of coercion which if practiced by any group other than trade unions would quickly be suppressed; to countenance and facilitate the development of protected and unprotected segments of the labour market and hence to encourage the growth of unemployment as workers, disdaining low-paid and unpleasant jobs, and assisted by the dole, wait for jobs in the protected sector;[3] and to ensure a high level of industrial disputation through the agency of the Arbitration Commission. Public utilities and government-controlled enterprises generally have followed policies of cross-subsidisation among various categories of service and customer. One almost universal form that this has taken has been the charging of uniform or slightly differentiated prices despite widely differing costs of providing service to different localities—a practice that has favoured rural and small-town dwellers, and Tasmanians.[4] Policies with respect to natural resources have, since the beginnings of white settlement, been marked by distrust of market outcomes and by the withholding rather than the upholding of private property rights. Thus the development of farming systems adapted to the Australian environment and our comparative advantage was inhibited by land policies that sought to impose a European pattern of agriculture, and disastrous closer settlement and irrigation schemes were implemented.[5] Contemporary policies seem destined to ensure that the expected rents from favourable mineral discoveries are dissipated in extravagant exploration programs, since the mineral rights are granted to the organisation offering to undertake the exploration program that the State finds most attractive.[6]

Now while these and many other interventions in the economic realm cannot be rationalised in terms of economic efficiency, they were the outcome of a political process that most of us regard as legitimate, or at any rate tolerate 'for fear of finding something worse'. Some of them doubtless contributed to other ends valued by our society, and some may indeed have contributed to the remarkable placidity—to the absence of violence and revolution—of our two centuries of history.[7] But let us not pretend that anything like the present level of government involvement in economic matters is needed in order to manage the economy in its own terms, i.e. as a producer of wealth.

It is commonplace to observe that a large number of economic interventions seem consistent with the 'interest-group theory' of politics: that is, many instances of economic management confer benefits on identifiable groups, usually particular industries or groups of factor suppliers, and cannot be rationalised convincingly on any other basis—although some equity or efficiency rationale is almost invariably supplied.[8] The economic explanation of the dominance of producer interests over that of the consumer (which can be identified, approximately, with the public interest)[9] runs in terms of the costs and benefits of being well-informed about political initiatives and their likely consequences. Measures which have the effect of transferring income from consumers to producers typically harm a great many consumers each to a very small extent, and benefit a few producers and their factor suppliers to a substantial extent. It is simply not worth the consumer's while to keep himself or herself informed about every proposed intervention or regulatory decision, when its likely effects on him or her are very small. Similarly, it is easier to organise the prospective gainers or losers into supporting or opposing a transfer when they are few than than when they are many. Consumer passivity and producer activism are thus rational responses to the prospective costs and benefits of political activity, and are likely to remain features of political life, in the absence of drastic changes in our political system.

Much recent intervention, especially of a regulatory nature and often having a substantial economic impact, is not directed at traditional sectional economic interests at all, but is in response to groups advocating various social 'reforms', such as consumer protection, safety (in the workplace, on the roads), women's rights, environmental protection, etc. It seems to me that while often qualifying as examples of economic management according to my first definition, these interventions seldom qualify according to my second (i.e. management using economic expertise). This is hardly surprising, considering that their proponents—predominantly alienated quasi-intellectuals involved in the administration of social programs—have views of the economy that are distorted by a large element of fantasy. At any rate, these interventions seem often to have effects that are perverse in terms of their intended consequences, or are ineffective, or effective but inefficient.[10] For example, consumer 'protection' measures generally have the effect of diminishing the range and raising the costs of the goods and services consumers buy. Tough controls of new drug introductions may cause more deaths and suffering by delaying or preventing the introduction of some drugs than they save by prohibiting the introduction of others.[11] Banning cigarette commercials probably has little or no effect on cigarette consumption, and raises the profits of tobacco companies.[12] Controls on automobile emissions are extremely costly and produce benefits that are largely based on faith.[13]

The large gulf between intention and result characteristic of many of these interventions suggests that, with social causes, the symbolism of the act is more important than its real effects—that for many zealots it is more satisfying to travel angrily than to arrive. But this is to ignore the fact that even if the new social regulation has been relatively unsuccessful in terms of its ostensible aims, it has been quite successful in creating jobs for professionals both in the newly-created agencies and in firms that have to deal with them. Social-reform politics may not be all that different from pork-barrel politics, after all.

The ineffectiveness and inefficiency of much social regulation can be attributed, I think, to misdiagnosis of 'problems', neglect of economic actors' rational responses to incentives, and failure to anticipate the indirect consequences of regulatory actions. Consumerists, for example, routinely see consumers and producers as being in an adversary, competitive relationship, whereas, in the economic realm consumers compete with other consumers, and producers with other producers. Legal reformers pronounce certain common contractual arrangements to be manifestly unjust, without analysing carefully their purpose, or the consequences, especially for costs and prices, of outlawing them.[14]

To assert, as I have done, that many social regulations are ineffective or even counter productive is not to say that they are perceived as such. Their real effects are in fact often difficult or impossible to perceive, being dispersed and hidden in the flux and complexity of economic events. (I cannot pretend that my adverse opinion of them is based solely or even mainly on empirical evidence that would qualify as 'scientific'—though it is partly based on such studies. It is also based on casual observation, on _a priori_ reasoning which presupposes rational self-interested human responses to the interventions, and on the sort of arguments outlines in the preceding paragraph.) Because their real effects cannot readily be observed, government initiatives of this sort tend to be judged by their avowed intentions, which are often laudable and attractive to the voters. (It is hard to oppose the giving of 'protection' or the granting of 'rights' when the recipients do not realize that they will receive a bill for them, or think that someone else will pay the bill.) This is presumably why politicians promote, and the public tolerates, costly and dubious social reforms.

In summary, I would argue that a high proportion of government intervention in the economy is, from the economic point of view, mismanagement; that some serve the traditional political purpose of conferring economic benefits on particular groups or constituencies, while others respond to demands of an ideological nature from various pressure groups; and that these interventions are politically acceptable because their benefits are concentrated and highly visible, or their supposed effects attractive to voters, while the costs and real effects are dispersed and hidden from view. _Governments can get away with economic_ mismanagement because they are largely unaccountable for their actions. They have little incentive to choose sound policies over meretricious policies.

Non-Price Methods of Allocation

In dispensing benefits of all kinds—publicly provided goods and services, privileges such as licences, subsidies, etc.—governments ordinarily seek to replace or supplement the market provision of these items by methods of allocation that are based on criteria other than willingness and ability to pay. (Indeed to sell some such items, e.g. social services, would generally be regarded as a contradiction in terms.) However, it is frequently overlooked that when price competition for an item is suppressed other forms of competition arise—often as a matter of necessity—in order to allocate the good among potential claimants. Whether competition occurs depends on whether the allocative criteria are innate or behavioural, and the form of competition engendered depends on the circumstances of the case. Most non-price competitive methods of allocation fall into two categories—allocation by ordeal, and allocation by product degradation.[15] Examples of the first are queuing, waiting, studying for examinations, preparing cases and lobbying when licences are being granted, and becoming a deserted wife; examples of the latter are congested highways and beaches, public health and education services of low quality. These methods of allocation impose costs on the recipients which may, in aggregate, be as great or greater than the money payments that would be made were the goods allocated by the market. In effect, goods so allocated are paid for twice, first by the government to the original suppliers, and then by the recipients. The second payment, unlike the first, benefits nobody: it is an expenditure of real resources, not a transfer payment. These costs attendant upon the 'free' provision of goods and services are not easily avoided: they are usually essential as an allocative device. The alternatives are also costly. One is to provide the good or service to the point of satiation, so that consumers do not have to compete for it: public libraries are probably a case in point. Another is to allocate the good on the basis of some innate characteristic so that individuals are unable to acquire eligibility by their behaviour. Allocation by some random device, such as the drawing of lots, is also non-competitive. The trouble with these methods is that would-be consumers have no way of communicating the strength of their preferences to the allocators, so that, in terms of the Pareto criterion, a good deal of misallocation is likely.

Competition for benefits or favours is now recognized as a substantial real cost associated with government intervention in the economy. It goes under the somewhat inappropriate generic title of 'rent-seeking' behaviour; 'surplus dissipation' would be a better term.[16]

Normative and Positive Theories of Intervention

If, twenty years ago, a mainstream economist was asked to outline a desirable program of government economic management he probably would have answered along the following lines. First, fiscal and monetary policies to promote macroeconomic stability; some sort of antimonopoly legislation; regulation or nationalisation of natural monopolies, including most network-type public utilities; taxes or regulations to protect the environment from pollution; subsidisation of various activities productive of positive externalities, especially education and research; routine subjection of public investments to cost-benefit analysis. He would also have advocated income redistribution policies promoting greater equality, but not to such an extent as to affect production incentives seriously.

Such a program is based on <u>theories</u> of market failure and an <u>assumption</u> of government competence and willingness to correct market failures. There are two main problems with this approach. The first is that, since economic theorising proceeds in terms of abstract and simplified models in which many problems and institutional details are assumed away, there is a tendency to evaluate real institutions and practices as if they operated in such a hypothetical context, and —for example—pronounce them counter-productive, when they may in fact fulfil a useful purpose. The second is more fundamental: to argue for intervention solely on the basis of market failure is simply to assume that government action will improve matters, whereas we know from experience that it frequently has the opposite effect. It has become clear that while governments will quite happily make use of the rationalisations for intervention provided by economists—and that economists will very eagerly provide them—governments have their own purposes, and the dynamics of political processes are such that the outcomes of interventions may be quite different from those intended by economists. Similarly, bureaucracies have built-in incentive structures which may largely determine the way they perform. These disillusionments have led to a heightened interest in comparative institutional analysis, in which deterministic theories of the performance of market, political, and bureaucratic institutions are deduced from their underlying incentive structures, on the assumption that decision makers are rational and self-interested. Insights provided by this sort of analysis suggest that non-market decision making entities have serious deficiencies with respect to the weighing and registering of individual preferences, the taking of a long-term point of view, operating at low cost, and, generally, achieving an efficient allocation of resources. Looked at from a slightly different perspective, these studies imply that a lot of altruism is required of politicians and bureaucrats if they are to serve the public interest.

Problems in Formulating and Implementing Normative Economic Policies

Developments in economic theory and applied economics have also contributed to a greater emphasis being placed on the role of incentives in determining the performance of different institutional structures. Thus, it has become clear that it is very difficult to monitor the performance of enterprises, both private and public, and to enforce appropriate behaviour by them. The monitoring problem arises from the subjectivity of the decision making process and of the costs and benefits that enter into it. The Lerner 'Rule' for managers of public enterprises—'equate marginal cost and price'—is unenforcible. Outsiders cannot know the rejected options which represent the opportunity cost of the actions taken by management. Costs are not simply a given so far as management is concerned. The creative role of management is to find out what the relevant alternatives, and hence the opportunity costs of actions, are. The hopes that, back in the 1950s, were held for imparting greater economic rationality to government investment decisions by means of cost-benefit analysis have largely been disappointed. Differing views among economists on methodological matters, contextual assumptions, and factual projections make cost-benefit analysis a flexible tool indeed, such that, (it could be argued) far from being a means of keeping governments honest, it has come to be a method of providing a pseudo-economic rationale for whatever governments wish to do. If our ability to prescribe and monitor rational economic management in enterprises is quite limited, then greater importance attaches to the provision of incentive structures that will guide managers themselves to make decisions that are socially beneficial. In the free market the principal means of promoting efficiency is competition, both <u>within</u> and <u>for</u> markets, and <u>for the control of assets</u>. Crude though these devices may be, even they are lacking, or operate on a diminished scale, in the public sector. Hence, the suggestion that the notion of public sector accountability might be a contradiction in terms[17] and the view that the only effective way of reforming inefficient public enterprises is to privatise them.

Economic analysis typically proceeds at a high level of abstraction and makes extensive use of ceteris paribus assumptions. This is essential both for understanding and for communication. However it does engender habits of thought which are not altogether appropriate for framing policy advice: specifically, a tendency to consider some particular aspect of policy, or economic sector, on the assumption that optimal policies are in force elsewhere in the economy. The general interdependence of economic phenomena means that policy advice based on this assumption may be inappropriate if the assumption is—as in practice it universally is—false. This so-called problem of the 'second-best' is, of course, well recognised by economists, but the profession's response to it seems to me to have been somewhat evasive. In practice much policy continues to be formulated as if the problem did not exist. There are two intellectual bases on which this approach has been rationalised: one says that if we are truly ignorant as to the divergences required from a policy applicable to a first-best world, it can be shown on certain assumptions that the best we can do (in a probabilistic sense) is to follow the first-best policy[18]; the other sees the implementation of policies applicable to a first-best world (even though they may be contemporaneously inappropriate) as an appropriate strategy for moving over time toward a first-best configuration of the whole economy. As it seems to be based on the 'principle of insufficient reason', some will find the first argument less than compelling—the more particularly since similar considerations have been invoked to justify a policy of inaction in similar circumstances.[19] Also, we seldom are completely ignorant of the sort of modifications required to adapt Utopian policies to realities: the problem is that different economists will have different insights as to these modifications—hence, in part, the well-known difficulty of finding agreement among them. The second rationalisation envisages the economics profession behaving like an altruistic freemasonry surreptitiously pursuing its own vision of the good society without regard to the short-term aims of its political masters—a vision not without nobility, but subject to the same objections as the public-interest theory of political behaviour.

Perhaps the most obvious way in which economists evade the 'second-best problem' is by concerning themselves with broad, high-level policy matters, since the larger the presumed ambit of the policy adviser, the smaller the scope for contradictory and countervailing policies to operate outside his control. Thus, it is much easier to make sensible suggestions for improving trade policy as a whole—say, by recommending the adoption of a uniform tariff instead of a set of made-to-measure tariffs—than it is to decide whether economic efficiency would be served by the raising or lowering, as an isolated event, of some particular tariff—especially if it were a low or middling one. However, most economic policy making in a democracy proceeds on a piecemeal basis: it is mainly a matter of trimming and adjusting, with major changes of course being rare events. It is an unfortunate fact that this is the precise context in which the economist has least to contribute by way of positive advice. That this should be so should not be surprising. It simply illustrates the truth, stressed by Hayek, that the price mechanism is an extraordinarily efficient way of encapsulating and transmitting the information necessary for the coordination of the activities of millions of economic entities: if, as in a second-best situation, the price signals are distorted to varying degrees, so reducing the efficiency of the system, the task of making allowance for the distortions is a daunting one, comparable in kind, if not in degree, to that of the central planner seeking to simulate the operations of a market economy.

Concluding Remarks

I am arguing that the ability of economic analysts to prescribe corrective interventions in the private sector, and to prescribe and monitor economically-efficient behaviour in the public sector is much more circumscribed than was generally believed 25 years ago, and than is still believed by many today. At the same time, economic concepts and modes of analysis have shown a perhaps unexpected power to explicate the functioning of non-market institutions. We are now able to see the problem of achieving economic efficiency in a wider perspective, in which getting an appropriate division of labour among market, bureaucratic, and political institutions obtrudes itself as being of fundamental importance. In practical terms, the major contemporary problem is that of arresting and reversing the growth of government involvement in the economy. Several measures of a constitutional nature have been proposed, including a requirement that governments balance their budgets, limits on taxation or government spending as a percentage of GDP, and limits on the rate of growth of the money supply.[20] While these measures would curb the fiscal and monetary indiscipline of governments, they would hardly inhibit the growth of social and economic regulation, the major costs of which are borne by individuals and enterprises, and do not appear in budgets. Constitutional measures to ameliorate this problem do not come readily to mind. Perhaps, for a start, it should be required that the introduction of any new regulation be accompanied by the removal of an existing one.

In conclusion let me say that big government involvement in the economy has moral and political costs as well as economic costs. Pork-barrel politics, and 'doing something'—however ineffectual—about a myriad of 'social problems' are activities from which deception, pretence, and hypocrisy are inseparable. They coarsen and corrupt both those that supply them and those that demand them. Their prevalence induces a pervasive cynicism about politics, weakens the moral authority of elected leaders, and diverts their political energies from more legitimate and worthwhile causes. One would hope that politicians themselves will come to see the advantages of some constitutional or self-imposed limitations on the ambit of their activities—that Jim Carlton, M.P., was right when he remarked a year or so ago:

> It is suddenly dawning on more politicians in Canberra that they don't really want personally to be held responsible for whether a certain type of plane goes between Sydney and Melbourne, at what time it leaves and how much it will cost, and whether tea will be served or not.[21]

Notes and References

1. Since relative prices are affected by income distribution, it is not always clear whether one collection of goods is bigger than another. Hence wealth maximisation can be an ambiguous end—a difficulty which, for present purposes, I pass over.
2. See especially Sieper, E., Rationalising Rustic Regulation, St. Leonards: Centre for Independent Studies, 1982.
3. For the argument in detail, see Fane, George, Policies for Labour Market Adjustment: Australian Experience in the 1970s. Paper prepared for Seminar on Labour Markets in Japan and Australia, Australian National University, 24 November, 1980. (A.N.U. mimeo).
4. Kolsen, H.M., Public Authority Business Undertakings (PABUs) in Australia, Monash University, Department of Economics, Seminar Paper No. 8/82.
5. Davidson, Bruce R., European Farming in Australia, Amsterdam: Elsevier, 1981.
6. Nellor, D. and Clarke, R., The Allocation of Mineral Leases by Work Program Bidding, Centre for Policy Studies, Monash University, 1982.
7. As noted by Claudio Veliz in 'Bad History', Quadrant, May 1982, p.23.
8. For amusing examples, see Sieper, op.cit., pp.1-4.
9. To identify the consumer interest with the public interest is to assume, as economists commonly do, that consumption—broadly defined, and including provision for future generations—is the ultimate end of economic activity. Production plays a purely instrumental role. The fact that some production activities are themselves satisfying may be accommodated by suitably qualifying the above statement, or by turning it into a tautology (by defining the enjoyment of job satisfaction as a form of consumption).
10. Parish, Ross, 'Industrial Censorship', Quadrant, July 1978, p.12-17.
11. Peltzman, Sam, 'An Evaluation of Consumer Protection Legislation: The 1962 Drug Amendments', Journal of Political Economy, 81:5, September/October, 1973, pp.1049-91. Grabowski, H.G., Vernon, J.M. and Thomas, L.G., 'Estimating the Effects of Regulation on Innovation: An International

Comparative Analysis of the Pharmaceutical Industry', Journal of Law and Economics, 21, 1978.

12. Hamilton, James L., 'The Demand for Cigarettes: Advertising, the Health Scare, and the Cigarette Advertising Ban', Review of Economics and Statistics, 54 1972, pp.401-9.

13. Parish, R.M., Economic Growth and the Environment, Meredith Memorial Lectures, 1974 La Trobe University, 1974. Grenning, Mark, Motor Vehicle Emission Policy in Australia—A Case of Non-Market Failure. Paper presented at Conference on Government Regulation of Industry, Institute of Industrial Economics, University of Newcastle, 1980.

14. Parish, Ross, 'Consumer Protection, and the Ideology of Consumer Protectionists', in A.J. Duggan and L.W. Darvall, (eds), Consumer Protection Law and Theory, Sydney: Law Book Company, 1980.
Economists can be equally brash. A long line of them, starting with Adam Smith, has condemned the institution of share tenancy (and analogous contracts, such as authors' royalties) as being conducive to inefficiency. More recently, the virtues of this type of contract have been recognised —and not before time, when one considers it is one of the oldest and most widespread type of contract used by mankind.

15. Parish, Ross, Methods of Allocation, Monash University, 1981 (mimeo), ______, Economic Analysis of Non-Price Rationing with Particular Reference to Petrol. Bureau of Transport Economics, Occasional Paper 44 , Canberra: Australian Government Publishing Service, 1981.

16. Modern discussionss of rent seeking stem from Gordon Tullock, 'The Welfare Costs of Tariffs, Monopoly, and Theft', Western Economic Journal, 5, 1967, pp.224-32, and Anne Krueger, 'The Political Economy of the Rent-Seeking Society', American Economic Review, 64, 1974, pp.291-303.
However, the idea is quite old, as the following quotation makes clear:

> Under it [protection] there is—to put it at the lowest—a not inconsiderable chance that manufacturers, confronted with competition, will expend energies, which might be best devoted to discovering more economical methods of work, in the sordid trade of "persuading" and "influencing" legislators. From this it is not impossible that log-rolling may develop, different industries making treaties of mutual support in the scramble for tariff doles... While the theory is that protection is needed for the weak, in practice it is those who can shout loudest, lobby best, and pull wires most effectively to whom the boon is prolonged.
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> A.C. Pigou, The Riddle of Tariff, London, 1904.

17. Clarke, Richard and Porter, Michael G., 'State Enterprise Accountability—A Contradiction in Terms' in S.R. Davis et al., Quangos, the Problem of Accountability, Clayton: Monash University Centre of Policy Studies, 1982.

18. Ng, Y-K, Welfare Economics, London: Macmillan, 1979, Ch.9.

19. Brennan, G. and McGuire, T., 'Optimal Policy Choice under Uncertainty', Journal of Public Economics, 4, February 1974, pp.205-9.

20. The theoretical bases for constitutional limitations on governments' power to tax are examined in Brennan, G. and Buchanan, J., The Power to Tax: Analytical Foundations of a Fiscal Constitution, Cambridge: Cambridge University Press, 1980.

21. In Gordon Tullock et al., The Economics of Bureaucracy and Statutory Authorities, St. Leonards: Centre for Independent Studies, 1983, pp.100-1.

GOVERNMENT AND ECONOMIC MANAGEMENT: DISCUSSION

GLENN WITHERS

Professor Parish's argument can be summarised (with some discussant's licence) in five brief sequential propositions. This commentary addresses each of those propositions and then makes several key points that go beyond the Parish framework and stress the limitations to our economic understanding. The Parish propositions are:

1. the ultimate economic end is economic efficiency, or wealth maximisation; and as a corollary, distributive justice is outside the economist's province.
2. turning to means: government interventions in the economy are growing but they rarely advance efficiency.
3. failure to advance efficiency is explained by subversion or capture of the collective choice process by private interest groups and pressure groups.
4. attempts at policy reform will face difficulty because appropriate economic analysis for policy guidance is lacking and, most fundamentally, the inherent structure of public sector incentives can negate most reform efforts.
5. accordingly, growth of government must be reversed, if economic goals are to be enhanced (and also before it corrupts society further).

Each of these points is reviewed in turn.

Economic Efficiency as the Objective

There may well be other objectives of government action beyond economic efficiency. Redistribution is the obvious major candidate. But in addition we should recognise that such rational criteria may be only part of the story. There is also, no doubt, much in government action that is symbolic or ritualistic in an anthropological sense and hence goes beyond any objective achievements in relation to efficiency or distribution. Similarly, value may attach to conceptions of procedural justice e.g. 'every man has his day in court'. But this is beyond the economist's accustomed territory. So let me accept that economic efficiency is a distinctive and constructive focus for economists. However I diverge from Professor Parish in necessarily equating this with wealth maximisation. The 'official' efficiency criterion for most economists is so-called Paretian efficiency, which is a 'weak' (i.e. widely accepted) value judgement to the effect that resource reallocation can be recommended _by the economist_ provided no-one is made worse off (in their own view). But wealth maximisation is closer to Pareto efficiency _supplemented_ by Kaldor-Hicks compensation i.e. resource reallocation can be recommended provided that those made worse off could be fully compensated by those made better off. Since compensation need never actually be made, the obvious moral consequences of wealth maximisation have meant that most economists have restricted their formal criterion for evaluation to Pareto efficiency, whatever their _de facto_ opinions and recommendations as individuals. And, of course, sharper value judgements are typically required for advice, but they are then personal rather than professional. Now it is probably true that those judgements do approximate wealth maximisation in most cases, so let me assume this with Professor Parish for the purposes of this discussion.

Professor Parish is closer to official orthodoxy in saying that distribution is a non-economic end. Of course economists do look at the nature and determinants of distribution, but they have mostly accepted that economics _per se_ has little to offer by way of normative evaluation. Nevertheless this has changed of late and the change does deserve some notice. Professor Parish does mention parenthetically that utilitarians will disagree with him. But so these days will contractarians, democrats, elitists, equalitarians, and perhaps some libertarians. For each of these groups, representing alternative views of social justice, widely agreed formulations of social welfare functions can be and are written and the implications for tax systems and public expenditure patterns, for instance, are deduced and compared. In this sense distribution as a normative issue has been conceptually reincorporated within economic analysis. However, again, I think there is sufficient to discuss in the matter of efficiency alone that I am willing to agree to put distribution aside for present purposes, having registered my demur at too narrow a definition of the scope of economic management.

Regulatory Intervention is Growing but Inefficient

The second proposition of Professor Parish's regarding growth of intervention is largely true. Professor Aitkin has given some quantitative indicators and he has concluded that 'Big Government' is growing less rapidly here than elsewhere. But Professor Aitkin had one major lacuna in his figuring which might be filled (and was partly remedied in revision), and which supports Professor Parish's concerns. Contrary to the United States and British experience that Aitkin cites, new legislation and regulation in Australia actually shows no sign of diminishing. Specifically, in the twenty years to 1979 federal and state governments passed 16,631 Acts and 32,551 Statutory Rules. Acts showed an increase of 40 percent and Statutory Rules 62 percent in the 1970s compared to the 1960s. At the same time average pages per Federal Act increased, as between the two decades, from 6.4 to 8.6. The two non-Labor states of Western Australia and Queensland passed the most Acts during the 1970s and Queensland had by far the fastest growth in Statutory Rules (Confederation of Australian Industry 1980). So perhaps, as Professor Aitkin says, Australia has not dramatically increased the public sector's share of Gross Domestic Product (GDP). However this picture of relative quiescence is reversed if regulation is quantified in the way indicated. Incidentally, the total number of regulatory statutory authorities in Australia is estimated at around 1300. The regulation business is obviously a large and growing one (Pincus and Withers 1983).

Moreover, I agree with Professor Parish that the regulatory industry is, by and large, an inefficient one. The survey by Pincus and Withers of some 300 papers by Australian economists on individual industry regulation revealed the following themes:

a. Old regulations rarely die, but continue in operation long after their justification has vanished.

b. 'Public interest' regulation often chiefly serves some thoroughly private interests.

c. Benefit-cost ratios of regulations range from numbers above unity through to negative.

d. Regulation begets regulation, since private efforts to escape the effects of regulation engender pressure for further regulation.

e. Regulation is plagued with unintended consequences.

However two key points should be made to qualify these generally adverse findings. First, the economic literature devoted to systematic quantification of the size of the efficiency loss is sparse indeed. Nevertheless, where available, analysis of the losses involved indicates they are of minor magnitude in terms of efficiency loss unless the attempt is made to demonstrate that transfers are actually resource losses because of costly 'rent-seeking' behaviour or because of consequent 'X-inefficiency' of a kind that dissipates surplus. These larger losses are usually asserted rather than demonstrated and it was Professor Parish, with Dr Ng in 1972, who demonstrated the difficulties in this approach to quantification. The efficiency losses are even smaller if risk aversion is allowed for. Secondly, conclusions regarding ineffectiveness and inefficiency apply much more strongly to the traditional industry regulation sought by producers than to the new social regulation sought by 'alienated quasi-intellectuals' (Parish p.86). Partly this is because there is a longer tradition of critical analysis of industry regulation, but also social regulation does seem to benefit broader groups.

Private Interest Explanation of Regulatory Failure

This latter remark brings me to proposition three: George Stigler's private interest explanation for regulatory failure. There is a danger that the private interest explanation can become little more than a truism. If it contents itself with merely identifying gainers and losers without modelling the pressure group process that produces this result, a regulation is then 'explained' when we discover the group that has gained most by it. Let me illustrate. Conscription is one of the most extreme forms of government regulation. It is well established that this regulation benefits the well-to-do taxpayers who avoid tax increases by imposing an implicit tax in kind on impecunious young draftees. Does this explain conscription? Work on the 1916-17 conscription referenda can find no relation between voting and tax position. Instead the outcome is a function of various group and collective loyalties (Withers 1982).

Professor Parish does go beyond truism and point to the advantages of small groups of producers who can expect large per member gains and to the lack of incentives for the organisation of larger consumer groups. This helps but it does not go far enough. Let me illustrate again: a redistribution of one dollar from each Academician to the present author would benefit a small, cohesive group at the expense of a large, diverse one. It has not occurred. Again, not all industries are monopolies; not all legislation benefits small groups to the detriment of many. What is needed is a clearer specification of when minority pecuniary interests count more than majority votes. It was, after all, George Stigler himself in an earlier incarnation who formulated Director's Law of Income Redistribution to the effect that 'public expenditures are made for the primary benefit of the middle classes, and financed with taxes which are borne in considerable part by the poor and rich' (Stigler 1970). Of course this is not to deny the public good provided by 'private interest' economists when they reveal the size and distribution of regulatory costs and benefits. Nor is it to deny the value and importance of the whole public choice approach to the public sector. For too long positive analysis of public sector decision making has been neglected by economists in favour of some vague conception of the state as a benevolent dictator or as a neutral agency for the correction of market failures. At long last economists are questioning this presumption and are doing so in a formal analytic way that has been lacking in much political science.

Difficulty of Policy Reform

I think the economic analysis of non-market decision making is too fledgling still to be relied upon as a source of justification for proposing the futility of policy reform. It can point up difficulties, as valuable insights are being developed. But there is generally no substantial empirical body of results applying and validating most public choice theories yet, at least in any way approaching the body of quantitative knowledge developed by economists for private markets.

Since this is because the public choice theory is often insufficiently developed and does not yield unambiguous hypotheses or clear predictions for empirical testing, it is not clear at this stage whether further refinement of public choice theory might offer insight not only into what is wrong with existing political and bureaucratic decision making but also as to implications that might follow for improving that process other than by government withdrawal from involvement. For example, I think it has already done so in one important area. The theory does produce clear testable hypotheses about the relative production efficiency of private and public enterprises. The *a priori* reasoning is encapsulated in what Kenneth Boulding calls Edsel's Law: if the Ford Motor Company makes an Edsel, it finds out; if the Ford Foundation makes an Edsel, it doesn't care. The supporting evidence is a wide range of cost comparisons of bureaucratic versus private production, particularly at the local government level. Costs are almost invariably lower under private production of identical products (see the surveys of evidence in Spann 1977 and Blankart 1980). Accordingly, it does seem clear to me that a desirable and feasible reform in terms of efficiency is to increase reliance upon private enterprise production, in many areas of government services.

One can suggest a further range of institutional innovations for improving the regulatory process, including sunset legislation, regulatory impact statements, efficiency audits, program budgeting. But these proposals are indeed subject to Professor Parish's concern about countervailing incentives. They can be nullified, muted or evaded to some extent. Even more valuable steps forward would be taken if regulatory objectives could be more clearly defined and the full costs of regulation were charged to the regulatory agencies concerned. My own reading of the public choice literature on direct regulation seems to indicate that it is limited information on objectives, costs and achievements that is the main source of failure in public decision making here. Such information must be a major priority. It is no accident that freedom-of-information legislation has been so impeded by the bureaucracy in Australia.

But perhaps the single most important step of all that could be taken is to recognise the wisdom that is embodied in the several centuries of economic knowledge acquired since Adam Smith and to use market-style instruments <u>for intervention</u> i.e. recognise the need for intervention but via market means, and not via direct command-type controls. Market-style mechanisms are largely self-governing, they use natural existing self-interest incentives by design, and provide much of the information needed for evaluation (Schultze 1977). By being explicit, open and exposing much of the relevant monetary effects, such instruments are amenable to majority control through the conventional political process. It is the hidden effects of direct-control type of regulation that seem most conducive to decision making by special interest pressures. Thus, specific reform proposals would include using pollution taxes, education vouchers, competitive franchise bidding for broadcasting licences, and the like. Even on the macroeconomic front, my own view is that one of the few policy initiatives capable of contributing to the resolution of our present stagflation situation is a tax on excess wage increases and a subsidy for extra employment increases—a policy firmly based on explicit market incentives that seek to overcome the disadvantageous externalities of the present wage fixing process.

Finally, note that it is the distinction made above between open majority government and closed special interest government that is perhaps one explanation for the difference between Professor Wilenski's and Professor Parish's conclusions at this symposium. Such diametrically opposed results are obtained partly because Professor Wilenski (like Professor Aitkin) mostly (though certainly not exclusively) focusses on the monetary and transfer redistributive dimensions of government. Professor Parish focusses on the direct control regulatory dimensions of government.

Winding Back Big Government as the Necessary Conclusion

It will be evident by now that I do not favour drastic solutions in terms of the 'bigness' of government. The 19th century historian Jakob Burckhardt predicted the rise of the 'terrible simplifiers', who offer simple solutions to complex issues. I am more than a little afraid that both the 'Big Government' and 'Small Government' forces are such simplifiers. In the libertarian case outlined by Professor Parish I have two more reasons for rejecting the appeal of winding back government. Indeed these are perhaps my main reasons and I have been unduly long in arriving at them. The difficulty is that a commentator has some obligation to accept the framework proposed by the paper being commented on. However the framework is inadequate to me, even as an economic framework, because by default, if nothing else, it assumes that the market can do the job in those areas where government should be cut back. George Stigler tells the story of a beauty contest in which the judges see the first contestant and immediately award the prize to the second. Professor Parish's paper has little on the deficiencies of the market.

I have difficulty accepting that the 'grass is greener' for two reasons. First, in the area of resource allocation, it is true that economics has to its credit the remarkable achievement of demonstrating that the anarchy of the market place can, via the price mechanism, produce an orderly and coherent disposition of resources in a highly efficient manner. However, theoretical economics is also clear, and increasingly so, in specifying circumstances in which this outcome need not apply: these basically refer to the presence of market power, to the incompleteness of some markets, and to deficiencies in the dynamic process of adjustment. Let me elaborate.

Where agents do not respond as machine-like price takers but instead can influence prices themselves and the behaviour of others directly then there is no longer an accepted theory of the invisible hand. Here we can soon find ourselves in the world of the large corporation and labour power, or what Bowles and Gintis (1978) call 'the invisible fist'. The same applies to price signals during adjustment to equilibrium, or what has been called 'the arthritic hand'. Similarly, when markets are incomplete because of the transaction costs which produce such phenomena as public goods, externalities, moral hazard, adverse selection, then again all relevant market information is not summarised by prices. (A hand that is all thumbs?) Professor Parish's affirmation of Hayeks 'truth' 'that the price mechanism is an extraordinarily efficient way of encapsulating and transmitting the information necessary for the co-ordination of the activities of millions of economic entities' (p.92) must be severely qualified for these reasons. The task of the planner in such circumstances is indeed complicated, but so is that of the market. For this reason I favour the Ross Parish of 1978 who argued that a pragmatic case by case approach is appropriate:

> The desirability of such interventions cannot be settled by appeal to abstract principles, but by an analysis of their likely effects and some judgement in which the likely costs and benefits are weighed.
>
> (Parish 1978, p.13)

Professor Wilenski (p.70) makes a similar argument. My divergence from both Parish and Wilenski, in their different ways, is that I would not wish to prejudge the outcome of such an analysis, in terms of whether it implies bigger or smaller government.

I turn to my second major concern with the Parish framework. It refers to that fact that, outside of matters of resource allocation narrowly defined but still concerned with economic management, the relative merits of market and collective choice are even more controversial for economists. The nature of stabilisation policy and the case for government non-intervention have been very much a matter of current dispute since the demise of the Age of Keynes. Monetarists would limit the type of government action to fixed rates of monetary growth and the Rational Expectations School says the intent of government policy is negated by prior anticipation so that policy is ineffective, and in the absence of government an 'internal and psychic hand' substitutes for the external invisible hand. But these propositions are hardly widely accepted or well-established.

Beyond macro-policy there is growth. Does big government retard growth? This is really a separate issue from resource efficiency yet it is part of the narrow Parish definition of the subject matter of economics viz. wealth maximisation. It can be encompassed formally in conventional allocation analysis by dating commodities for intertemporal choice. But markets here are clearly incomplete and in consequence, in less prosaic terms, the mainsprings of growth are not well analysed. Smiths' and Walras' vision really fails and we must turn to the Ricardians and the neo-Ricardians, to Schumpeter on innovating entrepreneurs and to Keynes on animal spirits or to the neo-Keynesians today, to even <u>commence</u> discussion of these things and of the point that it may be the accumulative role (in a manner not really examinable in terms of the allocative role of markets) that matters: a few extra percentage points of growth soon makes up for all the allocative efficiency losses in the economy.

Indeed, a continued focus on allocative micro-regulation issues by economists (when thinking big and not operating only as the humble technician where they can be quite productive in a limited way) is to be like the drunk who lost his keys in a dark corner but looked for them under the light because he could see better there. The fact is economic theory offers little serious guidance on growth. Abba Lerner once remarked that economics earned its crown as queen of the social sciences by choosing as its domain already solved problems. It could be used as a science, he said, by anyone whose ambitions and curiosity were sufficiently modest. Thus, to quote Hahn (1982):

> Economic theory does not provide an answer to Weber's famous question why Britain rather than China should have been the first to have an Industrial Revolution. Nor, indeed, has economic theory much helped in accounting for the Japanese post war sprint or for the relative British decline. Plainly there are here crucial elements which go beyond market signals and market behaviour. (p.19)

Perhaps it is economic history more than economics that has insights to offer. After all, Sir John Hicks (1979) has remarked that: 'As economics pushes on beyond statics, it becomes less like science and more like history' (p.xi). The task is to fold theories of exchange back into theories of growth and distribution, not vice versa. Unless this is done, 'Economics as a science is condemned to eternal infancy. It is made up of explanatory schemes that are relatively immune from the interesting paradoxes of the historical world' (Unger 1978, p.373).

To take the general point further let me list some features of the economy:

a. substantial rural subsidies and rural commodity regulation

b. a comprehensive network of manufacturing tariffs and highly subsidised transport communications and utilities

c. extensive regulation of service industries including new social regulation

d. a large and growing budget deficit

e. a nation-wide public welfare network

f. artificially low interest rates

g. wage and salary indexation

h. 86% growth in GDP share of government expenditure between 1960 and 1982

I could go on. But note I am talking of Switzerland not Australia. I am talking of a country with the highest per capita GDP in the world (after Kuwait), an inflation rate of 5% and an unemployment rate of 0.4%. None of the successful economies such as Japan, West Germany, Switzerland, Singapore, South Korea have an absence of big government—only more successful economic management. The issue is not the quantity of government, it may be the quality of government, or it may not even be government at all.

The limitations on the applicability of pure market theory are many and some of them are quite serious. Indeed, the modern analysis of general competitive equilibrium, which for some time appeared to be the rigorous and elegant demonstration of the Smithian vision, has become a Trojan horse for pro-market economics. Its unremitting emphasis on clear demonstration of the conditions required for results to hold has exposed the limited applicability of those conditions. The competitive market still provides a vital reference point but a much qualified one. It can be dangerously misleading if this qualified role is not recognised.

My predominant conclusion must be with Hahn (1982) that we are quite uncertain of what really is the case. The pretence that it is otherwise comes under the heading of faith not science:

> Once the uncertainty is recognised it will greatly affect the set of rational or reasonable actions. Traditional theory is quite powerful on the question of the control of systems which are imperfectly understood. It suggests that...it will not in general be wise to put all your eggs in one basket or to give harsh pulls on levers. That is, unless you are what economists call a risk-lover (and)...prefer to go out with a bang rather than a whimper (p.20-21).

Such caution may seem a small contribution. Indeed, as Unger (1978) says, there is a danger that such nihilism can cause economics to become 'a coat of armour for the prudent and the passive, and a hocus-pocus in the vestibule of power' (p.373). But it was Joan Robinson who some time back claimed that the whole purpose of studying economics was to learn how to avoid being deceived by economists. I hope people will not in fact be deceived by claims by economists to more certainty on these matters than they can really justify. A lot is really still left to faith or future investigation. But it would not be intellectually honest to pretend any further qua science. The upshot may seem too pragmatic. What Mrs Thatcher would call 'wet'. I prefer to think of it as the middle ground. Perhaps not quite Aristotle's 'golden mean', but certainly the only reasonable and balanced approach in economic policy.

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V
Review and Major Conclusions

J.A. Passmore

I feel that I am a superfluous man. The symposium was very closely interwoven; many of the things that I thought I might have said people have already said. The papers themselves have been very well presented and I don't think there is any need to summarise them. To do so would be gilding the lily. Therefore this review shall be brief.

First, however, there are one or two general points that I might make. One question that was raised at the beginning of the symposium is whether 'big or small government' is a 'real issue'. Professor Wilenski had some doubts on the point; he suggested that he did not like our topic because it is a political matter. This seems to be a rather odd objection. I had the general impression that people who did not want the issue of 'big' or 'small' government to be discussed were, on the whole, in favour of larger government, and were accusing those who stood for small government of being 'political'. This is a rather too familiar political tactic.

I agree, however, that the issue of large or small government is not an absolute one but a relative one, unless you are arguing (as none of our contributors quite did) for a full libertarian doctrine or a full totalitarian doctrine. If you accept a full libertarian doctrine, then of course you are going to say that any government which goes further than the protection of life, liberty and property is infringing 'natural rights'. You then believe that you have a good theoretical foundation for objecting to any government which is larger than this minimal government, and therefore for concluding that <u>any</u> actual government ought to be smaller than it now is. Similarly if you are a totalitarian, if you believe that a government should ensure that all people think and act in a government-approved manner, then again you will think that <u>any</u> government ought to be larger than it now is because no government has so far succeeded in being completely totalitarian.

Most of us don't take either of these views, so we are really in a position of saying that some particular government at some particular time should be larger or smaller than it now is. There would be no inconcsistency in my going to Sweden and saying that the government there ought to be smaller than it now is, and my going to Hong Kong and saying the government ought to be larger than it now is, because 'small' and 'large' are relative to particular situations. We might well think, too, that a government ought to be smaller in some respects and larger in other respects. We might think that the government in Singapore, for example, ought to be smaller in respect to the degree of control over public morals which it tries to exercise, and at the same time ought to be larger in some other respects, such as welfare.

So, in that sense, I agree that 'large or small' is not a real issue. Nevertheless, it is, I think, a real issue whether a particular government at a particular time ought to be smaller in some particular respects than it now is. And one valuable thing about the libertarian movement in economics and in political theory has been that it has led us to question the advance of government in a large number of areas over the last twenty years. It has led us to see that you have to put up a real case for the advance of government.

Here our starting point is fairly important in determining on whom the onus of proof lies. I grew up in the thirties, at least I developed my intellectual life in the thirties, when various unpleasant things were happening in Germany, and various other unpleasant things were happening in the Soviet Union. A mistrust of government lies very deep in me. I am afraid of giving powers to government. Hence for me the onus of proof is always on those who want to make governments stronger, larger, more powerful. On the other hand, of course, many people grew up with quite different attitudes to government. There was a striking difference in Sydney and Melbourne in this respect; in Melbourne there were some intellectuals who were actually members of the Communist Party, and a great many others who were very strongly socialistic. The tendency there was to think, in the opposite direction, that the onus of proof is on anybody who thinks that something ought to be done by private enterprise rather than by government. In this sense the question is political, in that one's starting point, one's initial political outlook, does tend to determine one's views about the onus of proof.

Nevertheless, one can put forward reasons for believing that governments ought to be smaller or larger, can point to what we believe to be social facts. One can rationally discuss whether, for example, we are now subsidising certain things which we would do better not to subsidise. This will turn out to involve a set of questions which are at least partly empirical: Will the activity in question manage to continue at all if we don't subsidise it? Will it manage to continue at a lower level, without the drop in level much mattering? Would it really matter if it completely disappeared? It is in terms of such questions as these that we will have to consider whether an activity ought to be subsidised—unless we adopt the much wider general principle, which no government in Australia has so far done, that governments simply ought not to subsidise at all.

The same holds with regard to questions about regulation. Even if we begin from the initial position that regulation is in itself something to be avoided as far as possible, we can still ask whether we can possibly get along without a particular regulation. If we do without it, does this mean we might, for example, ask that people who lack information for one reason or another are going to do very badly? We can also ask whether there are things that are being done by governments, being run by governments, which would be better left alone. There can be very considerable disputes about this kind of question. The evidence is not particularly clear as to what desirable things governments do particularly well, and what kinds of things do they not do particularly well, even assuming that we have some sort of criteria of what 'doing particularly well' means and how that counts as 'desirable'. The discussion needs to be spelt out in various ways. I think it is quite wrong to begin from the assumption that governments don't do anything at all well. But it is also quite wrong to begin from the assumption that they are always bound to do things better than other people.

So much for these very general remarks. In addition, there are one or two special points I would now like to take up.

I am always very puzzled at the role which Sweden plays these days in the thinking of parts of the Labor Party or of people like Mr Stretton. It reminds me a bit of the sort of role that China used to play in the 18th century. China was a distant country that nobody knew very well, but 18th century philosophers had a feeling that things were done very much better there; some academics had a feeling about Mao's China, not so very long ago. Now I see no particular reason for thinking that things are especially well done in Sweden; I find this treating of it as an ideal very odd. But it is a very interesting country in many ways, in respect to the sort of things that have happened in it, with the rapid expansion of government power and government control, for example in the universities. (Incidentally, since Sweden was neutral in the war it cannot be said that government control and big social programs, in its case, grew out of direct war experiences, though it did of course have to exercise controls.)

As it happens I have been spending a lot of my time recently looking at the relationship between European universities and university government. I chaired a Committee of Inquiry into German universities and I have been involved in an inquiry into Italian universities and Swedish universities and I have had quite a lot of discussion of conditions in the Netherlands. I am quite interested in Professor Corden's notion, expressed in open discussion at this symposium, that we might look at some of these problems about government regulation in terms of our own attitudes as university teachers. In the first place I think it is important to make the point (he took the opposite view) that we are not government employees. It is perfectly true that we are paid by government, but it has been quite a crucial factor in what many people regard as the substantial dismantling of universities in a number of countries in Western Europe that the professors were government employees, civil servants in a strict sense, and came under civil service rules. It is fairly plain that German professors and Dutch professors were not in a position to put up the sort of resistance to governments that universities could put up in Great Britain, Australia or in the United States. They just could not do it, given their legal and social position.

The other thing that has been interesting and alarming, and of course relates to what I indicated previously about my fear of government, is the extraordinary extent to which governments have intervened, even in matters of great detail, in many European universities over this period. In Sweden, for example, the choice of textbooks came to be a government matter; government regulations were introduced, for example, to say that no book could be set in a foreign language, and that this edict had to be adhered to by all university teachers. In fact, academics had to turn around and write new textbooks in Swedish where no such textbooks existed. In Germany there is less centralisation. But in Baden-Wurttemberg the university law goes into 290 pages of regulations governing the universities in that state. This sort of thing has happened very frequently, often from motives that sounded quite acceptable from the political standpoint, but which had absolutely disastrous results on universities considered as centres of learning. In Germany many distinguished academics agree that they were just beginning to recover from the impact of Hitler when the new wave of government regulations was thrust on them; they feel that German culture is quite failing to recover to anything like its previous position in the international sphere as a result of these close government regulations.

A very important question arising from these illustrations is whether there is a movement, an inevitable movement, from financing to controlling. It is also interesting that there has really been more interference with universities from the

Conservative small government parties than there ever was from the Labor parties. This is true in both Great Britain and Australia, and the particular banner that is waved is accountability. This is again a very natural banner to wave. After all, here are these institutions to which taxpayers are paying funds, but they are not accountable in detail to the government for what they are doing. It is very natural for civil servants, and governments who are to stand for economy and taxation reductions, to say that those who use taxpayers' money should be accountable. In my Boyer Lectures I quoted Harold Wilson as saying that the extent of government control must go as far as the extent of government financing does (Passmore, 1982), but this view is also coming to be accepted by the Conservatives.

This is again a question of considerable importance, because many of us are happy enough to accept subsidies for organisations with which we are involved, but we would certainly be very worried if this led to total government control. Going back to our own experience in universities, how many of us would want universities to be civil departments? Many people state that they are in favour of stronger, more powerful, more controlling governments, but, when it comes to the point, not many of them want to be under direct government control. My experience with the Australian Science and Technology Council (ASTEC) and one or two other like bodies is that any organisation that could be a statutory authority of some sort wanted to become such, so as to avoid coming fully into the Civil Service and being under full Civil Service control. They always seem to have convinced themselves that there are good reasons for this approach.

A comparison of the workings of statutory Authorities with the workings of bodies which are fully under the control of the Civil Service, as well as with private organisations, might be of interest. But as I have said, it is very natural to look with suspicion on these intermediate organisations, because they may want to get the security which goes with government employment without having to participate in a free market, so they may be looking for the best of both worlds. One thing that makes international comparisons very difficult is the position of these intermediate organisations, of which Australia has always been particularly fond. Many of these are Civil Service organisations on the continent of Europe, so if one looks at the comparisons of the percentage of persons who are employed by governments, say in West Germany and in Australia, it makes an enormous difference that West Germany has no statutory authorities. That is to say that anybody who gets funds from government is actually a government employee. Of course this sends up the numbers very greatly. The numbers could be reduced fairly considerably tomorrow by saying that, in future, professors will not be civil servants, teachers will not be civil servants, actors will not be civil servants, and so on.

Many matters of considerable importance have been raised in this symposium. But the character of the dispute relating to big or small government, the difference of opinions expressed, has been such that one cannot sum up the discussion by saying there was general agreement, unless we restrict ourselves to such harmless points as that there were some regulations that we should be better without and there were subsidies that we might be better without and so on. There is agreement on a few particular cases but there is no more general agreement. The speakers disagree, not only about the relative efficiency of the public and private sector, but also about the importance of efficiency as a measure, that is to say the importance as compared with equity, understood, quite often, as equality.

One matter raised that struck me very forcibly was the implied power of regulations. There is something here rather equivalent to superstition. It is assumed that merely passing a regulation will have a causal effect and stop something from happening. This is clearly not so. But politicians feel better for having gone through the ritual of passing the regulation. It gives them a certain symbolic satisfaction to lay a regulation down which apparently has the effect that in future they can deal with, say, trade unions much more readily than they previously could, although they know quite well that the regulation is not in fact going to be effective.

Another point I would like to emphasise is how often one can give good reasons why it might be useful to have the government do x, to do y, to do z, without realising that the cumulative effect of it doing, x, y, z can be pretty disastrous. This is one weakness that many of us detect in large governments at the moment. It comes out in parliamentary debates; one does not get anything like an adequate discussion of the fundamental problems which face us because an enormous amount of time has to be taken up in dealing with what are relatively minor matters relating to particular government activities. It is a very serious question whether we haven't been asking governments to do altogether too much, just as universities can be asked to do too much. If university teachers are asked to play a large part in various sorts of external organisations and to do a variety of other things, then the central work of the university can come to suffer. Exactly the same thing is also true of governments.

argue/ We cannot therefore ~~agree~~ that since a particular regulation is in itself a desirable regulation, will bring about desirable results, and in itself it will not have any very considerable costs, we therefore ought to have this regulation.

We have to consider what the effect of adding this regulation is going to be on the bulk of regulations which already exist. And similarly with any piece of legislation, what the effect will be of having this extra piece of legislation. Are we going to have government doing so many things that it will no longer perform its central activities well? At least we have a fairly clear idea, I think, about what some of the central activities of governments are.

What I have said is by no means a summing up, but perhaps it is a reminder of some of the things that people have said. One other final thing I might add. We have been talking basically about Western Europe. We might well want to say that governments should be smaller here, but at the same time should in some respects be larger in Indonesia or in India. There will be no inconsistency in this. History, too, is important. We usually agree that it is necessary that governments should be larger in wartime than in peacetime. There can be other variations at historical moments. If we believe for example, that we have a population which is in a position to look after itself to a considerable degree, to use the flow of information which surrounds it, then the position would be rather different from that which comes where people are ill-educated, or when technology is proceeding so fast that people have no real understanding of, and no real control over, what is happening around them. The crucial point is that we have to look far more carefully than we have done at requests for regulation, legislation, subsidising, and in that respect to take the views of those who support smaller government very seriously, to look at the questions that they have asked, at the considerations that they have brought forward.

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REVIEW AND MAJOR CONCLUSIONS: DISCUSSION

DON AITKIN

The Chairman called for comments rather than questions, and comments which could touch on any aspect which had been covered during the proceedings. Three broad questions were worried at during the ensuing discussion. First, had we avoided the principal question by denying that it could be answered? Was government—rather, the present Australian government—too big in fact? The Academy appeared disinclined to answer, choosing rather to say that in some respects it was too big, but in other respects it might well be increased. Second, did economists have anything really central to say on the question? It was argued that if economists were restricted to questions of efficiency they would be unable to say anything of value, since all important questions involve matters of redistribution. In fact, of course, economists give advice on almost every aspect of government. Another speaker suggested that all economists are, and always have been, political economists, and since economists tended to avoid or to hold constant political matters, their picture of the problems of government was bound to be inadequate. Economists present shook their heads vigorously. Third, people worried about the nature of public/private comparisons. Just as it was hard to show beyond doubt that government intervention reduces efficiency, so it was hard to show that public enterprises were less efficient, since they were obliged to use different salary scales, provide for superannuation and so on. On the other hand, it was argued that the public sector was less resistant to trade union pressure, so that its efficiency was likely to be less in practice.

If there was agreement on anything, it was that the question of big government was a devilishly difficult business.

List of Symposium Registrants

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R. Berndt
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