Can we starve the government beast?

Sinclair Davidson

'This reckless spending has got to stop'. With those words Kevin Rudd outflanked John Howard's economic policy from the right. Australia's traditional centre-left party won the 2007 election with smaller government rhetoric than the traditional centre-right party. Of course, the Rudd government is not going to be a small government, but then neither was the Howard government. Voters had a choice of two-large government parties at the election and seemed to prefer the party that offered slightly lower tax cuts with slightly less spending.

Small government is rhetorically popular, yet two paradoxes are immediately apparent. By historical standards Australia now has more government than ever before and the party of big government is in office in every state, territory and Commonwealth government. The right are no longer the party of small government. This phenomena, however, is not confined to Australia. The US administration can be described as being 'big government conservative'. George W Bush did not campaign to reduce the size of government in either 2000 or 2004 and he has made no effort to do so.

Andrew Norton has coined the phrase 'conservative social democracy' to explain the emergence of conservative big government in Australia. As he indicates, market forces have increased income inequality within society, and given our highly progressive income tax system which has translated into massive increases in revenue flowing to government. Rather than reduce taxation, the Howard government directed more funds to favoured social institutions, such as family units—households with children. This was a deliberate strategy. John Howard recently espoused this strategy to the American Enterprise Institute.

> We should maintain a cultural bias in favour of traditional families. That doesn't mean discriminating against single parents but it does mean ceaselessly propounding the advantages for a child of being raised by both a mother and father.

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> Marriage is a bedrock social institution—with an unmistakable meaning and resonance. It should be kept as such.
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> Taxation laws should promote, not penalise, marriage. The taxation system should generously recognise the cost of raising children. This is not middle class welfare. It is merely a taxation system with some semblance of social vision. The tax payment system must also support choice for parents about who cares for their children.

The Commonwealth Treasury has reported that Commonwealth spending has grown 54 per cent since 2000-01. Consistent with conservative values, that spending has been directed at the aged and families with children, while unemployment assistance has fallen. The important point to note is the phrase about having a tax system that includes a social vision. In this regard a centre-right government is little different from a centre-left government. Some details may differ, but overall the vision is identical. Government coercion, applied through taxation and spending, is the primary tool to mould society towards a desired outcome.

James Buchanan famously said that while socialism was dead, Leviathan lived on. In some respects this comment missed the point. Socialism has comprehensively failed as Ludwig von Mises and Friedrich von Hayek predicted in the 1930s. But Leviathan is now a very different beast, manifesting itself as the welfare state or 'the risk society'. The simple idea that individuals can and should make their own choices is as much under threat today as at any time in human history.

The underlying premise of the risk society is seductive. Government can insure its citizens against a range of risks. This is trivially true—of course. The important question is however, which risks governments should insure its citizens against, and at what price? Should they even be trying to insure citizens against their own choices at all? Advocates of big government all answer in the affirmative but seem to ignore the subsequent price tag. In Australia their reasoning is effective—after all, 'we' can afford it, and we live in a 'society, not an economy'.

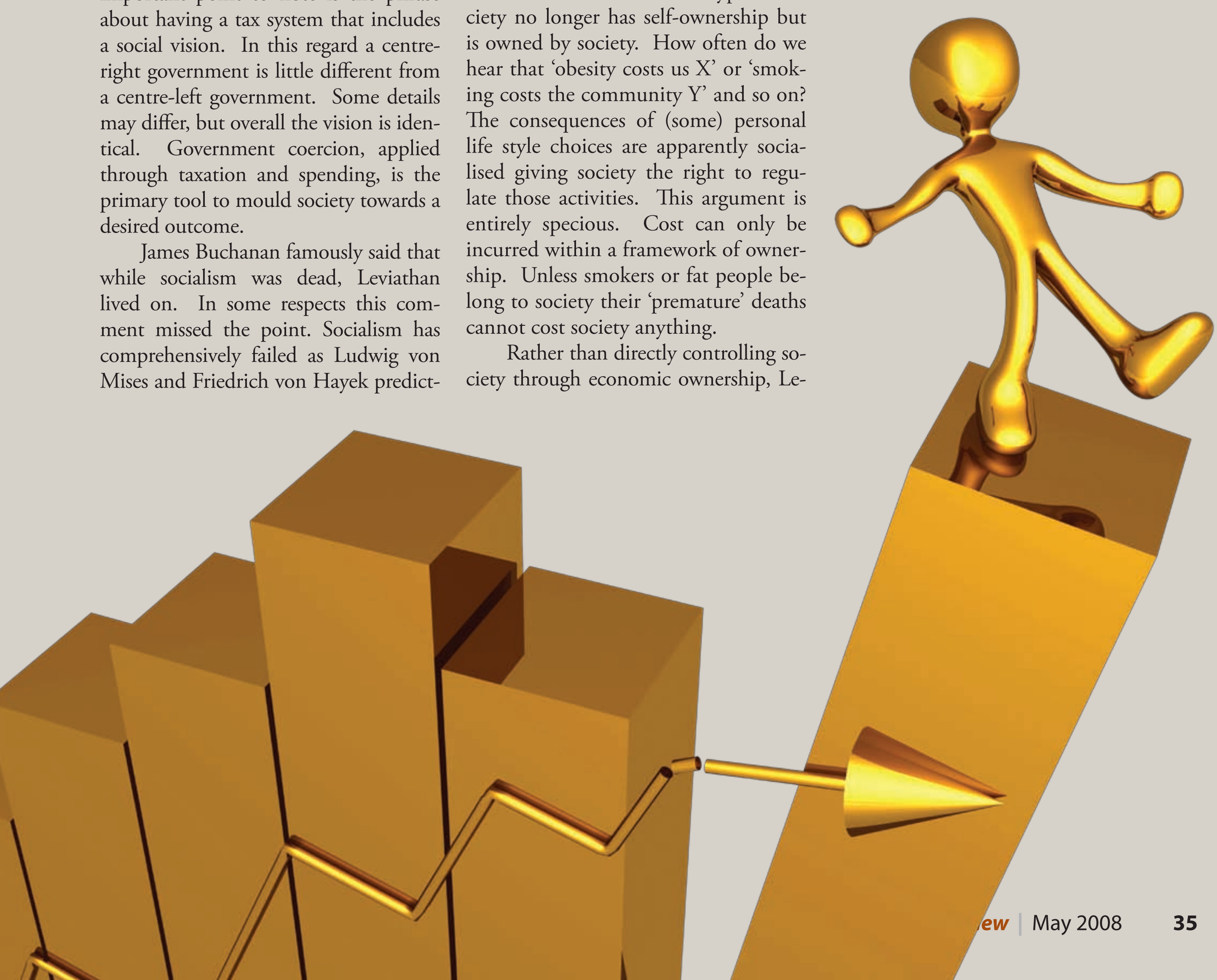
The individual in this type of society no longer has self-ownership but is owned by society. How often do we hear that 'obesity costs us X' or 'smoking costs the community Y' and so on? The consequences of (some) personal life style choices are apparently socialised giving society the right to regulate those activities. This argument is entirely specious. Cost can only be incurred within a framework of ownership. Unless smokers or fat people belong to society their 'premature' deaths cannot cost society anything.

Rather than directly controlling society through economic ownership, Leviathan now controls through regulating and altering incentive structures. Advocates for big government argue that once the correct incentives are in place, people will behave as expected—a much easier and less tyrannical method than simply ordering those people around. To the extent that this form of social control succeeds, individuals prefer being bribed to being coerced.

But it implies that, over time the price tag associated with Leviathan will become greater, and the rules and regulations will become more complex.

Hungry hungry government

Standard public choice analysis indicates that governments avoid increasing taxes and avoid decreasing spending. This creates a bias toward big government and budget deficits. The US experience is largely consistent with that analysis. Recent Australian experience, however,



is somewhat different. Here government has been maintaining a budget surplus and not spending as much as it could. This is despite the massive spending that has actually occurred. On the other hand, the Australian government has not cut taxes as much as it could and has chosen to accumulate large reserves that, in turn, will subsidise future spending.

The Australian experience sheds some light on the US 'starve the beast' philosophy. That argument suggests that dramatically lowering taxation ultimately leads to lower revenues which will in turn lead to government reducing expenditure. (Bruce Bartlett has traced the recent origin of the phrase 'starve the beast' to a 1985 *Wall Street Journal* article.) In short, this idea has—to date—failed. An anonymous Reagan administration official admitted, 'We didn't starve the beast. It's still eating quite well—by feeding off future generations'. Short run budget deficits are financed by borrowing; the US government is a massive debtor. In the long run US tax cuts are financed by subsequent tax increases and revenue increases. In a careful analysis of the post-war record of US tax cuts, Christina Romer and David Romer find no support for the starve the beast hypothesis. Rather they find that spending increases after tax cuts and ascribe this to either fiscal illusion or shared fiscal irresponsibility.

The Howard government, by contrast, was debt averse. It reduced net Commonwealth debt to zero and even entertained the notion of having no Commonwealth debt at all. This is, of course, sensible and orthodox economic policy which constrained the government to having either a balanced budget or a budget surplus. This self-imposed constraint provided an upper-limit on the growth of government, but did not create any incentive to reduce government.

Leviathan is not going to be shamed into submission. Running massive budget deficits with the associated government debt—and the ability to compulsorily acquire assets in future—has seen off the challenge from starvation.

The beast is alive and well. Leviathan must be confronted in the market for ideas and ultimately engaged at the ballot box. Taxpayers need to understand the excessive burden of their taxation, consumers need to understand the increased prices they pay, and business needs to understand the higher costs they incur due to excessive regulation. It is not enough to simply insist on balanced budgets, nor cutting taxes. Government spending must be checked and reduced; individuals must be empowered to live their own lives.