

CONTRIBUTED ARTICLE

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# THE LIMITS OF SOCIAL CONTROL

By

PROFESSOR D. B. COPLAND

Vice-Chancellor of the Australian National University

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By PROFESSOR DOUGLAS COPLAND, *Vice-Chancellor of the Australian National University*

IN 1936 I was invited to participate in the Harvard Tercentenary Conference on Arts and Sciences and to give a paper on "The State and the Entrepreneur" as part of a symposium on "Authority and the Individual." At that time the United States was engaged in a great controversy over the New Deal while Australia was rather marking time in social policy. Since then, both countries, more especially Australia in common with other British democracies, have advanced far along the road of social control. But the basic problem remains the same as it was in 1936 and I may be permitted to quote my thesis on that occasion.

"Let me summarise my thesis. The function of the entrepreneur must continue to be performed in any community that desires to make progress. The qualities of imagination, leadership and adventure necessary for great constructive work were exercised by the entrepreneur under free capitalism. During a large part of the nineteenth century he was left free in most countries to pursue his objective of maximum profit without serious interference by the State. This was true especially of the United States, where even in the post-war period (1919-1929) capitalism flourished and its virtues were extolled as never before in the history of man. Then came the great depression to expose the grave defects of an economic order that had no solution for economic fluctuations and no means of ameliorating the burdens of depression. Capitalism under the control of the entrepreneur guided mainly by considerations of maximum profit is now completely discredited. It does not give economic security to the masses of the people; it does not provide the administrative machinery whereby increased technical efficiency is transformed easily into a generally higher standard of living; it does not furnish society with the social institutions required to meet the strains imposed by economic fluctuations and rapid technical progress; it does not provide the increasing range of free or collective goods that enter more

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and more into the standard of living. Countries have been able to absorb the shocks of depression and improved technique in inverse proportion to their dominance by the capitalistic entrepreneur. The contrast between the experiences of the United States and Australia in the depression is significant. Australia got out of the depression quickly by taking unorthodox action through State and banking control; the United States got deeper into the depression by holding firmly to an orthodox course. This, I admit, is a sweeping generalisation that requires close examination of the differing circumstances of the two countries. I point the contrast to emphasise a fundamental fact in recent economic evolution—namely, the increasing need for State action if capitalism is to continue to yield its best fruits.”\*

I see no reason to alter this, but the emphasis has changed a good deal, and most modern democracies have been busily engaged in increasing the scope of State action largely in the interests of social welfare, and not always with a view to securing the best fruits in production. Whilst I was able in 1936 to draw attention to the considerable measure of economic activity directed and operated by the State in most modern democracies, and to the increasing intervention of the State in consciously altering the distribution of wealth and income in favour of the lower income groups, and in seeking to guarantee security to the masses of people, I also drew attention to the dangers inherent in wide and ill-considered extensions of State activity in damaging enterprise, initiative and responsibility without which economic progress is jeopardised. Moreover, the form of control designed by the State was a matter of great importance, and I was anxious to make clear the essential similarities and differences of the joint-stock company and the semi-independent commission operated by many States in their State enterprises.

The problem is now different in two respects. First, the State has gone much further in its sphere of operation, particularly in respect of its provision for social security, and second, there is a tendency to reduce the status of the agency

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\* (For the complete essay, see "Authority and The Individual," Harvard Tercentenary Publications, Harvard University Press, pages 48-73.)

set up for operating State enterprises. Both of these tendencies require searching examination in considering the limits of social control. These limits, as we have seen in the past 10 years, are not fixed; there is a sort of moving frontier of control and the limits have to be considered in relation to this frontier. The frontier has itself advanced greatly in recent years, even in the United States, where the doctrines of the New Deal seem to have come to stay. But the frontier of social control is much less advanced in the United States and Canada than in any of the other States where a reasonable degree of enterprise still operates, and where it can be said that the economic system is still predominantly one of free enterprise, though subjected to greater social control.

In Australia the Commonwealth Government now disburses some £570 million, or more than a quarter of the gross national product. If we add the disbursements of State Governments and the local authorities the figure would approach 30 per cent. of gross product. More than one person in every four gainfully employed is now working directly for a public authority of some type, so that the area of direct intervention by the State is now very large. As it is more capable of subjection to a common policy than the area occupied by private enterprise, it has an increasing influence on the whole economy. But the operation of the State is not confined to its direct economic activities. The greatly increased provision for social services in recent years has enabled it to enter indirectly into many avenues of economic and social control, and to influence the direction of the economy to a far greater extent than in pre-war days.

Whilst these extensions have been taking place there is the tendency referred to above to bring agencies of the Government more directly under central direction than before. This is particularly noticeable in Commonwealth administration, where great importance has been attached to the position of the Treasury in relation to the whole of the operations of the Commonwealth Government. There is now scarcely any important agency on the controlling authority of which the representative of the Treasury is not a key person. This cer-

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tainly promotes uniformity of conditions in Government operations and may lead to economy in administration, but it may be doubted whether in the long run it is consistent with the exercise of initiative and of "the qualities of imagination, leadership and adventure necessary for great constructive work." It is too early to speak with any authority on the outcome of this change in emphasis in the administration of public enterprises and the agencies operating the new or extended social services, but it is a tendency that should be examined with much more searching analysis than has been given to it as yet.

The demands of security have not been confined to such problems as employment, sickness and old age. There has always been some demand from certain large and powerful economic groups for the helping hand of the State, and these demands have by no means diminished during the period in which the State has been so rapidly expanding its functions in the directions already indicated. There is, for instance, our old friend the tariff as an agency to give shelter to many types of enterprise into which the State has not entered directly. Because of the war and the sellers' market since the war, and the operation of import licences and restrictions on many classes of imports, the tariff has been less important, but there is little doubt that it will be invoked again as soon as the conditions change and local industry is open to severe competition from abroad. Many people who regret the widening scope of the economic and social functions of the State will have little hesitation in seeking its protection through the tariff, though they would perhaps be astonished if they were charged with being inconsistent in their advocacy of more effective protection. Then there is the wide field of primary production which before the war was being assisted in one form or another to an increasing degree by the State, and has in the last few years experienced very profitable prices. It remains to be seen whether, as conditions become less favourable for primary production, the demand for stable prices based upon State support won't be more insistent than it was before the war. Thus we must not think of State control as being the result of some doctrinaire political theory; it is, in part, as it always has been,

the result of pressures within the economy that no political structure in a democracy can resist.

Nevertheless, it is desirable to examine the logical grounds on which the State should intervene in a society that is still predominantly a so-called free enterprise economy. First, there is the accepted view that the State should own and operate the public utilities. They are natural monopolies, and pockets of economic and political power, and their administration admits of satisfactory solution under State ownership provided reasonable freedom is given to the operating authority and there is no undue pressure for uniformity. It should be noted that in a federal system in which ownership is spread over several Governments, there is a better prospect of public ownership combining the enterprise of the joint stock company with the benefits of public management than in a unitary State.

Secondly, there is a strong case for the State intervening to provide a much larger measure of security than private enterprise does. The risks to be covered include sickness, old age, education and unemployment. As such, they penetrate deeply into the recesses of private life and raise the perplexing problem of reconciling security with initiative, enterprise and a sense of social responsibility. The demand for security is the most powerful political force in modern democracies, and it has affected the sphere of operations of the State in recent years more than any other single force, far more than the demand for public ownership of key industries. Its effects upon efficiency and enterprise have yet to be seen, but it may confidently be asserted that the reconciliation of security and responsibility is the greatest problem that the modern free democracies face in the long run.

Thirdly, and associated with the second ground for intervention, is the desire to promote stability in the economy. All modern democracies are now faced with the responsibility of imparting greater stability to their economies than unfettered private enterprise could offer, and some, including the United Kingdom and Australia, are officially pledged to maintaining a high and stable level of employment, or even guaranteeing full employment. This cannot be done without considerable

State control; indeed, it may be said to be a responsibility of the State, though the co-operation of private enterprise is necessary. What does this mean for Australia? The goal of stability involves avoiding extremes of either boom or depression, and not merely action to restore activity when times are bad. It requires also the co-operation of all important economic groups in the community. The Australian Government has two main weapons at its disposal for imparting a high degree of stability to the economy. But it cannot be too much emphasised that a Government can only operate within the political beliefs of the community it represents. It should give a lead, but it can do this only within the framework of the political beliefs of the community. The two weapons in Australia are fiscal policy and the stabilisation of export income. Both require the exercise of restraint by the whole community in the period of economic expansion. Thus, as regards fiscal policy the Government should budget for surpluses when the economy is buoyant, but this demands willingness on the part of the community as a whole to continue taxation at a level much above that necessary for balancing the budget. We know from experience in the past three years that a Government that set out on such a course would be an easy target for political criticism. On the other hand, it should practise deficit finance in adversity and actually reduce taxation and increase its outgoings on both current and capital account. This would be quite a popular course, though contrary to what was considered sound finance in the past. Unfortunately, the less popular course appropriate to the expansionist phase of the trade cycle would not be so readily accepted, though it is just as vital an element of the new fiscal policy as is the counterpart in the recession phase of the trade cycle.

Similar considerations apply to the other weapon the Government may use to promote stability in the Australian economy, which is highly responsive to changes in export prices and the level of export incomes. This may be exemplified by the experience of the past four years when we have enjoyed very high export prices, giving a value of exports for last year

of £547 million, compared with £141 million in 1938-39, though there has been little expansion in volume. We have no direct measure of the total value of export income from year to year, that is, income in the industries producing largely for export and affected directly by the level of export prices. We can, however, use a figure in the national income estimates published with the budget papers. This is the figure for income earned by unincorporated businesses, farms and professions. It rose from £245 million in 1945-46 to £580 million in 1948-49, that is, by 140 per cent. This is largely the consequence of the rise in export prices which has generated a great monetary expansion in the whole economy. A stabilisation plan that would have held back some of this income in a fund pending the time when export prices fall again, would have lessened greatly the inflationary pressure in the economy and done more than any other single thing to promote stability. Moreover, it would have provided a basis for expansion later when export income may fall and set in motion strong deflationary pressure on the economy. But such a plan requires the agreement of export producers, and the readiness of all other sections to act with restraint in their income demands when export prices are high. It has the great advantage of not requiring detailed control over the working of the economy, but of providing precisely the overall control to give a social framework in which private enterprise can work without causing violent fluctuations in the economy. It can rightly be contended that such action by the State is in conformity with the newly expressed demand for stability and security.

In Australia and New Zealand, and to a less extent in other democracies, the State has found it necessary to an increasing degree to intervene in the determination of wages and working conditions in industry. This may be taken as the fourth ground of State intervention. There is no pattern here. The type of action varies from the highly legalistic procedure of Australia and New Zealand to the limited measure of control exercised in the American economy. Some form of control, however, is inescapable, though it affects the responsibility of

management and helps to create a more stratified society than would emerge from the operation of unfettered private enterprise. This type of State action is now an accepted fact in Australia, though the Australian pattern would not be accepted in other democracies.

Fifthly, the State may intervene in the economy to promote a less unequal distribution of wealth and income than would be determined by the operation of private enterprise in a free economy. Some people express this as promoting the optimum distribution of income, but it is not easy to define optimum in this sense; nor, indeed, is it possible to define in precise terms the limits of State action in this sphere. Nearly all State action in economic affairs has the effect of promoting a more equal distribution of income, and the process has gone a long way in the past few years. Total taxation reached 28 per cent. of national income for 1944-45 and 1945-46 in Australia, rose to 29 per cent. for the following year, was 24 per cent. for 1947-48, and was up again at 26 per cent. last year. These are high figures, and with the steeply progressive nature of income taxation, together with what may be called regressive payments for social services, a considerable amount of income has been transferred from the higher income brackets to the lower. Certainly, the transfer has been sufficient to justify the appellation "social justice State" to the modern State. How far this has beneficial effects in the long run is another matter on which time alone will tell. Production alone is not the ultimate test in this or in other matters of major social policy, though one must sympathise with the point of view of the distinguished industrialist who rendered high service during the war, and facetiously remarked that he had worked for industry before the war, for the Government during the war, and since his return to industry after the war for the Treasurer. A community with a high standard of living can afford to take risks with its level of production and output in the interests of total social welfare, but that point of view, as with the claim for security, can probably be pressed too far.

Finally, the State has some responsibility to check unfair practices on the part of powerful groups in the community where free enterprise allows the development of such practices.

The classic case in this respect is monopoly, and the freest of all economies, the American, has had to take action over the past half century to check the abuses of monopolists. But there are monopolistic tendencies in other elements of the economy, such as the ownership of land, the activities of trade unions and trade associations, in all of which cases most modern states have had to intervene in the interests of social justice. In some instances of monopolistic practice the action of the State may go as far as public ownership, but if we believe in private enterprise the correct rule to follow would be to leave to private enterprise all that it is capable of doing within the social framework of security and stability to which modern free communities aspire. This will not avoid action to check monopolistic practices, as the United States has found, nor of at times entering directly into public ownership as in the case of the Tennessee Valley Authority.

Is there any general principle that emerges from this summary review of the grounds on which action by the State may be defended in the modern economy? To some people the developments of the past 10 years are characterised as "the Road to Serfdom," or the emergence at last of the "Servile State" in the free world. It is true that decisions of entrepreneurs are now affected by a much wider range of controls than ever before, and that the State itself has a much greater direct control of the economy than in the past. But we should not overlook the fact that the goal of security and stability has some advantages for the entrepreneur, as well as for other sections of the community, and that he may be just as subject to the corroding influences of too much security and too stable a level of activity as others. Stability at a high level is obviously a good thing for business, and some leaders of enterprise may well bask in the sunshine of their improved milieu. But the question that determines the issue is whether there is still scope for real enterprise, for the entrepreneur with imagination, courage and initiative to forge ahead, and in the process to enrich the community as well as himself. If this is not the case then indeed security and stability will have impaired enterprise.

## THE LIMITS OF SOCIAL CONTROL (continued)

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I don't think it can be contended that this position has arisen yet in the free world to which we belong, despite the much wider range of social controls exercised by the modern State. That it is a danger no student of history, or of recent social or economic trends, can deny. The pursuit of social justice is attended by the dangers to which I have attempted to draw attention, and it may lead to a society lacking enterprise. These dangers require that the community should view with increasing concern extensions of State activity beyond those absolutely necessary to achieve the comprehensive objectives stated above. It should also show much greater interest in the forms of control, and particularly in ensuring that the agencies of the State shall exercise the maximum of enterprise and initiative consistent with their public responsibility. The tendency to uniformity, to control from the centre, to sheltering behind bureaucratic organisation should be avoided. Unfortunately, all these tendencies have rather increased in recent years and Parliament seems intent upon intensifying them. These tendencies are just as important for the future of the social justice State as are extensions of the sphere of operations of the State itself. It is my belief that they should be resisted, and I suggest that the time has come for a stay order in extensions of State activity until the community has digested the very large measure that has been adopted in recent years, and the administration has caught up with the rather ambitious policy we have followed. For the moment we seem to have reached the desirable limits of social control, and the onus is now on us to make a workable economy within the framework provided.

