

1 Introduction

The aim of this book is simple: it sets out to provide a policy manual for government in Western Australia. It is, in this respect, much like *Mandate to Govern*, published in 1987 by the Australian Institute for Public Policy, and *Project Victoria*, published jointly last year by the IPA and the Tasman Institute.

The book falls naturally into two parts. In the first, we look at the two overriding areas of concern: the processes of government, and then government economic activity in its three main aspects—debt, taxation, and expenditure. In the second part, we look more closely at individual policy areas, some in considerable detail. This second part is not exhaustive; space and resources have imposed limits. But where possible, we have alluded to other starting points for policy analysis (as, for instance, in describing approaches to the reform of public trading enterprises). And some of the gaps will be filled by subsequent IPA studies. It is worth saying, too, that we have not adopted a ‘razor-gang’ approach in any policy area. While we believe that, in general, governments in Western Australia have undertaken too many activities and have performed with less than ideal efficiency, Western Australia is not facing the sort of fiscal crises all too evident in Victoria, and can afford (though not for too long) the luxury of approaching reform from the basis of fundamental policy analysis without the huge pressure to retrench faced by Victorians.

Like *Mandate to Govern* and *Project Victoria*, this is essentially a practical document, offering workable solutions to what have often become unworkable situations. But given the very wide range of government functions, even in a relatively small polity like Western Australia’s, it will not be practicable to argue every case from alpha to omega. In this explanatory chapter, therefore, we will set out the minimum principles on which our judgements and recommendations in the following sections will be based. (As far as possible, never-

theless, each chapter that follows stands on its own and can be read in isolation as a policy response to each set of conditions described.)

We can approach the basic principles in two ways—although they can lead to much the same end.

In the first approach, we can look at the problem as it faces the new government on the first Monday after their victory in the 1993 election: the election is over, where do they go from there?

The ministers might usefully think of their new government in exactly the same way as a new board of directors which has just successfully completed a takeover of an unsuccessful company. The board sits down with its new management, and, inevitably, some of the old senior management who have survived, and takes a long look at what the company has to do to prosper—and to satisfy the shareholders. They have to decide what activities the new company has done well in, and can continue to do well in; how those can be done better; what the 'core activities' will be; what activities to get out of; what bits of the company to close down; what bits can be sold off; what bits simply to terminate. This is really starting from scratch—in government terms, we might call it 'zero-based programming'.

Zero-based programming is, in fact, exactly what every government should undertake early in its life—a theoretical ideal, like zero-based budgeting in the annual budget cycle. The problem is that no government ever really does it. (To a certain extent, the idea is catching on: a number of new State governments have started their term with an 'audit' study of government functions—a course we recommend and which is now being followed here.) The reasons for not starting from scratch in this way are not hard to find. Government is, by its very nature in practice, incremental. New functions, new ways of doing things, are simply added to the old; new programmes are added to the old (social security and labour market programmes are classic examples). Because politicians come and go, while the bureaucracy lasts for ever, there is an imbalance of information and skills. No new government ever knows exactly what is done, or who does what; and bureaucrats have a natural interest in preserving their near-monopoly on the supply of information.

All too often, by the time even the most determined ministers have mastered their portfolio content and perfected their management skills, the next election is upon them. This is, as it happens, not an immutable fact of life. Despite variations in the trend from one government to another, there is a gradual trend to better information. Even the programme statements contained in recent Western Aus-

tralian budget papers are a considerable improvement on past practice. They do make possible a basic review of at least broad functions in the starting-from-scratch method we have been talking about.

How would this new government, our new board of directors, go about its task? It could start by applying a simple set of tests to each function or activity of government progressively uncovered. This could be expressed in a series of logical questions, which might look like this.

- Is this an activity that needs undertaking at all? Is it, in some general but real way, 'in the public interest'?
- If it is, is it something in which government has a necessary and legitimate interest?
- If so, is it something that government should provide, or should government merely oversee its provision—by funding other providers or consumers, by enforcing standards, or by compulsion?
- If it is an area for government provision, then which is the most appropriate level of government to provide? And what is the most efficient way of providing?

Even a set of quite simple tests like this will, if asked rigorously, yield answers which are, by traditional Australian standards, quite surprising. For hundreds of years, for instance, the provision of services in justice—from arrest to imprisonment—has been assumed to be a matter entirely for government. Quite suddenly, that assumption has broken down: we have, on the one hand, an embryonic and growing system of 'alternative dispute resolution' which is in effect a system of privatised justice, and, on the other, a move to privatised gaols, already a reality in Queensland and New South Wales.

This is, then a useful way of approaching the question of the role of government. But it is, at best, of limited use. It depends too much on assumptions which are all too easily exempt from question. Too often, in fact, it will break down at precisely the wrong point: at the third question. Too often the assumption will be that if a service is deemed to be in the public interest then it must be provided by government. Education, housing and health are perhaps the most obvious examples of this: since it is widely accepted that citizens should have an entitlement to certain basic levels of education, shelter and health care, most policy-makers then, sometimes knowingly but usually not, go on to operate on the further assumption that government must itself directly provide the service in question. At best we finish up with the patchy and half-hearted version of economic rationalism, driven by budgetary difficulties, which has charac-

terised much Australian government over the last decade; at worst, government characterised by incrementalism and defence of the status quo. Something more rigorous is needed.

Our second approach to the problem of defining the scope and limits of government, then, is to look more closely at the very rationale of government itself, and at the values which underlie it. This can, of course, proceed by assertion. It is easy to say that one believes in liberty or equality or a free market or social justice or divine providence. The preferences of the present document are indeed for liberty, democracy, a free market, the rule of law, and limited government. Insofar as those, like any other similar preferences, depend on no more than enthusiasm and the lessons of history, they also lack rigour. (The reader who thinks that the simple statement of preferences is enough, however, may now skip to the next chapter.) Something more defensible can be offered. It, too, will involve some assumptions, though not as many.

Perhaps the simplest and least contentious assumptions arise if we consider government as a means of public or collective choice.

The best rationale for a limited government is that to the extent that collective choice, or decision-making, is limited, individual choice or decision-making is increased.

This is almost self-evident, and applies to all areas of government; it assumes little more than that individual choice is in itself valuable, and that collective choice will rarely if ever be unanimous. The consequences can perhaps be most immediately seen in the area of fiscal decision-making. Collective choices which involve collective expenditure necessarily involve the taxation of individuals. That has a number of implications: the collective choice will be unlikely to reflect the choices of all individuals within the given area of decision; but also the collective choice within one given area will diminish the resources available to the individual to make choices within the same and other areas.

All individuals, to different degrees, tolerate some violation of the realm of their individual choice by the force of collective choice. Although there are very good arguments for limiting strictly the extent of that violation, what is of equal concern to us here is what arises when we pursue, in a reasonable or commonsense fashion, the consequences of collective choice in operation. It may be useful to bear in mind that we are talking in generalities, not proposing iron laws of political or human behaviour.

In the making of any given decision, some choices will be very wrong, some very right, and a lot will not be of much consequence, right or wrong, at all. A major problem with collective choice is that the costs of wrong decisions fall on all individuals, including those whose individual choices in the given matter might have been different. Individuals, on the other hand, for the most part bear the costs of their own individual wrong decisions. Because of that, individuals can, further, learn from both wrong and right decisions; whereas those who make collective decisions—governments—for the most part do not. Individuals, importantly, operate within and with the market, responding to market signals in all their infinite complexity. The market in this sense is not only the sum of all the information about economic activity, but the most efficient way we have of transmitting that information.

To complicate matters, the cost to each individual of a wrong collective decision is often so low as to be insignificant compared with the cost of rectifying the decision or preventing a recurrence. The same consideration of cost applies in other more important areas. While individuals see quite clearly the cost of deciding as individuals to purchase any given good or service, the cost to the individual of any individual share of a collectively provided good or service is far from clear. It may be literally incalculable, not least for want of adequate information, particularly about the nature of the inevitable cost/benefit trade-off. Or the cost may be so apparently slight that the incentive to refuse the benefit, to seek change or to prevent its provision is again extremely small.

The dispersal of cost also operates so as to influence the setting of the public policy agenda—the decisions on which items actually come forward for collective choice. Representative government works in such a way as to ensure that preference will often go to items which are the concern (for economic or non-economic reasons) of small groups of individuals for whom the cost of organisation is outweighed by the expected benefits. The broad issues, of interest to much larger numbers of individuals, will tend, on the other hand, to be the concern of no one.

In choosing their representatives—that is, in the election process—individuals are given a choice between two or three huge bundles of policies. The policies will be a mix of those which appeal to broad sections of voters and those designed to attract small interest groups. The costs may or may not be identified and separated. Given the problem of information here, the rational voter will vote accord-

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ing to identifiable interest. No voter, rational or not, has the ability to unbundle the policies; and it will be in the interests of both politicians and bureaucrats to prevent unbundling.

The problem of information offers another relevant distinction. In making decisions, individuals will never have access to perfect information, but the information available is likely most of the time to correspond reasonably well to the scale of the decision. Collective choices, government decisions, on the other hand, being significantly greater in scope, will tend to be made on the basis of necessarily inadequate information, and stand a significantly higher chance of being wrong. And since neither bureaucrats nor politicians ever possess full price information, collective decision-making by political processes is likely at best to be inefficient.

Further, in transactions between individuals, it is in their mutual interest to work within a framework of rules, formal and informal; rules which specify or imply important features such as enforceability and predictability. This, importantly, improves the ability of individuals to make decisions about quite distant futures. Governments, on the other hand, come to prefer an absence of rules (or an unmanageable accumulation of conflicting rules, which amounts to the same thing) so as to increase their apparent effectiveness. While not binding themselves, they tend to wish to bind individuals by compulsion. This affects not only the ability of individuals to make individual decisions in which government is a factor, but necessarily affects the operation of rules between individuals in other matters.

Finally it must be noted that the self-interest of individuals, operating under any reasonable set of mutually-agreed rules, is constrained simply by scale in terms of its possible harmful effects on other individuals. Self-interest expressed through collective choice, on the other hand, is virtually unconstrained in its capacity for harm. Conversely, the most visible beneficial effect of the operation of individual self-interest under these conditions is the creation of wealth; while the self-interest of the collective is satisfied in other ways, ways which, except in certain limited circumstances (such as the creation of beneficial rules), do not create or increase collective or individual wealth. In particular, the self-interest of politicians and bureaucrats will tend toward goals such as re-election, power and tenure. These are usually achieved through exploiting the deficiencies of the collective political process.

'Harmful effects' can be taken to include other less obvious matters. The ability of one individual in pursuit of self-interest, for

instance, to do harm by denying choice to other individuals in pursuit of their self-interest is necessarily limited even when mutually-agreed rules are relatively weak. The collective ability to deny choice, to restrict areas of choice, particularly by the establishment of monopolies of all kinds, is more or less unlimited—as is the capacity for consequent harm.

None of this implies any substantive difference in nature between humans acting as individuals and humans acting as part of the collective (whether merely as voters or as members of the collective's decision-making apparatus—that is, politicians or bureaucrats). The problem is precisely that individuals behave in much the same manner, for much the same reasons, in both roles.

This minimal explanation is useful in a number of ways. It justifies, rather than merely asserts, the values mentioned above as underlying the approaches to government which follow. It also makes clear the connexion between those values; it shows, for instance, that there is no necessary distinction between 'economic freedoms' and others. Perhaps more usefully, in the present context, it can be used to show why there is an inbuilt tendency in government to expand indefinitely (especially through the provision of goods and services), why this is harmful, and why there is little incentive and little ability on the part of individuals to prevent that expansion.

The preferred values given above—liberty, democracy, the free market, the rule of law, and limited government—can now be expressed as simple guides to recommended change.

We will, in short, recommend changes which:

- increase the extent and number of areas of individual choice, in both private and economic life;
- reduce government activity in areas best undertaken by the private sector;
- restrict government monopoly power to natural monopolies, and allow natural monopolies to be defined by competition;
- remove private sector monopolies established by government;
- limit the scope for government to make large-scale mistakes;
- increase the quantity and quality of information about government activities available to voters;
- establish as clearly as possible for individuals the precise relationship between the cost and benefit of government-provided goods and services;

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- limit the ability of government to disguise or defer the cost of provision through financing by debt rather than by taxation;
- increase the resources, and the areas of individual choice, remaining to individuals, to improve their ability to provide for themselves and to pursue their own goals;
- clarify and improve the rules which define government's own internal workings, both in the parliament and in the public service; and
- establish means of allowing individuals to make collective choices without going through the self-interested processes of politics;

Taken together this list would represent a radical reordering of government activity if put into practice within a short time, say, for instance, one term of government. That clearly is not a practical possibility. It should represent, therefore, not only the embodiment in policy of our preferred values but also a list of strongly defining goals, which specify, at least, the direction of any given change when the best possible implementation of the goal is not in the short term achievable. Others, in or out of government, may have different values and goals. But a government which cannot articulate its values and clearly express its goals—a government, therefore, without direction—will quickly come to grief. No good government—it needs to be said—is likely to discover these things by consulting opinion polls or by taking the advice of its bureaucracy.