IPA Backgrounder

From *Workfare State* to Transfer State

Where We Were and Why We've Changed

by MICHAEL WARBY and MIKE NAHAN

The last 40 years have seen great changes in the role of government in Australian life.

During that time, expenditure on government transfers—income support, health, education and welfare services—has grown faster than the population, the economy and taxes. While GDP per person has doubled in real terms—and taxes have tripled—expenditure on transfers has gone up five-fold. A process of 'nationalizing the household' has occurred with the proportion of the Australian population on government income support more than doubling to close to a third of the adult population.

Although taxes are now at record peacetime levels, they have not kept pace with the expansion in expenditure on transfers and interest on government debt. The result has been a collapse in government saving, knocking away a basic support of the *workfare sector*—government business enterprises and investment—which has fallen from a third of government spending 40 years ago to a sixth today.

The welfare state—or *transfer state* as it is better labelled—is dependent on the wider economy, yet we are saving and investing less of our income, and income growth is lower, than before the great expansion of government transfers.

Unless and until some permanent check on the growth of the transfer state is achieved, its rising burden will continue to force governments to search for ways to reduce their other costs and liabilities and to increase productivity. These continuing pressures are why reform has occurred and why it is still needed.

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Introduction

There is considerable commentary around which implies that the economic reform programme known as 'economic rationalism' is a mistaken choice which can be easily reversed, with positive social benefits. If we are to make the right decisions as a society, we need to be clear about what has lain behind the direction of public policy since 1983. What critics of 'economic rationalism' typically do not face is that saving the welfare state was a crucial part of the policy alliance labelled 'economic rationalism'.[1] It is not some peculiar ideological madness that overtook policy-makers—the 'public policy as ideological taste-sensation' analysis that many critics of economic rationalism seem to advance—but a series of considered responses to real pressures and to the failures of past policy.

The Collapse of the Deakinite Settlement

Paul Kelly[2] identified Australia's Federation Settlement as being based on five pillars—White Australia, Trade Protection, Wage Arbitration, State Paternalism and Imperial Benevolence—though these pillars were not actually put fully in place until the Deakin Government of 1905 to 1908. State Paternalism was delivered through government enterprises and government investment—what might be called 'workfare'—with welfare transfers being dominated by age and service pensions. Before the Whitlam Government, Australia had a small general government sector by OECD standards[3] but a large, labour-absorbing, nation-building government business sector based largely on public utilities—water, gas, electricity, railways, telephones, postal services, and road building and maintenance. (It was an arguable case that, for a young nation, government capital accumulation was appropriate.) These enterprises were often, or became, notoriously 'featherbedded'—for example, the Victorian State Electricity Commission's initials of SEC were said by its employees to stand for 'Safe, Easy & Comfortable'. This State Paternalism, along with protected manufacturing (Trade Protection), regulated wages based on the concept of a 'living wage' (Wage Arbitration) and limited labour competition (White Australia), constituted the *workfare state*.

Australia since the Whitlam Government has experienced the unwinding of this workfare state due to increasing pressure from adverse economic shifts, mismanagement of government businesses and the escalating costs of government transfers. In 1972–73, when the Whitlam Government took office, total government expenditure was 34 per cent of GDP. Of this, almost a third (or 10 per cent of GDP) was the *workfare* sector:

- government business enterprises, particularly public utilities,
- investment by the general government sector,[4] particularly local governments, Departments of Main Roads and Public Works, Postmaster-General, etc,

while the welfare or *transfer* sector:

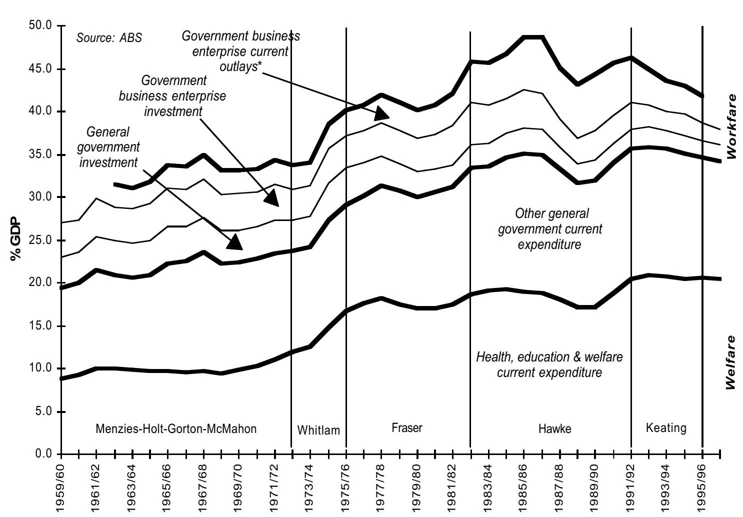
- expenditure on health, education, welfare services and income transfers

was 12 per cent of GDP.

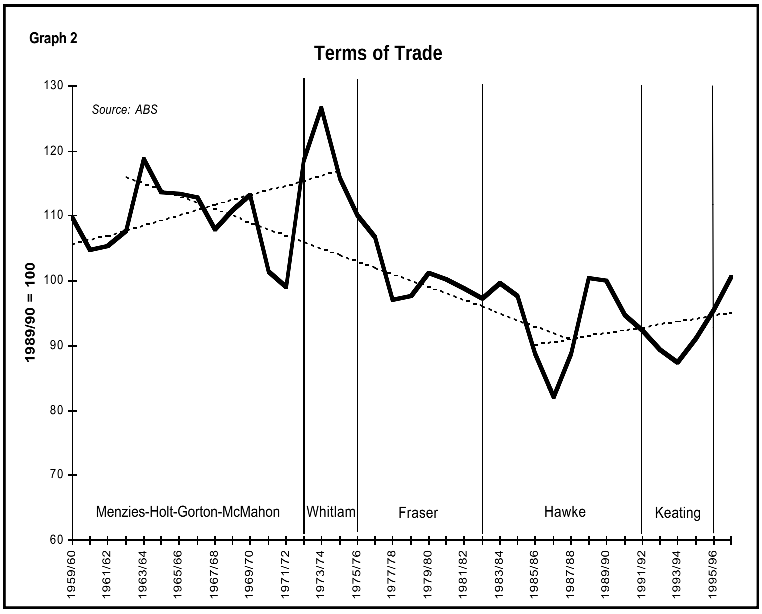
By 1995–96, when the Howard Government took office, total government expenditure was 42 per cent of GDP,[5] of which the workfare sector constituted a sixth (7 per cent of GDP) and the welfare or transfer sector was a half (21 per cent of GDP) (Graph 1).

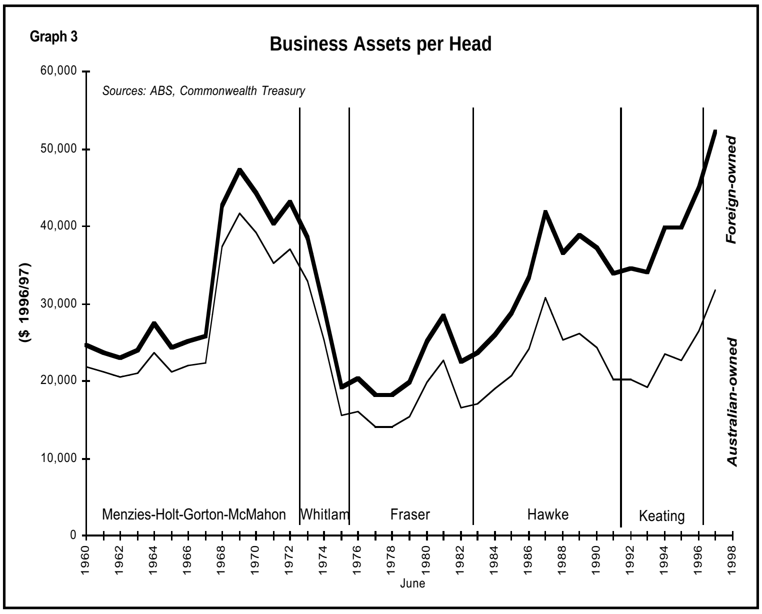
The Whitlam Government unwittingly set in train events that later led to the shift from the workfare state to what is best called the *transfer state*. To some extent, the workfare state was already under pressure. It relied explicitly (through import taxes) or implicitly (through high-cost government infrastructure) on taxing consumers and exporters to pay its costs—costs which extended beyond the government sector to protected manufacturing. Much of Australian 'free enterprise' was accurately described as being only formally free and only notionally enterprising.[6] A temporary surge in the terms

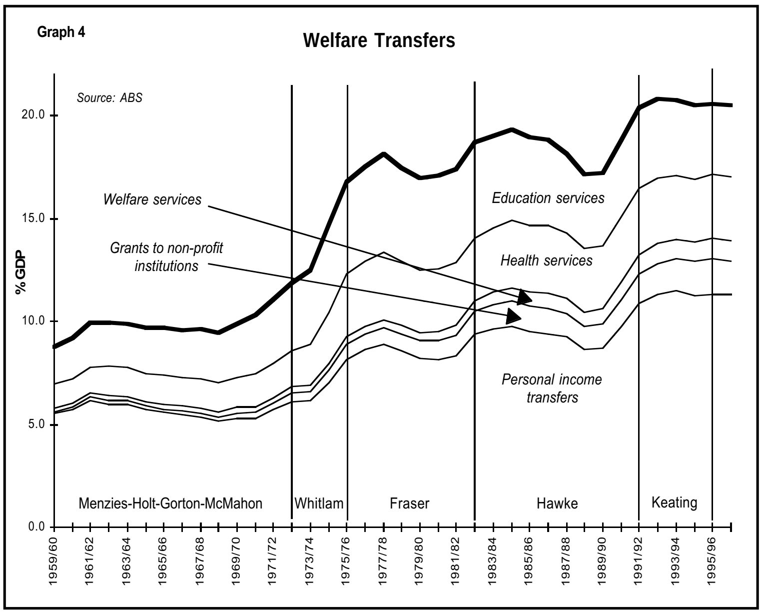
Graph 1 **Total Government Expenditure**



* Excludes transfers to general government and income tax payable.







of trade—the average price of what Australia exports in terms of what it imports—prior to the election of the Whitlam Government gave a quite false impression of Australia's actual economic strength. In fact, Australia's terms of trade were undergoing a long-term decline (Graph 2)—they fell 30 per cent from 1963–64 to 1986–87 and by 35 per cent from the 'false peak' of 1973–74 to 1986–87. This greatly undermined the capacity of Australian exporters to continue to fund the workfare state.

Furthermore, during the term of the Whitlam Government, the 'resources boom' of the late-1960s collapsed. By the end of the Whitlam Government, business assets per head were lower, in real terms, than they had been in the mid-1960s (Graph 3).

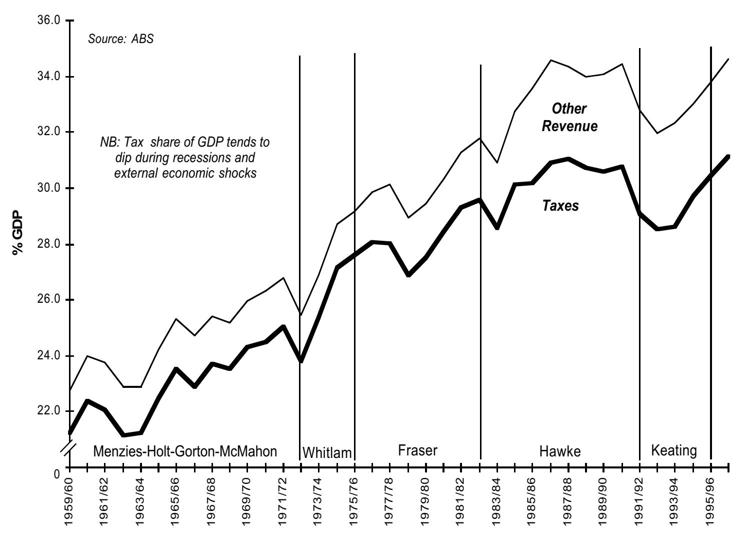
While these major, adverse, economic shifts were underway, the Whitlam Government kicked off a huge expansion in the transfer state. Government transfers—of income, of health, education and welfare services—jumped from 12 per cent of GDP when the Whitlam Government was elected to 17 per cent of GDP and have since increased to 21 per cent of GDP (Graph 4). Australia collectively 'rewarded' itself with a huge increase in government transfers just as its wealth-producing assets suffered a massive drop in value and as the purchasing power of its exports were on a long downward slide.

The continuing surge in the size and cost of the transfer state necessitated increased government revenue—the tax take is now the largest in peacetime Australian history (Graph 5). Welfare expenditure has grown faster than the economy, faster than government revenue and faster than the population. In real terms, GDP per head has doubled since 1959–60, while taxes have tripled and welfare expenditure has gone up five-fold (Graph 6), with no sign of the increase in welfare expenditure abating (Graph 7). Indeed, the belief that there is a natural upper limit to demands and expectations made on the basis that 'someone else' will pay is itself profoundly deluded. There is no pre-set level of 'need' that can be satisfied—there will be as much 'need' as the political system is prepared to attempt to pay for. If the state exists to 'do good'—and on the basis that it is competent to do anything it is decided it will do, rather than some defined set of tasks for which it has specific advantages—there are *no* natural limits to its growth—there is always more 'good', howsoever defined, that can be done.[7]

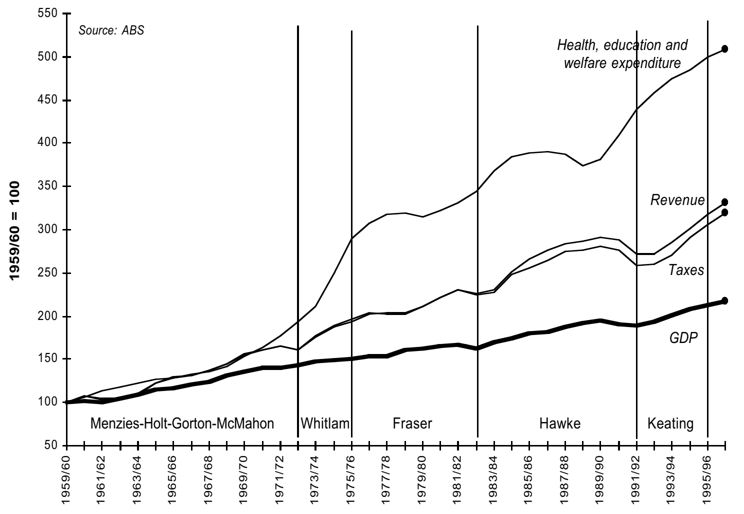
The increase in general government revenue, as a share of GDP, has been more than consumed by the increase in welfare expenditures and interest payments on government debt (Graph 8). This unending fiscal pressure has had various effects. Saving by the general government sector—a major support of the workfare state—has collapsed, with an increasing tendency to fund recurrent expenditure by borrowings or asset sales, a tendency somewhat ameliorated by the 'Peter Walsh' Commonwealth budget surpluses of the late-1980s (Graph 9). Government investment, as a share of GDP, has also fallen (Graph 10) as governments divert resources from the dying workfare state to the growing transfer state. Governments have also sought to gain more income from their business enterprises (Graph 11).

The Whitlam and Fraser Governments operated on the basis that the transfer state could be funded *in addition to* the workfare state. This was the era of the 'Club of Rome', the 'Oil Shock' and predicted resource and energy scarcity. Australia was a resource-rich nation—so its wealth was 'made'. There was, therefore, no need to make painful choices. So no serious attempt to face up to the pressures from the expanding transfer state—apart from some fiscal pruning in the early Fraser Government—was made until the period of the Hawke Government—governments rarely face painful decisions unless forced to. Indeed, the workfare state continued to expand, peaking at 14 per cent of GDP in 1986–87, though this expansion was based far more on borrowings than had been the case in the past, due to the collapse in general government saving (Graph 9). At that point, a series of poor investment decisions—Tricontinental and the VEDC in Victoria, the State Bank in South Australia, 'WA Inc' in WA, serious

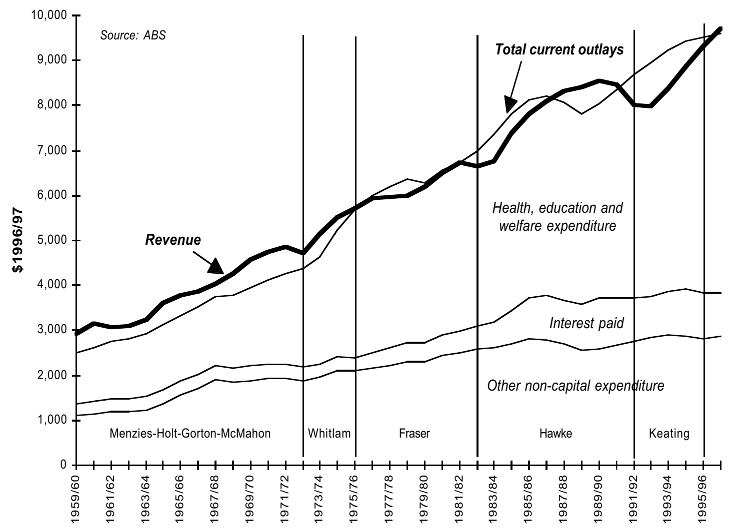
Graph 5 **General Government Revenue**

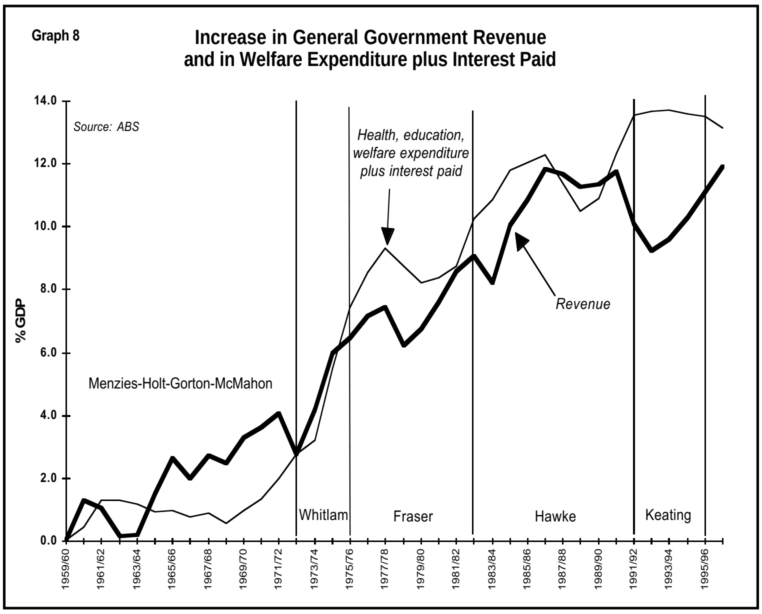


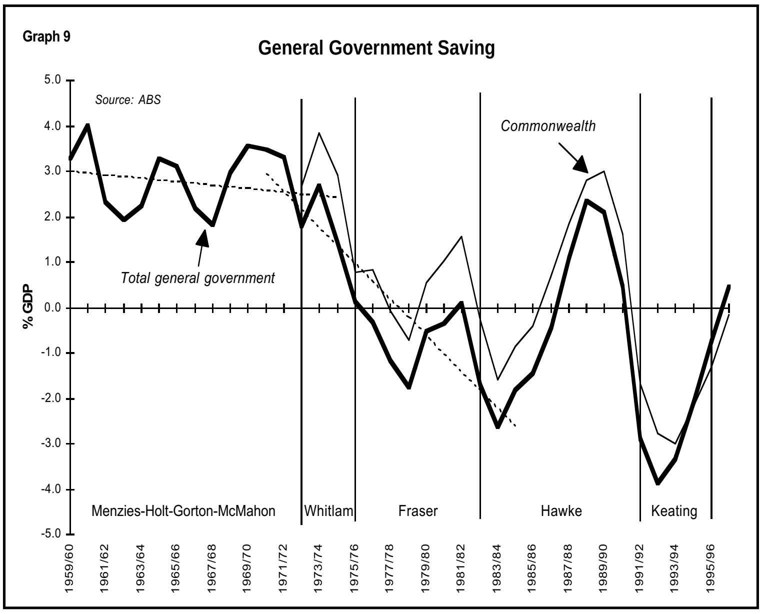
Graph 6 **Real Growth in GDP and in General Government Taxes, Revenue and Welfare Expenditure per Head of Population**

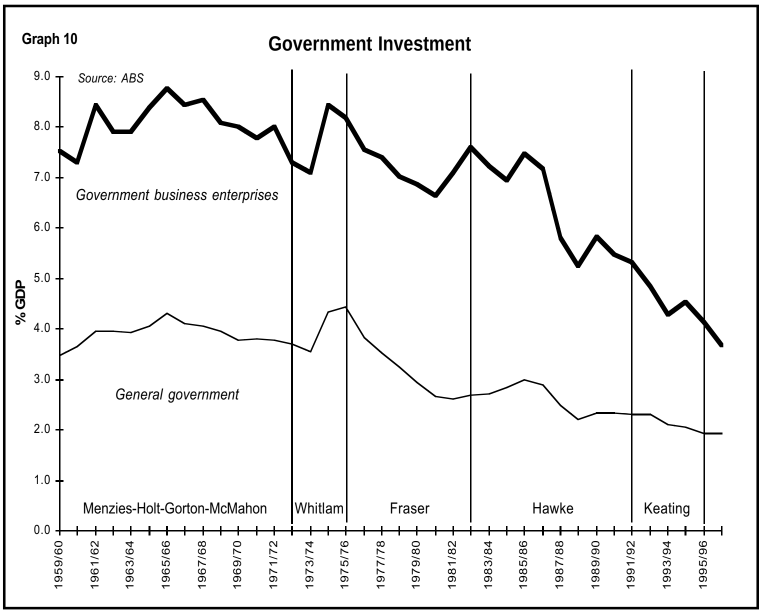


Graph 7 **General Government Revenue and Current Outlays per Head**









over-investment in electricity capacity—forced reforms and rationalizations on the government business sector in most States. The predicted resources booms based on resource-scarcity and high resource prices of the 1970s became resource-plenty, falling resource prices and bust in the 1980s.

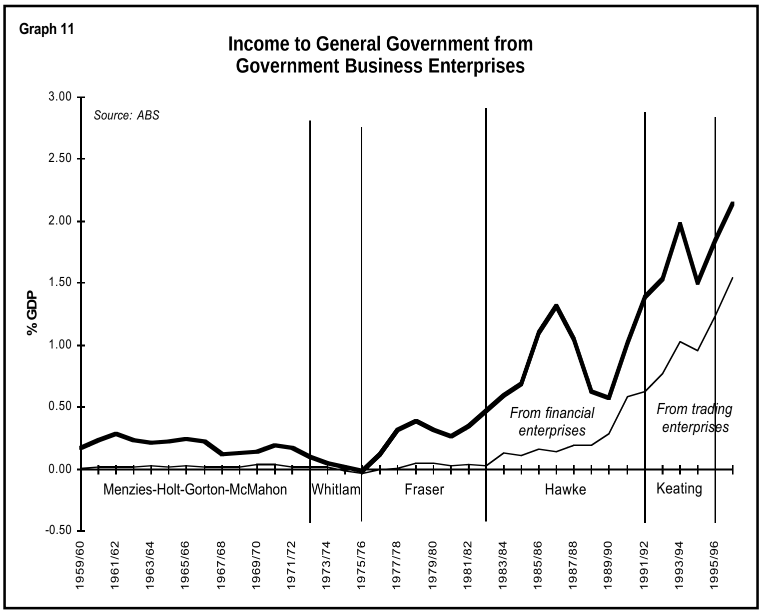
The practical revelation of governments being remarkably poor business managers did much to encourage the reform programme. The arguments that there is a serious conflict of interest in being both owner and regulator, and that public ownership is not real ownership—since the notional owners (the public):

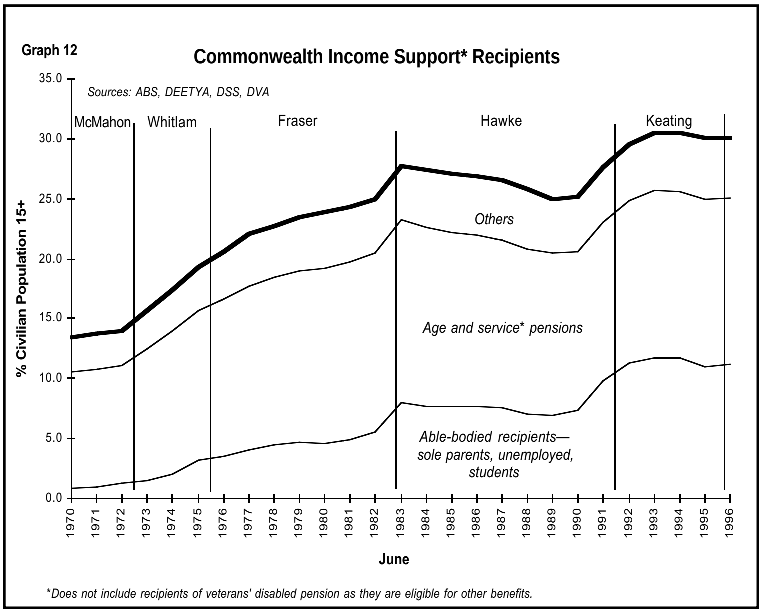
- cannot rely on their agents (the government) to appoint board members and hire and fire managers on a commercial basis;
- do not have their personal wealth at stake;
- lack any real incentive (and often the information)[8] to keep track of an individual enterprise's health;
- did not, until some recent reforms, borrow on the basis of interest rates connected to the risk associated with the firm's assets; and
- are not under the pressures involved in the 'market for managerial control' of the stock exchange

were given a powerful, practical boost. (A central part of the appeal of 'public ownership'—that it is ownership without personal effort or risk, ownership 'on the cheap'—goes to the heart of its problems as a form of ownership.) In its own way, and in truncated form, the Australian workfare state showed a similar cycle to that of the command economies—early successful capital accumulation with growth based on adding inputs became increasing inefficiency and crisis as command-and-control mechanisms and the 'pretend ownership' of state control proved unable to adjust appropriately to changing circumstances.

There has been clear and continuing electoral resistance to increased taxation. People may say in surveys that they would support increased taxes for more spending on certain areas, but it is not how they vote[9]—people are willing to receive benefits but reluctant to pay for them. Governments faced increased transfer pressures from an ageing population and other demands on government—though the growth in welfare dependency has been predominantly that of 'able-bodied' welfare: students, unemployed, sole parents (Graph 12). Much of the increase in transfers was the unintended consequence of policy decisions. Yet governments also faced limits to increased taxation. Policy-makers—both Federal and State, and from both sides of the political spectrum—have therefore had to find ways of increasing the efficiency of delivery of government services, reducing other financial drains on government and improving the efficiency of the general economy. Hence the pattern of reform, covering:

- reform of government business enterprises to reduce the financial and risk liabilities of the state, cut costs for Australian exporters and increase the return on government assets;
- microeconomic reform to increase the general productivity and flexibility of the economy, so it was more able to finance the transfer state;
- greater targeting of welfare[10] and anti-fraud measures to increase the efficiency, and popular legitimacy, of government transfers;
- increasing coverage of lower-income working families by income and other supplements;
- budget surpluses in the mid-to-late 1980s and late-1990s to reduce long-



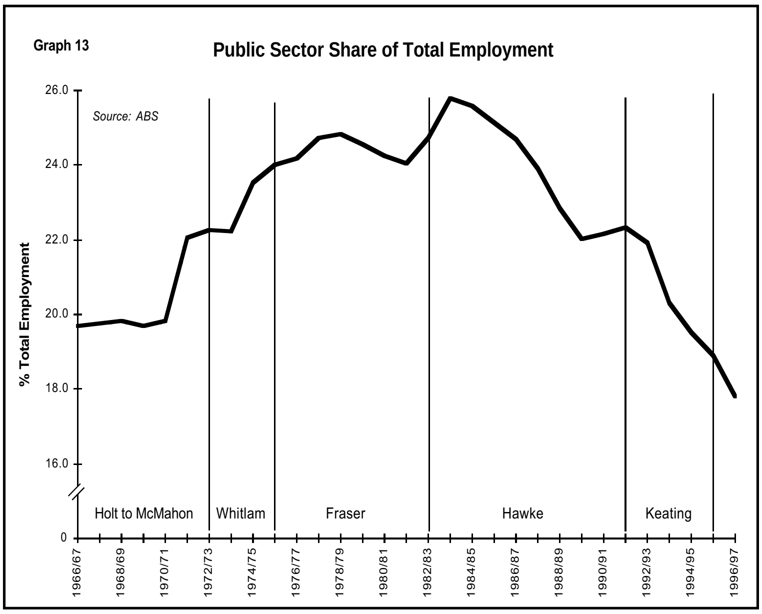


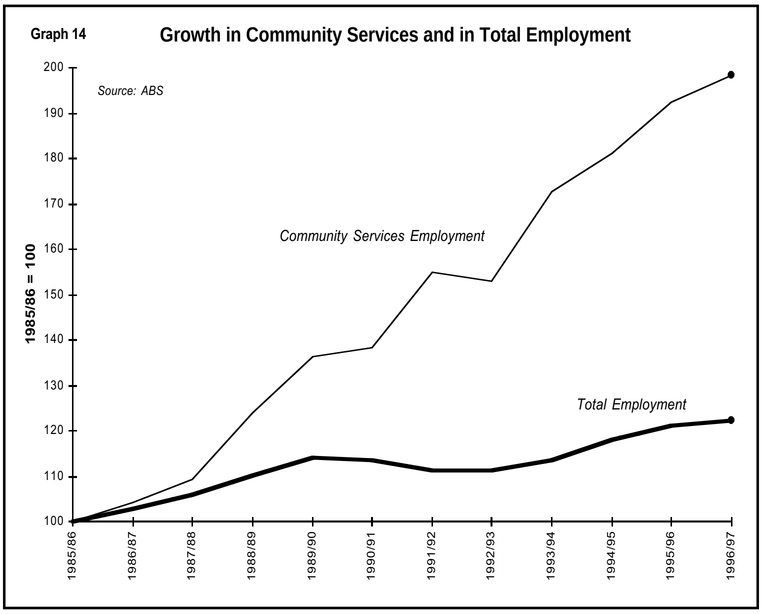
Over-capacity in Gas and Electricity

As experience of other systems became better known in the 1980s, and as financial stringency began to bite, State Governments started to look seriously at cost savings. The 1989 Industry Commission report on electricity had shown the excess costs that plagued the Australian electricity industry. There was also evidence of low-cost operations in some of the private generation facilities, notably the relatively small Alcoa Anglesey brown coal station.

Queensland, the State with the most efficient system, embarked on reform in 1990. Even before then, the Cain–Kirner Government had begun to reduce overmanning and goldplating. The Victorian electricity industry has shed 19,000 out of its previous 25,000 workers. About 10,000 of these surplus jobs were shed under Labor, a further 3,000 under the corporatized Kennett structure, with the remainder having been shed since privatization (mainly in the distribution businesses, the workforce of which was left largely unreconstructed prior to privatization). As well as reducing job numbers (at a time when demand grew by about 20%), the reliability of the system has increased. The generators have increased their availability-to-run levels from around 70% to over 90%. The reliability of the distribution system, according to the measures of the Office of the Regulator-General, has shown an erratic but modest improvement.

Victorian Gas and Fuel has downsized from over 6,000 workers in the late-1980s to 1,500, again with about half the reductions taking place in the twilight years of the Labor Government.





term debt pressure; and

- superannuation reforms to cut age-pension liabilities.

The transfer state is ultimately parasitic on the wider economy: it needs a healthy host to keep going.

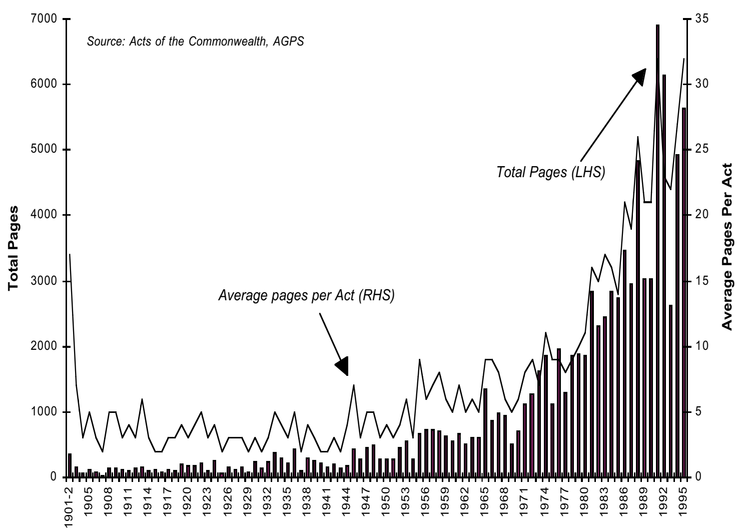
The reform programme did more to redirect the state than cut it. The often-alleged roll-back of the state is a myth—the state is still larger than when Gough Whitlam left office and government transfers, taxes and legislative activity are all still trending upward. The 'economic rationalists' have not been the enemies of the transfer state; those in government have tried to keep it healthy and going—and have, in fact, extended it. It is true that rationalization and privatization of government businesses have seen the public sector share of total employment fall (Graph 13), but the transfer sector has grown dramatically—community services employment has doubled in twelve years when total employment has gone up only 20 per cent (Graph 14). Even deregulation has been vastly exaggerated—while it is true that governments are much less likely to set prices and quantities in markets (with the continuing exception of the labour market, which is considerably more regulated now than it was before the reform process began),[11] the law-making machine spews out ever more law. As a crude measure, in the six years from 1990 to 1995, the Commonwealth Parliament passed more pages of legislation than it did from 1901 to 1974 (Graph 15)—in part because so much legislation constitutes operating instructions for the burgeoning transfer state.

Much of the rhetoric of Pauline Hanson and One Nation, and economic nationalists generally,[12] is about going back to the situation before the reform process began. This is not an option. The workfare state was based on an expanding resource sector and on levels of creation of nation-building infrastructure which are transient. Dams and roads get built; the scale of needed extra rural construction declines over time. The high costs and industrial protection of the workfare state were a burden on the resource sector anyway. Making sure that exporting industries remain competitive requires a continuing search for efficiencies in infrastructure provision.

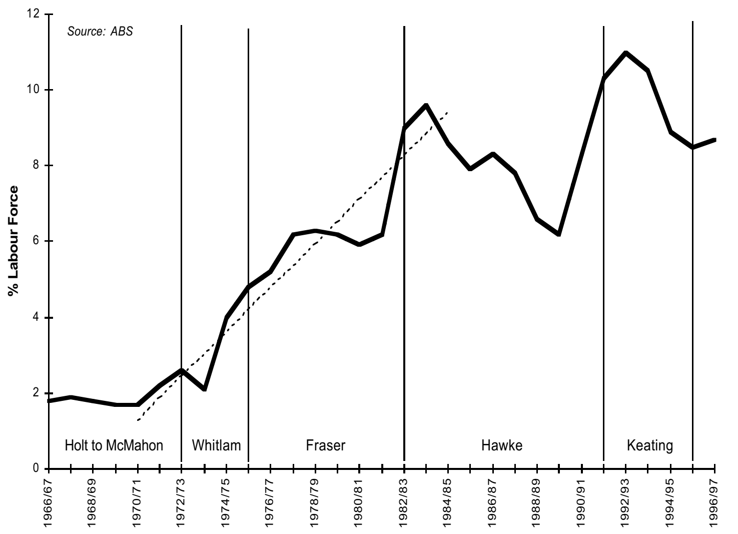
The pressures generating the need for reform will not go away. Far from there having been too much reform, there has been too little—as the continuing upward trend in unemployment (Graph 16) and the deterioration of government fiscal performance (Graph 9) indicate; both of which trends pre-date the reform period and were much of the motivation for reform. Despite recent improvements, it is not clear that Australian governments are reliably on a fiscally responsible path of funding current expenditure from revenue. Nor has business investment made up for the fall in government investment (Graph 17), even given the inefficiency of much government investment in over-capacity or poorly placed infrastructure; the slight decline in business investment's share of GDP is remarkable given the retooling which extensive structural change in the economy has required. The increased volatility of business investment is a further sign of increased economic pressures.

Much of the rhetoric of change has talked about cutting government, when in fact government—outside the workfare sector—is still growing. State action is being redirected. This itself is disorienting, as people are told that government is shrinking—and can point to jobs being shed, services being cut (school and hospital closures, withdrawal of rural services, and so on)—while the burdens of government are actually increasing. Much of the benefits of reform has been captured by the growing transfer sector—the escalating costs of which have been motivating reform in the first place. Household income per head of population, after tax but before income transfers, was essentially static from the period of the Whitlam Government to the early Hawke years. The slow increase since is markedly lower than the rates of increase experienced prior to the Whitlam Government (Graph 18)[13]—economic growth rates tend to decline as government grows above a certain size.[14] Those dealing with the economic changes are usually taxpayers (and thus generally paying more taxes) yet not likely to be major transfer recipients (and thus not capturing many of the benefits). It is also open to serious question whether the transfer state is an efficient distributor of benefits. The transfer system often operates as a badly arranged, inefficient, expensive insurance market where risks and liabilities are very poorly connected, leading to all sorts of moral hazards and other perverse incentives.[15] The public hospital and school sectors suffer the problems of quality and efficiency associated with public ownership being a very attenuated form of ownership (see above). Taxes are a very expensive way of funding something—not only are there the administrative costs of collecting and distributing the funds, and compliance costs imposed on taxpayers and benefit recipients, but taxes also discourage economic activity by increasing costs and decreasing income.[16] Society has to receive in the order of $1.30 to $1.50 worth of value for every $1 of tax money spent for a net social gain to be achieved.[17] This is a threshold the less likely to be achieved the more government does—since the benefit from each extra dollar of government expenditure will tend to decline while the extra costs of taxation tend to rise disproportionately with increases in tax rates.

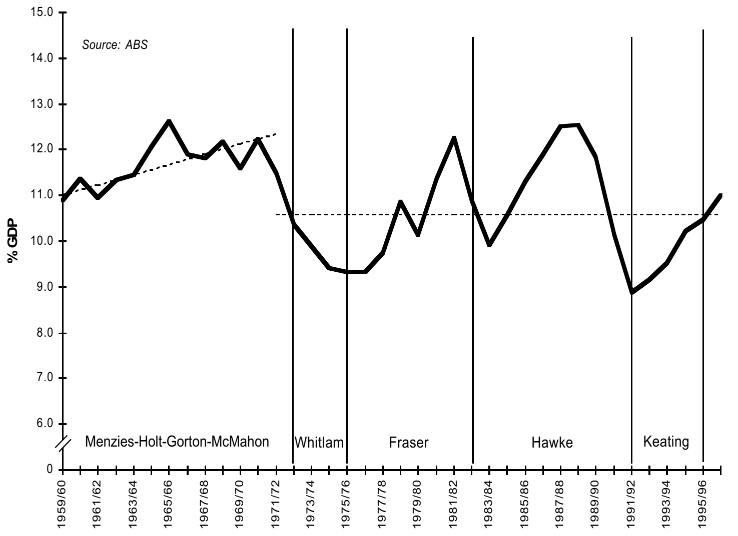
Graph 15 Pages of Legislation, Commonwealth Parliament



Graph 16 Unemployment Rate



Graph 17 Business Investment



(This is, no doubt, a major reason for the tendency for economic growth to decline as government increases its share of GDP above about 20 per cent of GDP.)[18]

The consensual interactions of markets and civil society—where people tend to be committed to their decisions because they are their own choice, and reflect their own preferences, where enforcement costs are much lower, where incentives direct people to pay attention to the preferences of the other party(ies) to transactions and where incentives direct people to put appropriate effort to achieve gains—are much more likely to generate net social benefits than the transactions of the transfer state whereby one party (the taxpayer) provides the resources via anonymous processes of coercion and the other party (the recipient) has very limited choices and/or qualifies on the basis of demonstrating helplessness or incapacity. In its favour, the transfer state offers the prospect of receiving benefits the costs of which one imposes on others—'something for nothing'—including, particularly via its regulatory structures, the benefits of imposing one's preferences on others—and irresponsibility is an easy sell.[19] It also offers career structures for the articulate and the coercively compassionate.[20] Nevertheless, the coercive transactions of the state are only likely to generate net social gains in the rather specific circumstances when, rather than being net displacers of the consensual arrangements of markets and civil society, they genuinely promote such transactions.[21]

The growing demands of the transfer state put demands on government and the economy which increase faster than revenue growth, economic growth and population growth. We are not in a stable situation. The increasing tendency to finance current expenditure by borrowing or asset sales—flogging Qantas to pay for today's expenditure on pensions or the Commonwealth Bank to balance a budget—is a sign of a failure to deal effectively with the underlying pressures[22]: fiscal irresponsibility following social irresponsibility. The delusion that government—outside the workfare sector of government business enterprises and investment—has been cut, or is shrinking, and that its demands are lessening, provides completely the wrong basis to understand our situation. Those who propagate such falsehoods do great damage to our ability to grapple with the real issues facing Australia. They add greatly to understandable confusion in the electorate and do much to create fertile ground for 'snake oil' merchants.

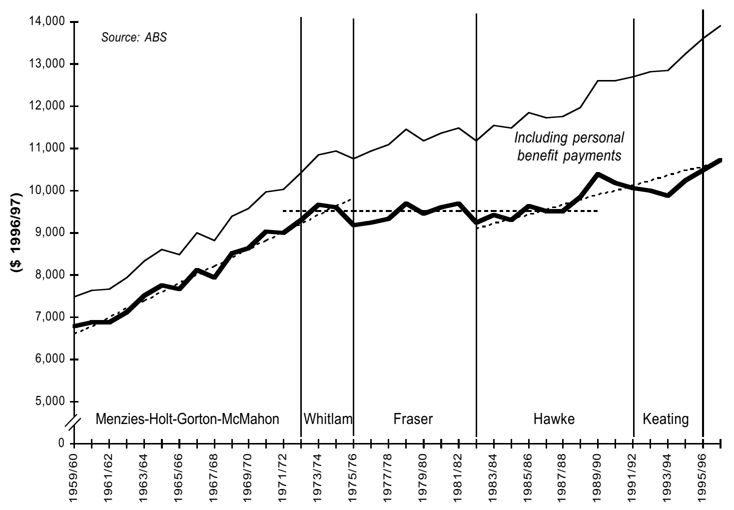
THE CULTURAL BURDENS OF STRUCTURAL CHANGE

The Hawke Government faced the necessary choice between the weakening workfare state and the burgeoning transfer state—since both could not be sustained. It chose the transfer state, a choice repeated around the globe—as reflected in the world-wide trend to privatization.[23] The Hawke Government was also faced with the need to try to put some brakes on the growth of welfare expenditure. It adopted a policy of targeting transfers.

Targeting transfers is a matter of identifying and targeting losers—the people who will be helped. This clearly creates an incentive to be identified as losers, as victims—what Robert Hughes calls 'the culture of complaint'. Much of this targeting was done on the basis of 'identity politics', of people being identified as hard done by on the basis of their group membership—Aboriginality, sexuality, gender, ethnicity, etc. This not only provided an apparent plethora of special deals and arrangements—thus weakening any sense of a common citizenship—the dynamic of victimhood also created a natural tendency to identify alleged oppressors or else Australian society itself, as oppressive. Those who felt proud of their country, and that they lived in a fairly good, even admirable society—one which was democratic, free, tolerant,[24] prosperous—were provided with feelings of alienation and grounds for resentment; grounds magnified by the fact that their taxes paid for these special arrangements.

In rural and provincial Australia in particular, daily observation of the chronic

Graph 18 Household Income* Per Head After Tax



*Less personal income tax, all indirect taxes, unrequited transfers to overseas from households and current grants to non-profit institutions.

failure of indigenous programmes does not help belief in the wisdom of a remote Canberra or the validity of victim politics.

A Changing Place

The period of the decline and dismantling of the workfare state also saw a series of major changes in Australia's interactions with the outside world, raising further questions of Australian identity and providing further stresses from change. The expansion of global capital markets came home to Australia with the floating of the exchange rate and the expansion of international investment flows—both into Australia (notoriously in the form of foreign debt) and increased investment by Australian companies overseas.

With this expansion came a dramatic increase in the size and visibility of our interaction with Asia—as trading partners, as visiting tourists and students, as investors and as migrants. Asians differ visibly and culturally far more from Anglo-Celtic Australians (who still make up 70 per cent of the population) than the European contacts which were declining in comparative importance. Much of this change was simply a response to market signals from increasing Asian prosperity. Some, however, was a result of deliberate policy. How much ownership many Australians felt of these changes is doubtful. In the case of immigration—where the rise of unemployment coincided with a reversal in, previously high, opinion poll support for immigration—there was explicit action, particularly by many in the media, to close down debate.[25] Significant changes on which public debate is restricted are not changes of which people are likely to feel a sense of ownership, or even acceptance. A feeling of not being listened to is a very natural source of resentment.

Another source of major change was increasing *internationalization*—the increasing importance of international treaties in domestic politics. There has been a massive increase in international legal instruments and their coverage. This was magnified by High Court decisions which lead to increasing Commonwealth power, through use of the foreign affairs power of the Constitution, over areas of public policy which were previously the province of the States. Since signing and ratification of treaties are acts of the Commonwealth Executive—not of Parliament—the level of public scrutiny involved was limited. The Commonwealth Parliament was able, by such actions, to legislate on a much wider range of matters. This increasing power to the centre was clearly not something the general public had voted on—and the history of Constitutional referenda indicates a certain suspicion by the electorate of requests by the Commonwealth for more power.[26] Changes being done on the basis of remote international instruments would hardly be likely to increase any sense of ownership of key decisions.

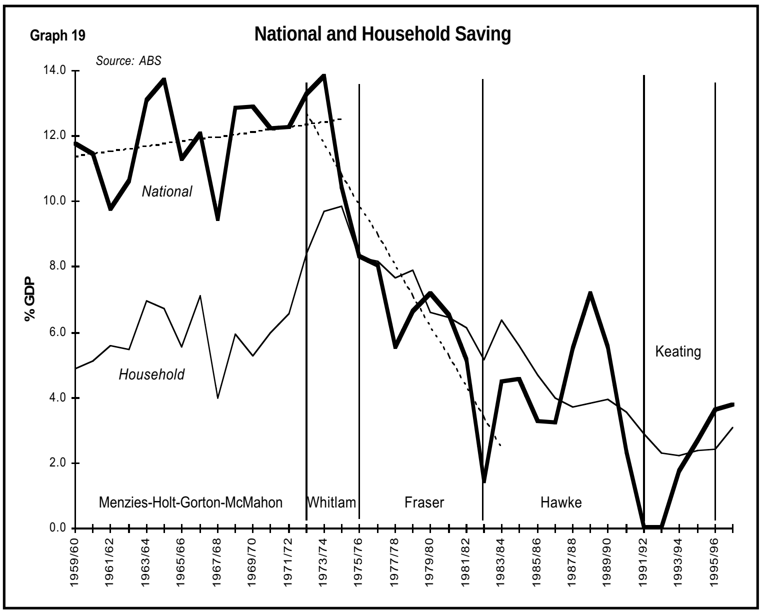
On top of this, the 1980s also saw the rise of environmental politics—the 1983 federal election being the first such where an environmental issue (the Franklin Dam) was a major issue. The typical dynamic of such politics is for some development in rural or provincial Australia—a Coronation Hill, a Wesley Vale, a Jabiluka—to be demonized by urban-based environmental groups playing to a largely urban-based 'green' vote. City pieties destroy rural or provincial jobs without any compensation[27] and on the basis of a rhetoric which undermines the legitimacy of the activity of rural and provincial Australians. This also does not aid social harmony but further undermines the ability of resource industries to fund the expanding transfer state.

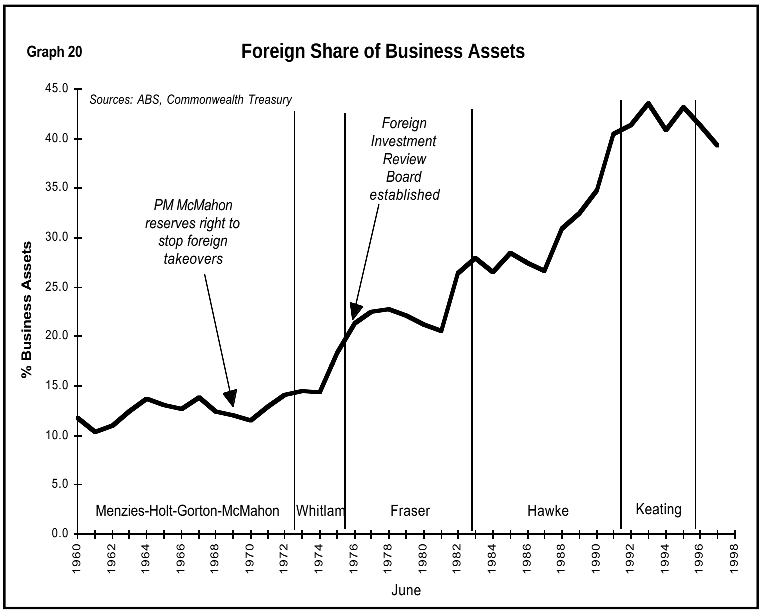
Australia will continue to be a party to international treaties. If transfer expenditures are to be restrained then targeting is inevitable. Our interactions with Asia will continue to grow. Environmental considerations will have to be balanced with other social goals. The question is not whether these things will happen but whether or not they will be done in ways which promote social harmony and incorporate popular ownership of decisions.

Facing Consequences

The increase in the transfer state from 9 per cent of GDP to 21 per cent of GDP in the space of 40 years represents an enormous social shift. It is profoundly naïve to think that this can happen without negative consequences or ill-effects. As a nation, following the massive expansion in transfers kicked off by the Whitlam Government, we are investing less (Graphs 10 and 17) and saving less (Graphs 9 and 19) of our income. In particular, because of lower rates of income growth (making saving harder), higher taxes (making it less rewarding) and increased income transfers (making it less personally required), household saving is in long-term decline, with people saving less per head in real terms (from $1,900 in 1974–75 to $900 in 1996–97 in constant dollar terms). The demands of the transfer state increase taxes and government, thereby tending to lower economic growth, which feeds back into lower income growth.

A country which saves less is a country which generates less of the capital it needs for investment and accumulates less wealth for future use. Less investment generally means less growth. Less domestically generated capital leads to more foreign ownership—the increase in foreign ownership of business assets (Graph 20) mirrors the collapse in national saving (Graph 19). (Some alleged lack of appropriate controls is *not* the issue: the Foreign Investment Review Board was not established until 1976 and foreign ownership was far lower before its creation.)[28]





Family Life

But it is not only these macroeconomic results we need to be concerned about. Families are institutions which provide inter- and intra-generational support. To some extent, increased individual prosperity makes such support less required—hence, for example, children leaving home at younger ages, increasing measured household income inequality—while increased mobility and urban living weaken some of the previously operating community sanctions and supports. Beyond these effects, the transfer state, by providing many of the support mechanisms of families for 'free', acts as an alternative for investment in family life, just as the transfer state also operates as an alternative for saving and for investment in infrastructure and other capital works. The transfer state reduces the costs of negative behaviour and, with public housing, tends to concentrate social pathologies. We should not be surprised if negative social consequences tend to multiply—with the transfer state as a causative, rather than merely ameliorating, agent. Living anonymously off others does not build social interaction, self-respect or personal responsibility.

Australia faces a double challenge:

- to continue on the path of economic reform, so as to fund the escalating costs of the transfer state; and
- to try to set clear and effective limits on the apparently endless growth of that transfer state.

To a considerable extent, these are overlapping activities. A central element in both is to decide, as a society, what it is that government has genuine advantages in doing, compared to other social arrangements, and to ensure that government does those things, and no more. The cycle of irresponsibility—of 'rewarding' ourselves with benefits we expect others to pay for and of supporting government action on the basis of intentions, rather than paying serious attention to actual outcomes—has to be broken.

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Endnotes

1 An alliance to reduce government control over the economy either for its direct benefits or to ensure that the welfare state could be funded or both.

2 Paul Kelly, *The End of Certainty: The Story of the 1980s*, Allen & Unwin, 1992, pages 661ff.

3 Only Japan, and the less developed OECD members (Spain, Portugal and Turkey) had lower rates of taxation as a percentage of GDP (OECD, *Revenue Statistics 1965–1995*).

4 The general government sector covers all government bodies involved in the production of goods and services outside the normal market mechanisms—departments, schools, hospitals, etc.

5 Down from a peak of 49 per cent of GDP in 1986–87.

6 The Whitlam Government also initiated the move away from protection with its sudden 25 per cent cut in tariffs.

7 Many seem to believe that government is quasi-omniscient (it has the knowledge to do whatever it sets out to do), quasi-omnipotent (it has the power to achieve whatever it sets out to achieve) and beneficent (its actions inherently bring net social benefit)—that is, politics becomes a substitute for religion and the state a substitute deity. Nietzsche suggested that the 'will to power' would be the response to the 'death of God'. The pervasive twentieth-century belief in the quasi-omniscient, quasi-omnipotent, beneficent state seems to bear Nietzsche out. Certainly the belief in the salvational or redemptive power of politics—that the coercive transactions of the state are inherently more 'pure' and moral than the consensual acts of markets and civil society—is widespread. Particularly amongst critics of 'economic rationalism'.

8 The reporting requirements for firms listed on the stock exchange are far greater than those imposed on government business enterprises not so listed.

9 The Fraser Government's successful scare tactic over a possible ALP tax on the family home in the 1980 election was a precursor to the highly successful anti-GST Keating Government campaign in 1993 (which led to the first two-party-preferred swing to an incumbent Federal Government since 1966).

10 The Howard Government family assistance changes seem to have weakened the targeting of transfers towards lower income groups.

11 With unfair dismissals provisions, more complex workers' compensation arrangements, increased discrimination law, increased employer liability for actions of employees, more intrusive occupational health and safety arrangements, superannuation liabilities, etc…. That the 555-page *Workplace Relations Act* was seen as some major deregulatory step is a sign of how unconnected from reality much public discussion of such issues is.

12 See Lyndon Rowe, *Odd Bedfellows: The Economic Nationalists and Why They Are Wrong*, IPA Backgrounder, Volume 10/2, July 1998 for discussion of the economic nationalist approach shared by a wide range of critics of 'economic rationalism'.

13 Indirect taxes have been deducted as they are ultimately paid by the household sector—either as consumers through increased prices or as owners of firms through decreased income.

14 J. Gwartney, R. Lawson and R. Holcombe, *The Size and Functions of Government and Economic Growth*, study prepared for Joint Economic Committee of the US Congress, April 1998.

15 The current tax system is arguably even worse for imposing significant social costs—covering, as it does, a much larger proportion of the population.

16 Leading to what economists call 'deadweight costs'—displacement of otherwise mutually beneficial transactions.

17 C.C. Findlay and R.L. Jones, (1982)—'The Marginal Cost of Australian Taxation', *Economic Record*, 58 (162), pages 253–262—estimate the deadweight loss of income tax as being in the range 23 to 65 cents in the dollar. Taking deadweight costs as being in the lower half of the range, and adding in administrative and compliance costs, suggests a figure in the order of 30 to 50 cents additional cost for each dollar of tax expenditure.

18 G.W. Scully, *Measuring the Burden of High Taxes*, Policy Report No. 215, July 1998, National Center for Policy Analysis.

19 Despite some progress during the reform period, it remains striking how little real attention is paid to assessing the actual net benefits of government activity. The working assumption remains that outcomes = resources + intentions. Indigenous policy in particular has suffered greatly from billions of dollars being spent with little real assessment of its effectiveness: being seen to 'do the right thing' has been much more important than assessing real effects—a sign of the lack of liability for results (as distinct from liability for process) which is a besetting sin of much government action. See M. Warby, *Past Wrongs, Future Rights: Anti-Discrimination, Native Title and Aboriginal and Torres Strait Islander Policy, 1975–1997*, Tasman Institute, 1997, pages 79–105.

20 Both in the public sector and in 'third sector' organizations increasingly dependent on public funding, such as the Brotherhood of St Laurence. The latter constitute highly visible—and 'independent' and 'altruistic'—advocates for increased government expenditure. The Australian Council of Social Services' antipathy to the alleged creation of 'working poor' from labour market deregulation is perfectly rational—an unemployed 'welfare peasantry' increases its client base.

21 A recent IMF study— V. Tanzi and L. Schuknecht, *The Growth of Government and Reform of the State in Industrial Countries*, IMF Working Paper, December 1995—found evidence of significant improvement in social indicators from increases in government expenditure in OECD up to 1960—when government expenditure was overwhelmingly concentrated on social and physical infrastructure—and little evidence of such improvements from increases in government expenditure since 1960—when transfers have taken up increasing proportions of government expenditure and GDP.

22 The recent upward trend in general government saving (Graph 8) could easily be reversed by a major recession.

23 Between January 1984 and September 1995, in the area of infrastructure alone, 547 firms in 86 countries were privatized for a total value of $US357 billion. World Bank, *Public Policy for the Private Sector*, Note No. 45.

24 Australians display very high rates of ethnic intermarriage, including between indigenous and non-indigenous Australians—which is a major reason for the increase in the indigenous population as measured by the Census (Bettina Arndt, 'Intermarriage Is an Intimate Form of Reconciliation', Melbourne *Age*, 19 December 1997).

25 Such as the vilification of historian Geoffrey Blainey when he raised concerns about the pace and content of immigration in the mid-1980s.

26 Brian Galligan, *A Federal Republic: Australia's Constitutional System of Government*, Cambridge University Press, 1995, pages 110–132.

27 The much vaunted eco-tourism which was to be Tasmania's salvation has proved empty. It is not entirely accidental that the State most affected by 'green' politics is also the State with the greatest population loss, as people leave in search of employment.

28 Wolfgang Kasper, *Capital Xenophobia*, CIS, pages 40–47.

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