

Political leaders must end the glib politics of sound bite economics and take serious, long-minded policies to the electorate. That's why I became involved in New Matilda, writes Ian McAuley.

To the first article I wrote for New Matilda, in 2004, the editors added the byline: "One of New Matilda's most important functions is the development of policy in areas where the major parties have either failed or given us ad hoc proposals in response to media or pressures by particular groups."

That description of our flawed policy process holds particularly for economic policy — the focus of my modest contribution to New Matilda.

Because economic policy often involves tradeoffs of interests between groups (e.g. providers and users in health care, shareholders and employees in corporations), and between present and future benefits, the territory will always be conflicted.

There are deeper conflicts in economic policy, however, beyond these distributional issues, and even beyond traditional "left" vs "right" ideological differences.

They are about the economic role of government.

A traditional view, dating back to Adam Smith's *Wealth of Nations* (published just before the First Fleet sailed for Botany Bay), is that government does what the private sector either cannot do, or cannot do so well. The "invisible hand" of markets and the "visible hand" of government work together to ensure that scarce resources are allocated efficiently, and that the benefits of economic activity are shared fairly.

That view holds to this day in mainstream economics textbooks, in schools of public policy, and even in official statements such as the brief for the Abbott Government's Commission of Audit. (It was absent in the Commission's report, however. They ignored that part.)

Since around 1980 it has given way to a very different view of government, described by Ronald Reagan: "Government is like a baby: an alimentary canal with a big appetite at one end and no sense of responsibility at the other."

At best, according to this view, government is a big unproductive overhead. It's a collateral cost of democracy, supported by a conspiracy of power-hungry politicians and bureaucrats who use their taxation power to distribute benefits to voters who demand fripperies like pensions, schools and national parks. (Economists will recognise this as a cryptic outline of "public choice" theory.) As with any enterprise, therefore, good management is about cutting overheads and making resources available to those who do the real work — the private sector according to this view. Hence the idea that "small government" is a desirable policy end in itself.

At worst, government is seen as some remote agency in Canberra or on Macquarie Street or North Terrace, taking money from hard-working citizens. It's a kleptocracy, similar to the medieval church or the group of cronies surrounding a banana republic chieftain. This view, even if not explicit, provides a convenient rationalisation for a corporation which sees privatisation of a water utility as a source of unearned income, for a professional or small businessperson who fudges a tax return to claim holiday travel as an expense, and for a welfare recipient who sees nothing wrong in overstating his eligibility. Few moral codes would condemn stealing back what one believes to have been stolen in the first place.

As the philosopher and linguist Noam Chomsky said, we have been conditioned to hate government.

These ideas have been embraced most strongly by parties on the "right", particularly by factions in the Liberal Party, but they have also had a powerful influence on the Labor Party.

Consequently we have lost sight of government as a productive part of the economy, and we mistrust politicians. Governments, in turn, don't even try to mount public interest arguments for their proposals, knowing that they will be rebutted with the most cynical interpretations. Instead they patronise the electorate with dumbed-down sound bites — "working families", "big new tax", "budget emergency". The complexity of

economic management is reduced to a single focus on the budget surplus or deficit — as if the only indicators of a successful or failed life were to be found in one's bank account.

Public service itself becomes an old-fashioned and degraded idea, and we have come to believe that there is something intrinsically inefficient and incompetent about public enterprise. That's an article of unquestioned faith, allowing privatisation and outsourcing to go ahead with little economic consideration. We don't need evidence — we just "know" the private sector is always better.

We need to restore a proper understanding of government, to see how government can mesh with the private sector to create and sustain our prosperity. Otherwise we face a future where, to use JK Galbraith's words, "public squalor" co-exists with "private affluence", and in time, even our private affluence falls away as we fail to make the necessary investments in education, health care, infrastructure, environmental protection and other economic services.

We may cobble together a few private mechanisms to fill part of the gap, but at great cost, as illustrated by inelegant and wasteful arrangements such as toll roads, private health insurance, and privatised electricity networks. And without an understanding of the economic role of government, whatever remains after the cuts is just a slush fund for interest groups. A football stadium in a marginal electorate assumes the same priority as a grant for medical research.

New Matilda's contributors, in scrutinising public policy, have defended the traditional role of government. I regret NM's passing (Ed - we are still in negotiation with a new owner and editor, more on that soon), and wish to acknowledge the contributions of all involved — particularly Marni Cordell, Adam Brereton, Catriona Menzies-Pike, Ben Eltham and Max Chalmers, with whom I have been most closely involved. All of them truly committed to the public purpose.

Over the next few months, in collaboration with Miriam Lyons (until recently executive director of the Centre for Policy Development), I am working on a book on the economic role of government. We're writing it for those who are dissatisfied with the paucity of our public economic debate — New Matilda readers in other words. Melbourne University Press will be publishing it in 2015.

To help us in this project, Miriam and I would like to hear your ideas. Our emails are [miriam.lyons@gmail.com](mailto:miriam.lyons@gmail.com), [mcau@netspeed.com.au](mailto:mcau@netspeed.com.au), and my website is [www.ianmcauley.com](http://www.ianmcauley.com).

Even the best institutions have a limited life — 10 years is a great achievement in this tough environment, but public ideas live on.