

Economy and State

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(A review of N.G. Butlin, A. Barnard, J.J. Pincus, Government and Capitalism; Public and Private Choice in Twentieth Century Australia, Allen and Unwin, Australia, 1982, 369 pp.)

Government and Capitalism deals with "the evolution of the interactions between the Australian public and private sectors since 1901, partly as a matter of historical concern, partly as background to contemporary issues of today." (p.ix) The authors, all from the Department of Economic History in the Research School of Social Science at the Australian National University, emphasise that the work is the result of a collaborative research project. However, the dominant influence and contribution is clearly that of Professor N.G. Butlin. Government and Capitalism represents a sustained elaboration of Butlin's concluding remarks in his *magnum opus*, Investment in Australian Economic Development 1861-1900,¹ in which he referred to the trend towards a decline in "colonial socialism" in Australia by the beginning of the twentieth century. (pp. 5,6,450) Government and Capitalism documents this sustained long-term decline in government's direct role in the Australian economy throughout the twentieth century. In one sense therefore, Government and Capitalism provides continuity with Butlin's earlier work. The reader is immediately struck, however, with the assertion made at the outset of Government and Capitalism that a major theme of the book is that of the growth of "big government" in the twentieth-century Australian economy. (p.2.) This apparent contradiction is discussed below.

Investment in Australian Economic Development provided the basis for a subsequent generation's work by economic historians in Australia in the 1960s and 1970s. Government and Capitalism is not as pathbreaking a piece of research, following as it does the mainstream economic history of Australia in the twentieth century by E. Boehm, the recently published general history by R. Ward, and the much more radical history by R. Connell and T. Irving.² Nevertheless, the book, and the detailed data on public and private capital formation in the period between 1901 and 1975 which the authors have provided³, will provide a seminal contribution to Australian economic history, and promise to generate as much inquiry, research and criticism as Butlin's earlier work. The dominant influence of Professor Butlin is manifested in the relative contributions of the three authors to Government and Capitalism. The Introduction (Part 1) and Summary Interpretation (Part 5) are provided by Butlin, as well as Part 2 on overall economic management in the period. The more specialized sections on social policy (Part 3) and on public enterprises (Part 4) are the work of Drs. Barnard and Pincus respectively.

Government and Capitalism warrants much praise for its scope and breadth of research. It is, in general, empirically solid, measurably more comprehensive and although primarily an economic history, substantially more interdisciplinary than the bulk of historical research and writing in Australia. The authors' collaborative effort is commendable, although at the cost of variations in quality, and perhaps also in differing emphases placed on the principal themes of the book, notably by Butlin and Pincus.

According to the authors, the two principal trends in the Australian economy in the twentieth century have been "the decline of colonial socialism" or of direct public participation in the market, and, as a counter-balance to this, growing government intervention in the capitalist economic process. In other words, while the direct role of government in public production and investment has shrunk, indirectly it has increased through an expansion of government allocative and regulatory policies, particularly under the guise of post-war macro-economic management. (pp. 7, 320). The authors confine their attention to government alone, (p.1) rather than to the broader dimensions of the role of the state in capitalism. 'Government' includes colonial, Federal, State and local Governments, and public (statutory) enterprises.

Of the three authors, Butlin's work is the most meticulously researched and informative. It deals in a chronological manner with the principal sectors of the Australian economy, with public and private capital formation, and with the labour market. It is, relatively, more theoretically informed and thereby enriched than the ensuing section on social policy by Barnard, and is less doctrinaire in its evaluation of the role and worth of government in Australian capitalism than the section on public enterprises by Pincus. This is due partly to the latter's more obvious and explicit disdain for government intervention, and partly to Butlin's cautious style. One of Butlin's techniques is to use single quotation marks to surround key and controversial concepts and theories. For example, his treatment of what "might be perceived through nineteenth-century eyes, the 'decline of colonial socialism'", (p.10) does not enlighten the reader as to Butlin's own view of the relevance or validity of that label and theory. He subsequently refers to the growth of "more specific and arbitrary (government) intervention in private decision-making - a behaviour pattern that some might regard as the essence of 'big government'." (p.116). "Some" are never identified, neither are nineteenth-century contemporaries' references to "colonial socialism". Such a technique enables the author to distance himself from the theories and viewpoints expressed, which are nevertheless not criticised, but incorporated into his analysis, and implicitly accepted. Another of Butlin's techniques is to employ negatives to ameliorate what in fact are strong, and usually adverse, judgements of government. For example, in discussing Australian Governments'"more arbitrary intervention" in private decision-making in the postwar period, Butlin notes: "It is not implied that macro-management was appropriate, efficient or equitable." (p.116) In not implying this, Butlin may consider that he has reassured the reader (or perhaps more importantly, himself) that he has avoided an explicit denunciation of government intervention per se. This reviewer's preference is for historians, and academics in general, to make explicit their values and judgements, rather than to obscure or submerge them by using grammatical techniques which distance the writer from his or her judgements and evaluations.

Barnard's section (Part 3) on social policy in the period proceeds in a chronological, narrative manner to deal with the facts, as he sees them. In this treatment, the social security system, labour market, education, health, housing and voluntary organizations are considered. Given the very profound sex differences in the sphere of social policy and its application, it is regrettable that the author did not see fit to consider women separately and in detail. Generic references to the recipients of public welfare obscure the considerable element of sex discrimination in the history of social policy in Australia. Serious students of women's history and women's studies would be advised to give this section a wide berth. For those interested in continuing examples of the neglect of women in Australian historiography however, Barnard's work provides a good example.

Part 3 is the least original and least well-researched section of Government and Capitalism. It breaks no new ground, and its contents are surpassed in coverage and quality by the work of several writers, cited by Barnard in the bibliography, on the history of social policy in Australia.⁴ Moreover, given the lack of references (footnotes) in Part 3, which is in fact a weakness of the book throughout, it is difficult to ascertain whether the author has investigated any primary sources not already discovered and explored by others. Barnard's recurring references to the need for more research in important areas of social policy and welfare underscore the author's⁵ lack of diligent, primary research in his own sphere of specialization.

Part 3 is also the most intellectually and theoretically impoverished section of Government and Capitalism. An empirical, narrative approach underlies an implicit empiricist philosophy, in which it is presumed that the facts speak for themselves. In the process, there is no discrimination between the least important and trivial of facts, and the most important. (The adage of one losing sight of the wood for the trees is most applicable). Nor is the author immune from the value-premises and biases of other mortals. For example, Liberal-Country Party Government social policies between 1949 and 1966 were substantially redistributive in effect, if not intention, to middle and upper-income groups, a process which elicits no unfavourable judgement from Barnard other than the obvious comment that such policies lacked equity and "bordered ... on meanness." (p.199) By way of contrast, the social policies of the Labor Government between 1972 and 1975 are judged rather more harshly, as is the alleged ineptitude of that Government. Its "belief that the distribution of costs could be ignored appeared in the Whitlam Government's view of the economy as a 'magic pudding'." (p.202)

Pincus' section on public enterprises (Part 4) is as important and as hitherto neglected a domain of inquiry in Australian economic history as the author claims. (p.236) Any analysis of public enterprises presents difficulties, not the least of which is the problem involved in estimating (public) business surpluses or 'profits', given the interferences with market modes of pricing. For example, unlike the ideally competitive firm, which prices its product or service according to costs of production or marginal costs in order to survive and make a profit, public enterprises are often immunized from such commercial considerations due to their fallback ability on general budget support; e.g. railways. Notwithstanding such difficulties in estimating surpluses, the author has compiled valuable data on the share of surplus in gross domestic product by public enterprises from 1902 to 1975 (p.239). The data should be interpreted cautiously,

given that it is "preliminary" and involves "some guesswork" on the part of the author. (p. 239). Nonetheless, it provides a useful starting-point or benchmark for further research on the vital question of public enterprises and their accumulation and distribution of the social surplus. Pincus' coverage of public enterprises is understandably selective, given their number in Australia. The principles underlying his selection are stated succinctly, the key criterion being public enterprises' degree of monopoly characteristics and associated organizational structure.

Pincus' section is the most creative of Government and Capitalism, in its foray into "new territory", (p. 236) and is perhaps the most intellectually skillful given the problems surrounding quantitative research into public bodies and instrumentalities. By their very definition, such organizations elude a complete assessment of their economic costs and benefits and general performance. A focus on such quantitative criteria may suit micro-economic analyses of individual firms and industries, as neo-classical economists would strongly argue. But it is doubtful whether such analysis is adequate or relevant when considering public sector activities and enterprises, given the latter's concern with essentially social and political objectives and policies, rather than with maximizing private benefits (profits) and minimizing private costs. It is, therefore, rather bewildering why the author has chosen to rely precisely on those (neo-classical) concepts and forms of analysis which are least suited to the subject matter. Moreover, given that the focus of neo-classical economic theory is on profit maximization, on marginal-cost pricing, and not on the social dimensions and costs of unbridled private enterprise (the theory regards these as 'externalities' to the firm or industry, hence excludes them from the analysis), it is not surprising that Pincus' view of the role and performance of public enterprises in the period is unfavourable. His conclusion, based on "examples of historical generalisation ... (and) a priori economic reasoning", (p.278) is that while select producer and rural interests may have benefited from government regulation, "final consumers" and "the public at large" have not (p. 278). A subsequent reference reveals Pincus' "a priori" reasoning to be that of the neo-classical school, to which he attaches general legitimacy and validity in his assertion that there is "a priori agreement that a private, profit-making firm will be more efficient than a public firm." (p. 292). There is no consideration given to the very substantial criticisms of this school of economic thought and its application, including that of Institutionalist, Marxist and post-Keynesian economists and writers. In consequence, despite the author's claim that he does not unswervingly adhere to the "crowding-out process", (p.237) (a term which neo-classical economists use to refer disparagingly to the effect of public enterprise on private enterprise) government enterprise and regulation is generally criticised. There is begrudging support for its necessity in the sphere of "natural monopolies", (pp. 237-243) where the indivisible, large-scale and generally unprofitable nature of an enterprise renders it a candidate for public ownership, given the unwillingness or inability of private capitalism to take on such unprofitable enterprises; e.g. water supply and railways. The author's support for government intervention ends here; thereafter his "a priori economic reasoning", backed up by "historical generalisation", leads him to condemn government enterprise as inefficient and as inferior to private enterprise. At the end of Part 4, one is left wondering whether Pincus' findings and conclusions are based primarily on

economic and historical data and inquiry, or are in fact provided by or 'contained' within his analytical framework, and are the logical conclusion of his "a priori" reasoning and assumptions. If the latter is the case, then the analysis is circular and sterile.



It is Pincus' more obvious theoretical premises and biases which provide a clue to unlocking the answer to the anomaly, if not contradiction, between the two key themes of Government and Capitalism. The authors argue that the heyday of "socialism" in Australia occurred in the nineteenth and early twentieth century. Colonial and early Federal and State Governments played a direct and commanding role in the sphere of capital formation and investment. In addition, it was Government and not private capitalists which increased and allocated the supply of labour, largely through assisted immigration, as a direct employer of labour, and in establishing conciliation and arbitration machinery. This was not due to what Butlin has previously termed "doctrinaire attitudes",⁶ but to the very weakness of private capital, the underdevelopment of capitalism in nineteenth-century Australia, itself associated with the young colony's origin as a dumping ground for convicts, and the physical difficulties of economic development in a colonial region suffering from what Geoffrey Blainey has immortalized as "the tyranny of distance". From the dawning of the twentieth century, and particularly after the 1930s depression, capitalism in Australia developed, diversified, and had increasingly less need of publicly supplied capital, labour and resources which, had "socialism" persisted, would have threatened to "crowd out" private economic activity. Accordingly, as Butlin, Barnard and Pincus

note, a dominant theme in the twentieth-century Australian economy has been that of a decline in direct government economic activity and enterprise. How then does it come about that, according to the authors, the second principal trend in the Australian economy in the twentieth century has been the growth of "big government?" (pp.1, 320). Why is the growth of a public regulatory framework within which capitalism conducts itself synonymous with or tantamount to "big government?" It is at this point that Pincus' emphatic neo-classicism rears its head and asserts itself. Government action is, so the argument goes, intervention into the circular flow of goods and services between producers and consumers, firms and households. Accord it a role in the ownership and regulation of "natural monopolies", but regard it sceptically, if not hostilely, should it stray beyond these boundaries into more extensive forms of public ownership and regulation. Thus, it is not so much the 'bigness' of government, this reviewer suspects, that is in the authors' eyes the dominant theme, or weakness, of the Australian economy in the twentieth century. It is its 'badness'.

This is the underlying message of *Government and Capitalism*, and is at its most explicit in Part 4 by Pincus, and in Butlin's summary interpretation (Part 5) of Pincus' work. The message is however foreshadowed in Part 1 (Butlin) on Methods and Themes, in which the theme of "big government" is inextricably intertwined with that of "appropriate 'limits to government'". (p.2) Pincus cannot, therefore, be held completely or primarily responsible for Butlin's initial pace-setting remark that

"government today intervenes widely, deeply and in detail in private decision-making; ... government now seems less and less able to solve many of the problems that it purports to deal with or which private interests seek to have solved by public (government) action; yet private interests often appear to be dependent on government to 'solve' their problems by non-market means without full consideration of market possibilities." (p.2)

Butlin acknowledges that the general picture painted in Government and Capitalism "contains a number of conflicting tendencies so that from some points of view the scope, scale and detail of government intervention in the market increased while from other points of view they diminished". (p.10) The co-existence of two dominant trends conflicting with each other permeates *Government and Capitalism*, and is unresolved in the concluding section of the book.

A final point concerning the theoretical input into Government and Capitalism should be made. One reviewer has commented on its apparent paucity of economic theory.⁷ The authors acknowledge this point: "There is very little theory of the interactions of public and private groups on which we may draw". (p.2) This admission may indicate more about the authors' inattention to theories other than those based on the neo-classical paradigm, than it does about the existence of (a considerable body of) theoretical literature on government, and the state, in capitalist economies.⁸ This neglect is reflected in the nineteen-page reading list accompanying the text, in which there are lamentably few references to theoretical works. Without exception, those cited lie within the neo-classical theoretical mould. (pp. 345, 358) The starkest omission is R. Connell and T. Irvings' Class

Structure in Australian History,⁹ a recently published comprehensive economic history of Australia, from a Marxist theoretical perspective. Often underlying a critical review of a book for its lack of theoretical content is merely the critic's *piqué* that his or her favourite theory is not acknowledged. The weakness of Government and Capitalism is not, ultimately, that it lacks theory *per se*, nor especially that it lacks a Marxist perspective, or any other kind for that matter, but that the entire work is predicated on quite slender, and considerably criticised, theoretical underpinnings. It is, ultimately, a book which is determined not to stray from mainstream neo-classical economic theory and its application. Accordingly, it is not a book in which students of Australian capitalism, history, economic or political-economic theory would find an analytically rigorous, intellectually illuminating synthesis of the best which current economic and political-economic theory has to offer.

FOOTNOTES

1. Cambridge University Press, U.K., 1964.
2. E. Boehm, Twentieth Century Economic Development in Australia, 2nd ed., Longman Cheshire, Australia, 1979; R. Ward, Australia Since the Coming of Man, Lansdowne Press, Australia, 1982; R. Connell, T. Irving, Class Structure in Australian History, Longman Cheshire, Australia, 1980.
3. A. Barnard and N.G. Butlin, 'Australian Public and Private Capital Formation 1901-75', Economic Record, Vol. 57, 1981, pp. 354-367.
4. For example, the works by B. Dickey, M. Jones, T. Kewley, R. Mendelsohn and J. Roe; Butlin et. al., op. cit., pp. 352-357.
5. On p.159, Barnard refers to the need for "a good deal more research" on the reasons for the apparent cross-class support for greater social security measures in the early twentieth century. Investigation of this is crucial to any analysis of the class-orientation of social policy; i.e. who pays, who benefits? Again, on pp. 162-163, "further study" is needed to establish the reasons why the growth in public hospital welfare services accompanied a relative diminution in private charitable effort.
6. N.G. Butlin, 'Colonial Socialism in Australia, 1860-1900', in H.G.J. Aitkin (ed.), The State and Economic Growth, Social Science Research Council, U.S., 1959, p.35.
7. David Clark, Australian Financial Review, 25 March, 1982.
8. Gavan Butler's article on 'The State and the Disposition of the Social Surplus' in a previous issue of this journal refers to some very relevant theoretical work on this subject; Journal of Australian Political Economy, No. 9, 1980, pp. 25-33.
9. op.cit.

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