

# The Limits to De-Regulation

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## INTRODUCTION

We have been told by the Fraser Government that we are witnessing a "historic turnaround" in the development of the Federal public sector of the Australian economy.<sup>1</sup> That is to say, the Government is making some response to the view that smaller government is better government. That view has been popularised by Milton Friedman and has been endorsed by Mr Fraser's speech-writer in sentences such as the following: "The Government has taken the view that we would all be better off in a material as well as in a social and political sense by establishing a more limited, and more realistic, role for government".<sup>2</sup> However, such an endorsement of Friedman's view turns out to be a deceptive one: the Fraser government does not accept that there can be a general or substantial limitation of the scope of state intervention. Nor would Marxists expect that it would be possible to effect such a general limitation of the scope of state intervention. One would expect the burden of any substantial reduction in the expenditure of the state to be borne by the recipients of social services, rather than by capital. Moreover, as will be argued here, one would expect a high degree of selectivity in the choice of other limitations of the degree and scope of state intervention - in the reduction of protection of various industries, in the sale or abandonment of public enterprises, in "de-regulation", and so on.

In the first section of this paper, I put forward some observations on why large corporations might be moved to support "smaller government". The second section considers the positions that have been put in regard to de-regulation - more or less narrowly defined - by two industry bodies, the Confederation of Australian Industry and the Australian Industries Development Association. The third section compares these positions with the decisions of the Federal government announced in the Ministerial Statement on Review of Commonwealth Functions.

## THE SUPPORT FOR "SMALLER GOVERNMENT" BY LARGE CORPORATIONS

The supposed intellectual basis for the claim or campaign for smaller government, as that claim is presented, is to be found in the writing of Milton and Rose Friedman and of Friedrich von Hayek,<sup>3</sup> on the one hand, and in the writings of the so-called "supply-side economists", on the other. "Supply-side economics" is a version of the long-discredited Say's Law and has been neatly disposed of by Sweezy and Magdoff on the grounds that "it operates on the principle of moving a string by pushing on one of its ends".<sup>4</sup>

Friedman's well-known position is that a private enterprise, market economy is characterised by sufficient regulatory mechanisms. Such mechanisms, with some little help from the courts, are sufficient to ensure that each individual is free to choose between those goods that are deemed necessary and indeed to decide what is necessary, that the correct quantities of all goods are made available, and that each individual receives to satisfy his or her needs an income that is fairly in proportion to the

individual's contribution to society's total undertaking. The scale of any enterprise is unimportant as long as there are several independent enterprises in each industry. "Big government" is villainous in two principal ways: it protects some enterprises from competition; and it creates and protects privileged positions for its servants. The state is perhaps most effective in protecting enterprises through the imposition of tariffs on international trade, although its contracting and licensing are also very important. In fact, it is the state which most restricts competition.

Much of the state's role in the economy is actually a reflection of the restriction of competition within an economy. Competition is restricted as wealth and economic power become more concentrated and centralised. The market hence becomes progressively less able to distribute an economy's surplus - the social surplus - between different fractions of capital (or, loosely, different parts of the economy) in a manner which ensures the greatest possible accumulation of capital in general. The divisions of profits between agricultural processors and farmers, for example, or between basic metal producers and users are determined by relative degrees of monopolisation of the broad transacting parties. The same is true of the divisions of profit between each of the fractions of productive capital, on the one hand, and the banks and merchants, on the other. As has been argued previously in this Journal,<sup>5</sup> the state has increasingly to assume the role of distributing the social surplus, though generally with only poor guidelines as to how best to settle the competing claims of the different fractions of capital. (One such guideline is the necessary compensation for the "learning-by-doing" that any new industry must undergo before it can hope to become internationally competitive.) In view of this one of its roles, at least, the state is indispensable to capital. That is not to say, however, that at any point of time, all fractions of capital are likely to be content with the disposition of social surplus brought about by the state's interventions, or that its interventions by way of tariffs and other regulations are sufficiently flexible. Dissatisfaction with the manner in which the state is fulfilling its role in the disposition of social surplus may in fact lead various fractions of capital to support moves for reduced state intervention.

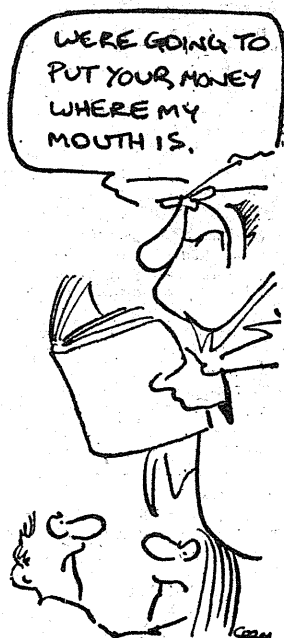
One can identify five other principal reasons for the support of "smaller government" by large corporations. The first of these is an awareness of the fiscal crisis of the state.<sup>6</sup> Each fraction of capital could be expected, however, to have a different view of where the state's activities might most appropriately be reduced. The second reason is a concern to limit the development of any means other than conventional employment that could be capable of providing acceptable incomes and hence to limit programmes of social welfare. It follows that the interests of capital involved in, for example, construction associated with the provision of social services is likely to be more vulnerable than capital not so involved. The third reason is that many regulations apply to the impact of corporations on their workers and the public, rather than on each other. Such regulations cover industrial safety, health, the protection of consumers and the protection of the physical environment. These are matters in regard to which it is possible for corporations to argue that self-regulation, or deference to agreed "good business practices", is adequate. They are matters in regard to which it is possible to argue, in other words, that both some of the state's expenditure in regulation, and some of the cost to capital in proving compliance with regulations, can be avoided without harm to the overall legitimacy of the conduct of private enterprise. The legitimacy of the conduct of private enterprise is perhaps hardest to establish among private enterprises themselves. Fourth, most fractions of capital may believe that the functions which the state performs for them can be performed more efficiently. The referral of matters to Inter-Departmental Committees, for example, may be necessary to ensure consistency between departments; but from the point of view of a corporation seeking action from a client department it may seem at least time-consuming. Moreover,

there is no reason why the organisation of work within an instrumentality of the state directed by a presumptive "empire-builder" should be efficient from the point of view of any fraction of capital.

Finally, there is the claim of the report The Crisis of Democracy,<sup>7</sup> prepared for and adopted by the Trilateral Commission, that today's democracies are becoming ungovernable.<sup>8</sup> According to the report, "The incorporation of substantial elements of the population into the middle classes has escalated their expectations and aspirations, thereby causing a more intense reaction if these are not met in reality. Broadened political participation has increased the demands on government. Widespread material well-being has caused a substantial portion of the population, particularly among the young and the 'intellectual' professional classes, to adopt new life-styles and new social-political values" (p. 158). The authors of the report specify a number of "dysfunctions of democracy", among them (i) the delegitimation of authority and (ii) an "overload" on government and the imbalanced expansion of governmental activities. The blame for the "overload" is laid upon several factors, including "the involvement of an increasing proportion of the population in political activity" and "an increasing expectation on the part of groups that government has the responsibility to meet their needs ... (and) ... an escalation in what they conceive those needs to be" (pp. 163-164).

This is the broadest of the suggested reasons for the support by large corporations for "smaller government", namely the suppression of expectations on the part of "the middle classes" as to the role of the state in meeting their needs. In fact, it may be said to subsume the second and third of the suggested reasons.

The reflections set down above do provide some explanation of the support by large corporations of "smaller government"; but they also suggest that support will be highly selective and that supporters of "smaller government among the executives of large corporations will be careful to ensure that the state preserves its capacity to manage the disposition of the social surplus and to preserve if not boost its relative size. That capacity may even require a rising proportion of state expenditure to gross domestic product.



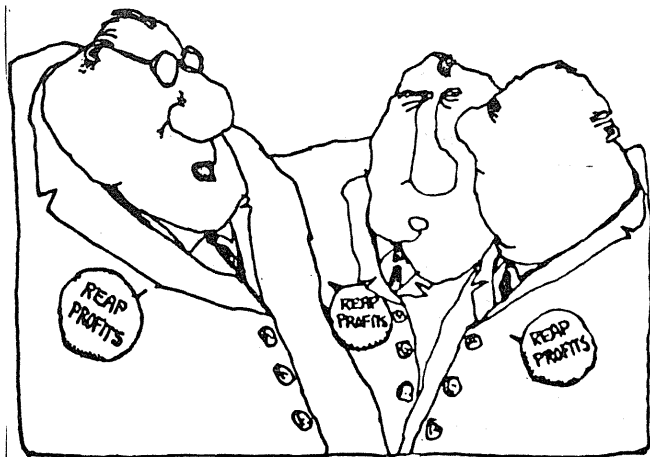
#### POSITIONS TAKEN BY REPRESENTATIVES OF AUSTRALIAN INDUSTRIES IN REGARD TO DE-REGULATION

In mid-1980, the Confederation of Australian Industry (C.A.I.) published its first report on Government Regulation in Australia. That report was confined to Federal Government regulation; a second report is to consider regulation by State governments. The Australian Industries Development Association (A.I.D.A.) has also published, during the past few years, a number of reports dealing with specific forms of state intervention, most notably the tariff, the Prices Justification Tribunal and the Restrictive Trade Practices Commission. Recently various positions in regard to regulation of the Australian capital market have been put to the Campbell Committee of Inquiry into the Australian financial system. And, of course, there are frequent controversies about specific sets of regulations applying to particular industries such as the commercial broadcasting industry and domestic airlines. The broader positions are the more pertinent to this paper.

The C.A.I. was formed in December 1971, through an amalgamation of the Associated Chambers of Manufacturers of Australia and the Australian Council of Employers' Federations.<sup>9</sup> It has some 44 member organisations. Its hopes of being able to represent "business" in general have been undermined by conflicts between miners and manufacturers within its membership.<sup>10</sup> Late in 1980, the miners sought to have Rod Carnegie of C.R.A. elected president of the Confederation but were unsuccessful in the face of the opposition of manufacturers. Among manufacturers, too, there is conflict, as evidenced by the rise of the Metal Trades Industry Association at the expense of Chambers of Manufacturers: the latter must attempt to represent the interests not only of the metal industries but of the less capital-intensive and less internationally competitive industries such as clothing. The C.A.I. is actually split into two councils, Trade and Industry on the one hand and Industrial on the other; and this division, reflecting the pre-occupations of the two associations which originally formed the C.A.I., is also said to bedevil the Confederation. The much-older A.I.D.A. is dominated by large corporations, or by monopoly capital rather than non-monopoly capital; and it has no overt concern with industrial relations. Otherwise it may be expected to have to contain conflicts similar to those within the C.A.I. The publications of the A.I.D.A. suggest that the manufacturers are dominant within that organisation.

### The Confederation of Australian Industry

The C.A.I.'s report is mainly concerned with estimating the cost of the Federal Government of its regulations and the costs to companies of complying with the regulations.<sup>11</sup> The report indicates that there were substantially more Acts passed by the Federal Parliament and by each of the State Parliaments during the 1970s than had been passed during the 1960s. Noting that many Acts give the government concerned the power to make regulations, the report indicates that the recent growth in numbers of regulations has been greater than the growth in numbers of Acts. "Not less than 32,551 regulations were made by Governments in Australia over the last two decades."<sup>12</sup> The report warns of an increasing tendency for governments in Australia to govern by regulation rather than by Act of Parliament.



For the purposes of its inquiry, the C.A.I. defined regulation fairly narrowly. "Regulatory activity means actions taken by governments, whether under the authority of statute or as a result of administrative practice, which have the effect of controlling prices; entry into, or exit from, the market place; product standards and patterns of distribution and other significant aspects of economic activity in the market place."<sup>13</sup> On the basis of this definition, the C.A.I. identified thirty-one regulatory activities at Federal level, not counting those which apply to the A.C.T. specifically.<sup>14</sup> Carefully noting that it had faced difficulties in obtaining data and hence that it had made several arbitrary assumptions in regard to particular activities, the C.A.I. estimated the total cost of maintaining the specified activities at \$304 million in 1978-79, or about 1% of total budget outlay. The major components were the costs of activities within the domains of the Minister of Business and Consumer Affairs (41%), the Treasurer (23%) and the Minister for Primary

Industry (17%).<sup>15</sup> The preponderance of the domain of the Minister of Business and Consumer Affairs was associated with its including the Industries Assistance Commission, the Prices Justification Tribunal and the Trade Practices Commission. The Treasurer's domain notably includes the Foreign Investment Review Board and the Australian Bureau of Statistics, some part of which was seen to be regulatory in function.

As part of its inquiry, the C.A.I. conducted a survey of eighty firms which elicited usable responses from thirty-three firms together employing 130,000 persons. On the basis of the results of the survey, the Confederation suggested that the direct cost to all firms in Australia of their complying with the specified regulations could have been as much as \$702 million in 1978-79. It also reported that the respondents to its survey incurred direct costs in complying with State government regulations that were over twice as great as those incurred in complying with the Federal regulations.<sup>16</sup> Finally, it reported that firms also incur substantial indirect costs of compliance arising from such things as delays. The C.A.I. clearly regards these costs as excessive, although it goes to some pains to assure readers of the report that it is not judging any forms of regulation.

#### The Australian Industries Development Association

The Australian Industries Development Association has adopted a broader stance in regard to regulation or intervention by the state, and one that is quite sophisticated. From time to time, A.I.D.A. has paid lip-service to the idea of a generalised reduction of intervention.<sup>17</sup> Its real concern has been, instead, to bring about reductions in particular interventions while ensuring that others are maintained and new forms of intervention are effected as they are required by the manufacturing sector in general. The A.I.D.A. has described as qualifying for "the prize for worthless evangelical statements" that statement within the White Paper on Manufacturing Industry which reads "the government's role does not extend to the direction of business decisions affecting the allocation of resources". It has further said of that statement that it "either imputes a most dictatorial interpretation to the word 'direction' or else it is the product of the grandest of delusions".<sup>18</sup> A.I.D.A.'s own view of the Federal government's role is clearly that it should regulate but "against the background of a thought-out scenario for the future".<sup>19</sup> In 1977, it did not believe that the Federal government had any such scenario: it was particularly scathing about the government's failure to be able to identify what manufacturing industries are likely to be efficient and internationally competitive in the future and "what changes in the structure of industry ... are required if the country's resources and skills are to be used to best advantage".<sup>20</sup> In 1980, in its review of the Federal government's statements about "the resources boom", it was no more sanguine when it described as complacent the alleged view within the public service that "industry needs no attention" and as simplistic the view ascribed to "elements in Government" that "all sectors of the economy will equally benefit from the success of the resource-based sectors".<sup>21</sup>

There are some forms of state intervention which A.I.D.A. has been particularly anxious to see maintained. The foremost is the tariff. A.I.D.A. and Dr Neville Norman, its some-time employee, have been careful to state that they do not wish to perpetuate tariff protection for wholly inefficient industries which do not, at the same time, provide some benefit for the economy as a whole, that they do not wish to see tariffs granted to "all who choose to produce" - no matter what, and that they do wish to see tariffs reviewed but in an "integrated" and not in an "end-on" manner.<sup>22</sup> But they do wish to see tariffs maintained. Their case refers to the inability of the Industries Assistance Commission to identify new "low-cost" industries that might replace those presently protected to a substantial degree and difficulties that would arise for particular regions and particular groups of

workers should tariffs be significantly lowered. It also refers to some evidence that not all protection potentially afforded by tariffs is actually used.<sup>23</sup> In effect, A.I.D.A. wishes to see existing tariff protection maintained until the Federal government intervenes positively in the re-structuring of the manufacturing sector, so that firms have sufficient reserves to make the appropriate moves when the time comes.

The Industries Assistance Commission has earned the ire of A.I.D.A. by consistently putting the opposing case, especially on the grounds that many existing export industries are subject to the disadvantage that Australian production of many of the inputs they require is protected by tariffs.<sup>24</sup> The point is often made by representatives of the industries concerned.

It is probably the state's intervention by way of the Industries Assistance Commission that A.I.D.A. has disliked most during recent years; but there are other forms of regulation which it has sought to have reduced. Its support for the Prices Justification Tribunal during the mid-1970s was confined to agreeing that the Tribunal might then have been a necessary concession to unions as they faced the Fraser government's moves to cut real wages.<sup>25</sup>

It generally endorsed the emasculation of the Tribunal from late 1974 and complained of inconsistencies between the Tribunal and other instrumentalities, the Trade Practices Commission in particular. The attitude of A.I.D.A. to the Trade Practices Commission itself has been hostile ever since the Trade Practices Bill of 1973, under which the Commission was set up, was first proposed. A.I.D.A. has also recently called for reduced social security payments on the largely unsubstantiated grounds that, during the 1970s, welfare was extended to the "well-off".<sup>26</sup> Presumably the savings on social security payments would help to finance the maintenance of export incentives, the state's encouragement of technological innovation and of small businesses, and increases in depreciation allowances, all of which A.I.D.A. strongly supports.

It may be objected that too much attention has been given to date to the views of manufacturers and too little to the positions of other fractions of capital, mining capital in particular. Mining is coming to be seen as potentially the base for the future growth of the Australian economy; but the appropriate structural transformation is not at all obvious. Whatever the appropriate structural transformation, it is likely to be seen to involve substantial intervention by the state. Fractions of capital other than mining capital must leave open the possibility of substantial regulation, by way of taxation provisions, the Foreign Investment Review Board, particular acts of State parliaments, etc. There may be conflict over specific forms of regulation. Mining capital for its part, however, is no less committed in principle to intervention by the state. C.R.A.'s voluminous submission to the I.A.C. in 1975,<sup>27</sup> for example, while expressing reservations about the then-existing foreign investment guidelines, environmental regulations and export controls, sought concessions in respect of income tax assessment, the provision of infrastructure by the state and the investigation of subsidies for transport costs within Australia.

#### THE DECISIONS OF THE "RAZOR GANG"

It is against this background of various calls for selective de-regulation that the Federal Government itself has put the Ministerial Statement on the Review of Commonwealth Functions, delivered to the Federal Parliament by Prime Minister Fraser on April 30th, 1981.<sup>28</sup> This is the report of the ministerial committee chaired by Sir Philip Lynch and otherwise known as the Razor Gang. The committee's

recommendations - and the government's decisions - are listed under four categories involving (i) the transfer of functions to the private sector, (ii) government regulation and assistance schemes, (iii) the transfer of functions to the states, and (iv) the rationalisation of Commonwealth government activities. This paper will deal only very cursorily with the last category but will then consider, in some detail, categories (ii), and (i) and (iii), in that order.

### Rationalisation of Commonwealth Government Activities

The "rationalisation" of Commonwealth government activities involves some immediate steps and a number of reviews of activities. The immediate steps include inter alia, the postponement of certain major capital works, reductions in funds available to departments and authorities, the termination of Mandata (the computerised staff management system), the termination of many advising committees, changes in the procedures of the Department of Social Security and the Commonwealth Employment Service, the re-allocation of the Australian Atomic Energy Commission's research establishment to the C.S.I.R.O., and the abolition of the Commonwealth Legal Aid Commission. The contribution which these moves were thought likely to make to a total reduction of over ten thousand persons employed by the Commonwealth was not stated; but whatever it was, it will have been diminished by the recent revolt within the Department of Social Security.<sup>29</sup>

### Government Regulation and Assistance Schemes

The reductions in the Commonwealth's regulatory activities must please the Australian Industries Development Association and the Confederation of Australian Industry. The Prices Justification Tribunal has been abolished: presumably the need for justification of decisions by large corporations to increase their prices has passed. Another body has been created, though, to administer the Federal Government's policies in regard to the pricing of petroleum products.<sup>30</sup> The activities of the Trade Practices Commission and of the Trade Practices Division of the Department of Business and Consumer Affairs are to be reduced, among them the investigation of complaints and the monitoring of safety standards. Ostensibly the activities which are to be reduced are undertaken by instrumentalities of some state governments. The staffing of the Industries Assistance Commission is to be reduced, although this may only amount to some rationalisation given the existence of a corresponding division in the Department of Business and Consumer Affairs. Twenty-seven collections of statistics by the A.B.S. have been terminated, although it would be surprising if some industries were not soon to argue that some of them should be re-established (for example, production of minerals and mineral products).

Some moves will not please A.I.D.A. Investment and special depreciation allowances are to be reduced minimally (by 10%), as are the rate at which allowable capital expenditure incurred in the development of a mine or oil field can be deducted from assessable income and the rebate available to holders of shares in petroleum companies. The fate of the Export Expansion Grants Scheme is subject to review. Certain forms of assistance for research and development and for productivity improvement are to be reduced.

Although it is difficult to locate the C.A.I.'s sources of regulation within the Lynch Committee's tables of functions by department, it seems likely that the Committee made no recommendations in regard to somewhat less than half of the C.A.I.'s list. This statement excludes regulations pertinent only to the Australian Capital Territory. Of the rest, many sources of regulation are affected in some measure and some are to be subject to review in the near future. It is likely to be true, as Lynch claimed in advance of the publication of the report,<sup>31</sup> that the costs of compliance with Federal regulations will be reduced. But what must be borne in

mind in considering the comparison between the report's recommendations and the C.A.I.'s sources of regulation is that some regulatory activities are simply to be transferred to the States and, anyway, that the C.A.I. defined regulation very narrowly.

There are substantial forms of intervention by the State which are left unaffected by the Razor Gang's recommendations. Reducing the activities of the I.A.C. only leaves the tariff itself more secure; and quota arrangements are not mentioned. The de-regulation of domestic airlines mooted before the report was published was quickly torpedoed by Sir Peter Abeles himself. The Federal government's major intervention in the pricing of petroleum products may become more mysterious but is sure to persist: even the U.S. Administration is reported to be having disturbing second thoughts about its de-regulation of the oil industry.<sup>32</sup> Licensing arrangements such as for car rental at airports remain intact. The subsidisation of interest payments by the Australian Wheat Board is to be reduced but not abolished. The Federal government is likely to adopt some of the recommendations of the Campbell inquiry for de-regulation of the capital market, subject to the Treasury requirements for the safeguarding of its borrowing programme; but a new regulatory agency, the National Companies and Securities Commission, is about to come into operation.<sup>33</sup> Most major forms of assistance to industries remain intact, although the "user-pays" principle is to be adopted for some services previously provided free of charge.<sup>34</sup>

#### The Transfer of Functions to the Private Sector

Eleven sets of Commonwealth assets were to be sold to the private sector. These include surplus land, property and storeholdings, four small enterprises within the A.C.T., the Bendigo Ordnance Factory and the Australian Government Clothing factory which have already been advertised, the Wool Testing Authority, domestic airline terminals, the Housing Loans Insurance Corporation and the Experimental Building Station. It is not at all sure that, regardless of union threats, there will be any bids for the ordnance and clothing factories; the Wool Testing Authority is now not to be sold, as a result of pressure by the wool industry; and the only likely contenders for the airline terminals are the domestic airlines themselves, which may have to be persuaded to do their duty. Additionally, parts of Telecom and Australia Post are to be sold or abolished,<sup>36</sup> and several "business authorities", such as Commonwealth Accommodation and Catering Services Ltd, will relinquish some of their activities to private contractors. However, these moves must be put into context.

As of May 5th, 1980, there were 39 separate, national, incorporated "business authorities" owned by the Commonwealth.<sup>37</sup> This total does not include 39 subsidiaries of several of the authorities and those authorities with jurisdiction only within the A.C.T. It does include six authorities of primary concern to aborigines. Some of the very large public enterprises overlooked by the Razor Gang include the Overseas Telecommunications Commission, the Pipeline Authority, the Commonwealth Serum Laboratories, the Australian Shipping Commission (except that the A.N.L. is to be "significantly de-regulated"), and so on. In this context, it hardly appears that the Federal government's divestiture of some enterprises significantly contributes to reducing the size of the public sector in favour of the private sector;<sup>38</sup> and whether or not any of the public enterprises involved is actually sold is unlikely to be of any interest to any fraction of capital (except for the H.L.I.C.).

#### The Transfer of Functions to the States

The decisions regarding transfers to the States involve a more interesting and complex story than do the other recommendations of the Razor Gang. The most notable transfer was of responsibility for the management of public hospitals. In effect, State governments will be required to finance a higher proportion of the costs of



public hospital treatment if they are to avoid implementing the "user-pays principle" for service provided. In education the reduction of the activities of the Schools Commission and the abolition of the Curriculum Development Centre and of support for education research are all explained on the basis of allowing the States to set their own priorities. At the same time, however, the Federal government has intervened more directly in tertiary education by way of promoting amalgamations of particular Colleges of Advanced Education, obliging Murdoch University and the University of Western Australia to collaborate, providing funds specifically for "effort" in the areas of technology and business studies, and determining that schools of engineering at two Victorian colleges and at Deakin University are to be closed.

Other transfers identified in the body of the report include urban public transport, soil conservation, adult migrant education, the Glebe Estate in Sydney, the regulation and control of nuclear activities and previous responsibilities in the areas of regional development, decentralisation, rural extension and the Ord River Irrigation scheme. Transfers mentioned only in the appendix include legal aid, the school dental scheme and translation services. Certain specific functions are to be transferred from the Commonwealth to the Northern Territory Government.

### CONCLUSION

This brief paper has not considered questions of "macro-economic" regulation. That is to say, it has not considered the so-called demise of Keynesianism and the supposed popularity of Friedman's monetarism. Nor has it considered incomes policies. The paper has instead considered the more particularistic interventions of the state.

The argument has been put that there are definite limits to the support which monopoly capital can be expected to give to a "campaign for smaller government" or de-regulation. Support may arise for one or another of six reasons: (i) dissatisfaction with the manner in which the state is fulfilling its role in the disposition of the social surplus; (ii) an awareness of the fiscal crisis of the state; (iii) a concern to curtail programmes of social welfare for fear that they will develop into an alternative to conventional employment as a means of providing acceptable incomes to a substantial part of the potential labour force; (iv) a belief that the impact of large corporations on all parties except for other large corporations can be legitimised without the aid of the state; (v) a belief that services provided by the state to monopoly capital can be provided more efficiently, and (vi) a desire to suppress the expectations of "the middle classes" as to the role of the state in meeting their needs. The limited nature of the support reflects the significance which monopoly capital attaches to regulation in principle. This is borne out, implicitly, by the very limited view which the C.A.I. took of regulation in its recent study; and it is borne out by the selectivity of the positions taken by A.I.D.A. Regulations by way of the tariff and by-law exemptions, licensing arrangements, centralised machinery for the determination of wages, the public ownership of key activities such as electricity generation, local participation in defence contracts, the underwriting of oil exploration and the development of gas fields, or the negotiation of contracts for the export of uranium are not under general attack. Nor are many other forms of state intervention. Where there is an attack it is more than likely to be mounted by a particular corporation. It is even possible that, in its desire to preserve the capacity of the state to manage the disposition of social surplus, capital would be prepared to see state expenditure rise as a proportion of G.N.P., though in selected areas.

The Fraser government is least likely to take seriously the preamble to the ministerial statement on the Review of Commonwealth Functions. For all its rhetoric,

the government is surely coming to the conclusion that it will need all of the regulation it can maintain to achieve the ghost of a chance that any resources boom will stimulate the economy in general. Yet the contradiction is that all it will ever achieve is the ghost of a chance: it has denied itself, and is continuing to deny itself - with Treasury advisers incapable of changing paradigms - the possibility of the serious planning exercise necessary to make the various and very substantial forms of state intervention consistent with each other.

If my argument in regard to an increasing need for state intervention in the disposition of the social surplus is correct, what should be the response of the left? I believe the answer is that the left should exploit the straightforward idea of contracts. The relations between the state and capital take the form of politico-economic contracts:<sup>39</sup> each particular regulation is a politico-economic contract. Contracts should be identified and carefully exposed. It is to be noted that the contracts are and have to be more or less explicitly represented as such by the state. On the basis of simple principles of law it should be possible to establish, for everyone to understand, just how much capital has failed to honour the contracts into which it has entered. I believe that, as a result, there will exist the grounds for claiming - with strong political appeal - that existing contracts should be torn up in the light of past breaches and that new contracts should include radical provisions to safeguard the interests of the bulk of the community.

#### FOOTNOTES

1. Ministerial Statement, Review of Commonwealth Functions (Canberra: A.G.P.S., 1981) p. 3,
2. Ibid., p. 3.
3. See, for example, Milton and Rose Friedman, Free to Choose (New York: Harcourt, Brace, Jovanovich, 1980).
4. The Editors, "Supply-side Economics", Monthly Review, Vol. 32, No. 10, March 1981, pp. 1-7.
5. Gavan Butler, "The State and the Disposition of the Social Surplus", J.A.P.E., No. 9, November 1980, pp. 25-33.
6. Ibid.
7. M. Crozier, S.P. Huntingdon and Joji Watanuki, The Crisis of Democracy (New York: N.Y. Uni. Press for the Trilateral Commission, 1975).
8. See, also, Sam Bowles, "Can the Trilateral Commission Make Democracy Safe for Capitalism?", J.A.P.E., No. 2, June 1978, p. 69.
9. Information on the C.A.I. has been drawn from Bob Carr, "Looking for Mr (sic) Business", Australian Business, 16 July 1981.
10. See Terry O'Shaughnessy, "Conflicts in the Ruling Class", Intervention, 10/11, pp. 40-57.
11. Confederation of Australian Industry, Government Regulation in Australia, Paper 1, Canberra, July 1980. In the case of a large corporation cited by the Confederation of Australian Industry, it was reported that regulatory agencies covering "consumer affairs, health and the environment" had "the major impact on the company's operations". The Confederation of Australian Industry also published its estimates of numbers of regulatory agencies and costs of compliance. Thirty-nine respondents to a survey it conducted, employing 130,000 persons,

reported a direct cost of \$18m. in complying with Federal business regulation in 1978-79 and a direct cost of complying with regulation by the States of \$43.6m. Respondents reported having to deal with between 9 and 19 Federal regulation agencies. No figures are available by size of firm, however (pp. 6-7, 73).

12. Ibid., p. 49.
13. Ibid., p. 27.
14. See Appendix.
15. Ibid., Table 10, p. 63.
16. Ibid., pp. 6-7.
17. For example, in its commentary on the White Paper on Manufacturing Industry; A.I.D.A. Bulletin, No. 287, July 1977.
18. Ibid., p. 4.
19. Ibid., p. 3.
20. Commonwealth of Australia, White Paper on Manufacturing Industry (Canberra: A.G.P.S., 1976) p. 5.
21. A.I.D.A. Bulletin, No. 319, June 1980.
22. A.I.D.A., Protection in Perspective (Melbourne: A.I.D.A., 1977) pp. 53-63.
23. Ibid., p. 55.
24. However, as the I.A.C. has stated, exporters can employ duty drawback provisions or negotiate lower prices with domestic producers to avoid the impact of such tariffs. See Industries Assistance Commission, Annual Report 1978-79 (Canberra: A.G.P.S., 1979) p. 4.
25. See, for example, Neville R. Norman, The Prices Justification Tribunal: Stage Two (Melbourne: A.I.D.A., 1976). John Nieuwenhuysen's study of the P.J.T. also concluded with the remark that the attitude of unions "to wage bargaining and the evolution of a social contract" was "the reason most widely proffered at present for the continuance of the tribunal". John Nieuwenhuysen, The Australian Prices Justification Tribunal (Melbourne: M.U.P., 1977) p. 211.
26. A.I.D.A. Bulletin, No. 327, March 1981.
27. Conzinc Riotinto of Australia Limited, Submission to the Industries Assistance Commission on Petroleum and Mining Industries Inquiry, May 1975 and Supplementary Submission, November 1975.
28. Op. cit.
29. See Julie Flynn, "Social security bans begin to take a \$8 million bite", National Times, June 28-July 4, p. 6 and Michael Jacobs, "Paper war breaks out over health charges", A.F.R., July 6 1981.
30. Warwick Richards has warned, however, that the Petroleum Products Pricing Authority may have neither sufficient resources nor directions to be effective. Warwick Richards, "Oil Pricing in Australia", June 1981, unpublished.
31. Greg Hywood, "Razor Gang's impact on business", A.F.R., March 30 1981.
32. See Rich Jaroslovsky, "Will regulation return to the U.S. oil industry?", A.F.R., April 9 1981.
33. The chairman of the National Companies and Securities Commission recently made it clear that the Commission would be a serious regulatory agency concentrating on corporate accountability and the protection of investors. See Paul Malone,

"Securities Commission head sketches guidelines", A.F.R., June 3 1981.

34. Total industry assistance was estimated to be \$824.6 m. during 1980-81, of which \$200 m. was to be attributable to export expansion grants. (See Commonwealth of Australia, Budget Speech 1980-81.) This figure does not include assistance by way of tax concessions which, in 1978-79, amounted to something in excess of \$766 m. (See Commonwealth of Australia, Budget Speech 1979-80.)
35. See Tom Connors, "Razor Gang backs down on wool testing authority", A.F.R., May 15 1981.
36. Ali Cromie, "Sinclair tips Telecom sell-off", A.F.R., June 30 1981
37. Parliament of the Commonwealth of Australia, Senate Standing Committee on Finance and Government Operations, Statutory Authorities of the Commonwealth, 4th Report, May 1980, Parliamentary Paper No. 107/1980.
38. On the other hand, the Federal Government's failure to take up 100% of the ownership of the domestic satellite, in conjunction with the formation of a second, common telecommunications carrier in the private sector does make a significant contribution.

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## APPENDIX

### ADMINISTRATIVE SERVICES

- \* Inquiry into the Pharmaceutical Manufacturing Industry

### BUSINESS AND CONSUMER AFFAIRS

- \* The Department itself; Industries Assistance Commission; Prices Justification Tribunal; Textiles, Clothing and Footwear Special Quotas Advisory Committee; Trade Practices Commission; Companies Auditors Board of the A.C.T.

### CAPITAL TERRITORY

- \* Numerous committees, boards, commissioners and authorities whose functions are to regulate market activity in the A.C.T. (for example Trading Hours Inspectors, the A.C.T. Milk Authority)

### EMPLOYMENT AND YOUTH AFFAIRS

- \* National Committee on Discrimination in Employment and Occupation

### HEALTH

- \* Parts of the Therapeutics, Medical Services, New South Wales, Victoria and Tasmania Divisions; together with part of the National Biological Standards Laboratory

### HOME AFFAIRS

- \* Australian Heritage Commission (part)

### INDUSTRIAL RELATIONS

- \* Industrial Relations Bureau; Office of the Industrial Registrar

### INDUSTRY AND COMMERCE

- \* Textiles, Clothing and Footwear Review Committee

## POSTS AND TELECOMMUNICATIONS

- \* Radio Frequency Management Division of the Department; Australian Broadcasting Tribunal

## PRIMARY INDUSTRY

- \* Several regulatory bodies in the primary industry areas; Bureau of Animal Health and Export Inspection

## PRIME MINISTER AND CABINET

- \* Public Service Board (part)

## PRODUCTIVITY

- \* Patents, Trade Marks and Design Office; Board of Examiners of Patent Attorneys

## SCIENCE AND THE ENVIRONMENT

- \* The Environment Division of the Department; Supervision Scientist for the Alligator Rivers; National Standards Commission

## TRADE AND RESOURCES

- \* Those elements in Commodities Divisions 1 and 2, and the Uranium Division, which administer export controls

## TRANSPORT

- \* Australian Motor Vehicle Certification Board; parts of the Department itself

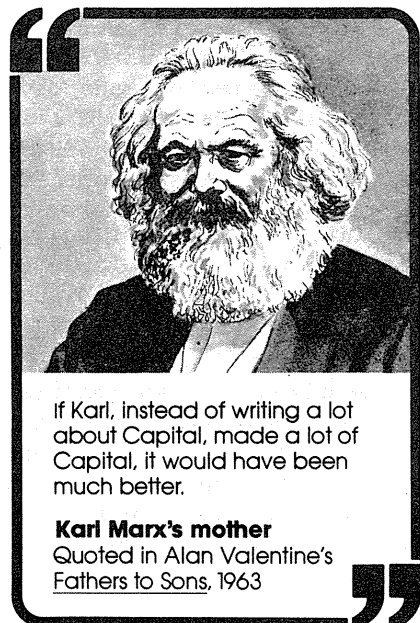
## TREASURY

- \* Foreign Investment Review Board; Offices of the Insurance Commissioner and the Life Insurance Commissioner; Australian Bureau of Statistics (part); Reserve Bank of Australia (part)

## REGULATORY COURTS AND TRIBUNALS

- \* Administrative Appeals Tribunal

Source: Confederation of Australian Industry, Government Regulation in Australia, Paper 1, Canberra, July 1980, pp. 58-60.



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