

## Strong Government

*John Hyde*

Ideas come in waves. I was challenged twice last week by calls for stronger government. Both were made by professors of economics and both drew a careful distinction between strong government and big or active government. Each identified strength with the ability to resist the blandishments of vested interests (rent-seekers). One's strong government would "enforce rights of property and contract; guarantee free and secure movement and exchange over large areas; provide the personal security that makes long-term investment worthwhile; and much else". The other's strong government would maintain private property rights, uphold contracts, stabilise the currency, open the economy to international competition, and maintain a stable, rule-of-law, policy framework.

Both drew on the experience of the rapid-growth economies to our north---Japan, Taiwan, South Korea, Hong Kong and Singapore. Both emphasised that, in these economies, the effect of government intervention of the allocative kind---trade quotas, tariffs, subsidised loans etc---had, when compared with Australia, been minimal, but that strong government had nonetheless been crucial to their success. To pre-empt an objection: Japan's MITI (Ministry for International Trade and Industry) had often been ignored and where its advice had been followed, as in agriculture, it had produced the to-be-expected stuff-up.

Each professor was concerned to identify the role of government in an economy that produces growth. Both had quite a bit to say about ethics. Professor Garnaut, now a professor of economics at the Australian National University and author of the Garnaut Report, reminded us in his Shann Memorial Lecture that Adam Smith was well aware of the political, moral and ideological basis of the market economy. It is we who sometimes forget it.

Smith knew that people have incentives to break the rules of the market---to corrupt the legal basis of market exchanges, to collude in anti-competitive ways, and to misrepresent the nature of assets which are subject to contracts. I am constrained by libel law, as Garnaut would have been, from identifying specific Australian examples, but we should remember the recent behaviour of some unions, of

Telecom, and of some of our paper entrepreneurs. Some people, whom a stronger government might have gaoled, have actually been lionised by governments.

Garnaut says, "Enforcement costs of market-conforming behaviour are extremely high unless the operators of the state, and powerful participants in the markets, operate within an ideology that values market-conforming behaviour as a virtue". He draws our attention to theories linking economic growth to North Atlantic Protestantism and neo-Confucian ideology, but asserts that there is, after all, hope for the rest of us---it is not who we are, but how we and particularly our governments behave, that matters.

Then he goes to the nub of our difficulties: "...the declining moral legacy of the West has created problems for the continuation of capitalist development. The weakening ideological support for self-restraint in maintaining the rules of the marketplace has required more explicit, extensive and expensive enforcement of the rules by a strong state....In the eighteenth the century, laissez faire, laissez passer alluded partly to the demand for a strong central state to enforce freedom of movement and contract against the local powers and other interests".

Professor Kasper is Professor of Economics at the Australian Defence Force Academy. His paper, yet to be presented to the Egon Sohmen Foundation in Germany, gets to the same point by a somewhat different route, namely, that of the Freiburg School or 'ordo-liberalism' (which he says in East Asia might well be called 'ordo-confucianism'). The ideas of ordo-liberalism had first been employed to explain the post-war German economic miracle, and are still little known outside Germany. The post-war, West German government under Adenauer, far from doing nothing, did the important things extremely well. Amid the occupying armies, it maintained a civil order that upheld private property, contracts, liability, and free entry and exit from markets. It kept inflation close to zero and it did not keep changing its mind.

The Freiburg school, like Smith, but unlike advocates of more radical laissez-faire, sees the state as responsible for the economy's legal-institutional framework, although not for the economic process itself. It expects the state to provide law courts, a stable unit of currency and perhaps even a trade practices commission, but never tariffs, occupational licences or government monopoly services. For instance, the state may facilitate exchange by, say, defining an ill-defined property right (such as is the case with some fish), but it should never interfere with prices.

Professor Kasper, like Professor Garnaut and Adam Smith, also draws our attention to the moral bases of the market's institutions and its processes.

Radical laissez-faire and socialism both also claim to be founded in morality. One has, however, never been tried; and the least criticism that can be made of the other is that it

has failed dismally after being associated with murderously immoral behaviour on the part of those who claimed power in its name. Radical laissez-faire is attractive in theory---fun to argue about at a dinner party---but it has little immediate relevance to a world in which governments issue money, employ police, enforce thousands of laws governing human interaction etc. If there is such a thing as a practical libertarian, even he must first encourage his government to get those institutions which are the key to the current order right. And, second, he must encourage it to display some guts when dealing with rent-seekers. At least temporarily, our practical libertarian must be an ordo-liberal.

Garnaut emphasises that we should not slavishly follow any other country, but he plainly believes that we can learn from some. The institutions, the legal and the moral restraints that in turn support free exchange (a market) are the only practical places to start reforming our economy. And we should make it plain to our several governments that we expect them to be strong, especially when tempted.

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