...on the role of government in Australia. Last December the Reserve Bank governor Bernie Fraser called for a new statement of government philosophy along the lines of the 1945 White Paper Full Employment in Australia. This would set the terms of the debate in the era after the economic liberal ascendancy. In the interests of agenda-setting, we decided to take up Bernie Fraser's offer. So here's ALR's White Paper for government in the 90s.
As Labor distenanges itself from the 80s small government vogue, it needs a new model of good government to replace it. DAVID BURCHELL suggests that history offers some ideas.

At the height of the 80s boom and its attendant excesses, it became fashionable to talk as if government was in itself a bad thing, and that the less of it we had the better. The dead hand of government was stifling productivity, keeping the labour market unnecessarily rigid, and locking up potentially profitable industries in the hands of inefficient government monopolies. What could government do well? Well, it could be good at withdrawing from things it had done in the past.

However, over the last several years the tide towards minimal government intervention in the affairs of business has clearly come to a halt, and it may now even be going into reverse. First John Major in Britain, and now more decisively Bill Clinton in the US, have tried to articulate a new role for the government in the economy, from Major's tentative embrace of Germany's 'social market' concept to Clinton's more robust appreciation of the role of government in 'the work of nations'. And now, in one of the most spectacular turnarounds in Australian political history, even John Hewson has come to discover the necessity of some level of 'government intervention' in Fightback Mark II. The stage seems set for the Labor government to discover, or rediscover, a 'proper role for government', as Bemie Fraser puts it, as the centrepiece of its new agenda as it campaigns for its fifth term. In this at least the tide is running its way.

But how is such a model to be defined, and what are its historical roots?

Clearly, the time has come for a new, or renewed, model of government, one which can provide the general philosophical foundation for a more realistic approach to policymaking in the coming decade. This does not mean a return to some of the fantasies of the Left about a commanding role for the state in economy and society, whether along the lines of the old Soviet-style planning or of the much more nebulous radicalism of the 'new' Left of the 70s and after. Rather, it means a new understanding of the idea of government itself as an activity, one which cannot reasonably hope to shape society along the lines of Left fantasies, but which on the other hand is necessary to the functioning of society, contrary to the myths of the minimal government vogue.

Why did the minimal government model come unstuck? One reason is that the model was hampered by a lack of historical memory. For the simple if neglected fact is that there has never been a time when serious analysts of capitalism believed that it could govern itself without outside intervention. Not even Adam Smith himself, supposedly the figurehead of the minimal government vogue, believed that. Instead the history of the last three centuries of thinking about capitalism suggests that the crucial question has always been how to govern capitalism, and how to govern it well.

The debate really goes back to the 15th century political theorist Niccolo Machiavelli, the author of the classic The Prince. According to the French historian Michel Foucault, Machiavelli aimed to define an 'art of government'—a way of understanding the activity of government which could generate a model for the practice of government—appropriate to the modern, post-Medieval era. The particular system he arrived at was and has remained notorious for its ruthless advocacy of the rights of the prince to establish and maintain his sovereignty. More important than his system, however, were the debates he set off among political thinkers over the succeeding two centuries concerning the appropriate relationship between citizens and the sovereign in a modern secular state, and more particularly the most appropriate means of governing such a state.

One of these debates, concerning what its contemporaries called 'civic republicanism', harked back to the political language of active citizenship of ancient Greece and Rome. But the problem it pointed to was new, and was specifically concerned with the new developing market forces of an emergent capitalism. How, the civic republicans asked, could the emergence of what they called 'commercial society' be reconciled with the ideal of an active and public-spirited citizenship drawn from the ancient world?

The classic model of civic republicanism relied for its success upon a social and economic organisation of affairs—the diffusion of small-scale property-holding among what Thomas Jefferson was to call 'yeoman farmers'—which allowed citizens to behave in an active, public-spirited manner. Medi-
eval Europe had clearly not been the kind of society to encourage the civic republican ideal. But neither, it appeared, did the emerging forces of capitalism tend to encourage it. The civic republican ideal lauded 'virtue' over 'corruption' and the public over the private interest. Clearly the emerging forces of 'commercial society' tended to promote private interest over public interest. They also appeared to undermine the ethic of simplicity and austerity on which the civic republican model relied, replacing it with a lust for 'opulence' and 'luxury'. How, the civic humanists wondered, could the forces of private interest and individual self-aggrandisement unleashed by 'commercial society' be reconciled with a harmonious and equitable political order based upon a community of free citizens?

This was the dilemma to which Adam Smith and the economic liberals of the 18th century responded with their well-known vision of the 'hidden hand'—a force which provided a coincidence between private interest and public virtue. Smith was confronting two distinct problems. On the one hand he had to respond to the charge of the civic humanists that the forces of individual self-interest in 'commercial society' tended to undermine civic virtue and encourage corruption. Smith responded to this charge by arguing that, properly governed, a commercial society could be virtuous—because, among other things, commerce encouraged sobriety and thrift.

On the other hand Smith was concerned to defend what he and his contemporaries called 'civil society' against the encroachments of the state. In Continental Europe since the 16th century the 'absolutist' monarchs had claimed the right of the sovereign to determine all aspects of policy in the interest of strengthening the power of the state. In this doctrine of raison d'etat or 'reason of state' the economy and society were transparent to the sovereign, who could manipulate them at will by judicious use of policy. Smith denied that the economy or society were transparent to policy, or that policies aimed at strengthening the economic power of the state were likely to achieve their aims. Rather, he argued, the economic realm was governed by laws peculiar to it, which the sovereign could never entirely understand: the 'hidden hand' was necessarily hidden.

But this was not to say that Smith's was a doctrine of minimal government. Indeed, it was Smith who described economics as 'a branch of the science of a statesman or legislator'. Rather than arguing for the absence of government, Smith was arguing for a different kind of government. Instead of trying to substitute for the 'natural' processes of the economy, Smith argued, government should try to assist the economy to function better—in Foucault's words, it needed to 'make regulations which permit natural regulations to operate'. Like the civic humanists, Smith was in fact highly mistrustful of 'private interest'. There was a 'public interest', and it was the proper end of government, but it was by no means identical to the interests of the state.

Hence Smith, like later classical economists such as John Stuart Mill, saw a social as well as economic rationale for government. While a partisan of the effects of 'commercial society' in stimulating liberty, he was severely critical of its social effects, arguing that it tended to render the working classes "as stupid and ignorant as it is possible for a human being to become... In every improved and civilised society this is the stage into which the labouring poor... must necessarily fall, unless government takes some pains to prevent it". Mill and others took Smith's social and governmental concerns much further. While supportive of the general principle of laissez-faire, Mill distinguished between 'authoritative' and non-authoritative government. The former, along the lines of the absolutist monarchies, simply prohibited and forbade the latter envisaged itself as a partner of private interests, establishing national banks alongside private banks, and public schools alongside church schools. Scorned by Karl Marx as advocating a 'shallow syncretism' between capitalism and socialism, Mill nevertheless advocated a far-reaching liberal program of social reform which anticipated the 20th century mixed economy and welfare state.

Moreover, this extended liberalism of Mill and others was paralleled by shifts in the manner of government on the European Continent. The threat of democracy after 1848, along with the breakup of the old precapitalist social ties, necessitated a 'social liberalism' concerned with reconciling the new individualist social order and the new more limited state with the expanded requirements of social citizenship. The basis for this, as the French historian of thought Jacques Dzonelot notes, was the principle of social solidarity: "a principle of governing by neither too much nor too little social bonding". This became the bedrock for the 20th century welfare state, the distinctive blend of social interventionism and economic rectitude which has dominated 20th century policymaking. And this in turn led to the modern liberal mode of governance of Keynes.

For Keynes in his day was concerned with many of the same problems of government that confronted Smith. Robert Skidelsky, in his recent biography of Keynes, cites one of Keynes' former students: "He [Keynes] tried to devise the minimum government controls which would allow free enterprise to work." Skidelsky adds: "Keynes did not deny that much of economic life was non-chaotic and self-regulating; the claim that he "substituted an economics of power and will for the self-regulatory mechanisms of civil society" is "vastly exaggerated". Like Smith, Keynes' view of government was liberal in the best classical sense; the role of govern-
In the aftermath of the economic liberal ascendancy, there is a policy vacuum in Canberra.

JOHN LANGMORE argues we need a National Commission of Inquiry into the economy to define the new principles and priorities of the 90s.

INQUIRING MINDS

Australia is at a watershed. We have two intractable economic problems which the policies of the 80s have failed to resolve—high unemployment and a high current account deficit.

As well, the policies of the 80s have increased inequity through the growth of high incomes and of the wealth and power of a relatively small proportion of the population. The quality and accessibility of community services have been reduced by cuts in government spending. And a serious aftermath of the excesses of private entrepreneurs during the 80s has been a loss of confidence in the probity, ethics and judgment of the Australian business community both here and internationally.

Yet there were also demonstrable benefits from the policies of the 80s which now provide a firm basis for refocused economic strategy. First, Australia's inflation rate of 0.7% is both the lowest in the OECD area—a fact which is not recognised by most economic analysts. Fig. 1 (provided by the Treasurer) shows general government gross debt...