ECONOMIC NOTES:

The rise of 'The New Conservatism'

by Gavan Butler

Most readers will have heard of something called "Friedmania", or the apparently manic concern of some in the ruling class to adopt the politico-economic position put by Milton Friedman. Most will also have heard it alleged that we are witnessing, in Australia and in other English-speaking countries at least, an emergence of the "new right" or a libertarian social and political philosophy. The concern of these Notes is not so much with the content of the Friedman/von Hayek position of laissez-faire or of the
libertarianism more generally but to examine briefly the curious esteem in which they seem to be held within the ruling class in several countries. For it is curious that they are so esteemed: they contain no justification of the large concentrations of economic power that characterise monopoly capitalism; indeed they are antagonistic to such concentrations of power. How, then, to account for the appeal of Friedman and his ilk?

Friedman's Position

Broadly, Friedman's position is that the state (or government) is too much involved in too many aspects of most communities. The state severely constrains each person's freedom to choose. According to Friedman, each person should have perfect freedom to choose (in regard to occupation, spending or saving, setting up an enterprise, etc.) according to his or her own interests (and not exclusively materialist interests). This sort of freedom to choose (or "economic freedom", in Friedman's words) "...is an essential requisite for political freedom. By enabling people to co-operate with one another without coercion or central direction, it reduces the area over which political power is exercised. In addition, by dispersing power, the free market provides an offset to whatever concentration of political power may arise." In the view of the Friedmans, the abolition of most of the state's intervention in modern capitalist economies would restore the people's freedom to choose, and the freedom of the market.

Friedman's position is "supported" by reasoning that is flawed, by assertions that frequently lack any justification and by "examples" from a brazenly re-written history of the past two hundred years. One of the most basic flaws in Friedman's reasoning is that it is government (or institutions, such as unions, endorsed if not supported by governments) which is most important in restricting a person's freedom to choose self-interestedly. This flaw is not particularly evident in Friedman's discussion of a worker's freedom to sell his or her labour power. Nowhere in Free to Choose is there any concession to the restrictions imposed on a person's choice by the experiences and expectations of parents and grandparents or by the person's present cultural milieu. Nowhere is there any concession to the fact that vast numbers of workers are paid so poorly in comparison with the extent of day-to-day expenditures demanded or people living within a capitalist economy that it is impossible to choose not to work full time let alone to be able to save. Nowhere is it conceded that there are restrictions on the establishment of enterprises which have nothing to do with regulation by the state. Nowhere, in other words, is there more than a whiff of a society divided into social classes or, in particular, an acknowledgement that most workers are not free to choose not to be workers. And even if there were genuine freedom of contract in labour markets, that could not be accounted as being of great importance in comparison with the worker's increasing inability to control his or her labour within the process of production.

In Free to Choose, the Friedmans cite "examples" of the prosperity that has ruled where government has been small. Taking the size of state expenditure as a measure of the role of the state, the Friedmans note that small government during the nineteenth century in the United States was associated with rapid growth in per capita income. The millions of immigrants prospered "because they were left to their own resources...The streets of New York were not paved with gold, but hard work, thrift and enterprise brought rewards that were not even imaginable in the Old World". There was a "flowering of charitable activity" at the same time, of course, but apparently such activity was a pleasant way of passing the time, rather than something that was necessary to offset the ravages of largely unconstrained capitalism. In Hong Kong at the present time, government is small; in fact, Hong Kong, according to the Friedmans, is "the modern example of free markets and limited government". Residents are free, one learns, to buy from whom they choose and to invest however they choose; and those who own the apartment buildings are free to cram in sufficient people at sufficiently high rents to be able to amortise their investments in one year. (Not that this last is cited by the Friedmans).

Perhaps the most important of the statements which Milton Friedman is wont to make without support concerns the concentration of ownership and control of the means of production. In Free to Choose, the Friedmans dispose of the problem (!) of a
concentration of ownership and control in a mere three paragraphs. The problem, in their view, is simply that of the control of prices. “But”, one learns, “let the automobile producers of the world compete with General Motors, Ford and Chrysler for the custom of the American buyer and the spectre of monopoly pricing disappears”.

Apparently the tariff - and no one particular form of government support of private capital - is the only reason for monopolies. It is really remarkable that the Friedmans can quite so cavalierly ignore all that even their colleagues in the mainstream of economics have said about the inherent tendencies towards concentration in capitalist economies. The Friedmans failure to be particularly concerned about monopolisation makes theirs a distinctly incomplete libertarianism.

Libertarianism Proper

Properly, libertarianism must repudiate the concentration of economic power in private hands. And in Australia at the Cross-roads, a libertarian tract written by several notable Australians and published recently, one finds such a repudiation. One of the nine elements of the authors’ libertarian scenario is “resolute application of anti-monopoly and restrictive trade practices legislation”. So, properly, libertarianism cannot provide a justification of modern monopoly capitalism in which the tendency of capital itself is to concentrate and centralise the control of raw materials, markets and technologies.

It seems to me that the seeming zeal with which large corporations and the daily press have adopted Milton Friedman and his position is to be explained on the one hand, by the concern of corporations themselves to prune the size of government and, on the other hand, by the happy choice of the Friedmans to remain virtually silent on the question of concentration of economic power in private hands. However, it remains to examine why it is that large corporations should want to see the size of government pruned and whether they want to see the activities of the state reduced across the board.

Capital and Smaller Government

It has been forcefully argued by Marx and by modern marxists that many of the activities of the state are to be understood as its attempts to manage the interests of capital as a whole. As even a non-marxist - an eminent American - put it recently “...capitalism needs some power (that is, the state) that can stabilise the conditions needed for innovation and competition.”

Left to themselves, large corporations are capable of competing with each other so savagely as to damage the whole fabric of a capitalist economy. Even one very large corporation is capable of undermining the financial system of a relatively small economy and of disturbing the interdependences between different branches of industry. A large corporation which has achieved a monopoly of some important raw material can, if left unrestrained, critically increase costs of production in many areas of an economy.

For individual corporations it is rational to keep wages as low as possible; yet wages must increase as productivity increases if the commodities that are produced are to be sold. There is, in fact, a host of conditions which the state attempts to assure, conditions for the accumulation of capital in general in the face of conflicts between sectors of the economy, between industries and between corporations. And beyond attempting to assure the accumulation of capital in general, the state has an important role in helping to legitimate a system of production which yields social imbalances such as failing to provide full employment while rewarding a few people very handsomely indeed. If the state is so important, though, in modern capitalist economies, why the evident concern of capital with its size?

Reacting to “The Fiscal Crisis”

It seems to me that this concern can be explained by two factors. Those factors are (i) what has come to be known as “the fiscal crisis of the state”, and (ii) a sense that the necessary functions of the state can be performed with a smaller public bureaucracy and hence with less revenue than is currently involved.

A fiscal crisis is said to develop in so far as the expenditure in which the state is expected to engage tends to outstrip the revenue which it can raise. Expenditures include those which are necessary for social
control, by means of the threat or actuality of police coercion or by means of legitimisation through the provision of welfare services, for example, and expenditures which are more directly necessary for capital accumulation such as those involved in the training of the workforce and the construction of infrastructure. Revenue may come from borrowings, from the profits of state-owned enterprises or from taxation.

Especially in circumstances of high inflation and slow economic growth, it is difficult for the state to raise more revenue. To properly support that statement would require considerable space; but it is possible to describe briefly a couple of the problems. The first concerns rates of taxation in general. There is a popular belief that rates of taxation can only go so high without dissuading private businesses from investing; and it is commonly claimed that rates of taxation at present are dissuasively high. The second problem concerns increased public borrowing from domestic sources and is sometimes known as the “crowding-out effect” of public borrowing. It is claimed that increases in public borrowing may limit the scope of private corporations to borrow funds or, alternatively, that the pressure of public borrowing may force interest rates to levels which make the cost to private corporations of borrowed funds higher than can be covered by the likely returns on their prospective investments.

Yet to cut certain expenditures is to threaten the rate of accumulation in other ways. Abandonment of public investment in ports or in adding to the capacity for electricity generation or whatever may well lead to the abandonment of private projects. To strain facilities for secondary schooling or for technical training may lead to shortages of workers with particular skills just as corporations wish to begin production for which these skills are necessary. For the state to fail to underwrite a large new development in the private sector may mean the abandonment, as well, of many investments in associated areas of the economy. Part of ‘welfare’ expenditure, on the other hand, may seem to be quite dispensable.

It might be argued that capitalists would be happy to support a campaign for ‘smaller government’ as long as the thrust of such a campaign were to reduce welfare expenditure. Capitalists might be inclined to the view that the legitimating function of the state is not directly their concern - that it is the concern, instead, of ideologues and politicians. In any case, to judge from the behaviour of many executives of corporations, they are not averse to coercion by the state when legitimization seems to be failing.

By the same token, capitalists may be expected to endorse smaller government in so far as it involves the abolition of some regulations applying to the conduct of business. There are some institutions of the state which relate to the way in which enterprises interact, and they must be maintained. Other regulations, however, concern the relations between corporations and workers, consumers and householders in the neighbourhood of their factories. They serve to keep the peace, to preserve the health of the population, and so on. Notwithstanding their importance, it may be possible for capitalists to represent such regulations as being luxuries during hard times. An easing of regulations would reduce not only some operating costs, but the administrative costs of assuring the state that regulations were being met.

Explicit concern with Australia’s fiscal crisis is becoming increasingly evident in the daily press. The Australian Financial Review editorial of February 17th, for example, put the view that the Commonwealth should “stand back” in favour of the States - that, in other words, the level of Commonwealth expenditure should be slashed (the editorial writer’s word) in favour of the states’ expenditure on infrastructure for mining and mineral processing. A recent paper by Peter Groenewegen suggests that such a shift in capital expenditure has already well and truly begun. Evan Jones has made it quite clear that “welfare” expenditure, or - more precisely - Commonwealth expenditure on the social wage, declined dramatically during the period 1976-1979.

The point is that capitalists can be expected to endorse efforts to reduce the size of government in the recognition that a fiscal crisis does indeed exist. They can be expected to do so as long as reductions in expenditure take place in areas which concern them least directly, or which concern functions of the state in respect of
which there are alternative devices. Needless to say, endorsement by the executives of the largest corporations can be expected to be cautious. If selected areas of state expenditure can be reduced sufficiently to permit reductions in rates of direct taxation, then so much the better: that is a bonus.

**Streamlining the Public Bureaucracy**

I mentioned earlier that it seems to me that there may be another reason for the support which capitalists give to efforts to reduce the size of governments. That is the level of state expenditure necessary to effect the functions of the state may be excessively high. The wages of workers in regulatory agencies constitute in part a drain on the social surplus, that part of the product of labour that might finance further capital accumulation. Now there is no reason to believe that the manner in which the labour of public servants is organised is the most efficient possible. It may well be that, for example, too many people are actually doing essentially the same thing or that decision-making is too highly centralised. It may well be that a good deal of ‘fat’ can be trimmed without jeopardising the functions of the state that are essential for capital accumulation.

I am not here supporting the Lynch “razor gang”: after all, a level of employment in the public service which may be regarded as excessive from the point of view of the functions which the state performs for capital may have been necessary to ensure that the level of unemployment in the community did not become substantially higher than it already is. Furthermore, entry into the public service in the past has itself served to legitimate capitalism in Australia (in the case of Irish-Australians in the years after Federation), and may in some measure continue to serve in this manner. But, again, if alternative means of legitimisation seem to be working or if coercion is on the agenda, capitalists may be inclined to support smaller government as a means of increasing the efficiency of the public service.

**Electoral Support for Smaller Government**

It is possible that some of the support for smaller government comes from smaller capitalists who believe that the state has materially independent power - that is, power independent of capital - and too much of it. Such a belief may stem from constant visitations by representatives of regulatory agencies, the evidence that the state determines award wages and a lack of tangible support by the state except perhaps in so far as it has implemented tariffs.

It should not be imagined, though, that support for smaller government is confined to capital. It is to be found within “the professional class” and even within the working class. Professions such as medicine and law have long maintained that regulation of the professions is best left to the professions themselves and that the professions are capable of regulating themselves. At times, the degree of self-regulation achieved has been so blatantly in the narrow interests of the professions and/or has been so inconsistent with the assumptions upon which the state’s social policies are based that the state has had to become the regulator. Such interference by the state of course engenders the enmity of any righteous medico or lawyer or dentist.

Distrust and suspicion of the state, or of much of its apparatus, is common among workers. There are regulations about how you should build a house, what you can do in your back-yard, cutting down trees, where you can take the dog for a walk, where the kids can go to school, how to set about pressing for an increase in wages, how and where to demonstrate, and on and on. And the state is patently prone to regulate the wealthy and powerful less than it regulates the mass of people. That is not to say that, at the same time, people do not seek the support of the state; they do; and they expect the state to intervene widely. But the same people remain suspicious about what interests the state ultimately serves. The same ambivalence is to be found among left organisations seeking reforms in the social policies of the state.

Some large state corporations are hardly good advertisements for ‘big government’. The State Electricity Commission of Victoria comes to mind as one large state enterprise which has ridden rough-shod over consumers, workers and its various neighbors in the Latrobe Valley. It is a major project for the left in Australia to devise models for the organisation of state
enterprises in which there is not only a substantial measure of worker control but systematic accountability to the people in general.

Traditionalism and Conservatism

It would be wrong, I think, to imagine that the reasons for the apparent rise of the 'new right' can be completely encapsulated by the drive for smaller government. In the United States there is said to be a concern among a minority of electors (remember that only 50 per cent of those eligible to vote actually voted in the last presidential election) for traditionalism, or a re-establishment of values thought to have been those of the nineteenth century or some earlier era.1 But, in some of its aspects, traditionalism is related to the campaign for smaller government.

The traditionalists can be found inveighing against legislatures which have made it easier for women to obtain abortions, which have simplified divorce proceedings, which have decriminalised homosexuality, which are considering decriminalising the possession of marijuana, etc. The traditionalists are not only claiming that such moves undermine traditional values and that traditional values should not be undermined, but implicitly, that the state has too much power. The actual decisions to liberalise abortion laws, divorce laws, and so on, are considered likely to increase the incidence of the various actions and behaviour to which the laws refer. The larger and more pervasive is the state, the more influential are such decisions likely to be; the larger and more pervasive is the state, the greater is its authority likely to be in comparison with that of the church or of "traditional" moral values. That seems to me to be the logic of those traditionalists who urge that the size of government should be reduced. And it may be sound logic. Never mind that the same people are often to be found demanding more and harsher laws.

As I write the last lines of these Notes, I read that President Reagan has just announced his intention to reduce both Federal expenditure and rates of income tax by increased expenditures and taxes at the level of the States). Even though American capital will gain immensely from increased "defence" expenditure and although welfare expenditure will undoubtedly be cut, I find it difficult to imagine that Reagan's enthusiasm will not lead to excessive cuts in those functions of the state on which large U.S. organisations depend.

FOOTNOTES

1 Friedrich von Hayek, Nobel Prize winner in economics, author of, inter alia, Road to Serfdom (Sydney; 2nd edn.: Dymock's, 1945).
2 Milton and Rose Friedman, Free to Choose: A Personal Statement (New York: Harcourt, Brace Jovanovich, 1980), pp. 2-3. A ten-part television series of the same name was put together by the Friedmans for P.B.S. in the U.S. and was shown in 1980.
3 See the Friedman's Free to Choose, op.cit.
4 Ibid, p. 36
5 Ibid, p. 34
6 Ibid p. 53
9 P.D. Groenewegen, "Fiscal Crisis of Federalism", in Alan Patience (ed.); Australian Federalism in Crisis (forthcoming).
11 Wolin, op. cit. Wolin actually argues that the Reagan presidency will be the death of traditionalism rather than its effective supporter. As he sees it, the President will appear to be a guardian of traditional values, but will actually leave his executive free to get on with modernisation without itself being concerned with the restraint which traditionalism puts on the process.