



THE UNIVERSITY
of ADELAIDE

School of Economics

Working Papers

Public Choice Theory had Negligible Effect on Australian Microeconomic Policy, 1970s to 2000s

Jonathan Pincus

Working Paper No. 2014-02
April 2014

Public Choice Theory had Negligible Effect on Australian Microeconomic Policy, 1970s to 2000s

Jonathan Pincus*

Visiting Professor, School of Economics, University of Adelaide

Jonathan.pincus@adelaide.edu.au

Forthcoming in *History of Economics Review*

Abstract. Since *The Calculus of Consent* (1962), Public Choice has had little influence on the course of public policy in Australia and, in particular, virtually none on the seismic shift from a policy regime antagonistic to competition, to one that gives conditional approval. Competition, of the attenuated Arrow-Debreu type, led ineluctably to efficiency, if and only if ‘market failures’ and ‘government failures’ were corrected. The dismantling of tariff protection illustrates how Computable General Equilibrium modelling reflected the Arrow-Debreu program. Paradoxically, Public Choice antipathy towards interest groups helped create a vast space for public regulation by (presumptively) benevolent and disinterested public servants.

1. Introduction

Since the publication of James M. Buchanan and Gordon Tullock’s *The Calculus of Consent* in 1962, Australia made an historically significant shift in public policy regimes, namely, a broad movement away from an anti-competitive towards a pro-competitive framework. The first major step was taken in the mid-1960s, but the pro-competitive program was most vigorously developed and pursued under the Hawke and Keating Labor governments, 1983–1996. The change had bi-partisan support at both the central and state government levels – in fact, state Liberal governments initiated some of the changes. Associated with this change in policy regime was a vast increase in economic regulation. I will argue that the association was not coincidental, but causal – the same economic ideas that gave intellectual support to the shift towards a regime much less antagonistic to competition, also gave intellectual support to the increase in regulation.

My interest here is in what influence the ideas of Public Choice economists had in bringing these changes about. There are two elements of the story:

1. What ideas shaped Australia’s ‘transition’ from an anti-competitive economy to a ‘liberal’ one, with a vast increase in economic regulation?
2. What role did Public Choice *ideas* play in that transition?

My contention is that ideas from the field of Public Choice have had little power or influence on Australian microeconomic policy. Practical men must have been slaves of ‘academic scribblers’ other than from the Public Choice School; or else, John Maynard Keynes underestimated the power of interests, vested or otherwise.ⁱ

Public Choice contributed little to the pro-competitive shift: by and large, its intellectual support was from the benevolent dictator school of welfare economics, which, not surprisingly, also gave support to the extension and deepening of public regulation. If Public Choice had any appreciable effect – and I am not fully convinced of that – then it was somewhat paradoxical: amongst Public Choice economists, there was a widespread antagonism to private interest groups, and this was helpful to the advocates of public regulation.

Of the thirteen subfields Mueller (2003) delineated in *Public Choice III*, I will be concerned only with a subset, specifically, those dealing with interest groups in a majoritarian system of representative, federal democracy. Public Choice economists have contributed significantly to the theory of interest group politics. Nonetheless, in their most general formulations, these ideas have long been common currency of democratic political discourse and certainly well before Mancur Olson's book of 1965, *The Logic of Collective Action*. Moreover, it is hard to show that Public Choice formulations had much influence on the nature or the timing of the change in policy regime in Australia. In particular, there is no evidence that any Public Choice economist made the case that the balance of interest group power was about to alter or, unnoticed by others, had already altered, and so the occasion was ripe for a change in the policy regime; and that this analysis was taken up and acted upon. Specifically, no Public Choice economist, as far as I know, predicted that the Labor Party's 'revival' of the Senate, through the introduction of preferential voting, would pave the way for the change in competition policy. Yet this 'change in the rules of the game' is exactly what Public Choice highlights as the cause of lasting changes in political outcomes.

It is a risky business to attempt to trace the influence of ideas on events, especially if I cannot offer a fully convincing etiology of those events. Nonetheless, I think that it is plausible to claim that economic ideas did play a role, even if only with respect to the timing of the Australian version of what happened elsewhere in the world (Brennan and Pincus 2002). However, in the Australian case the most influential economic ideas (and economists) were not from Public Choice. Rather, they were modern versions of Ricardo's theory of comparative advantage, bolstered by numerical estimates of the efficiency costs of anti-competitive legislation and regulation.

Public Choice theory has slightly altered what is covered in introductory and intermediate economics subjects in Australian universities. Up to the 1970s, economists taught welfare economics as though its sole rationale were to give advice to a benevolent public decision maker. Public Choice attempted to reframe welfare economics to take account of the interests and foibles of the politicians and public officials, and the influence of voting procedures. And indeed, a discussion of the motivation and capacity of concentrated interest groups to affect policy in their favour became common fare in elementary and intermediate economics. But for the most part, these additions to textbook coverage are presented in a chapter of their own, after much of the standard analysis has been completed – they are afterthoughts or cautions, and not an integral part of the story. Moreover, and more to my point, the Public Choice framework was barely reflected in the kinds of economic arguments put forward in support of the change in policy regime. The economic ideas that did have some influence were almost entirely framed as though they were generating policy recommendations for the benevolent dictator. However, Public Choice theory may have had some minor influence on the legislation governing the activities of public regulators.

If Public Choice theory has had any influence, it would have been through two main routes, with the first being via the concern that policy makers and policy advisers had with the re-distributional consequences of policies that were being proposed on grounds of economic efficiency.ⁱⁱ In particular, these consequences are of considerable importance when the aim of advisers was to come up with a set of changes that promised to improve the efficiency of the allocation of resources, together with offers of adjustment assistance just sufficient to ensure that those who would be harmed could not block the change. But here, Public Choice economists were not always on the side of the angels: some loudly argued against compensating those who would lose if inefficient policies were removed. Don't feed rent-seekers, they said; it only encourages them.ⁱⁱⁱ

The second possible route of influence of Public Choice ideas was in the design of regulatory institutions themselves. The standard Public Choice warning is that those running institutions and public agencies may not always have the public interest at heart. Here, Public Choice overlaps modern theories of public administration, with their emphasis on separating the rule maker from the rule enforcer, and both from the monitor of the foregoing; and with the literature on the role of mechanisms for appeal or review. My impression is that the literature on public administration had more influence, than did Public Choice, on the actual design of, say, the Australian Consumer and Competition Commission or the energy market regulators.

If someone comes to write a comprehensive history of Public Choice in Australia, the list of Australian contributors will be small; but in that list, Geoffrey Brennan will loom large, especially in view of *The Power to Tax* (1983) and *The Reason of Rules* (1985), both with James M. Buchanan. My own connection began in a

grand but rundown Commonwealth government office in Canberra, which I shared with Geoff in the mid-1970s. Geoff had been engaged in a commission of inquiry into the tax system, and he was seized of the idea that became the core of his first book with Buchanan. Soon he was off to the Public Choice Centre, then at Virginia Polytechnic Institute and State University (VPI) in Blacksburg, which institution I also visited, as did Michael Brooks, Kwang Ng, Ross Parish, Sue Richardson, Cliff Walsh, and others later. Meanwhile, Richard Cornes and Todd Sadler, both with Australian connections, contributed a fine book on the theory of clubs (1996). Empirical studies of trade protection in the Public Choice tradition were published by me (1975), Kym Anderson (1978) and John Conybeare (1984). Ted Sieper's *Rationalising Rustic Regulation* (1982) focused a coruscating light, using a Public Choice lens. And a general skepticism about government, common in Public Choice, gave some impetus to the Centre for Independent Studies and other 'liberal think tanks'. But my inquiry here is not confined to Australian citizens or residents in Public Choice. I am interested in the influence of the ideas, whoever generated them.

Maybe it is unfair, even pointless to ask if ideas from Public Choice influenced a switch in policy regime, given that some in Public Choice believe that, without constitutional or similar changes, what we observe in ordinary politics are mere epiphenomena; and so they prefer to keep their engagement attenuated and distant. There is a division of labour, they may well say, and Public Choice economists specialize in understanding the world, not changing it. Most do not respond to the invitation, issued by Gordon Tullock at VPI, to 'Do well, by doing good' (Tullock 1968). Nonetheless, I assume that some Public Choice economists hoped that Keynes was right and, specifically, that Public Choice theory may have power over practical men.

To recapitulate, I am interested in what I claim are two 'big facts' about Australian public policy over the last fifty or sixty years: that it was only in the 1960s that competition came to be regarded as a socially beneficial arrangement in Australia (Pincus 2009); and that, following the removal of many restrictions on competition, there has been a vast increase in the public regulation of markets and of private behaviour generally.^{iv}

While recognising that there was no significant Australian exceptionalism, I will give partial explanations of these, with more emphasis on ordinary economic theory and modelling than on Public Choice. Later, I will try to reconcile the two 'big facts', while arguing that the arrival of Public Choice was not unambiguously good for the cause of liberty in Australia. In particular, the Public Choice criticism of interest groups, for their allegedly malign role in public policy, gave unconscious support to the vast increase in public regulation of private behaviour.

2. The 'Bad Old Days' Come to an End

Suspicion of competition dominated Australian policy making and thinking for the first five or six decades of the twentieth century. The national strategy for economic development was surrounded by and nurtured an anti-competitive ethos:

- Competition from imports was to be regretted and was controlled by a made-to-measure system of tariffs;
- Competition from non-European immigrants was restricted through racist laws;
- Wage competition among Australian employers and workers was regulated;
- Major public enterprises were given monopoly status;
- Competition of motor transport against state railways was restricted.
- Private oligopolies and monopolies were encouraged;
- The Australian Industries Preservation Act of 1906 (Federal) attempted to prevent the takeover of Australian enterprises by foreigners, especially non-British ones; and so on.

All this was based on the belief that it was imprudent to rely heavily on vigorous private competition to achieve socially desirable outcomes of higher living standards and rapid economic development (including rapid population growth). Instead, competition was typically regarded as a transitional stage leading to the

creation of monopolies by private action or by nationalisation, or as properly confined to arenas where it would do no great harm.

A classic expression is to be found in the 1912-13 High Court judgment in the appeal on the *Coal Vend* case:

Cut-throat competition is not now regarded by a large portion of mankind as necessarily beneficial to the public . . . [T]he intention of the parties was to put the Newcastle [New South Wales] coal trade on a satisfactory basis, which would enable them to pay adequate wages to their men and sell their coal at a price remunerative to themselves. (cited in French 1994: 94)

The change in attitude from the 1960s helped lead to the introduction of the first effective Australian legislation against restrictive trade practices in the mid-1960s, more than seventy years after the Sherman Antitrust Act in the United States. The change in elite attitudes in Australia led to lower tariffs and freer trade from the 1960s and 1970s; to de-regulation of banking and of the exchange rate in the 1980s; to the removal of many artificial public monopolies or, at least, making them compete on a level playing field with private firms; and even led the Hawke and Keating governments to some deregulation of labour markets in the late 1980s and early 1990s (Brennan and Pincus 2002).

A nice contrast to the earlier quote from the *Coal Vend* case, is the High Court (1989) in *Queensland Wire* case, where Mason and Wilson JJ wrote:

But the object of s. 46 [of the Trade Practices Act] is to protect the interests of consumers, the operation of the section being predicated on the assumption that competition is a means to that end. Competition by its very nature is deliberate and ruthless. Competitors jockey for sales, the more effective competitors injuring the less effective by taking sales away. Competitors almost always try to 'injure' each other in this way. This competition has never been a tort ... and these injuries are the inevitable consequences of the competition s. 46 is designed to foster. (High Court of Australia 1989: par. 24)

For the first half of the twentieth century, politicians legislated higher and higher rates of protection against imports, using tariffs and quotas; for the second half, they legislated lower and lower rates of import protection, as well as partly dismantling the whole structure of anti-competitive arrangements in banking and finance, public utilities, the professions and occupations. What changed? In particular, what role did Public Choice play?

3. Some Elements of Public Choice Theory: Interest Groups

I vividly recall a speech given by Peter Costello, then the Commonwealth Treasurer, on the occasion of the thirty birthday of the Australian Productivity Commission, which had evolved from the protectionist Tariff Board, into a body advising on how to enhance economic efficiency over a wide economic and social field. Mr Costello reminded the audience that it was not the economists in government and universities who made changes in government policy, but politicians. Politicians, he implied, were the real heroes of the tale of the movement towards freer trade.

So what explains changes in economic policy? This is where Public Choice comes in. A central aim of Public Choice economics is to understand how public sector decisions are made; or, more generally, to understand non-market decision-making by applying the ordinary tools and assumptions of the economist.

Public Choice economists do not assume that policy makers and bureaucrats are benevolent and lack all self-interest. Most commonly, Public Choice economists assume that the motivations of individuals in the private sphere of life were the same as those of individuals in the public sphere; although, starting not later than David Hume, many suggested that there were features of public life that brought out the worst of people; and that those who went into public life were not necessarily the best people.

Early intimations of the interest groups theory of Public Choice are found in the 1908 book of Arthur F. Bentley, *The Process of Government*. Bentley proclaimed that all U.S. politics was the politics of interest groups. My own work on early American tariffs was greatly informed by Elmer E. Schattschneider's 1935

book, *Politics, Pressures and the Tariff*. In his last major book, *The Semisovereign People: a Realist's View of Democracy in America* (1960: 417), Schattschneider concluded that the 'notion that the pressure system is automatically representative of the whole community is a myth' and, instead, the 'system is skewed, loaded and unbalanced in favor of a fraction of a minority'. These days that fraction of the minority is called 'the 1 per cent'.

With the publications of Mancur Olson Jr. (1965) and George Stigler (1971), the Bentley-Schattschneider approach became one element of Public Choice: an interest group theory based on the analytics of the electoral process. Most politicians and political journalists (like Bentley) were familiar with the idea that relatively small groups with much at stake are more active and effective than are large diffused collections of people, each with little to gain or lose, and can be differentially effective in democracies. These ideas seem to help in explaining why Australia opted for high import protection for industries like footwear, clothing, textiles, motor vehicles, steel making and so on: all labour-intensive, in a country where labour was relatively scarce (Anderson 1968). But they would leave us pessimistic about the possibility of Australia jettisoning the system of high and widespread protection. What happened to reduce the political power of self-interested groups, pressuring government for tariff protection?

4. What Changed?

What changed were facts and ideas. The main facts were that the cost of tariff protection grew ever larger and more visible; and that it became clearer that the labour market could absorb the effects of cuts in tariffs.^v The main ideas were the cogency of anti-tariff arguments; and a better understanding of the need for special assistance to workers, firm, industries and regions, to adapt to lower tariffs.

I will start with ideas. Max Corden (1966; 1968; 1971) and other economists showed the damage caused to the Australian economy by tariff and other restrictions on imports. They drew on the theory of comparative advantage of the classical economists, from David Ricardo onwards. Corden was especially effective in explicating the intricacies of schemes requiring Australian manufacturers to include some minimum Australian content, and offering the same manufacturers the right to import components free of import duties, if the manufacturers exported some of their output.

However, economic theory rarely wins political arguments in single-handed combat. A new weapon in the 'Good Fight' was numerical modelling, which made it easier for Australian political elites to accept the theoretical case in favour of a reduction in barriers against imports (Pincus 1989). In particular, numerical models of the whole Australian economy were developed with the support of the Tariff Board, which later became the Productivity Commission (for which I worked during the 2000s). These numerical models began small, but grew ever larger. They attempt to capture the decisions of Australian households and firms in hundreds of industries, as well as the effects of taxes and public spending.

Hanging in the room in Canberra where the Productivity Commissioners used to meet was a fading poster from *The Australian* newspaper from Thursday 24 September 1970, inscribed with the signatures of many of the major players. It read, 'Tariffs cost us \$2700 million a year!' This was more than 7.5 per cent of GDP. Undoubtedly, quantitative evidence of this kind helped to turn elite opinion against the use of tariffs in Australia.

A fuller history would give attention to the efforts of the member for Wakefield, Charles Robert ('Bert') Kelly, and of journalists including Max Newton and Alan Wood. In his speeches and newspaper columns, Kelly gently ridiculed the arguments used by the supporters of protection, and highlighted who gained and especially, who lost by the policy (Kelly 1978). Kelly and others drew on the annual *Trade and Assistance Review* of the Industries Assistance Commission and successor organizations; and some academic economists, including Richard Hal Snape, also estimated and publicized the size and incidence of the gains and losses of industry assistance.

5. Competition is Beneficent!

Was it merely by chance, or was it due to bias on the part of the modellers, that these numerical models came up with a public benefit from cutting tariffs (and, later, a long series of pro-competitive policy changes)? In this section I will argue, on the contrary, that these models embedded an optimistic view of competition. This optimism was supported by the theoretical work on general equilibrium by Kenneth Arrow and Gérard Debreu in the late 1950s and early 1960s. Their research showed how decentralised decision-making (roughly, competitive ‘markets’) could drive the economy to a point from which it would be impossible to make someone better off without making someone else worse off. At this point, the economy is fully efficient.

Commonly, the previously mentioned large numerical models of the economy have a similar feature: set them running, and they will compute an equilibrium and, at that equilibrium, no one can be made better off without someone being made worse off. In this story, competition plays a central role: if the right conditions exist, then market competition will bring us the best of all possible worlds. Given the technical and policy constraints that the modeller has put on public and private behaviour (and the nature of the ‘goods’ in question), the model will faithfully compute the best of all possible worlds – and decentralised, competitive markets do all the work inside the models. So if you change the policy constraints in these models, then they will generate a different equilibrium. Reduce import tariffs, and the model will generate a new equilibrium, designed to show what the economy would look like, after the tariff cut. The model would show that, say, some groups of workers would lose if their industry loses an import tax, whereas other workers would gain; and that many households would gain.

However, and this is important for my story, what the models typically showed is that the gains exceed the losses. That was what was captured in the headline in the Australian newspaper of 24 September 1970: if government restrictions on market competition were reduced or removed, national economic wellbeing would increase. The size of the prize came as a surprise: 7.5% of national income. Also, economists showed that natural labour market turnover was huge, which reinforced the message of the numerical modelling, that the labour displaced by reductions in import protection could mostly be readily re-employed elsewhere (Gregory and Duncan 1981).

6. The Problematical Contribution of Public Choice

The large size of the prize and the smooth operations of the labour market were used by economists to support arguments that it was in the national interest for governments to reduce tariff protection. Meanwhile, as I have explained, Public Choice economics emphasised the damage that pressure groups could wreak to the national economy. Tariff cuts hurt small parts of the economy, and can hurt them a lot – and these small concentrated parts are highly motivated and easily marshalled to fight the tariff cuts. Therefore, it would be expected that Public Choice economists would suggest government compensate those losers who had the political strength to delay or abort the tariff cuts.

Such was the depth of their antagonism to selfish interest groups that many in the Public Choice camp argued against this kind of selective compensation. I argued in favour; for a contrary view, see Productivity Commission (1999). I am also drawing on that most fallible source, my memory of many conversations with policy economists. In the event, the Hawke and Keating governments did institute various schemes to reduce the resistance by smoothing the adjustment.

My purpose now is to indicate the minor but malign role that Public Choice may have played in the linkage between my first ‘big fact’ and my second: following on and associated with the removal of restrictions on competition from the 1960s, there has been a vast increase in the public regulation of markets and of private behaviour generally.

I have argued that standard economic modelling gave theoretical as well as numerical support to the idea that it was a good idea to reduce tariffs, especially the high ones. But somewhat paradoxically, the very same modelling gave strong support to a vast range of government regulation of private economic activity. The general equilibrium research of Arrow and Debreu showed that decentralised competitive markets could

produce the best of all possible worlds. However, what Arrow and Debreu meant by competition is rather different from the ruthless competitive process that Justices Mason and Wilson had in mind in the *Queensland Wire* case. Rather, Arrow and Debreu's is not a story about entry, exit and rivalry, but about each agent having vanishingly small mass in markets for homogeneous products that all already exist or for which perfectly functioning contingent markets exist. Seen in that perspective, these models have little to do with real, flesh and blood competition. They are the social planner's version of competition.

What is relevant here is that the Arrow-Debreu theorems came with a long list of requirements, including that there were markets for every conceivable future contingency; and that all production was constant returns to scale; that pollution and other externalities did not exist; and so on and on. Because it was obvious that these conditions were not universally met, there grew up a veritable industry of discovering so-called 'market failures' and their purported cures: a bit of tinkering here or there, or maybe the creation of a new public monopoly, and we are now on our way to the best of all possible worlds (Kay 2007).

When I went to work for the Productivity Commission in 2002, I remarked that it was Australia's up-to-date central planner. The Commission was continuing with its old functions of suggesting to government some welfare-enhancing changes in spending or taxes or subsidies. The Commission would never plan prices or quantities; it would never act like the pre-modern central planners. Rather, the Commission would advise government to rely on decentralised behaviour to find the best that the newly improved economic environment could offer. Such a shift from price setting to policy, and then from policy to institutional re-arrangement, would be regarded as significant by proponents of Public Choice. But it was driven more by Hayekian worries about attempts to centralise information, than by concerns about self-regarding regulators.

Moreover, the Commission had some novel functions, in planning new or improved markets and quasi-market mechanisms. If consumer markets 'fail' to provide potential customers with sufficient reassurance of quality, then a new regime of consumer protection is required (Productivity Commission 2008). If the gambling industry fails to protect vulnerable problem gamblers, then new legislation on pre-commitments should be considered (Productivity Commission 2009). If the market for executives fails to generate optimal contracts, then a new rule about 'three strikes' should be legislated (Productivity Commission 2010). If carbon dioxide is a pollutant and is not priced, then a quasi-market should be set up for trading in permits. This is quite a different function than attempting to correct 'government failures' of policy (like high tariffs). It involves attempts to improve on the outcomes of decentralised markets: it is less in the Public Choice tradition than it is vulgar Arrow-Debreu – if a market does not exist, then create it.^{vi}

A major theoretical criticism of efforts to correct 'government failures' or 'market failures' was that correcting only one or only a few of multiple 'failures' could actually worsen economic efficiency, rather than improve it. Here it is that numerical modelling made a significant contribution, for the models can include a large number of economic 'distortions'; and can estimate the effects of correcting any one of them, thus avoiding the general theory of the second best. The Public Choice School of economics provided the second criticism of the program of correcting alleged market failure, which is captured in the term 'government failure'.

A significant early work along these lines was by the New Left historian, Gabriel Kolko (1963), *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916*, showing how the regulators of railways in the United States came to serve the interests of the regulated enterprises. The industry players were few, with high stakes; the customers were many, their individual stakes smaller, and their geography often diffuse. Retired industry executives found well-paid work running the public regulators. George Stigler (1971) and others at Chicago called this 'the capture theory' of regulation; and applied it widely. This quasi-Marxist idea became standard fare with economists who, sceptical of much government regulation, focussed firepower on any and all professional or industry groups that had achieved some degree of government acceptance or, worse, support for their aims and processes. So, in a semi-conscious echo of Adam Smith's famous dictum, the Australian Medical Association was said to be merely a bunch of self-interested types who band together to engage in a conspiracy against the public interest; and so on: although these groups will often claim to be pursuing the public good, in reality, what they are doing is inefficiently redistributing wealth to themselves, via government.^{vii}

The attack on interest groups was intended to reduce the prestige and power of such private groups; the unintended effect was to increase the power of government. Doctors, lawyers, credit suppliers, real estate agents, every conceivable occupation came to be regulated by government, and not by self-regulations that had some standing in common law, let alone in statute law or regulations pursuant to legislation.

For the lover of individual liberty, the outcome was a small disaster. The efforts of Public Choice economists encouraged the decline in the prestige, social standing and power of groups that were intermediate between the individual and the state. The responsibility for regulation was taken from the private sector and given to government. The vacuum was more than filled with 'new Mandarins', all employees of the state, vested with great power and resources.

Liberty depends on the diffusion of power, and is threatened by concentration of power. A constitution that separates power – some for the executive, some for the legislature, some for the judiciary – is not sufficient for liberty, as Tocqueville understood, when he remarked the role of local groups in limiting the centralisation of power. These days, we would tend to use the words 'civil society', as the grit that slows the wheels of the state.

In reality, the essence of democracy is the open expression and testing of competing interests. Indeed, it was the replacement of passion, which 'takes no account of the future', by competing and independent interests, that alone can prevent 'great and sudden arbitrary actions of the sovereign', that Montesquieu saw as the supreme benefit of a free commercial society. And Tocqueville warned that the danger democracy faced was precisely that 'men of substance' would shun involvement in public affairs for the sake of pursuing their private fortunes, leaving the running of the state to hapless mediocrities who (having little better to do) would seek to perpetuate their rule: he clearly knew a thing or two. (Ergas 2012)

7. Conclusion

In the fifty years since the publication of *The Calculus of Consent*, Public Choice has had little influence on the course of public policy in Australia. During that period, there was been a seismic shift in policy regime, from one antagonistic to competition, to one that gives conditional approval. The change in attitude towards competition was facilitated by the general equilibrium research of Arrow and Debreu, with its attenuated conception of competition, rather than by Public Choice theory. Competition, it came to be believed, leads to the best of all possible worlds, if and only if 'market failures' have been corrected. Consequently, the Arrow-Debreu program gave considerable impetus to those who sought to improve competitive outcomes by the imposition of increasingly detailed and pervasive public regulation; and, paradoxically, the antagonism of many Public Choice economists towards interest groups worked to open up the space for public regulation by (presumptively) benevolent and disinterested public servants. The paper has illustrated these claims by reference to the dismantling of Australian tariff protection.

References

- Anderson, K. 1978. 'On Why Rates of Assistance Differ Between Australia's Rural Industries', *Australian Journal of Agricultural and Resource Economics* 22 (2-3): 99-114.
- Banks, G. 2006. 'Reducing the regulatory burden: the way forward' http://pc.gov.au/__data/assets/pdf_file/0006/7647/cs20060517.pdf.
- Brennan, G. and J.M. Buchanan. 1980. *The Power to Tax: Analytical Foundations of a Fiscal Constitution*. Cambridge: Cambridge University Press.
- Brennan, G. and J.M. Buchanan. 1985. *The Reason of Rules: Constitutional Political Economy*. Cambridge: Cambridge University Press.
- Brennan, G. and J.J. Pincus. 2002. 'Australia's Economic Institutions', in G. Brennan and F.G. Castles (eds), *Australia Reshaped: 200 years of Institutional Transformation*. Cambridge: Cambridge University Press.
- Buchanan, J.M. and G. Tullock. 1962. *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Ann Arbor, MI: University of Michigan Press.
-

-
- Conybeare, J.A.C. 1984. 'Politicians and Protection: Tariffs and Elections in Australia', *Public Choice* 43 (2): 203-09.
- Corden, W.M. 1966. 'The Structure of a Tariff System and the Effective Rate of Protection', *Journal of Political Economy* 74 (June): 221-37.
- Corden, W.M. 1968. *Australian Economic Policy Discussion: a Survey*. Melbourne: Melbourne University Press.
- Corden, W.M. 1971. *The Theory of Protection*. Oxford: Clarendon.
- Cornes, R. and T. Sandler. 1996. *The Theory of Externalities, Public Goods, and Club Goods*. Cambridge: Cambridge University Press.
- Ergas, H. 2012. 'Swan's Way', 5 March. <http://www.greenwhiskers.com.au/index.php/government/731-swan-s-way-a-comment-on-wayne-swan>.
- French, Justice R. S. 1994. 'Judicial Approaches to Economic Analysis in Australia', *Review of Industrial Organization* 9 (5): 547-68.
- Gregory, R.G. and R.C. Duncan. 1981. 'Some Basic Facts about the Australian Labour Market', in J. Neville (ed.), *Policies Against Stagflation*. Melbourne: Longman Cheshire.
- High Court of Australia. 1989. 'Queensland Wire Industries v BHP', 167, *Commonwealth Law Review*: 177.
- Kay, J. 2007. 'The Failure of Market Failure', *Prospect*, (August), at <http://www.prospectmagazine.co.uk/magazine/thefailureofmarketfailure>.
- Kelly, C.R. 1978. *One More Nail*. Adelaide: Brolga Books.
- Keynes, J.M. 1936. *The General Theory of Employment, Interest and Money*. London: Macmillan.
- Kolko, G. 1963. *The Triumph of Conservatism: a Reinterpretation of American History, 1900-1916*. New York: Free Press of Glencoe.
- Mueller, D. 2003. *Public Choice III*. Cambridge: Cambridge University Press.
- Olson, M. 1965 [1971]. *The Logic of Collective Action: Public Goods and the Theory of Groups* (rev. edn) Cambridge, MA: Harvard University Press.
- Pettit, P. 'Groups with Minds of Their Own', in F.F. Schmitt (ed.), *Socializing Metaphysics: the Nature of Social Reality*. Lanham, MD: Rowman and Littlefield.
- Pincus, J.J. 1975. 'Pressure Groups and the Pattern of Tariffs', *Journal of Political Economy* 83 (4): 757-78.
- Pincus, J.J. 1989. 'Public Choice Theory', in C. Ulyatt (ed.), *The Good Fight. Essays in Honour of Austin Stewart Holmes (1924-1986)*. Sydney: Allen and Unwin.
- Pincus, J.J. 2009. 'Reflections on Microeconomic Policy Frameworks in Australia, and a Suggestion about Fairness', *Australian Economic Review* 42 (2): 1-10.
- Productivity Commission. 1999. *Structural Adjustment – Exploring the Policy Issues: Workshop Proceedings*. Canberra: AusInfo.
- Productivity Commission. 2008. *Review of Australia's Consumer Policy Framework: Final Report*, 2 vols, Report No. 45. Canberra.
- Productivity Commission. 2009. *Executive Remuneration in Australia: Final Inquiry Report*, Report No. 49. Melbourne.
- Productivity Commission. 2010. *Gambling*, 2 vols, Report No. 50. Canberra.
- Regulation Taskforce. 2006. *Rethinking Regulation: Report of the Taskforce on Reducing the Regulatory Burdens on Business*, Report to the Prime Minister and the Treasurer. Canberra: AusInfo.
- Schattschneider, E.E. 1960. *The Semisovereign People: a Realist's View of Democracy in America*. New York: Holt, Rinehart and Winston.
- Sieper, E. 1982. *Rationalising Rustic Regulation*. St. Leonards, NSW: Centre for Independent Studies.
- Stigler, G. 1971. 'The Theory of Economic Regulation,' *Bell Journal of Economics and Management* 2 (1): 3-21.
- Treasury. 1964. 'The Meaning and Measurement of Economic Growth', *Supplement to the Treasury Economic Bulletin*. Canberra: Commonwealth Government Printer; at http://archive.treasury.gov.au/documents/1689/PDF/Treasury_1964_The_meaning_and_measurement_of_economic_growth.pdf.
- Treasury. 1973. 'Economic Growth: Is It Worth Having?', *Treasury Economic Paper No. 2*. Canberra: Australian Government Publishing Service; at
-

http://archive.treasury.gov.au/documents/1689/PDF/Treasury_1973_Economic_Growth_is_it_worth_having.pdf.

Tullock, G. 1975. 'The Transitional Gains Trap', *Bell Journal of Economics* 6 (2): 671-8.

Tullock, G. 1984. 'How to Do Well by Doing Good', in D.C. Colander (ed.), *Neoclassical Political Economy: the Analysis of Rent-seeking and DUP Activities*. Cambridge, MA: Ballinger.

* Visiting Professor of Economics, University of Adelaide. I am grateful for helpful comments from Geoff Brennan, Michael Brooks, Tony Endres, Henry Ergas and Greg Moore—the usual disclaimer applies. This paper began a presentation to 'Freedom to Choose 2012: The Rise of Free Trade Sentiment in Australia in the Twentieth Century', held at University of Notre Dame Australia, Fremantle, 27 July 2012, funded by the Mannkal Foundation.

ⁱ 'The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.' (Keynes 1936: 382)

ⁱⁱ See the many reports of the Productivity Commission and its antecedents, and Treasury (1964; 1973).

ⁱⁱⁱ In this, they seemed to ignore Gordon Tullock's paper on the transitional gains trap (1975).

^{iv} 'The stock of regulation in Australia has expanded greatly over recent years ... For example, since 1990 the Australian Parliament has passed more pages of legislation than in the nine preceding decades since Federation. And that is just the tip of the iceberg, with bulging sub-strata of delegated and de facto legislation. Add to this comparable regulatory stockpiles at the State and Territory level and the myriad of detailed Municipal regulations – not to mention the 1400 or so regulatory bodies overseeing it all – and one is left wondering how, if all this is necessary, people ever *managed* in earlier decades' (Gary Banks 2006, commenting on the Regulatory Taskforce (2006) which he chaired).

^v The structure of comparative advantage altered and Australian economic standing declined, setting the preconditions for a change in policy regime. Precipitating factors included the failed attempt by a government minister to smuggle a TV set into Australia: cheaper travel meant that many Australians came to realize how huge were the differences in the prices of comparable goods in Asia and in Australia. Another factor was the diminution and eventual disappearance of what was called 'the balance of payments constraint', which had been used to argue against the liberalization of foreign trade.

^{vi} In these reports, the estimated gain in efficiency was more likely to be 0.75% of GDP, than the 7.5% estimated from abolition of import protection.

^{vii} Phillip Pettit (2003) has proposed a theory of group minds, which can give some private groups a moral standing that they would otherwise lack.
