



DEMOCRATIC PARADOX? The Impact Of Ideational Change On Economic Voting

Richard Eccleston

In a previous issue of this journal Dullard and Hayward (No 42, 1998) argue that governments will recurrently make electoral promises they intend to break because the neo-liberal agenda of 'slimming the state' is electorally unpopular. This article argues to the contrary, contending that voter preferences may well have changed in such a way that this 'democratic paradox' disappears. It seems that being up-front about, a neo-liberal agenda may no longer be an electoral liability.

There is a burgeoning literature on the economic determinants of voters' behaviour. The core assumption is that economic prosperity will contribute to electoral support for an incumbent government. There is reasonably strong empirical evidence, both domestic and international, of such a relationship (International: Eulau & Lewis-Beck 1985, Mughan 1987, Lewis-Beck 1988 & Wilken *et al*, and in Australia: Douglas 1975 & McDonnell 1993, 1994 & 1995). Supplementary themes about which there is a lively debate include:

- whether voters are prospective or retrospective in making judgements about their economic prosperity (see Smith 1994);
- whether voters pass judgement based on their own economic fortunes or that of society more generally (see Tufte 1985);
- and whether the electorate hold governments responsible for economic conditions (see Studlar, McAllister & Ascuii 1990).

What has received less attention is the impact of ideological change on the more dynamic process of how voters conceptualise their economic welfare.

Traditional theories of economic voting assume that electoral support for an incumbent government depends on the level of fiscal resources being provided by the state. In effect, expansionist policies of a Keynesian type are deemed to be popular. Thus, the early political business cycle literature predicted that opportunistic governments would implement a strategy of fiscal expansion in a pre-election context in order to stimulate the economy, thus improving their prospects of re-election (Nordhaus 1975, Lindbeck 1976, MacRae 1977, Tufte 1978, McCallum 1978, Lewis-Beck 1988). While these original studies yielded very little in the way of evidence supportive of the original political business cycle hypothesis (Alt & Chrystal 1983: 125), the revisionist literature has tended to emphasise the costs associated with manipulating fiscal policy, rather than reviewing the assumptions of economic voting (Schultz 1995, Price 1997, Heckelman & Berument 1998, Eccleston 1998). It will be argued that while the relationship between economic prosperity and electoral support for an incumbent government may hold true, it is problematic to assume that electoral perceptions of the specific policies which enhance economic welfare will remain constant over time. This is especially the case in the context of an economic paradigm shift in which there is a transformation in the realm of discourse and the system of ideas which inform political actors (Hall 1993: 279). It is therefore hypothesised that the shift from a Keynesian to a neo-liberal economic policy paradigm in Australia over the past twenty years has precipitated a transformation in voters' economic policy preferences.¹ Whereas in the 1970s 'expansionary' policies advocating increased public spending leading to higher economic growth were rewarded by voters, today policies which stress lower taxes, benign inflation and smaller government appear to be important for electoral success.

1 The term 'neo-liberal paradigm' is equivalent to what Dullard & Hayward describe as 'public choice inspired policies' and what is more commonly referred to in the Australian political lexicon as 'economic rationalism'.

Beyond being central to the political business cycle literature, assessing the impact of economic ideas on the preferences of voters also has implications for Dullard and Hayward's findings. Based on the fiscal strategy of the Howard Government in the aftermath of the 1996 Federal election, Dullard and Hayward argue that there is an inherent democratic paradox associated with seeking office on a 'state slimming' fiscal policy platform inspired by neo-liberalism, because they assume (based on traditional theories of economic voting outlined above) that such a policy will be electorally unpopular. This in turn leaves a political party seeking incumbency little choice other than to embark upon an 'undemocratic' strategy of deceit in relation to its true intention of cutting public spending. However, the democratic paradox only exists if we assume that a 'state slimming' or broadly neo-liberal policy platform is in fact 'electoral poison', as Dullard and Hayward claim. Alternatively, if we examine the recent literature and empirical evidence assessing the impact of economic ideas on the formation of political preferences and find that since the 1980s the discourse of neo-liberalism has had a significant impact on economic policy preferences of Australian voters, then a strategy of systematic deceit may not be necessary.

The following section of this article outlines and assesses the so called 'ideational turn' in political economy, with a particular emphasis on Peter Hall's model for evaluating the role of ideas on policy formation and broader community attitudes toward economic issues. This discussion defines the concepts central to investigating the impact of ideas both on the policy making process and also in terms of shaping broader community attitudes to such policies. Having established this framework, the next task is to evaluate the extent to which a paradigm shift has been experienced in Australian economic policy over the last two decades. Ultimately the case will be made that the ideological context of the Australian political economy has changed dramatically since the early 1980s, with a neo-liberal agenda not only becoming entrenched among economic policy elites, but extending beyond this sphere to have a discernible impact on the aggregate preferences of Australian voters in relation to economic policy. This account is supported in the final section of the article with preliminary empirical evidence of the electorate's perceptions of the economic management performance of the Howard Government during its first term in office.

While this evidence must be interpreted cautiously, given the range of variables which can potentially affect opinion poll data, it seems that the fiscal austerity measures introduced by the Howard Government actually enhanced their economic credibility in the community. This is a finding which contradicts the Keynesian assumptions central to traditional theories of economic voting.

The Ideational Turn in Political Economy

The last decade has seen the study of ideas develop into something of a 'cottage industry' within the discipline of political economy (Blyth 1997: 229). This literature is devoted to defining and then assessing the operationalisation and explanatory power of ideas at various levels of the economic policy process and therefore represents an important theoretical basis for the ensuing study. Perhaps the most sophisticated of these 'ideational' studies in political economy was presented by Peter Hall (1993) when he outlined a framework in which ideas were conceived as more than just 'inputs' or 'pressures' shaping policy outcomes. In contrast to this traditional depiction of ideas, Hall argued that changing policy paradigms reshaped the very nature of state-society relations such that the terms of political discourse and the very legitimacy and power of political actors would be redefined (Hall 1993: 290).² Central to this analysis is a typology of ideas in which a policy paradigm shift is defined as 'third order change' in which the whole basis of policy is modified such that 'not only the settings of policy change but the hierarchy of goals and set of instruments employed to guide policy are shifted radically as well.' (Hall 1993: 283-284). Unlike the more incremental change to the settings and goals of policy associated with first and second order changes, explaining policy paradigm shifts is inherently problematic because of the fluid manner in which policy

2 This conceptualisation of the role of ideas is based on Anderson (1978). It should also be noted that research into the impact of 'political rationalities' on patterns of governance has become popular among sociologists, especially in the aftermath of Foucault's influential work on governmentality (Foucault 1991). For an account of the impact of neo-liberalism as a political rationality on recent Australian public policy refer to Beeson & Firth (1998).

problems and interests are conceived. As Hall argues, 'the process where one policy paradigm replaces another is likely to be more sociological than scientific...ultimately entailing a set of judgements that are more political in tone.' (1993: 280). However, once a paradigm shift has occurred then it is unlikely to have a discernible impact on the way the broader community perceives policy issues. If this were not the case, then the subsequent longer term viability of a paradigm shift would be compromised by electoral pressures (1993: 286-287)³. Hall portrays the process as being driven by policy making elites and key sectoral interests, but also acknowledges that the sustainability of an emerging economic policy paradigm is dependent on establishing appropriate 'interpretative frameworks' through which policy makers can communicate the essence of their proposed agenda to the broader community (Hall 1993: 279). To this end political parties and the media are key intermediaries for establishing the social basis of an economic paradigm shift in terms of 'bedding down' the new discourse and establishing the cognitive parameters of subsequent debates. In this sense explaining the origins of particular paradigm shifts is unnecessary. What is essential to demonstrate is that there has been a sustained shift in the goals and discourse associated with Australian economic policy since the 1980s. From initially being advocated by small number of bureaucrats and professional economists, in the Australian case neo-liberalism now represents the accepted orthodoxy of national economic policy. In line with Hall's hypothesis, it will be argued that such a transformation cannot occur in a political vacuum and will have a discernible impact on the economic policy preferences of Australian voters.

The following section will initially assess the extent to which the Australian experience has paralleled the ascendancy of neo-liberalism which occurred in Britain. Having established the impact and political acceptance of this paradigm shift in an Australian context then, based on Hall's model, it seems plausible that the new political discourse may have reshaped voters' economic policy preferences such that 'state slimming' policies are now viewed favourably.

3 This analysis draws on the work Gourevitch (1986).

The Ascendancy of Neo-Liberalism in Australia⁴

Since the early 1970s a combination of inflationary crises and international financial liberalisation have led to the almost universal abandonment of the neo-Keynesian policies which had prevailed as the dominant economic orthodoxy since 1945. Replacing this paradigm has been a shift to neo-liberal doctrines which emphasise low inflation and reduced state intervention in the economy (Gourevitch 1986, Armstrong *et al* 1991, Bell 1997). Broadly, the Australian experience, especially after 1983, has conformed with this global trend. In terms of fiscal policy, Bell (1999) has argued 'full employment has disappeared from the fiscal policy lexicon, with that arm of policy now directed towards the passive medium term goal of balanced budgets.'⁵ While some institutional legacies remain,⁶ in Australia and abroad the principal objective of monetary policy has been to prioritise low inflation over growth or employment creation objectives. In combination these developments have led commentators such as Eatwell (1995) to observe that; 'compared to the post-war policy order, the broad stance of macroeconomic policy in the last two decades, but especially in the last decade, has been deflationary'. Such findings allow us to conclude that, like the British situation outlined by Hall, a paradigm shift occurred in Australia during the 1980s in that the goals, instruments and settings of macroeconomic policy were changed. However, of greater significance to the argument being developed in this article is the extent to which the

4 This section is presented as a synopsis of the existing literature on Australian economic policy during the 1980s and 1990s. Key references include Bell (1997, 1999) and Argy (1998).

5 Occasionally political expediency has forced Australian governments to address unemployment more actively. For example, the first two years of the Hawke Labor Government saw the use of mildly expansionary fiscal policy, while the objective of the Keating Government's *Working Nation* package, devised in the lead up to the 1993 election, was to reduce unemployment to 5% (Green 1994). It must be emphasised that this type of fiscal opportunism is unusual and has been shortlived.

6 *The Reserve Bank Act* still states that the twin goals of monetary policy are price stability and the maintenance of full employment. However, as is argued below, this has effectively been made redundant by the 1996 *Statement of Conduct on Monetary Policy* with its clear emphasis on a low inflation goal. Refer to Bell

ideational change that redefined the goals of macroeconomic policy has also transformed the economic policy preferences of Australian voters.

It has been argued that in order for a new policy paradigm to become entrenched, not only does the new framework have to provide technically feasible solutions to existing policy problems, but it must also be politically acceptable to a dominant coalition of societal interests (Hall 1993, Gourevitch 1986). A critical requirement for mobilising a broad basis of political support for a new policy paradigm is the development of an appropriate interpretative framework through which actors can comprehend the new approach. Beyond this 'plausibility' requirement, as noted above, key intermediate institutions are also essential for promoting and disseminating the new agenda among the wider community. If there is evidence that ideas and arguments associated with an emerging paradigm are being disseminated from political elites to the broader community in this manner, then, based on Hall's model, it can be hypothesised that the process will lead to a significant transformation in policy preferences.

In terms of providing an intuitive framework through which the economic problems of the day can be interpreted, neo-liberalism has real utility. The political appeal of neo-liberalism can be traced to a combination of its ontological simplicity, based on the familiar notion that markets allocate resources efficiently (Campbell 1998: 387), and the populist view that inappropriate state intervention and union militancy had contributed to the inflationary crises of the 1970s. Thus the new paradigm became associated with a clear and intuitive discourse, contrasting with the more abstract theoretical basis of what was widely seen as a discredited neo-Keynesian alternative. Neo-liberalism's plausibility was further enhanced by the contours of Australian economic policy over the 1980s, with public sector debt reduction being presented as a remedy for Australia's balance of payments problem courtesy of the *twin deficits theory*. Despite ultimately being discredited, this theory was widely promoted by Treasury and the Labor Government through the mid to late 1980s, arguing that, through its impact on national savings, the problematic current account deficit was being exacerbated by the budget deficit (Toohey 1994: 160-163; Bell 1997: 151) Beyond this, the most tangible public dividend of the fiscal restraint advocated by neo-

liberals was the promise of reducing taxation, an outcome which was enthusiastically received by the electorate in the late 1980s and early 1990s (Eccleston 1998). However, it would be an oversimplification to suggest that the provision of public services and welfare were politically unimportant. Indeed, the Hewson-led Coalition paid a high electoral price for threatening to undermine widely held perceptions of fairness and governmental responsibility in 1993.

As with the British case, a range of important intermediate institutions have promoted neo-liberalism in Australia, although there are also important differences between these cases. While Hall depicts the ascendancy of monetarism in Britain as being politically driven by the Thatcher Government (Hall 1993: 287), the rise of neo-liberalism in Australia has been portrayed as a Treasury led affair with bureaucratic interest in the agenda pre-empting wider political support (Whitwell 1986 & 1993, Pusey 1991). Yet in the late 1970s and the early 1980s the 'Treasury line' often failed to have a significant impact upon policy due to the Coalition Government's unwillingness to promote the agenda (Whitwell 1993: 26). This situation changed in 1983 when the newly elected Labor Government embarked upon a program of economic deregulation which reshaped the Australian policy environment. The Hawke Government's promotion of the new economic credo was inspired by a new alliance of domestic financial and exporting interests which, as in the British case, was ably assisted by the media and professional economists.⁷ Beyond this, under the institutionalised Accord partnership with the ACTU, even key elements of labour movement endorsed low inflation and financial deregulation in return for an improved 'social wage' (Bell 1999: 11). In the aftermath of the implementation of the first wave of neo-liberal policy reforms, most notably the floating of the Australian dollar and financial deregulation in 1983-84, financial interests continued to assert their authority, both in the formal policy community and in terms of exerting 'market discipline' on the government. Finally, bipartisan political support for core elements of the neo-liberal agenda was assured with the triumph of 'dry' economic interests in the Liberal party from the mid-1980s. When this was

7 Affected interests actively lobbied for neo-liberal reform after the *Australian Financial System Inquiry* (Campbell Report) advocated such changes in 1981.

combined with a distinct lack of political organisation from those industrial sectors which had an interest in more expansionary macroeconomic policy, the transformation from a Keynesian synthesis to neo-liberalism was complete (Bell 1999: 11).

By the 1990s a broadly neo-liberal economic policy paradigm had been institutionalised in Australia. Despite persistently high levels of unemployment, there has been a lack of political willingness for major parties to promote alternative policies. Beyond the deregulation of many international capital and trade controls, the ascendancy of neo-liberalism has been further buttressed by structural changes in the domestic economy. The central development here has been a massive increase in household indebtedness which followed the liquidity surge after financial sector deregulation in the mid 1980s resulting in household welfare being highly vulnerable to increasing interest rates (Bell 1997: 180). This trend has been reinforced in the late 1990s by rapidly increasing levels of personal investment in interest rate sensitive equity markets and the fact that an increasing number of retirees are living off investment income (Argy 1998: 222-224). Mirroring Galbraith's assessment of American society in *The Culture of Contentment* (1993), the Australian middle class has come to assume values hitherto held by financiers.

Thus far it has been argued that an economic paradigm shift occurred during the 1980s which became firmly entrenched in the discourse associated with macroeconomic policy in the 1990s. Based on Hall's model and the manner in which neo-liberalism has been established as the politically accepted orthodoxy of contemporary Australian economic policy, we can expect that there will also have been profound changes to electoral perceptions of the nexus between economic policy objectives and levels of prosperity. Whereas in the 1970s expansionary policies promising full employment and increased public resources were rewarded by voters, by the 1990s a combination of structural changes in the economy, and the impact of neo-liberalism on the way citizens perceive their preferences and the role of the state, will have led voters to reward governments that promote a different set of priorities. Sound economic policy will now be epitomised by providing a low inflation environment in which the public sector is debt-free and imposes a minimal taxation burden so as to foster enterprise, private accumulation

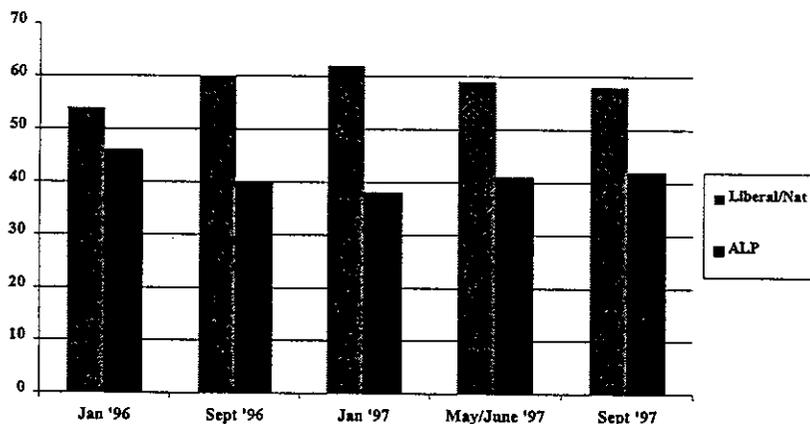
and individual self sufficiency. The following section provides both qualitative and quantitative evidence of this new relationship in the aftermath of the Howard Government's election in 1996.

The Howard Government's Economic Credibility 1996-1997

Conventional theories of economic voting, on which both political business cycle theory and Dullard and Hayward's findings depend, depict voters as making judgements in relation to the economic credentials of rival political parties. Moreover, these theories (assuming a Keynesian relationship between expansionary fiscal policy and economic prosperity) imply that the electorate conceptualises governments' economic credentials simply in terms of the net fiscal resources which they have contributed, or promise to contribute, to the community. According to Dullard and Hayward, this assumption encourages electoral deception in that it provides an incentive for governments to implement, or promise, popular economic policies prior to elections which they will subsequently dishonour, or dismiss as being contingent or 'non-core promises' after success on polling day.

Consider the 'Costello cuts' made in the aftermath of the March 1996 election. If fiscal consolidation inspired by neo-liberalism was electorally unpopular then we would expect the community's approval of the Coalition Government's macroeconomic management to have declined after the 1996 budget. Examination of Figure 1 reveals quite the opposite response, with community endorsement of the Coalition's macroeconomic management peaking at over 60%, according to the national survey in the two polls (September 1996 & January 1997) conducted after the announcement of the 'Costello cuts'. The 'black hole' was used by the Coalition to justify its change in fiscal policy and neutralise political opposition from those sectors who bore the brunt of the budget cuts (Dullard & Hayward 1998: 26-28). However, as far as the opinion poll data reflects, it seems that the broader community accepted the logic of this argument and endorsed the strategy of fiscal consolidation.

Figure 1: Preferred Major Party for Management of the Macroeconomy 1996-1997.



Source: These data are derived from a process of averaging responses to surveys investigating electoral preferences in relation to interest rates, inflation, taxation/fiscal policy and unemployment, and then converting them to a two party preferred basis. The primary data was provided courtesy of Newspoll market research and *The Australian* newspaper.

This preliminary quantitative evidence of changing voter preferences in relation to macroeconomic policy is complemented by a growing number of qualitative accounts of this phenomenon. After a long career at the forefront of Australian economic policy, Fred Argy recently observed that despite the problems in measuring and inherent volatility of public opinion, it is now clear that 'financial market regulation, sustained public sector deficits, widespread public ownership of infrastructure facilities, a generous welfare state and Keynesian fine tuning of the economy – no longer command the mass support that they once did.' (Argy 1998: 218). Other public commentators and studies have also reported hardening community attitudes toward welfare spending and using taxation as an instrument of economic redistribution (Gunn 1996, Gordon 1997, Australian Election Study 1996), while Shiller (1996) notes that there has

been a dramatic increase in the electoral preferences for (for the reasons outlined above) low inflation relative to reducing unemployment.

Taken together, this evidence is supportive of the central thesis of this article – that, when confronted with a budget deficit and informed by neo-liberal orthodoxy, the view among the majority of the electorate in the late 1990s is that public spending should be reduced in order to manage the economy.

Conclusion

This article has argued that established theories of economic voting may be ill-conceived as they are based on *a priori* assumptions of voter preferences which take no account of contextual variables such as prevailing policy paradigms and ideologies. After drawing parallels between Hall's analysis of the impact of economic ideas in Britain and the recent Australian experience, it is argued that neo-liberalism has indeed become the guiding orthodoxy of domestic economic policy since the 1980s. Based on Hall's work, it is also hypothesised that this paradigm shift may well have modified the preferences of voters in relation to economic policy, a proposition which is supported by preliminary evidence presented in the previous section of the article. Thus, it would appear that the nexus between specific macroeconomic policy proposals and electoral perceptions of their likely impact on levels of economic welfare is highly dependent on the prevailing economic policy paradigm.

This finding amounts to a powerful case for grounding theories of economic voting in specific historical and political contexts, and disputes the empirical validity of universal models of voter behaviour symptomatic of the public choice tradition. The importance of ideological context in relation to fiscal politics was emphasised by Eccleston (1998) when he found that the strongest evidence of a political business cycle effect in Australia between 1976-1994 was in relation to neo-liberal inspired pre-election *taxation reductions*, rather than 'traditional' policies based on increasing public spending. In a sense this argument which emphasises the need to examine ideological context in

political business cycle analysis is not new, echoing the partisan models of voting popular until the mid 1970s (Hibbs 1977).⁸ The common ground between the approach being advocated in this article and the traditional partisan theories of voting is the belief that ideology and the discourse of policy influences voter preferences. The difference is that this study argues that ideological shifts are historically variable and can affect policy preferences across entire communities.

Finally, presenting preliminary evidence that 'state slimming policies' do not necessarily lead to diminished electoral support does undermine the assertion that there is an inherent democratic paradox associated with 'state slimming policies' inspired by neo-liberalism. Dullard and Hayward seem to have underestimated the power of dominant ideological paradigms to reshape community values and policy preferences. I would contend that the posited democratic paradox has its origins in combining a Keynesian world view (in which an activist state underpins economic welfare) with a neo-liberal logic, a problem symptomatic of the economic voting literature generally. For better or for worse this same paradox does not confront political strategists in Australia in the 1990s because they are well aware that the discourse of neo-liberalism has been fully institutionalised and now imbues community attitudes. As a result it seems that voters will reward governments able to sustain what leading Australian political commentator Paul Kelly (1999: 11) has described as 'the circle of virtue; low inflation, low interest rates, solid growth, strong investment, a budget surplus and falling public debt.'

• • •

The author would like to thank Stephen Bell, Claire McKenny and three JAPE reviewers for their helpful comments on an earlier draft of the article. The usual caveats apply.

8 Within this approach it was assumed that there was a strong class basis to electoral support for major parties. As a consequence electorally oriented economic policies were expected to reflect the ideological preferences of that class

References

- Alt, J.E. & Chrystal, K.A. (1983) *Political Economics*. Wheatsheaf Books, London.
- Anderson, C. (1978) 'The Logic Of Public Problems: Evaluation On Comparative Policy Research.' In Ashford, D. (Ed) (1978) *Comparing Public Policies*. Sage, Beverly Hills.
- Argy, F. (1995) *Financial Deregulation: Past Promises Future Realities*. CEDA, Sydney.
- Armstrong, P. *Et Al* (1991) *Capitalism Since 1945*. Blackwell, Oxford.
- Australian Election Study (1996) Research School Of Social Sciences, ANU, Canberra.
- Beeson, M. & Firth, A. (1998) 'Neoliberalism As A Political Rationality: Australian Public Policy Since The 1980s.' *Journal Of Sociology* Vol 34, No 3.
- Bell, S. (1997) *Ungoverning The Economy: The Political Economy Of Economic Policy In Australia*. Oxford University Press, Melbourne.
- Bell, S. (1999) 'Towards Orthodoxy: The Political Economy Of Central Banking And Monetary Policy In Australia Since Financial Deregulation.' *Mimeo*
- Blyth, M. (1997) 'Any More Bright Ideas? The Ideational Turn In Comparative Political Economy.' *Comparative Politics*. Vol. 29, #2.
- Campbell, J. (1998) 'Institutional Analysis And The Role Of Ideas In Political Economy' *Theory And Society* No. 27.
- Campbell Report (1981) *Australian Financial System Inquiry*. AGPS, Canberra.
- Douglas, R. (1975) 'Economy And Polity In Australia: A Quantification Of Common Sense.' *British Journal Of Political Science*, #5. 1975.
- Downs, A. (1957) *An Economic Theory Of Democracy*. Harper, New York.
- Dullard, J. & Hayward, D. (1998) 'The Democratic Paradox Of Public Choice Theory: The Case Of The Costello Cuts.' *Journal Of Australian Political Economy*. No. 42.
- Eatwell, J. (1995) 'The International Origins Of Unemployment.' In Michie, J. And Grieve Smith, J. (Eds) *Managing The Global Economy*. Oxford University Press, Oxford.
- Eccleston, R. (1998) 'The Fiscal Electoral Nexus In Australia, 1976-94.' *Australian Journal Of Political Science*. Vol. 33, No 2.
- Eulau, H. & Lewis-Beck, M. (Eds) (1985) *Economic Conditions And Electoral Outcomes: The United States And Western Europe*. Agathon Press, New York.
- Foucault, M. (1991) 'Governmentality' In Burchell, G. *Et Al* (Eds) *The Foucault Effect: Studies In Governmentality*. Harvester Wheatsheaf, London.
- Galbraith, J.K. (1993) *The Culture Of Contentment*. Penguin Books, London.
- Gordon, M. (1997) 'Australia: Not Relaxed, Not Comfortable' *The Weekend Australian*. 9/10 August 1997.
- Gourevitch, P. (1986) *Politics In Hard Times*. Cornell University Press, Ithaca.

- Green, R. (1994) 'Going For Growth' *Current Affairs Bulletin*. August/September.
- Gunn, M. (1996) 'Downward Envy' *The Weekend Australian*. November 2/3 1996.
- Hall, P. (1989) *The Political Power Of Economic Ideas: Keynesianism Across Nations*. Princeton University Press, Princeton.
- Hall, P. (1993) 'Policy Paradigms, Social Learning And The State: The Case Of Economic Policy Making In Britain.' *Comparative Politics*. Vol. 25.
- Heckelman, J. & Berument, H. (1998) 'Political Business Cycles And Endogenous Elections.' *Southern Economic Journal*. Vol. 64 # 4.
- Kelly, P. (1999) 'The Paradox Of Pessimism.' In Kelly, P. (1999) *Future Tense: Australia Beyond The 1998 Election*. Allen And Unwin, Sydney.
- Lewis-Beck, M. (1988) *Economics And Elections: The Major Western Democracies*. The University Of Michigan Press, Michigan.
- Lindbeck, A. (1976) 'Stabilization Policy In Open Economies With Endogenous Politicians.' *American Economic Review, Papers And Proceedings*. # 66.
- Mccallum, B. (1978) 'The Political Business Cycle: An Empirical Test' *Southern Economic Journal* #44, P.504-515.
- Mcdonnell, J.S. (1993) 'Voters' Economic Attitudes And Election Results'. *Institute Of Applied Economic And Social Research Working Paper # 1/93* IAESR, University Of Melbourne.
- Mcdonnell, J.S. (1994) 'Economic Attitudes As Predictors Of Election Results: Some International Results' *Institute Of Applied Economic And Social Research Working Paper # 6/94* IAESR, University Of Melbourne.
- Mcdonnell, J.S. (1995) 'Economic And Political Attitudes - Effects On Electoral Outcomes'. *Institute Of Applied Economic And Social Research Working Paper # 3/95* IAESR, University Of Melbourne.
- Macrae, D. (1977) 'A Political Model Of The Business Cycle' *Journal Of Political Economy*. 85(2).
- Mughan, A. (1987) 'The Hip Pocket Nerve And Electoral Volatility In Australia And Great Britain.' *Journal Of The Australian Political Science Association*. Vol #22, #2.
- Nordhaus, W.D. (1975) 'The Political Business Cycle' *Review Of Economic Studies*, Vol #42.
- Pusey, M. (1991) *Economic Rationalism In Canberra*. Cambridge University Press, Melbourne.
- Price, S. (1998) 'Political Business Cycles And Macroeconomic Credibility.' *Public Choice*. # 92.
- Shiller, R. (1996) 'Why Do People Dislike Inflation?' NBER Working Paper, No 5539. April.

Smith, D.J. *Et Al* (1994) 'Voters And Macroeconomics: Are They Forward Looking Or Backward Looking?' *Public Choice*, No 78.

Studlar, D.T., Mcallister, I. & Ascui, A. (1990) 'Privatization And The British Electorate: Microeconomic Policies, Macroeconomic Evaluations And Party Support' *American Journal Of Political Science* No 34.

Toohey, B. (1994) *Tumbling Dice*. Reed Books, Sydney.

Tufte, E.R. (1978) *Political Control Of The Economy*. Princeton University Press, New Jersey.

Wilkin, S. *Et Al* (1997) 'From Argentina To Zambia: A World-Wide Test Of Economic Voting.' *Electoral Studies*. Vol. 16 #3.

Whitten, G.D. & Palmer, H.D. (1999) 'Cross-National Analysis Of Economic Voting.' *Electoral Studies*, No 18.

Whitwell, G. (1986) *The Treasury Line*. Allen And Unwin, Sydney.

Whitwell, G. (1993) 'Economic Ideas And Economic Policy: The Rise Of Economic Rationalism In Australia.' *Australian Economic History Review*. March 1993.



THE DEMOCRATIC PARADOX AND SOCIALIST STRATEGIES:

David Hayward Replies

During the 1970s and 1980s a productive and stimulating debate raged amongst those on the Left over working class consciousness in capitalist societies, and the degree to which capitalist values had become the dominant ideology (for Australian contributions, see Connell, 1977; Emmison, 1985; Graetz, 1986; Chamberlain, 1983; Baxter, Emmison and Western, 1991). In this debate some argued that capitalist values had burrowed their way deep into working class consciousness. Others disagreed, pointing to research showing clear evidence of oppositional values and contradictory consciousness amongst the working class, tempered by apathy, disillusionment and the absence of a clearly superior alternative form of social organisation to capitalism. The debate was of more than just of academic significance, for it bore heavily on the feasibility of democratic and revolutionary socialist forms of political strategy and struggle.

Richard Eccleston's critique of the paper jointly written by Jayne Dullard and myself reminds me of this debate, for it draws attention to the question of political consciousness at the closing stages of the twentieth century. More specifically it invites us to ask how widely neoliberal values have spread beyond policy and business elites to the electorate more generally. Jayne and I did not directly confront this issue of whether or not there had been a paradigm shift within the Australian electorate in favour of neoliberalism, primarily because it was of little direct relevance to the argument we sought to develop. In this response, we focus specifically on this question by assembling a large amount of opinion poll data gathered during the 1990s that directly relate to Australians' views about neoliberal policies. The stakes involved are high, for if Eccleston is correct to argue that neoliberalism now resonates throughout Australian society, then the democratically feasible range of socialist policy interventions are significantly reduced. If, on the other hand, the evidence confirms a different picture, then the possibilities remain far more open. Before examining the evidence, I first want to

examine whether Eccleston's contribution undermines the key arguments we developed in our paper.

The Issues

The main purpose of Jayne's and my paper was to demonstrate that there is in public choice theory a democratic paradox, which we defined in this way:

We argue that public choice theory offers (a) hypothetical strategist a democratic paradox. According to the theory, the best policy settings in liberal democracies are those that trim the state. The problem is that these policies are said to be unlikely ever to be put in place because the structure of liberal democracies will prevent this from happening, thanks largely to an uninformed citizenry, who are always able to be hoodwinked by vocal interest groups at election time... This solution to this impasse, we suggest, is to be found in the politics of deceit: by the party making election promises that it has little interest in keeping. Should it win office, the remaining task is to engage in another deceit...to justify the breaking of election commitments without an apparent loss of integrity.

We sought to illustrate this concept by using the Howard government's first term as an example. Eccleston does not dispute the existence of this paradox within public choice theory. His concern is whether it is true that the Howard government or any other neoliberal administration in contemporary Australia has any need to fear in reality an electoral backlash against state-slimming policies. He believes that they have no reason to worry because neoliberal values have become widespread amongst the electorate, courtesy of "a paradigm shift" made possible by the power of financial and media interests to promote this particular line. "Whereas in the 1970s", writes Eccleston, 'expansionary' policies which advocated increased public spending leading to higher economic growth were rewarded by voters, twenty years later policies emphasising fiscal restraint and low inflation objectives appear to be essential for electoral success". Put simply, there is no need to deceive because the audience is no longer sceptical.

It is, of course, difficult finding evidence that unambiguously reveal the motives and beliefs behind the strategies embarked upon by political parties during election campaigns. We relied heavily on Pamela Williams' (1997) book to provide evidence showing that the Howard government intentionally distanced itself from neoliberal policies during the 1996 campaign, whilst simultaneously drawing up a neoliberal reform agenda to be pursued once an election victory had been secured. We also pointed out that John Howard went out of his way during the campaign to deny that his Government would embark on a program of budget cuts once it had won office no matter how large the budget deficit turned out to be. Once the election victory was secured, Howard promptly spent much of his first six months in office manufacturing a budget crisis argument to justify the breaking of this pledge. It might seem strange to Eccleston that the Howard Government should act in this way, and that John Howard should go to such great lengths to disown neoliberal policies during the campaign and then embrace them afterward, but this is exactly what happened. Moreover, as we pointed out in our paper, the Howard government was not the only administration to act in the way. Nick Greiner was the first to practice the politics of deceit during the 1988 New South Wales' State election, and he was subsequently followed by other State administrations, notably the Kennett government in Victoria, and the Brown/Olson Government in SA (Laffin and Painter, 1995; Hayward, 1993; 1996; 1999). Greiner, like those that followed his lead, went out of his way during the 1988 campaign to distance the Coalition from neoliberalism, then promptly followed this course once the election victory was secured. Greiner is remarkably frank about why this approach appealed to him:

We ruthlessly separated the issues of getting elected from the issues of government. I literally had a drawer for elections and a drawer for government. In the drawer for getting into government we had...populist things that were liable to win you votes. In the drawer for governing we had microeconomic-type steps, ones that were difficult to sell politically...We had directions rather than policies that avoided the pitfall of detail. I remember the transport one which managed to convey in positive terms the directions (in which) we were going to go rather than (our intent) to shed 33 per cent of the workforce...In most cases we had a directions speech which we published and in most cases we had a

policy behind it which we didn't. Whilst you can argue that's wicked and dishonest, it's remarkably sensible politically (quoted in Laffin and Painter, 1995: 7).

The question that remains is whether or not the available evidence shows that neoliberal political strategists like Greiner are correct to follow the politics of deceit? Or is it the case, as Eccleston argues, that they were mistaken because neoliberal values are now widely endorsed by the people?

The Evidence

Eccleston's evidence on this score is thin. He refers to his own recent work on the fiscal-electoral nexus, in which correlation coefficients are assembled to show that, since the mid-1970s, Federal governments have used pre-election budgets to cut taxes (a neoliberal value) rather than increase welfare outlays when faced with declining opinion poll fortunes (Eccleston, 1998). This is meant to show that Australian governments believe that neoliberalism is the key to electoral success. This is a very long bow to draw from the very general and limited data he furnishes. Ignored by Eccleston's method is the specific historical context in which each pre-election budget was framed, and the political terrain over which subsequent elections were fought. Pushed aside, for example, are the specifics of election campaigns like that which occurred in 1993, which more than anything else was a battle over a the neoliberal agenda explicitly described in John Hewson's *Fightback!*, and which was conspicuously rejected by the voters. Moreover, data in budgets are never clean, leaving researchers like Eccleston little choice but to make arbitrary and often heroic assumptions as to how to classify expenditures and outlays. Should emphasis be given to the outlays projected in the budget? Or should one concentrate on actual outlays as they are revealed some 18 months after the budget is brought down? Which outlays and taxes should be included? As an example, consider the case of rent assistance, which has over the last decade been the fastest growing item of welfare expenditure. Between 1984/5 and 1996/7 rent assistance

outlays more than tripled, increasing from \$450m to \$1.6b (constant 1997/8 prices)¹. There is no line item in the Federal budget in which the value of rent assistance outlays are revealed, so this most important of welfare expenditure items cannot figure in Eccleston's model. Further, and as Eccleston himself points out on a number of occasions, "it must be emphasised...that owing to the small number of cases presented...there is a tendency for the value of the correlation coefficient to be influenced by extreme cases. It should also be noted that a strong correlation coefficient does not imply causation" (1998: 276). This work is of very little value in working out whether or not neoliberalism reigns supreme amongst the Australian electorate.

The second set of data assembled by Eccleston to support his case is opinion poll figures gathered by Newspoll during the first 18 months of the Howard Government's first term, including the period in which the Costello cuts were announced and put into effect. His data are derived by "averaging responses to surveys...in relation to interest rates, inflation, taxation/fiscal policy and unemployment, and then converting them to a two party preferred basis". These aggregated data show that between 55% and 60% of respondents to the surveys nominated the Howard Government as a better economic manager than the ALP. This leads Eccleston to conclude that, "the broader community accepted the logic of (the "black hole") argument and endorsed this strategy of fiscal consolidation".

Once again, this is a very strong conclusion to draw on the basis of such general data. There are any number of different ways that respondents could interpret questions about inflation, unemployment, interest rates and the like, and this is not resolved by simply aggregating and averaging the responses. Perhaps respondents made a connection between the specific questions they asked about technical aspects of macroeconomic management on the one and the budget cuts on the other. Perhaps they didn't. Perhaps they nominated what they considered to be the best of two bad options and, if they had the choice, would have opted for neither Party. The point is we will never know.

¹ These are unpublished data provided to the author on request by the former Department of Social Security.

We prefer to draw on research in which people are asked more direct questions about neoliberal policies. In our view, most of this research shows that neoliberalism does not enjoy widespread support in Australia, despite its promotion by both major political parties and most of the mainstream media over the last twenty years. Consider, for example, the case of privatisation, which is central to the neoliberal agenda. Table 1 summarises the results of 15 opinion polls on this topic conducted during the 1990s. What is striking is that opposition to the sale of government business enterprises has remained very strong (between 60%-70%), while support for sales has been consistently weak (30%-40%). Although not shown in the Table, the degree of opposition remains strong across all demographic groups and by voting intention. It is even strong amongst those who have bought shares in privatised companies. In February 1996 55% of the Telstra shareholders who were surveyed by Morgan were opposed to the Howard Government selling Telstra (compared to 62% for all respondents).

It is not only privatisation that has failed to capture the people's hearts and minds. The published polls have shown throughout the last 15 years strong majority opposition to tariff cuts and free trade (see Table 2). Both Newspan (published in *The Australian*) and the AgePoll (published in *The Age*) consistently have shown majority opposition to a Goods and Services Tax (another neoliberal reform), despite almost \$25m of public and business funds having been expended during the middle six months of 1998 in support of it. Both pollsters have found that, while the degree of opposition fell mid-way through this advertising campaign, the proportion of respondents opposed has consistently exceeded those in favour by between 5 and 10 percentage points. This gap increased to more than 15 percentage points during the first half of 1999, after the advertising dollars had dried up (see for example *The Age*, 2nd March, 1999: 1; *The Australian*, 3rd June, 1998: 1; 8th June, 1999: 1). Although the Howard Government won the majority of seats at the 1998 Federal election, which was fought largely over the proposed GST, its share of the two party preferred vote was only 49%, the lowest share of any returned government since Federation.

Table 1: Australians' Attitudes to Privatisation During the 1990s

Date & Place (Survey firm)	Sample Size	Question	In Favour (%)	Opposed (%)
Victoria, 30 th July, 2 nd August, 1990 (Saulwick)	500	Should State Insurance Office be sold?	40	55
National, 1 st -3 rd October, 1990	1,000	Do you support privatisation of the airlines and Commonwealth Bank?	40	50
		Should Gas and Fuel Corporation be sold?	30	66
National, 1994 (Economic Planning and Advisory Commission)		Should the following activities be under private ownership?		
		Motorways	16	82.7
		Airlines	32.7	62.7
		Hospitals	31.4	66.7
		Police	27.7	70.2
		Garbage collection	20.3	75
National, 25 th -26 th October, 1994 (Saulwick)	1,000	Should railways be privately owned?	32	64
		Should water supply be privately owned?	22	75
		Should electricity industry be privately owned?	31	66
		Should ports be privately owned?	48	45
		Should postal services be privately owned?	30	67
Victoria, 31 st January, 1995 (AGB McNair)	503	Do you agree/disagree with sale of electricity industry?	22	63
Victoria, 30 th March, 1995 (AGB McNair)	600	Do you agree/disagree with sale of electricity industry?	28	64
AGB McNair, 19 th - 21 st May, 1995	2,054	Do you agree with the government's strategy of selling government owned assets to reduce the budget deficit?	26	64

**Table 1: Australians' Attitudes to Privatisation
During the 1990s (Cont.)**

Date & Place (Survey firm)	Sample Size	Question	In Favour (%)	Opposed (%)
		Do you approve of the sale of the Commonwealth Bank?	27	64
Victoria, 28 th -30 th July, 1995	501	Do you agree/disagree with using tolls to finance freeways?	41	55
Victoria, 12 th -14 th August, 1995 (AGB McNair)	500	Do you agree with proposed further sales of electricity companies?	29	67
National, 25 th -27 th August, 1995 (AGB McNair)	2,055	Do you support or oppose continued sale of government assets?	30	59
		Do you support the sale of Telstra?	29	61
		Do you support the sale of Australia Post?	22	72
National, 31 ^a January, 1996	1,000	Would you prefer Telstra to be privatised?	7	
		Would you prefer one-third of Telstra to be privatised	22	
		Would you prefer Telstra not to be sold?		61
National, February, 1996 (Roy Morgan)		Do you agree with the Coalition's proposal to partially sell off Telstra?	33	60
NSW, 25 th -26 th February, 1998 (Roy Morgan)	600	Do you favour the sell-off of New South Wales' electricity assets?	21	64
National, 18 th -19 th March, 1998 (Roy Morgan)	546	Do you agree with the Coalition's proposal to sell off the remaining two-thirds of Telstra?	27	62
Victoria, NSW, 10 th - 15 th May, 1998 (Taverner Research)	602	Should the government sell the rest of Telstra?	23	69

Note: percentages may not add to 100% because "other/not stated" category omitted

Table 2: Australian Attitudes Toward the Economic Role of Government

Date & Place (Survey firm)	Sample Size	Question	In Favour (%)	Opposed (%)
National, 1 st , 2 nd May, 1991 (Saulwick)	1000	Australian products should be protected against low priced imports	70.7	25.2
National, 31 st May, 1994 (Saulwick)	1000	Australian products should be protected against low priced imports	74.8	23.4
National, 31 st May, 1994 (Saulwick)	1000	Economic recovery would be faster if government intervened in economy	60.8	
		Economic recovery would be faster if government didn't intervene in economy	35.2	
National, 6 th -8 th February, 1998 (AC Neilson)	964	Should the government cut the following expenditure areas by one or two cents in the dollar in order to fund income tax cuts for you of one or two cents in the dollar?		
		Health	16	81
		Education	15	81
		Environment	19	77
		Aged care	13	83
		Job training for unemployed	21	75
		Families in need	18	78
Victoria and NSW, 7 th -10 th May, 1998 (Taverner Research)	602	How should the budget surplus be used?		
		To help pay off overseas debt	19	
		To increase services in areas like health, education or care for the needy	63	
		For income tax cuts	9	

Note: percentages do not add to 100% because "other/not stated" category omitted

Most importantly of all, there is no clear evidence in the polls to show that the people endorse budget cuts to fund tax reductions, that they endorse budget surpluses, or that they have turned their backs on public education, health and social services (see Table 2). Most people were opposed to the cuts proposed in the 1996 Federal budget, particularly if they involved broken election commitments. In a poll conducted in mid-August, AGB McNair found fifty eight per cent of their respondents did not believe that the budget deficit would justify broken election promises and 61 per cent said the Senate should block budget measures which did so. When it came to a choice between higher taxes, and spending cuts in key areas including higher education, health and welfare, 60 per cent said they would prefer to pay higher taxes (*The Age*, 13/8/96, p1). In February 1998, almost two thirds of those surveyed by Taverner Research preferred the budget surplus (made possible by the budget cuts of 1996) to be used to fund more services rather than income tax cuts (*The Sunday Age*, 17/5/98).

Conclusion

The evidence we have presented provides a striking reminder of how little neoliberal values have penetrated the political consciousness of most Australians. It shows why neoliberal administrations have chosen the path of electoral deceit as a means of securing political office: quite simply, for them honesty is the political poison we portrayed it to be in our original paper. It is interesting to reflect on how many neoliberal reforms – from financial deregulation through to privatisation more generally – have been taken to the people at an election in an open and honest fashion, and have earned the party that champions them a majority of the two party preferred vote as a reward. As John Quiggin (1998) has pointed out, the latest and perhaps most significant neoliberal reform – competition policy – “has never been democratically endorsed. In fact, the whole process was designed to subvert democratic control over public policy...The reformers accepted the conventional wisdom that reform was best implemented by stealth”. In sum, the available evidence does not support Eccleston’s view of a paradigm shift in electoral values. Like those who argued during the 1970s and 1980s that

the working class was captured by hegemonic capitalist values, Eccleston's theoretical case rests on the skinniest of empirical foundations. The conclusion we reached in our previous paper remains valid: that while neoliberalism has triumphed, it has done so against rather than with the wishes of the people. The challenge for the Left is to develop a set of policies that helps fill this yawning gap between popular opinion and the neoliberal policies of both major political parties, a challenge that has yet to be fully grasped.

References

- Baxter, J., Emmison, M., and Western, J. (1991), *Class Analysis and Contemporary Australia*, Macmillan, South Melbourne.
- Chamberlain, C. (1983), *Class Consciousness in Australia*, George Allen and Unwin, Sydney.
- Connell, R. W. (1977), *Ruling Class, Ruling Culture*, Cambridge University Press, Melbourne.
- Eccleston, R. (1998), The Fiscal-Electoral Nexus in Australia, 1976-1994, *Australian Journal of Political Science*, Volume 33, No. 2., pp 267-279.
- Eccleston (1999), 'Democratic paradox: the impact of ideational change on economic voting', *Journal of Australian Political Economy*, Number 44.
- Graetz, B. (1986), Social structure and class consciousness: facts, fictions, and fantasies', *Australian and New Zealand Journal of Sociology*, Volume 22, Number 1, pp 46-64.
- Hayward, D. (1993), The Kennett cuts: how necessary are they?, *Journal of Australian Political Economy*, Number 37.
- Hayward, D. (1996), 'How Mr Kennett won. And how Labor helped him do it.' *The Australian Rationalist*, Winter.
- Hayward, D. (1999). 'A Financial Revolution? The Politics of the State Budget', in Costar, B. and Economou, N. *The Kennett Revolution*, University of New South Wales Press, Sydney.
- Laffin, M. and Painter, M. (1995), Introduction, in Laffin, M. and Painter, M. (eds.), *Reform and Reversal. Lessons From the Coalition Government in New South Wales, 1988-1995*, Macmillan, South Melbourne.
- Quiggin, J. (1998), 'Competition Policy the Chief Culprit', *Australian Financial Review*, 22/6/98: 17.
- Williams, P. (1997), *The Victory: the Inside Story of the Takeover of Australia*, Allen and Unwin, St. Leonards.