THE DEMOCRATIC PARADOX OF PUBLIC CHOICE THEORY: THE CASE OF THE COSTELLO CUTS

Jayne Dullard and David Hayward*

Public choice theory has enjoyed a spectacular rise to prominence over the last three decades, having risen from the obscurity of little known economic journals to be an influential justification for 'slimming the state' by political parties of both social democratic and conservative pedigree. The theory's foundations were laid in the aftermath of World War II, when economists turned their neoclassical economic framework towards analysis of the political system in liberal democracies (Buchanan, 1949; Arrow, 1950; Downs, 1957; Buchanan and Tullock, 1962). The field has burgeoned since that time; the most up-to-date survey of the literature is presented in Mueller (1997). Central to public choice theory is the view that the outcomes of the political system are a consequence of the rational, self-interested behaviour of the actors that operate within it. One of its central arguments is that the system of incentives in liberal democracies encourages governments to grow to the benefit of interest groups and bureaucrats, but at the expense of society as a whole.

Having been developed by economists in specialist journals and books, it took a long time before social scientists began to explore wider applications of this burgeoning literature. Over the last decade, thanks largely to the enormous policy influence the theory has come to enjoy,

* We would like to thank Frank Stilwell and two anonymous referees for useful comments on an earlier draft. Whatever mistakes that remain are our own.

political science textbooks have belatedly begun to include chapters on public choice theory (cf Dunleavy and O'Leary, 1987; Dunleavy, 1991; Held, 1989). More recently, books have been published that offer substantial critiques of it (Self, 1993; Stretton and Orchard, 1993;Green and Shapiro, 1994).

In this paper we seek to build on this critical literature by exploring what it is that public choice theory has to offer to those responsible for developing a political party's electoral strategy. The question we ask is this: "What can Jane Doe, party strategist, learn from public choice theory as she goes about the task of developing a viable electoral strategy?" We argue that public choice theory offers our 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 leaves our political strategist with an unenviable choice. If her party wishes to go to an election with state-slimming policies, it is unlikely to taste electoral success. If it wishes to taste electoral success it can only do so by turning its back on the state-slimming policies that are said to lead to economic salvation. 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: manufacture a problem of sufficient magnitude to justify the breaking of election commitments without an apparent loss of integrity.

The Howard Government's first term illustrates this behaviour.. We demonstrate the Howard Government's allegiance to public choice theory. We also show that, in the interests of securing office, the Government campaigned on a modest program of reform, central to which was a commitment not to cut heavily into social expenditures. Promises were made to remain true to this commitment irrespective of the state of the federal budget. Once in power, however, the Government speedily went about manufacturing a "budget problem" to justify the adoption of an alternative 'state-slimming' policy agenda that had been

worked out well in advance. We begin by exposing the democratic paradox of public choice theory.

The Democratic Paradox of Public Choice

Public choice theory assumes the methodological individualism of neo-classical economics. Accordingly, the model's core assumption is that of the rational, self-interested individual (Mueller, 1997:10). All the players in political life - politicians, voters, public servants, interest group members, party members - act rationally to maximise their self-interest, which is most often assumed to be financial interest (Buchanan, 1949; Mueller, 1989: 1). This is every individual's primary motivation. Social life, however, demands that many decisions be made collectively. Public choice theory challenges the capacity of a collective of self-interested individuals to make these decisions, and analyses the economic fallout of their attempts, through democratic organisation, to do so. Central to their argument is the problem of the free-rider, or the unintended consequences of providing goods and services without requiring the beneficiaries to pay. In these circumstances it can be expected that rational people will consume as much as they can while turning their backs on the issue of who will pay for the costs of provision. As Mueller explains, "the free rider problem pervades all of collective choice. It necessitates the passage of laws, the raising of taxes, and the hiring of police. It deters citizens from becoming informed about public issues, and even from voting" (1989: 319).

Public choice theory's recognition of the potential benefit of government, where it exists, tends to be accompanied by qualifications such that the model has little potential for practical translation, other than a relentless demand that the state should be slimmed. In *The Calculus of Consent*, for example, Buchanan and Tullock (1962) argue that government can make all citizens better off than previously by providing opportunities for mutually advantageous exchange not available through the market, and by setting out the rules of daily decision-making processes (preferably constitutionally). The qualification is unanimity - only if everyone agrees to a rule or policy, signalling that each individual feels it will improve her position, can it be deemed acceptable.

This qualification issues directly from the core assumption of Pareto optimality: no change is justified, even if it will make some people better off, if others simultaneously will be left worse off. In public choice theory, Pareto optimality provides the ethical ideal (Brennan, 1993: 5, 7; Pattanaik, 1997: 205-6). It is an ethic which denies the legitimacy of interpersonal comparisons; the outsider can not deem that the marginal dollar will hold greater utility for a poor person than for the wealthy person. So policies of progressive redistribution are given no support. Furthermore, public choice theory assumes that market failure in itself does not justify government intervention. This is because government "failure" is considered to be often more costly than the original market failure.

The public choice theorists' conviction that government is too big tends to focus on the expansionary nature of the bureaucracy. Tullock (1965) and Niskanen (1971) pioneered a prolific literature on the tendencies of rational self-interested bureaucrats to inflate the budgets and staffing of their departments, a waste of productive resources compounded by the fact that bureaucracies, sheltered from market competition, escape the driving imperative of productive efficiency.

For their part, politicians are said to be motivated by a rational, self-interested desire for the income, prestige, and power of office. Their primary motivation is to win an election, which means that they are vote-maximisers (Downs, 1957: 30-31; McLean, 1987: 70). This primary motivation is held to be common to individual politicians and the parties of which they are members. Because election is the rational goal, *policy becomes merely a means to the goal's achievement*; politicians and parties produce policies which will gain the most votes just as entrepreneurs produce the goods which will earn the most profit. Like entrepreneurs, parties advertise their goods to promote sales. In seeking to explain away the possibility that individuals have other reasons for seeking office Downs argued that "carrying out their social function is to them (politicians) a means of achieving their private ambitions" (1957: 34-35).

Like bureaucrats and politicians, voters are also portrayed as being rational, self interested creatures, albeit with a twist. In redefining the democratic citizen as *homo economicus* public choice theory has

encountered the problem of the irrationality of voting. Any one individual vote is unlikely to influence the outcome of a poll; and gathering sufficient information to cast it in an informed manner is a costly business (Aldrich, 1997: 389-390; Fiorina, 1997: 396-397). Downs sought a way out of the paradox by arguing that it was therefore rational *not* to seek to become informed (1957: chapter 13). This has been integrated with more recent and increasingly bizarre theories depicting the act of voting as, for example, a rational desire simply to express one's preferences (Hinich, 1981). In summary, despite significant disagreement within the discipline, the dominant view in public choice theory is that it is rational to vote but not to become informed, and therefore rational to vote ignorantly (Mueller, 1989: 105).

It is in this wasteland of political apathy that interest groups are said to wreak much damage. Interest groups form and coalesce around expenditure programs, with the goal of expanding the resources allocated to their favoured area. Acting on the basis of their self-interest, these interest groups are well informed and successfully engage the support of bureaucrats to cajole governments to spend more on their programs. The increased expenditures are justified as being in the general interest, but in reality primarily benefit those who produce the services being demanded. Increased educational expenditures, for example, are said to help swell teacher salaries and improve working conditions rather than lead to genuine improvements in educational outcomes (*cf* Victorian Commission of Audit, Volume 1: Chapters 1 and 2). When confronted with the prospect of declining public expenditures, these interest groups are able to mobilize effectively to mislead the generally uninformed citizenry. They are able to sell the story that the expenditure cuts are against the interest of consumers, even though the major losers will be the producers, who otherwise will continue to enjoy the benefits to be had from featherbedding and the associated inefficiencies to which this gives rise. As a result, "(o)nce spending programs are established, the political costs of eliminating them are too severe to contemplate because the interest groups have become entrenched. On top of exisisting programs new ones are introduced as other interest groups become entrenched" (Freebairn, Porter and Walsh, 1987: 51).

When these propositions about bureaucrats, politicians and voters are assembled together, the picture that emerges is far from favourable, encouraging, as Mueller acknowledges, a "rather negative message about democracy and its effects" (1997: 7). In dramatically abbreviated form: government's involvement in the market - whether as producer or regulator - results in the misallocation of productive resources. Rational self-interested bureaucrats waste taxpayer money expanding their departments to increase personal self-esteem (Niskanen, 1971); rational self-interested politicians 'log-roll' on electoral platforms and wastefully exchange bribes and campaign contributions for favours to interest groups in order to gain and hold power (Tullock, 1965); rational self-interested interest groups try to get protective favours from government which wastes their resources, the government's resources, their competitors' resources and, when they are successful, consumers' resources (the concept of 'rent-seeking') (Tullock, 1965); rational self-interested consumers try to gain maximum government services without paying for them - they free-load (Olson, 1965); and government provision of most public goods is inherently inefficient because it is impossible to know what goods consumers want and how much they would be prepared to pay for them (Arrow, 1950).

In policy terms, public choice theory translates into a radical 'reform' framework in order to produce outcomes of a very different ilk to those to which both social democrats and conservatives have formerly been predisposed. Government should seek to maximise economic efficiency by *slimming the state, privatising welfare, cutting regulations and regulatory agencies, and eliminating the potential to free-ride through the introduction of universal user-pays* (Self, 1993: 70-155; Mueller: 1989: 245). Or as Niskanen put it, "a better government would be a smaller government" (1971: 228). A primary goal is to eliminate budget deficits, which arise because politicians know that voters and interest groups like more spending but dislike the taxes necessary to pay for them. The preferred path to this goal is through cuts to public expenditures; it is often claimed that these can easily be trimmed by simply getting rid of 'waste'. A second goal is to secure lower levels of taxation, reversing the tendency of tax rates to rise because governments are all too keen to promise new spending initiatives for vocal interest groups while passing most of the cost on to tax payers in general rather

than through user charges. State-slimming policies like these are only feasible once the structure of liberal democracies is changed, for the cause of the problem is not individual failings or "deliberate conspiracy. It is about incentives and rewards" (Freebairn *et. al.* 1987: 51). These arise from the structure of the political system itself.

There are various ways in which beneficial structural change might be effected, according to public choice theorists. Some favour constitutional restrictions on political behaviour. Others suggest less difficult paths. Bureaucrats, for example, can be tamed by placing them on performance-related contracts, with rewards based on how well they manage to slim their bureaucracies, or achieve specified outcomes. The influence of interest groups can be diminished by governments and bureaucrats simply refusing to listen to the demands that are being made. But there is an important hurdle that first must be overcome, for before a political party can implement the policies that are said to be economically beneficial, it must first win government. Can it do this by touting policies which public choice theory suggests are, in the first instance, electoral poison? This is a problem of political implementation, which public choice theorists have left curiously unaddressed. From the point of view of political strategy, the problem is this: how can a party loyal to public choice theory get the opportunity to govern, given that state-slimming policies are unlikely to be acceptable to the electorate? We call this the democratic paradox of public choice.

Fightback!

One potential solution to the paradox of public choice is to take a risk and be frank, in the hope that voters can see that, over the longer term, they will be better off from the policies that are being presented. This is the option that the John Hewson-led Federal opposition adopted in March 1993. Eighteen months prior to the election, Hewson released *Fightback!*, the detailed, two volume, policy manifesto best remembered for a proposed Goods and Services Tax. But the GST was only one part of a broader package of fundamental structural reform, including gross reductions of $10 billion to "wasteful and unnecessary government spending" (*Fightback!*[1]: 3; Vintila, P.; J. Phillimore, and P. Newman

eds., 1992), which would "let Australians show how they can match, and beat, the best in the world when the official, the taxman and the regulator get off their backs" (*ibid*: 1).

The accordance of the manifesto with the prescriptions of public choice theory is evident, not only in its emphasis on reducing the size and funding of government programs, but in the kinds of programs - such as social security and health - which were to be subject to the heaviest cuts. The only new spending authorised in *Fightback!* was that needed to overhaul the most radically-reformed portfolio areas, such as social security, and to implement initiatives such as a Family Assistance tax relief package (*Fightback!*[2], 1991: 230).

The gamble of being frank with the electorate was a disaster. As Jaensch observes:

> The 1993 election was the election that the coalition could not lose. Never before had a government with such a poor economic record, including over one million unemployed, been not only returned to the treasury benches, but with an increased majority (Jaensch, 1994: 212).

For the Coalition, the lesson from *Fightback!*, was clear-cut. As implied by public choice theory itself, a political party that runs on a state-slimming policy platform is unlikely to win office.

The 1996 Federal Election

In the lead-up to the March 1996 Federal election, the Coalition distanced itself from *Fightback!*. John Howard flatly rejected any suggestion that the Coalition intended to cut deeply into existing programs, and he promised not to introduce a GST. "There's no way", he promised, "a GST will ever be part of our policy...Never, ever" (quoted in *The Age*, 29th May, 1998). During the election campaign, the Opposition developed a two-pronged attack. On the negative side it focused heavily on the failings of the Keating Government, and the apparent unpopularity of the Prime Minister. On the positive side, it offered a set of policies structured around four key themes: "to give

certainty to families, to get small business back in business, to give hope to young people, and *to restore trust and honesty in government"* (Andrew Robb, quoted in Williams, 1997: 160. Emphasis added). It proposed modest spending cuts to fund new initiatives centred around a family tax package and a private health insurance subsidy, as well as a Heritage Trust to finance expenditure on environmental policies, funded from the one third sale of Telstra.

Casting a pall over the election was continued speculation about the condition of the Federal budget. The last Keating Labor Budget, delivered in May 1995, had forecast a deficit, excluding asset sales, for 1995/6 of $6.7b, which was projected to fall to $590m the following year. Throughout the election campaign, however, there was sustained media speculation that the budget was heading for a more substantial deficit. In the lead-up to the election, then Prime Minister Keating refused to release Treasury's revised estimates, fuelling speculation about the condition of Federal finances. Protesting against the ALP's dishonesty, while simultaneously seeking to downplay suggestions that he would use a budget blow-out to break election commitments, Howard promised repeatedly that his election commitments were not contingent on the budget balance. He would abandon plans for a surplus rather than break promises (Williams, 1997: 287). Howard's reassurances on this point featured in press reports following the Coalition's February 18 policy launch (Wood, 1996). During the second of the televised Great Debates with Keating on Channel 9, February 25, he told a national audience: "Every single dollar of the promises that I made to the Australian people are [sic] going to be kept".

At a press conference shortly after winning Government, newly appointed Treasurer Peter Costello announced a revised forecast budget deficit for 1996-97 of $7.6 billion. He dubbed this, with reference to Opposition Leader and former Finance Minister Kim Beazley, the "$8 billion Beazley black hole". When he brought down his 1996/7 budget, this deficit estimate was revised upward to $9.6b. The budget contained figures showing that the single most important contributor to the deterioration in the budget was a severe shortfall in revenues, which were down by over $5b relative to the budget estimates. To guide the Government in how best to resolve this budget blowout, the Government

appointed a National Commission of Audit (NCA) to report on the Government's role in service provision by the end of June. Clause 3 of its Terms of References required it to:

> ...have regard to areas of expenditure which warrant closer examination *with the objective of restraining the growth of total outlays* and improving the quality of public expenditure. These could include (but not necessarily be limited to) expenditure reductions resulting from recommendations with respect to the elimination of duplication, identification of efficiency savings by setting performance benchmarks, or examining the cost implications of demographic changes (NCA: 2) [emphasis added].

The NCA's approach was "underpinned by two broad considerations", one of which was Australia's inadequate level of national savings. The other was that:

> There is a general and ongoing need to ensure that any government is using the resources under its control to best effect; that is, *the Government is involved in the right activities* and *those activities are being done at least cost* (NCA: 3) [emphasis added].

The chairman of the NCA was Robert Officer, deputy director and AMP Chair of Finance at the Melbourne Business School, former chairperson of the Victorian Commission of Audit (1993), which itself provides an excellent illustration of public choice theory in practice. Officer was and remains an executive member of the right-wing think-tank, the Institute of Public Affairs, which has been instrumental in promoting public choice theory in Australia, and which has been a financial beneficiary of the privatisation policies it has encouraged (Crooks, 1996: 46; Juniper and Umar, 1996: 29). The executive officer was Geoff Carmody, director of the consultancy/forecasting organisation Access Economics, which provided the economic analysis used in *Fightback!*, and which earned itself the title of the "Alternative Treasury" during the Coalition's time in opposition (Juniper and Umar, 1996: 30). The other three commissioners were Price Waterhouse partner Elizabeth Alexander, SBC Brinson CEO John Fraser, and Bain and Co chairman Maurice Newman (NCA, 1996:

iv). Its 10-member secretariat was composed exclusively of representatives from the departments of Treasury and Finance.

The 1996-97 Federal Budget brought down by Treasurer Costello was extremely harsh, flagging a fiscal strategy "consistent with the broad thrust" of the NCA's report (Commonwealth Government, 1996a: 1-7). The budget forecast an end-of-year underlying deficit of $5.6 billion (compared to a $9.6b deficit on an unchanged policy basis), which was projected to fall to $1.5 billion in 1997-98. By 1998/9 the budget would be in surplus by $957 million compared to a deficit of $5.4b on an unchanged policy basis (Commonwealth Government, 1996a: 1-6). Although the deterioration in the budget was primarily due to lower than anticipated revenues, the Treasurer focused his budget consolidation measures on outlays. While $1.5b of net new revenue initiatives were announced, these were described in the budget papers as "addressing anomalies within the existing tax system" by "removing opportunities for tax evasion and avoidance". Expenditures were cut by $4.8b over the three years to 1998/9. But the size of the cuts to *existing* outlays, i.e. discounting spending by the Coalition on new programs such as the Family Tax Initiative announced during the election, was significantly greater - amounting to $7b (Commonwealth Government, 1996a: 1-3 - 1-17).

The fiscal consolidation strategy did not end with Costello's first budget. In the period up to and including his second budget, Costello trimmed expenditures by a further $1.5b in 1997/8 ($0.5b after allowing for new spending initiatives) and $2.4b in 1998/9 ($0.8b net of new spending initiatives). As Table 1 shows, the Costello cuts reduced Commonwealth outlays in the three years to 1998/9 by $9.4b ($5.6b after account is taken of new spending initiatives), while revenues were increased by $3b ($1.6b after taking account of tax cuts). In total, the cuts amounted to a $12.4b budget correction ($7.2b after taking account of new expenditures and tax cuts). This compares to the $11.4b (in 1997/8 prices) of cuts proposed in *Fightback!*

This fiscal consolidation strategy required the reduction or abolition of numerous programs in direct contravention of explicit pre-election undertakings of which a complete list can be found in the appendix at the end of this paper (Manne, 1996; Quiggin, 1996: 3; MacKay, 1996; Emy,

1997: 67; Crooks, 1996: 43-46; Beazley, 1996: 6). Some of these programs were of crucial social policy significance, and their removal or reduction has produced substantial social distress. Prominent here have been the abolition of the Commonwealth Dental Program ($116m), which has meant that many low income households no longer have access to a dentist no matter how urgent their needs might be; a 23% reduction in Commonwealth Legal Aid ($37m), which has led to hyper rationing of scarce funds amongst those on low incomes requiring legal assistance and the growth in the number of people before the courts without legal representation; the imposition of a two year wait for migrants who are eligible for social security payments ($190m) irrespective of their financial plight; large reductions in child care subsidies ($135m), which have led to substantial fee increases and service level reductions that have affected working women in particular; and the emasculation of the elaborate set of labour market programs established by Labor to tackle the nation's high level of unemployment (see below).

Table 1: The Costello Cuts - Where the Knife Fell

	Change in Outlays to 1998/9			Change in revenues to 1998/9		
	Cuts to existing programs	New spending measures	Net cuts	Tax cuts	New revenue measures	Net new revenues
1996/7 Budget	$7.0b	$2.2b	$4.8b	$1.1b	$2.6b	$1.5b
Period up to and including 1997/8 Budget	$2.4b	$1.6b	$0.8b	$0.3b	$0.4b	$0.1b
Total	**$9.4b**	**$3.8b**	**$5.6b**	**$1.4b**	**$3.0b**	**$1.6b**

Source: Commonwealth Government (1996a; 1997a).

What is interesting is not just the number of programs that were cut, nor the number of election commitments that were not met. Of greater significance is the degree to which the election undertakings were violated. To give but one, albeit significant, example, in its pre-election employment and training policy document, *Pathways to Real Jobs*, which was released three months prior to the budget, the Coalition

committed itself to the "(m)aintenance of labour market program expenditure as projected in the forward estimates..." (p. 1). The Coalition also promised to expand access "to SkillShare, JobStart, NWO, LEAP and other programs for short-term unemployed people after six months"; it would "continue to guarantee those who have been unemployed 18 months or longer assistance leading to subsidised or unsubsidised employment or appropriate accredited training"; and it would "continue support for SkillShare, Jobstart, NWO, LEAP and other labour market programs" as part of its determination to "provide a well-defined 'pathway to employment' through labour market program assistance" (*Pathways to Real Jobs*: 2-3, 16-17). Yet these labour market programs bore the brunt of the budget cuts, having their expenditures reduced by $1b over two years.

Williams (1997) provides an important insight to the Coalition's decision to break its labour market program election promises. On January 3, 1996 the Coalition held its first pre-election policy meeting, attended by Howard, Costello, shadow ministers Richard Alston and Robert Hill, National Party leader Tim Fischer and respective advisers (Williams, 1997: 159). Costello said he wanted to cut existing government spending to the point that a net $1 billion surplus would be left *after* Coalition election spending promises had been funded (*ibid*).

> [Liberal Party director, Andrew] Robb reminded the group of the strategy to remain a small target and pitch for the mainstream vote but without antagonising vocal lobby groups. The Coalition wanted voters to vent their spleen at Keating, he said, not to question Howard's priorities. They tried to keep the large spending cuts to narrow areas. *Labor's job-training programs were a prime target*...These block cuts were more politically expedient than cutting $2 or $3 million from dozens of small programs that might be politically sensitive and likely to provoke community outrage (Williams, 1997: 162) [emphasis added].

One may infer that the Coalition's decision to abandon the labour market programs was made prior to February 23, the day on which it publicly promised to keep them.

Budget Deficit or Budget Deceit?

The Government defended its decision to break its election commitments on the grounds that the size of the deficit was far higher than it had imagined it would be during the election campaign. An $8b deficit meant a rapid rise in public debt, which in turn would put pressure on interest rates, which in turn would dampen private sector investment, leading to an economic slowdown. It would also lead to a worsening of Australia's parlous balance of payments position, which in turn could lead to a crisis of confidence in the Australian currency. (see for example, Commonwealth Government, 1996a: pp1-14).

But was the budget deficit of crisis proportions? The 1994/5 federal budget deficit was 2.9% of Gross Domestic Product (GDP). In 1995/6 it was 2.1%. The forward estimates furnished in Costello's first budget showed that, on an unchanged policy basis, it would have been 1.9% in 1996/7, 1.6% in 1997/8 and 0.9% in 1998/9. (Commonwealth Government,1996a: Table 3). This projected decline in the size of the deficit sits uncomfortably with the Government's claim that the budget was in crisis.

But forward estimates are always open to downward or upward revision, depending as they do on a variety of assumptions about levels of economic growth, and changes in wages, employment, interest rates and inflation (these are called parameter variations). As it has turned out, the forward estimates have been revised substantially. Up until early 1998, the revisions suggested that the budget deficit on an unchanged policy basis in 1998/9 would have been worse than had been projected in the 1996/7 budget. Subsequently, however, the revisions have moved substantially in the other direction, largely as a consequence of better than anticipated outcomes for inflation, wages growth and interest rates. When we adjust the 1996/7 estimates of the "unchanged policy" budget deficit for these better than expected outcomes, the picture that emerges is one of an "unchanged policy" budget deficit much lower than that which Costello estimated in his first budget. On an unchanged policy basis, the budget deficit would have shrunk from an estimated $9.6b in 1996/7 (1.9% of GDP) to $2.8b, or 0.5% of GDP by 1998/9. Of the projected 1998/9 deficit, almost $1.1b is accounted for by the second

tranche of Labor's tax cuts, which had been promised during the 1993 election campaign. In Labor's 1995/6 budget, these tax cuts were converted into a contribution to employee superannuation funds. This $1.1b would effectively have been a transfer of savings from the public to the private sectors, having no effect on the level of national savings as a whole. To this extent, this measure could easily have been deferred until the budget was back in surplus. As things turned out Costello simply cut it completely in his 1997/8 budget. Adjusted for this amount, the 1998/9 Federal deficit is likely to be $1.7b or 0.3% of GDP.

There is an additional reason for questioning the veracity of the Howard Government's "deficit crisis" argument. There is a tendency in Australian politics to focus almost exclusively on the condition of Federal Government finances, at the expense of a more complete picture that also takes into account the condition of State and Territory Government finances[1]. Excluding the proceeds of asset sales, in 1992/3 the State and Territory Government sector as a whole was in deficit by $1.8b. By 1994/5 it was in slight surplus ($800m), and it has racked up progressively higher surpluses since then. These surpluses must be netted off the Federal deficit to give a truer picture of Australian public finances. When Costello delivered his 1996/7 budget, the forward estimates, which excluded the impact of his budget cuts, showed that the combined deficit of Federal, State and Territory Governments was expected to fall from 1.7% of GDP in 1995/6 to a modest 0.4% by 1998/9. But the State and Territory Government surpluses have proven to be much higher than that which had been estimated when Costello brought down his first budget, exceeding the budget estimates by $2b in 1995/6, $3.2b in 1996/7 and a likely $2.3b in 1997/8[2]. The outcome for

1 In the analysis that follows we draw on data presented in the Government Financial Statistics format rather than the budget format. We use the General Government sector as being equivalent to the budget sector. We draw on data published by the ABS (Cat. No. 5501.0), the National Fiscal Outlook (for 1996 and 1998), and Statement 7 of the Federal Government's Budget Paper No. 2, 1998/9.

2 At the time of writing, the latest ABS figures (published in December 1997) estimate that the States will record a small surplus of less than $100m in 1997/8. But this dramatically underestimates the likely outcome for Western Australia (by $700m), Victoria ($1b) and Queensland ($700m) according to these States' 1998/9 budget papers published in May 1998.

all tiers in 1995/6 was a deficit of only 1.4% of GDP (compared to 1.7% estimated at the time of Costello's first budget). Had Costello not imposed any cuts to the Federal budget, in 1996/7 the combined Federal, State and Territory deficit would have been only $3.8b, or 0.7% of GDP (compared to 1.3% of GDP as estimated back in 1996), and by 1997/8 it would have been $1.3b, or 0.2% of GDP (compared to the 1996 estimate of $5.9b or 1.1% of GDP). Without Costello's cuts, by 1998/9 the books would have been in the black, with the Federal Government's likely small deficit being more than compensated for by the States' surplus (see Table 2).

When put into its historical context, this outcome would have compared more than favourably with most of the budget outcomes that have been obtained in the post-war period. As Figure 1 shows, only for short periods in the late 1960s and late 1980s have the Commonwealth and States recorded budget surpluses. The Costello cuts have ensured that by 2001/2 the budget surplus of all tiers will be the highest for more than forty years.

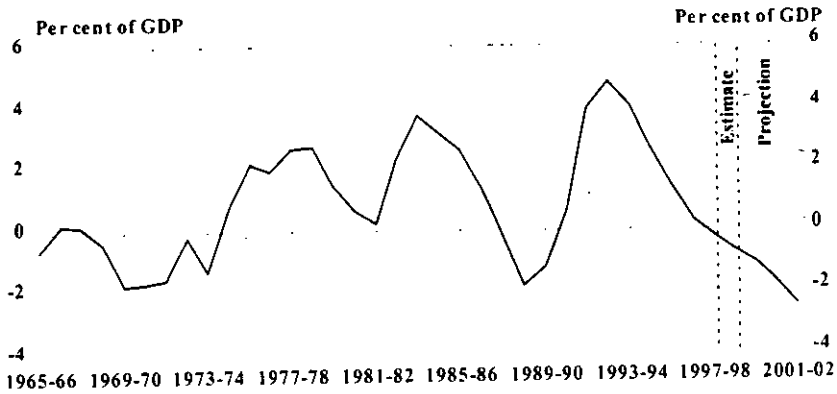
Table 2: Commonwealth, State and Territory Underlying Budget Deficit without Costello Cuts,

		1996/7	1997/8 est.	1998/9 budget
May 1996 forward estimates	**$m**	6,900	5,000	2,000
	% of GDP	1.4	1.1	0.4
Adjusted for:				
Parameter revisions announced in 1997/8 and 1998/9 budgets and better than expected 1997/8 outcome reported in September 1998	***$m***	119	-2,734	-2,658
Better than anticipated State and Territory outcomes	***$m***	-3,200	-1,900	0
Likely outcome given revised parameter variations and better State outcomes	**$m**	3,819	1,266	-658
	% of GDP	0.7	0.2	-0.1

Source: Commonwealth Government, 1996a and 1996b; 1997a; 1998a, 1998b and 1998c.

The budget deficits that would have obtained without Costello's cuts compare more than favourably with those of the seven major industrial nations, as Figure 2 shows. In 1992/3 Australia's general government budget deficit[3] was higher than that of the major industrial nations. But by 1994/5 this situation had been reversed. In 1995/6 - prior to the Costello cuts taking effect - the Australian deficit was a full 1.4 percentage points of GDP (or the equivalent of $6.8b) lower than that of the other countries. Without Costello's cuts, the gap would have narrowed to 0.6 percentage points of GDP. Nevertheless Australia's deficit would have remained substantially less than that of the other countries. Costello's cuts have ensured that the gap between Australia and the major industrial nations has continued to widen, with Australia alone running a budget surplus.

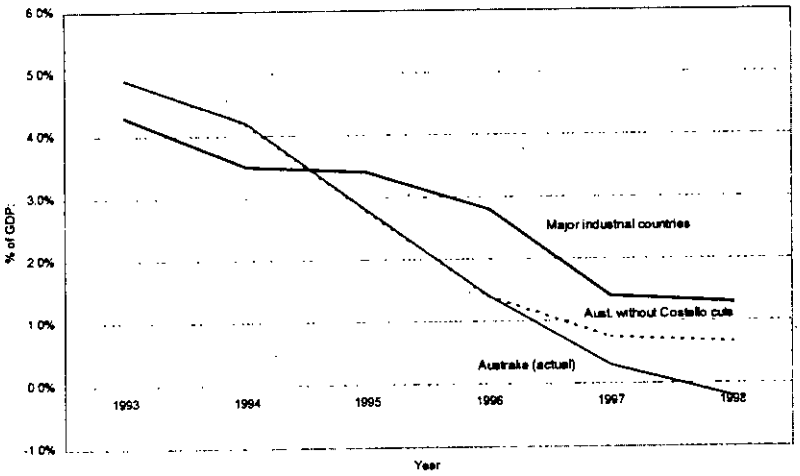
Figure 1: Commonwealth, State and Territory General Government Underlying Deficit, 1965/6-2001/2



Source:Commonwealth Government, 1998a: p. 3:10.

3 The deficit figure used here is for total general government sector balances.

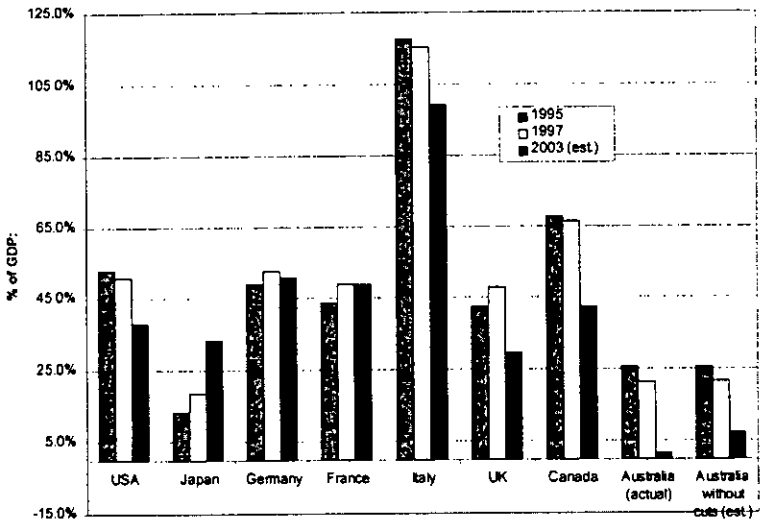
Figure 2: General Government budget deficits, Australia and major industrial countries (% of GDP), 1992/3-1997/8.



Note: Major industrial countries include the USA, Japan, Germany, France, Italy, the UK and Canada. Figures for Australia are for financial years; those for the major industrial countries are for the calendar year. 1997/8 data are estimates. The 1997/8 estimate for Australia has been adjusted for an estimated $2.4b underestimate of the State sector surplus as a consequence of better than expected outcomes for Western Australia ($700m), Queensland ($700m) and Victoria ($1b) as reported in these States 1998/9 budget papers published in May 1998.

Source: International Monetary Fund (1998), *The Global Growth Outlook*, p. 29. Commonwealth Government, 1996b; 1998b.

Figure 3: General Government Net Debt (% of GDP), Major Industrial Countries and Australia, 1995, 1997 and 2003 (est.)



Note :Figures for Australia are for financial years; those for the major industrial countries are for the calendar year. The estimate for Australia is for 2001/2, while for the other countries it is 2003. The sharp fall in Australia's debt in both scenarios is caused by a very large asset sales program exceeding $75b since 1996/7. This assumes that the remaining two thirds of Telstra will be sold. It does not take account of any State privatisations, which are likely to add another $15b to this total. In the event that the Telstra sale does not proceed Australia's level of general government debt will still fall under both scenarios, but at less than half the rate depicted in the graph.

Source: International Monetary Fund (1998), *The Global Growth Outlook*. p. 29; Commonwealth Government, 1998a: 7-30.

A similar picture emerges when consideration is given to the level of public debt, which is what successive deficits leave in their wake. Figure 3 compares Australia's net general government debt with that of the seven major industrial nations. The figure shows debt levels in 1995, 1997 as well as the latest estimates for early in the next century. Two sets of figures are presented for Australia, one showing the level of debt

taking full account of Costello's cuts, the other showing what debt levels would have been like without them. When Costello brought down his first budget, Australia's level of debt was low by international standards. Significantly, the gap between Australia's small debt burden and that of the other nations would have continued to widen even without the budget cuts. This is because most of the projected reduction in debt is a consequence of Costello's large privatisation program and capital repatriations from Commonwealth business enterprises such as Telstra, as well as unusually large dividends flowing from the Reserve Bank's currency operations.

There is an additional argument that the Howard Government offered in defence of its budget cuts. Drawing on what has become known as the *twin deficits theory*, the Government argued that there is a strong relationship between the budget deficit and the current account deficit of the balance of payments. Budget deficits are said to lead to current account deficits because they eat into national savings, thereby encouraging overseas borrowing. Budget surpluses are said to have the opposite effect, helping to turn around the high current account deficit, thereby heading off a balance of payments crisis. This twin deficits theory was strongly supported and popularised in the mid-1980s by then Treasurer Keating, but who subsequently came to disown it. To his great dismay, Keating found that, despite turning the federal budget around from substantial deficit to surplus, the balance of payments continued to worsen, prompting him to label the theory as "bullshit" (quoted in Edwards, 1996: 375).

The main problem with the theory is that the key national accounting identities of which it is composed - domestic public savings and domestic private savings - are interrelated, so that it is not possible to tell which way private savings will move in response to a change in public savings (cf Evatt Foundation, 1989: Chapter 2; Davidson, 1996; Latham, 1998: Appendix II). Increased public savings arising from cuts to government education and health spending, for example, can be expected to be compensated for by increased private education and health spending that lowers the level of private savings. Similarly, increased public savings caused by reductions in public sector capital formation can lead to lower rates of private investment, economic growth and exports in the future

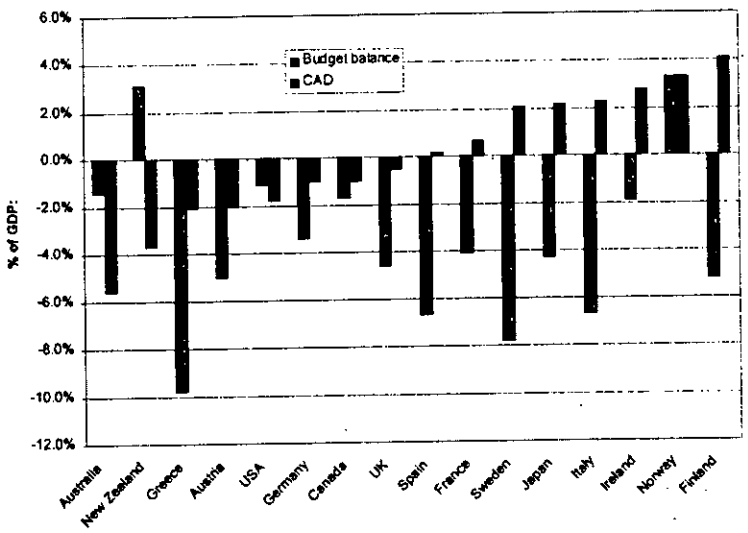
thereby also lowering private savings. Moreover, even if private savings do increase, private investment might not increase by an equivalent amount. If increased savings reduces consumer spending, it can have a depressing effect on the level of economic activity. But even if private investment rises it can have adverse effects in the short-run by, for example, increasing imports of capital goods, which over the long term might lead to increased exports, economic growth and therefore private savings. One cannot know for sure which of these outcomes is most likely. It is for these reasons that the theory enjoys little empirical support. As Figure 4 shows, there has been no consistent relationship between a nation's budget balance and its current account deficit in practice. In 1995 almost all western countries with current account surpluses were simultaneously running large budget deficits. On the other hand Australia and New Zealand, both with relatively tight budget settings, endured the largest current account deficits in the OECD[4].

In summary, the Howard Government won office in March 1996 on the basis of a strong election commitment that it would not follow a *Fightback!* style agenda, and a strong undertaking that it would not break this commitment irrespective of the state of the budget. When it quickly distanced itself from these commitments, it did so on the basis of a 'budget crisis' argument that finds little support in the available evidence. Without any cuts it is likely that, by 1998/9, the Federal deficit would have been less than 0.5% of GDP, and that the States' surplus would have more than compensated for this. By historical and international standards there is no evidence for a budget crisis: rather what has been caused is a social crisis, engendered by the draconian expenditure cuts in a wide range of social policy areas. By giving priority to a budget surplus over the need to generate jobs at a time of mass unemployment, the

4 The Federal Treasury has experienced considerable difficulty since the 1980s dealing with the discrepancy between the "theory" and the evidence. In the 1995/6 budget, Treasury acknowledged that Australia's, "current account deficit increased to 6% of GDP in the late 1980s, despite a very significant tightening of fiscal policy" (Commonwealth Government, 1995: 2-50). It omitted to mention that the current account deficit subsequently narrowed to less than 4% of GDP even though fiscal policy loosened considerably. A full chapter of the 1998/9 budget (Statement 3) was devoted to explaining why it is that the current account deficit will continue to deteriorate in the coming year even though Australia is running the tightest fiscal policy in the OECD.

Government has clearly signalled the abandonment of any residual commitment to the pursuit of full employment.

Figure 4: Budget Balance and Current Account Deficits (% of GDP), Selected OECD Countries, 1995



Source: OECD Economic Outlook

Summary

We have argued that there is a democratic paradox for a party committed to public choice policy prescriptions about 'slimming the state': be frank and lose an election, or deceive in the interests of electoral success. We have used the Howard Government's record in its first term to illustrate these arguments. Howard made strong and unambiguous commitments during the 1996 election campaign that, if elected, his Government would not follow a program of budget austerity. He repeatedly promised to remain loyal to these commitments no matter what the state of the

Federal budget proved to be, and made much of the need to restore honesty and integrity to the Australian political process. The Howard Government broke these commitments, on the basis of a dubious budget crisis argument. The data do not justify the claim that the state of Australia's public finances left it no choice but to dishonor its firm election undertakings. We have also shown that, despite its strong 1996 assurances to the contrary, the Government has ended up implementing the key budgetary measures contained in *Fightback!*, which, as public choice theory might have anticipated, was rejected by Australians at the 1993 Federal election. It is instructive to note on this score that the Federal budget has been back in substantial surplus since 1997/8, well ahead of schedule, and that this surplus is projected to grow to over $10b by 2001/2. Rather than restore the programs it promised not to touch, the Howard Government has opted to devote $5b of this surplus to financing substantial income tax cuts, that would form part of a Goods and Services Tax package, which Mr Howard promised would "never ever" be considered. The GST is the only substantial budgetary measure contained in *Fightback!* that is yet to be fully implemented.

The Politics of Public Choice: Further Reflections

Our argument no doubt will earn the ire of public choice theorists, many of whom will take deep offence to the suggestion that their theory could be responsible for the type of anti-democratic behaviour we have discussed in this paper. We anticipate four main criticisms. First, it might argued that our portrayal of public choice theory is overly simplistic and fails to recognize the diversity of view within the theory. Reference could be made to the vastness of the literature, and the disagreements that abound within public choice over, for example, voter behaviour. While the so-called "Virginia School" of public choice could be characterised as anti-government, not all public choice theorists fit this mold. Some might go so far as to argue that public choice theory is best understood as a methodology rather than a theory, its defining feature being a commitment to an approach to politics that draws its inspiration from the methodological individualism to be found in neoclassical economics. In response, we agree wholeheartedly with Green and Shapiro (1994) who,

while acknowledging the diversity of public choice literature, nevertheless insist that at its core must be a set of logically consistent and empirically verifiable or falsifiable propositions in order for it to constitute a political theory at all. Much of the recent, revisionist public choice literature is *post hoc* in nature, assembled to conveniently cover the very large gap that exists between the theory's predictions and the available empirical evidence.

We also point out that we are not alone in interpreting public choice theory in the way we have presented it here. Significantly, this is the way the theory has been interpreted not only by prominent Australian public choice critics such as Stretton and Orchard (1993) but also by leading Australian public choice academics such as Freebairn, Porter and Walsh (1987). It is also the way the theory has been interpreted by leading New Right think tanks such as the Adam Smith Institute in the UK, and the Institute of Public Affairs, the Centre for Independent Studies and the Tasman Institute in Australia (Self, 1993). The Audit Commissions that have been established by all state and federal governments over the last decade have also interpreted the theory in a similar way, in the process recommending large scale budget cutbacks and privatisations as policy solutions (Juniper and Umar, 1996). If the broad thrust of public choice theory is not as we present it here, then it is difficult to know precisely what it is.

A second defence might be that there is no documented case of a public choice theorist recommending political dishonesty as a viable electoral strategy. On this we are in complete agreement. Nevertheless, real life political strategists must make choices, and those steeped in public choice theory must inevitably interpret what it is that this theory implies for their profession as they go about the task of choosing how best to win an election. But our point is not that public choice theorists recommend political dishonesty, it is simply that this is a logical, practical interpretation of the theory they promote, however unintended (and unpalatable) this might be to those who are responsible for the theory's development.

Public choice theorists might also try to defend themselves by denying any suggestion that neither their theory nor political dishonesty are the preserve of political parties of the right. We, too, would reject this

suggestion, in the same way that we would reject any attempt to lay all the blame for political dishonesty on the shoulders of public choice theory. We are confident that a similar argument to that which we have developed here could be applied to the New Zealand National Party Government during its first term in the early 1990s when, after promising moderation during the election campaign, it ended up putting in place an even more radical set of 'state-slimming' policies than that of their unpopular predecessors (Kelsey, 1993). We are also confident that our argument could be applied to the Kennett Coalition Government's first term in the state of Victoria, from which the Howard Government apparently drew its inspiration (Williams, 1997; *cf* Hayward, 1993; 1996). But public choice theory also enjoyed considerable influence within the Australian and New Zealand Labo(u)r governments during their terms in office in the 1980s. In both cases no mandate was ever sought for the 'state slimming' policies to which they both became wedded, a process that occurred in between, rather than during, election campaigns (*cf* Kelsey, 1993). The Australian Federal Labor Government never sought a mandate to sell Commonwealth businsess enterprises. It never went into an election touting 'competition policy'. The argument we have developed in this paper could well apply as much to them as it does to the Howard Government. This is an issue we leave for later research.

A fourth public choice defence might be that other theories could also be seen to lend themselves to forms of political dishonesty. This might be so, but our point is that this is a characteristic that is uniquely buried deep inside public choice theory because of the way that it is structured. For example, rather than focus on the question of the conditions that would be necessary to ensure more people participate in political decision-making, public choice theory encourages researchers to explain why it is that voters bother to vote at all, a challenge which many researchers have dutifully accepted. This is in stark contrast to the democraticially inspired literature, which searches for an historical explanation as to why citizens in some countries are passive, while in others they are active, and which seeks to identify ways in which the former condition might give way to the latter (*cf* Davidson, 1997).

However unintended it might be, it is this anti-democratic flavour that for us is the most disconcerting aspect of public choice theory. Of particular concern is the way that theory has been able to rise to the dizzy heights it now occupies, despite the deep-seated empirical and theoretical problems to which it is predisposed (Stretton and Orchard, 1993; Green and Shapiro, 1994). Its rise in importance is in our view at least partly a consequence of the increased power it conveniently bestows on politicians and their political advisors, if not directly then certainly by implication. For them, it provides a convenient justification to mislead during election campaigns and then, once in office, shut down avenues of consultation and criticism on the dubious grounds that this is to stop noisy interest groups from having too great a say. It is typically welfare peak bodies and public sector unions that are treated with disdain, while those advising on the need to privatise are given a privileged voice, often to their considerable financial benefit. It is no coincidence that public choice theory's rise to prominence in policy circles over the last decade has occurred at the same time as Australian's confidence in politicians and the political system has sharply declined to all-time lows. According to the June 1998 Morgan Poll, public confidence in the ethics and honesty of our politicians has fallen by half since 1988, and by almost two thirds over the last twenty years, reaching an all time low of 7% in May 1998. In application, the theory can be said to be responsible for helping to produce the cynical, apathetic electorate which, ironically, formed one of the shaky theoretical foundations on which public choice theory was built.

Appendix

Major March 1996 Coalition Election Commitments Broken in the May 1996 Budget

Program area	Commitment	Budget Outcome
ABC	maintain funding	$209m cut over four years
Arts	increase funding by $60m	$16 million cut to Australia Council
Childcare Cash Rebate	maintain non-means tested rebate	10% reduction for families over new Famil Tax Initiative threshold
Childcare assistance	maintain childcare assistance	capped at 50 hours per week per child assistance and rebate payments frozen fo two years (no cap on fees); eligibilit tightened; no payment for additiona dependent children (outlays cut by $133n per annum)
Community-based day care	maintain operational subsidies	operational subsidies abolished (outlays cu by $42m per annum).
Labour market programs	maintain funding in real terms	$1800m cut over four years
AUSTUDY	maintain funding at real levels	$527m cut over four years
Disabled students	increase funding by $16.5m	no action
National Professional Development Program	continue to fund program by re-allocation of DEET funds	no action
HECS	no changes to HECS for commenced students	repayment threshold and timefram tightened for existing and graduate students
University funding	maintain operating grants	$623m cut over four years
Environment	increase funding	$30m cut from existing outlays
Foreign Aid	cuts to 'business subsidy' component; maintain other aid funding	additional $299m over four years cut fro program; DIFF program abolished
Medicare	no changes to Medicare	rebate to "overpriced" services reduce maximum patient payment increased

Program area	Commitment	Budget outcome
Health Care/Seniors Card benefits	maintain real value of all concessions and benefits	Pharmaceutical Benefits Scheme co-payment increased; Commonwealth Dental Health Program abolished
Public hospital funding	health policy initiatives will not reduce public hospital funding	$800m cut from Hospital Funding Grants and Financial Assistance Grants to States over four years
Public sector jobs	2,500 redundancies	10,500 redundancies over 1996-97 rising to 30,000 by 1998
Research and Development	retain 150% tax concession	reduced to 125%
Regional Development Fund	maintain funding of $150m over four years	abolished
Federal Road funding	retain current funding level	$621m cut from National highway system funding
Lump Sum Advance scheme	maintain system	$83.5m cut over two years through tightened eligibility
Employment/ education entry payments scheme	maintain current payment levels	$66.5 million cut; education entry payment for non-pensioners abolished from March 1997
Disability Support Pension	no change	$119.5 cut over four years
Rent Assistance scheme	maintain real value	$113.5m cut over three years for single people in share accommodation
Social Security administrative breach penalties	no increase to administrative breach penalties	increased from January 1997 ($364m savings over four years)
Financial Assistance Grants to the States	fixed share of Commonwealth funds to guarantee current service delivery	(June 1996 Premiers' Conference) cut by $1.5b over three years; Specific Purpose Grants reduced by 3% annually over three years
Export Market Development Scheme	no change prior to 1999	$426m cut over four years through tightened eligibility and imposition of $150m cap

Source: 'The Budget's deceit: a trail of broken promises", *Office of the Leader of the Opposition, August 21, 1996;* Budget Statements 1996-97, Budget Paper No. 1

References

Aldrich, J.H., (1997) When is it rational to vote?', in Mueller, D., (ed) *Perspectives on Public Choice; a handbook*, Cambridge University Press.

Arrow, K.J., (1950) A Difficulty in the Concept of Social Welfare, *Journal of Political Economy*, 58, pp 328-46.

Arrow, K.J., (1951) *Social Choice and Individual Values*, Yale University Press, New Haven.

Arrow, K.J., (1984) *Collected Papers of Kenneth J. Arrow, Volume 2: General Equilibrium*, Basil Blackwell, Oxford.

Beazley, K., (1996) The Hon., Barren, prejudiced, *Labor Herald*, September, p6.

Brennan, G., (1993) Economic Rationalism: What Does Economics Really Say?, in King, S., and Lloyd, P. (eds), *Economic Rationalism: Dead End or Way Forward?*, Allen and Unwin, St Leonards.

Buchanan, J.M., (1949) The Pure Theory of Government Finance: A Suggested Approach, *Journal of Political Economy*, 57, pp 496-506

Buchanan, J.M., (1960) *Fiscal Theory and Political Economy: Selected Essays*, University of North Carolina Press, Chapel Hill

Buchanan, J.M., (1968) *Demand and Supply of Public Goods*, Rand McNally, Chicago.

Buchanan, J.M., and Tullock, G., (1962) *The Calculus of Consent: Logical Foundations of Constitutional Democracy*, University of Michigan Press, Ann Arbor.

Buchanan, J.M., Tollison, R., and Tullock, G. (eds), (1980) *Toward a Theory of the Rent-Seeking Society*, Texas A&M University Press, College Station.

Commonwealth Government, (1995) *Budget Strategy and Outlook, 1995/6, Budget Paper No. 1*. AGPS, Canberra.

Commonwealth Government, (1996a) *Budget Strategy and Outlook, 1996/7, Budget Paper No. 1*. AGPS, Canberra

Commonwealth Government, (1996b) *National Fiscal Outlook 1996*, May.

Commonwealth Government, (1997a) *Budget Strategy and Outlook, 1997/8, Budget Paper No. 1*. AGPS, Canberra,

Commonwealth Government, (1997b) *National Fiscal Outlook 1997* May.

Commonwealth Government, (1998a) *Budget Strategy and Outlook, 1998/9, Budget Paper No. 1*. AGPS, Canberra

Commonwealth Government, (1998b) *National Fiscal Outlook 1998*, May.

Commonwealth Government, (1998c) *Final Budget Outcome 1997/8*, September.

Costello, P., (1996) Meeting Our Commitments, AGPS, Canberra, August 20.

Crooks, M.L., (1996) An August Budget Marriage: Australia's Conservative Parties Wed the New Right", *Just Policy*, No.8, November pp43-46.

Dahl, R.A., (1969) *Who Governs? Democracy and Power in an American City*, Yale University Press, New Haven, 1961 (15th printing).

Davidson, A., (1997) *From Subject to Citizen*. Cambridge University Press.

Davidson, K., (1996) Twin deficits: a baseless theory, *The Age* p15.

Downs, A., (1957) *An Economic theory of Democracy*, Harper and Row, New York.

Downs, A., (1961) In Defence of Majority Voting", *Journal of Political Economy*, 69, pp 192-9.

Downs, A., (1967) *Inside Bureaucracy*, Little, Boston.

Dunleavy, P., and O'Leary, B., (1988) *Theories of the State: the politics of liberal democracy*, Macmillan Education, 1987 (reprint).

Dunleavy, P., (1991) *Democracy, Bureaucracy and Public Choice: Economic explanations in political science*, Harvester Wheatsheaf, New York.

Edwards, J. (1996), *Keating. The Inside Story*. Penguin, Ringwood.

Elster, J., and Hylland, A. (eds), (1986) *Foundations of Social Choice Theory*, Cambridge University Press

Emy, H., (1997) The Mandate and Responsible Government", *Australian Journal of Political Science*, Vol 32, No. 1, March, pp 65-78.

Enelow, J.M., (1997) Cycling and Majority Rule, in Mueller, D., (ed) *Perspectives on Public Choice: a Handbook*, Cambridge University Press

Evatt Research Centre, (1989) *State of Seige. Renewal or Privatisation for State Public Services*, Pluto Press, Sydney

Fiorina, M.P., (1997) Voting behaviour", in Mueller, D., (ed) *Perspectives on Public Choice: a handbook*, Cambridge University Press

Freebairn, J., Porter, M. and Walsh, C.(eds.), (1987) *Spending and Taxing. Australian Reform Options*. Allen and Unwin, North Sydney

Green, R. and Shapiro, (1994) *J. Pathologies of Public Choice*. Yale University Press

Hayward, D, (1993) The Kennett Cuts: How Necessary are They?, *Journal of Australian Political Economy*, December

Hayward, D. (1996) How Mr. Kennett won. And how Labor helped him do it. *The Australian Rationalist*, Winter

Hardin, R., (1997) Economic Theories of the State", in Mueller, D., (ed) *Perspectives on Public Choice: a handbook*. Cambridge University Press

Held, D., (1987) *Models of Democracy*, Stanford University Press, California

Hettich, W., and Winer, S.L., (1997) The Political Economy of Taxation", in Mueller, D., (ed) *Perspectives on Public Choice: a handbook*, Cambridge University Press

Hewson, J., and Fischer, T. (1991). *Fightback! It's Your Australia: The Way to Rebuild and Reward Australia*. Canberra. Liberal and National Parties.

Hinich, M.J., and Pollard, W., A New Approach to the Spatial Theory of electoral Competition, *American Journal of Political Science*, 25: 323-41.

Howard, J., The Hon. (1996) Fair Australia, address to the Australian Council of Social Services, Sydney. October 13

Jaensch, D., (1994) *Parliament, Parties and People: Australian Politics Today*, Longman Cheshire, Melbourne

Juniper, J., and Umar, A., (1996) The Commonwealth Audit Commission: Lessons and Dangers, in *Public Finance Choices: Alternatives to the Coalition Attack on the Public Sector*, Collected Papers No. 3, Public Sector Research Centre, University of New South Wales

Kelsey, J, *Economic Fundamentalism. The New Zealand Experiment - A World Model for Structural Adjustment?*, Pluto Press, London.

Latham, M., (1998) *Civilising Global Capital*, Allen and Unwin, Sydney

Liberal-National Coalition, (1996) Policy Launch Statement, February 19

MacKay, H., (1997) How Howard Lost the Plot", *The Weekend Australian*, p23.

Manne, R., (1996) Promises, Promises, *Quadrant*, October, p2.

McLean, I., (1987) *Public Choice: an introduction*, Blackwell, Oxford (reprint 1993).

Mueller, D., (1989) *Public Choice II: A revised edition of Public Choice*, Cambridge University Press

Mueller, D., (1997) (ed) *Perspectives on Public Choice; a handbook*, Cambridge University Press

National Commission of Audit, (1996) *Report to the Government*, AGPS, June

Niskanen, W.A., (1971) *Bureaucracy and Representative Government*, Aldine-Atherton, Chicago

Olson, M., (1971) *The Logic of Collective Action; Public Goods and the Theory of Groups*, Harvard University Press, Cambridge, 1965 (reprint).

Olson, M., (1982) *The Rise and Decline of Nations*, Yale University Press, New Haven

Pattanaik, P., (1997) Some paradoxes of preference aggregation, in Mueller, D., (ed) *Perspectives on Public Choice: a handbook*, Cambridge University Press

Pincus, J., (1993) Market failure and Government failure, in King, S., and Lloyd, P. (eds), *Economic Rationalism: Dead end of way forward?*, Allen and Unwin, St Leonards, 1993.

Quiggin, J., (1996) The 'Black Hole': Myth or Reality?, *in Public Finance Choices: Alternatives to the Coalition Attack on the Public Sector*, Public Sector Research Centre Collected Papers No. 3, University of NSW

Quiggin, J., (1987) Egoistic Rationality and Public Choice: A Critical Review of Theory and Evidence, *Economic Record*, 63 pp 10-21.

Rowley, C.K. (1987) (ed), *Democracy and Public Choice: Essays in Honor of Gordon Tullock*, Basil Blackwell, Oxford

Morgan Poll, (1998) *Politicians fall to low levels of honesty and ethics - only car salesman rate lower*, Finding Number 3088, Roy Morgan Research Centre, May 21

Self, P., (1993) *Government by the Market? The Politics of Public Choice*, Macmillan, London

Stretton, H. and Orchard, L. (1994), *Public Goods, Public Enterprise, Public Choice: Theoretical Foundations of the Contemporary Attack on Government* (St Martin's Press, London).

Tideman, T.N., (1997) Voting and the Revelation of Preferences for Public Activities, in Mueller, D., (ed) *Perspectives on Public Choice; a Handbook*, Cambridge University Press

Tullock, G., (1965) *The Politics of Bureaucracy*, Public Affairs Press, Washington

Victorian Commission of Audit, (1993) *Report of the Victorian Commission of Audit*, Melbourne, May. Volumes1 and 2.

Vintila, P., J. Phillimore, and P. Newman (eds), (1992) *Markets, Morals and Manifestos: Fightback and the Politics of Economic Rationalism in the 1990s*, Institute for Science and Technology Policy, Murdoch University

Williams, P., (1997) *The Victory: the Inside Story of the Takeover of Australia*, Allen and Unwin, St Leonards.

Wolf, C. Jnr, (1988) *Markets or Governments: Choosing between Imperfect Alternatives*, MIT Press, Cambridge

Wood, A., (1996) Promises a reckless attempt to buy votes", *The Australian*, p1

Keating, P.J., (1994) *Working Nation - policies and programs*", AGPS, Canberra, May 4

Young, H.P, (1997) Group Choice and Individiaul Judgements", in Mueller, D., (ed) *Perspectives on Public Choice; a handbook*, Cambridge University Press.