

# Maggie showed Keating the way

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IDEAS are not the grappling hooks that attach electorates to political parties; rather, it is whether they have credible answers to the questions of the day. Yet the questions posed and the answers given are shaped by ideas about the world and how it works. Greatness in politics is the ability to change those ideas, redefining the scope of the possible.

Few politicians have been more aware of this, or had greater success in its pursuit, than Margaret Thatcher. Her legacy frames the challenge for economic liberalism. Thatcher entered Britain's House of Commons in a Conservative Party that, after a searing electoral defeat in 1945, placed accommodation with the welfare state at the centre of its strategy. This did not mark a break with the past, for the Conservatives had never been a party of economic liberals.

They defined themselves in the 19th century through their opposition to the undermining of the established order by market forces and free trade. As Germany and the US challenged Britain's economic supremacy, Tory paternalism blended, in the first half of the 20th century, with interventionism, centred on tariff protection, support for rationalisation cartels, and legislated minimum wages and work standards.

Set against this Conservative collectivism, the post-war mixed economy, which allowed trade liberalisation and an expanding private sector, seemed a benign compromise between socialism and free enterprise, despite generous welfare provision and a swath of nationalisations.

The result was what historians have labelled a "retreat into consensus", underpinned by the belief that Keynesian macroeconomics could assure full employment with price stability, sustain growth and fund social services.

By the late 1950s, inflation, low productivity growth and pressures on sterling made it clear this approach could not bear the weight of its own consequences. As a 1961 Treasury report argued, since "experience has shown conclusively that merely to increase demand does not increase national efficiency", government should concentrate on "removing obstacles to the effective operation of a market economy". But those assessments had little impact on policy.

Through the 60s, Thatcher became increasingly critical of the consensus, as she saw "the mixed economy become a mixed-up economy, when the government has become hopelessly entangled in everyday business and personal decisions, and genuine economic expansion and social change are squeezed by the increasingly political character of the business world". The resulting politicisation of all aspects of life corrupted rulers and ruled, converting every decision into a corporatist bargain determined by favouritism or a show of strength.

Changing this, said Enoch Powell, required the Conservatives to realise that "it is impossible to go on behaving sensibly while constantly talking nonsense". In 1968, Thatcher called on the Tories to accept that "no great party can survive except on the basis of firm beliefs about

what it wanted to do". Those beliefs had to be based on a "Conservative vision" distinguished by "the insight that the state only underpins the conditions for a prosperous and fulfilling life. It does not generate them."

By 1976, when the Labour government went cap in hand to the International Monetary Fund, it was clear to Labour stalwart Tony Crosland that "the party is over". With the Keynesian model collapsing, Thatcher's 1979 election victory opened a period of fundamental change. In the 1980 budget, fiscal fine tuning was replaced by a medium-term financial strategy: a world first. Tax cuts, privatisation, financial deregulation and industrial relations reform followed. Each step was savaged by Keynesian economists, but received the accolade of widespread international imitation, most often by relatively young finance ministers (such as Paul Keating) in left-leaning governments.

That package, which shaped Australia's microeconomic reforms, is still the benchmark for market-oriented economic policy. But it would be a mistake to view the Thatcher program as an untrammelled success.

Thatcher once defined Thatcherism as "the politics of liberty and justice backed up by the economics", the point being that sound economics was incidental to the aim of erecting "effective barriers against the excessive powers of the state".

Yet the state that emerged from the reform program, both in Britain and Australia, was in many respects stronger than its predecessor, without that power being offset by increased accountability. First, substantial decision-making was shifted to unelected bodies, such as regulatory agencies, that are ever more important in determining the allocation of resources and the substance of rights and responsibilities.

Second, replacing public provision by regulated private provision, notably for infrastructure, improved efficiency but increased opportunities for cronyism.

Third, while Thatcher's aim was to revitalise civil society by transferring responsibilities to voluntary associations, the result has been to empower self-appointed, but taxpayer-funded, guardians of the public interest, whose only difference from other rentiers is that they are more vocal and intransigent.

The reach of the political has not decreased; rather, its form has changed in ways that have been as readily appropriated by the Rudd government as by the Blair-Brown government .

The challenge for economic liberals is therefore far-reaching. The recrudescence of crude interventionism, disguised as Keynesian stimulus and nation-building; the risk of emissions trading schemes bringing into play a huge administrative apparatus and vast opportunities for redistribution to favoured groups; the seemingly inexorable rise in the power of the unelected, and the need to limit and discipline that power: these are central elements in that challenge.

Ultimately, the role of government, as Simon Leys once wrote, should be that set by Albert Camus: "to do the housework", not to cram recipes for perpetual happiness down the throats of mankind. But that demands a humility most rulers reject with asperity. Faced with that rejection, the liberal task is to be exigent and tenacious in pursuing economic and political liberty, which, as a way of viewing and addressing global needs, remains by far the best approach we have.

