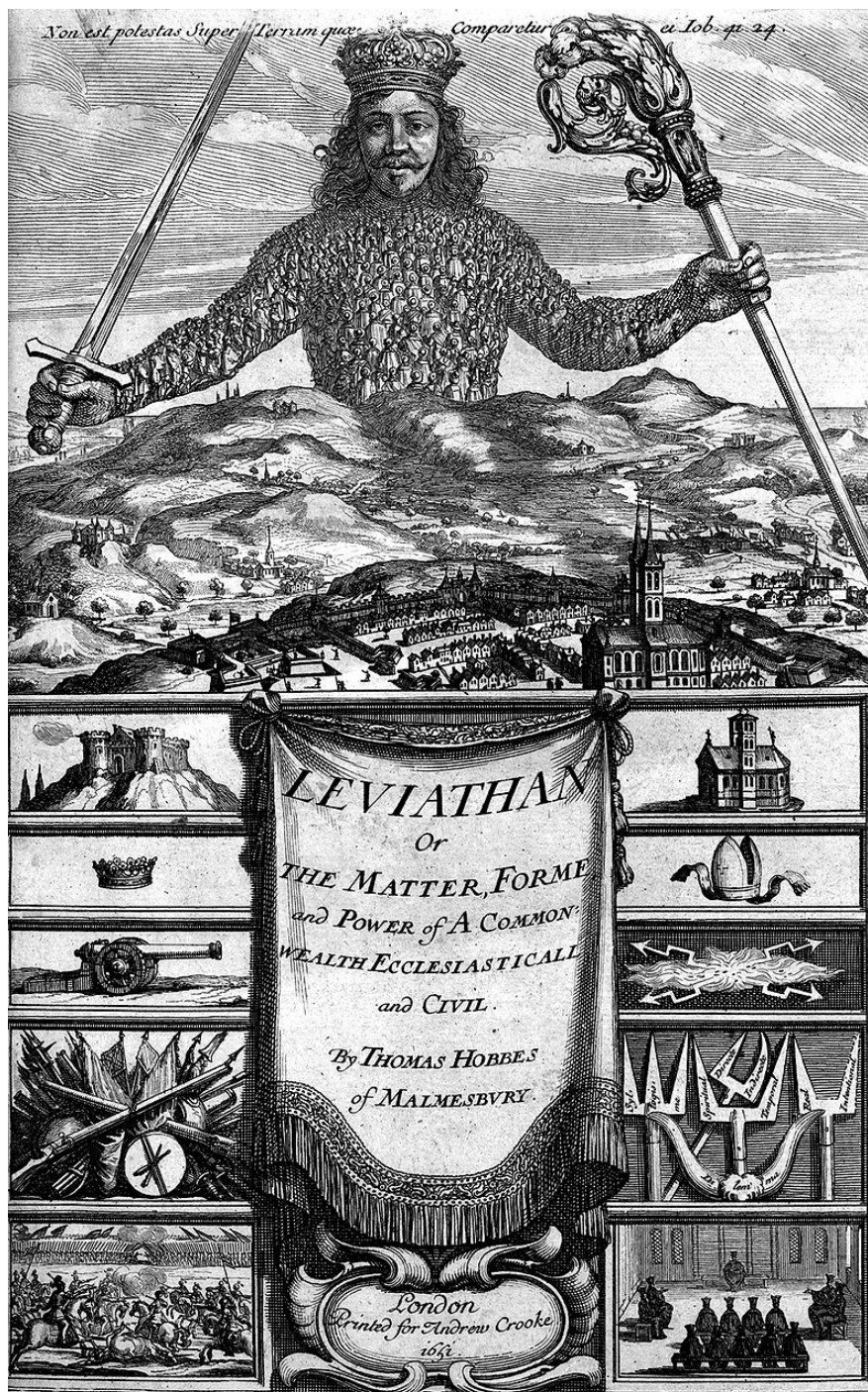


The State is More Present Than Ever

by Samuel Chamberlain



The proponents of Neoliberalism often boast that they have successfully 'rolled back the frontiers of the state'. This is a bold yet fallacious claim. The state remains just as ever-

present a part of many individual citizen's lives as it was at the height of Keynesian Demand Management in the 1960's. This was true even before the measures introduced to curb the coronavirus. The difference is that now the interaction between state and individuals has become less directed and less clear; moving from the structural policy of demand management to an array of other regulations which grow not with coordination, but rather from ministerial neglect and convenience. It does not matter if from time to time governments overtly manipulate the economy through fiscal means in times of economic hardship. This is because there are other avenues through which the state can interact with individual and business actors which are ever-growing regardless of economic situation. Through these means, the state has become more prominent.

Please note that what is said in the following paragraphs is considering long-term structural problems in Western economies. In essence they discuss problems that existed before the economic problems induced by the coronavirus and the problems which will last long after those temporary ailments are alleviated. Criticisms of trends such as an expansion in the welfare base for example is not a criticism of those who have found themselves on unemployment benefits as a result of the pandemic. Most statistics provided were sourced between the period of 2016-2019.

The welfare state is just another form of state intervention in ordinary people's lives, and from clear measures and statistics this form of interaction has seen a considerable expansion over the past four decades. As a concept, the welfare state has been around since approximately the early half of the 19th century – esteemed in “the belief of ‘freedoms to’ for all citizens”[\[1\]](#). Neoliberalism made the criticism that this system of regulation and redistribution distorts the efficiency and work of markets which they see as the greatest poverty alleviation tool in history. So, if Neoliberals had

their way we would expect to see a reduction in key measures such as social contributions as percentage of GDP. However, in all of the indicator countries, a significant increase in this parameter is seen from 1980 – an artificial starting year for Neoliberal reforms. Australia has experienced a 73.58 percent increase from 10.6 to 17.8 percent of GDP [\[ii\]](#), the United Kingdom has experienced a 33.1 percent increase and the United States a 47.1 percent increase [\[iii\]](#). In the USA, social spending on programs like the unemployment benefits, Medicare, Medicaid and veteran's payments now claim a half of every taxpayer dollar [\[iv\]](#). These increases do not come largely from legislated increases in the payment rates for these programs. The trend comes from an increasing of the welfare base where, for example, in the United States more than 110 million people are on welfare, representing approximately 35.4 percent of the entire population [\[v\]](#). This participation rate has increased staggeringly in recent years with an increase of 36 percent in the two terms of the Obama presidency [\[vi\]](#). As a consequence of this state involvement in people's lives, the way ordinary people consider the role of their relationship to the state has changed.

Whereas as once welfare was considered an undesirable last resort and safety-net, that stigma seems to have dissipated among younger generations. This reliance and acceptability of entitlements cements the role of state as provider and a firm and central part of citizen's lives. A number of European countries have been studied and it has been shown that young people (generation Y and younger) simply do not experience the same shame and stigma that older generations would have experienced if receiving assistance had become necessary. The social acceptability that surrounds welfare is a long-run adaption in behaviour which creates welfare cultures. A large part of what has caused this trend is for welfare payments to converge towards the middle class with the average Australian middle class household for example earning more from welfare each fortnight than they pay in taxes [\[vii\]](#). This suggests that

the welfare system has become a symptom of rent seeking – it is too unpopular to repeal unnecessary transfer payments because the middle class forms the majority of the population and can therefore pressure governments into passing laws which benefit them. Proof for this lies in the general ad hoc structure of these welfare systems in Neoliberal states. The USA for instance has more than 100 anti-poverty programs through six independent agencies, overseen by nine cabinet departments [\[viii\]](#). Each populist rent seeking demand has been met with a new welfare program leading to ‘unintended complexities, inconsistencies and incoherencies’ without any consideration for initial purpose of welfare [\[ix\]](#).

The state has continued its encroachment and this has negative effects on the way individuals perceive themselves – the state-individual relationship goes two ways. Individual rigour and work-ethic is being eroded away as people cherish, as seen with their vote, cradle-to-grave security as opposed to independence. What ramifications does this have for people’s conception of the state? The relationship of the state to people has often aptly been described as balancing citizens’ diminishing liberty with increasing attempts to maintain equality through the welfare state. Political economist Friedrich Hayek finishes this thought by laying out the consequences of such thinking: ‘A society that does not recognize that each individual has values of his own which he is entitled to follow can have no respect for the dignity of the individual and cannot really know freedom’ [\[x\]](#) When a relationship such as this exists – where the state treats individuals ‘as helpless children to be forever dependent’ [\[xi\]](#) – the idea that the state has been in retreat in the Neoliberal world becomes a fallacy. People rely more on the state now than ever before, and it is seen as a necessity in the modern Neoliberal world as a part of every day life – with or without pandemics wreaking havoc on people’s livelihoods. An extension of this reliance can be seen in people desiring the government to regulate business to protect them from

market forces.

The observation that the rise of Neoliberal thought coincided with a great reduction in government regulation is largely a myth. This relationship can be observed by industry policy and incentive tools like subsidies. An industry policy which reflects Neoliberal values should see a reduction in these indicators as it reflects the belief that government 'assistance' in the market does more harm than good to economic equilibrium. Australia has seen a 19.97 percent increase in the use of subsidies since the year 2000 [\[xii\]](#). Other nations with increased usage of subsidies include New Zealand with 5.46 percent and Canada with 6.21 percent increases over the same period.

Not only this but business regulation and industry policy is another avenue through which the state has grown. Centre for Independent Studies academic Michael Potter points the blame at increasing levels of government regulation for key businesses – costing the Australian economy along a total of 249 Billion in GDP annually [\[xiii\]](#). Using a public choice theory argument, he explains that the existence of these clearly detrimental and onerous regulations comes solely from a lack of ministerial commitment to meaningful Neoliberal reform – 'the benefits of regulation being identifiable and concentrated while the costs are more abstract and diffuse ... a reason for the growth in poor quality regulation' [\[xiv\]](#).

Again, the overriding perception that government is a key provider in individual's lives provides the electoral mandate for key industries to be heavily regulated. Industry sectors that deal with government contracts like health, education and utilities, have experienced the highest growth in prices over the last 20 years. This is because the growth in business regulations acts as a supply input cost which is largely passed on to the consumer. Some estimates put the cost of such red tape in Australian for example at 11 percent of GDP [\[xv\]](#). It is key Neoliberal philosophy and policy to let markets run

these traditional government led sectors because of the belief that markets are the ultimate resource distribution mechanism and that the state should be side-lined as a referee. This however has not eventuated in reality. As such, through the measures of subsidies and industrial regulation, the state is clearly not in retreat in the Neoliberal world.

Another form of regulation that has exploded in magnitude and impact is environmental regulation. In 1971, the then Australian Prime Minister William McMahon established the Department of Aborigines, Art and Environment and the increase in the sheer quantity of Australian environmental regulation since has been astronomical. In 1971 there existed 57 pages of Australian environmental law and as of 2016, 4669 pages existed. Environmental regulation in itself is not at odds with the Neoliberal agenda, but if it can be shown to distort markets then it certainly is the case. Simply put, environmental regulations form a barrier to entry for firms considering to enter a market with economic profits to be had. As polluting firms affected by environmental regulation typically have many input costs and large polluting outputs as a portion of the profitable product being made, the market for polluting firms is normally very concentrated within these business climates. The Neoliberal ideology purports that with the absence of the state, competition will act as regulator between competing firms, and yet this pro-regulation approach is detrimental to competition creating oligarchic markets. The state has become a separate entity within the market, bringing with it 'onerous' regulation to deal with alongside traditional business competitors essentially crowding out firms from the market. This influx of environmental regulation stands as proof that the state is more active than ever in the business market in the Neoliberal world.

Neoliberalism's aversion to fiscal policy, seeing it again as interference in the market place, leads to a purported disdain for structural deficits – or indeed, any deficits. Great

hypocrisy is shown however when Neoliberal governments continue expansionary fiscal policy despite putting forward the narrative of the state's fiscal retreat. A fiscal retreat is not the case; state debt-fuelled spending has been rife even before Coronavirus stimulus measures. A commonly-referred-to-example of this hypocrisy is Ronald Reagan and his administration. Under his governance, the United States saw the annual deficit increase by 68 percent – from 1.17 to 1.904 Trillion USD. The largest instances of government spending were seen in Defence which were implemented alongside considerable tax cuts – greatly increasing the government's fiscal presence in the macroeconomy. This expenditure of course is justifiable given the state of the Cold War at that time. It is just that Neo-liberalism is principle driven and doesn't like making exceptions in market principles for specific goals.

America's traditionally Neoliberal party: the 'Republicans have been remarkably successful in delinking taxes from fiscal policy, "framing" taxes as a distasteful personal burden unconnected to widely desired public goods like roads, food-safety inspections or clean water' [\[xvi\]](#). Defence was purported as a public good that needed funding, not an expansionary policy to which the growth seen at the time could be attributed. Similar trends can be found throughout the US's history which is mired with large deficits and exorbitant debt. When in reality, fiscal stimulus is rarely minimised, regardless of any crowding out effects and other detriments that may be debated, it cannot be said that the State is in retreat. It still plays as a huge part of GDP in Neoliberal countries – 37.9 percent and 36.1 percent government expenditure as a percentage of GDP in the United States and Australia respectively as of 2017 [\[xvii\]](#).

There are a number of metrics to show that the state has not been structurally in retreat in the Neoliberal world. If anything it is a much more important actor in the lives of

ordinary citizens than it was in Neoliberalism's ideological birthplace of the 1980's. The welfare state has continued its encroachment, pushing many unknowingly into long-term dependency in the name of maintaining automatic fiscal stabilisers. Deregulation is largely a myth, with vast public support for regulation of key industries despite their clear inflationary effects. Environmental regulation has merely burdened business with the onerous red tape that has replaced the industrial relations regulation that was recently repealed and finally, fiscal policy and Keynesian demand side management were never really repealed. Fiscal spending still occurred it was just called something else.

The failure of Neoliberal ideologues to fully implement their policies leaves two interesting inferences to be drawn. Firstly, it can be said that real, full-scale Neoliberalism was never really tried. Much of the economic faults and failures of the last four decades, the Neoliberals can say, were the work of Keynesians and proponents of big governments. The second implication deals specifically with environmental regulation. Many criticise Neoliberalism for its ability to inflate speculation in equity markets, but when regulation which inflates costs in the real economy exists, it pushes investors to speculate in these very markets. For example, an investor with a significant amount of capital may see the environmental regulations around a 'real' economy investment like a polluting factory less profitable than a speculative, electronic, equity investment that has no environmental regulations surrounding it. As such, financial deregulation which is commonly criticised by the detractors of Neoliberalism should be considered in a wider context of what types of regulation are in existence together. What has been shown is that although today's Neoliberal world is very different to the golden age of demand side management, the state still persists and is by no means in retreat.

[i] Bogel, Joachim 2003 'Welfare State', *Social Indicators Research* 64 (3) 373-391

[ii] OECD Data 2019 *General Government Spending*. Available at <https://data.oecd.org/gga/general-government-spending.htm>

[iii] OECD Data 2019 *Social Spending*. Available at <https://data.oecd.org/gga/social-spending.htm>

[iv] Centre on Budget and Policy Priorities 2019 *Policy Basics: Where Do Our Federal Tax Dollars go?* 29 January. Available at <https://www.cbpp.org/research/federal-budget/policy-basics-where-do-our-federal-tax-dollars-go>

[v] Tanner, Michael 2014 *The Welfare State*, 27 August. A report for the CATO Institute. Available at <https://www.cato.org/publications/commentary/our-welfare-state>

[vi] Tanner, Michael 2014

[vii] Novak, Mikayla 2015 *Australia's Middle Class Welfare Problem*. A report from the Institute of Public Affairs. Available at <https://ipa.org.au/ipa-tv/australias-middle-class-welfare-problem>

[viii] Tanner 2018

[ix] Department of Social Services 2015 *A Net System for Better Employment and Social Outcomes*. A report for the Department of Social Services.

[x] Hayek, Friedrich 1960 *The Constitution of Liberty*. Chicago: University of Chicago Press

[xi] Ronald, Reagan 1984 *Remarks at the Annual Conservative Political Action Conference Dinner*. Available at Presidential Library and Museum

[xii] Shuster, Philip; Schimtt, Carina and Stephan Traub 2013 'The retreat of the State from entrepreneurial activities: A convergence analysis for OECD countries, 1980-2007,' *European Journal of Political Economy* 32: page 102

[xiii] Potter, Michael 2018 'Red Tape and Australia's Economic Malaise.' A report for the Centre of Independent Studies: Occasional Paper 164. Page 9

[xiv] Potter, Michael 2018 'Red Tape and Australia's Economic Malaise.' A report for the Centre of Independent Studies: Occasional Paper 164. Page 10

[xv] Begg, Morgan 2017 *The growth of Federal Environmental Law 1971 – 2016*. A report from the Institute of Public Affairs. Page 2

[xvi] Lofgren, Mike 2016 *Republican Deficit Hypocrisy*, 15 January. Available at <https://www.nytimes.com/2016/01/15/opinion/campaign-stops/the-republican-deficit-hypocrisy.html>

[xvii] OECD Data 2019 *Social Spending*.