

Welcome to the first edition of *Between the Lines* for 2011. We start the year by considering what the role of government ought to be. Despite some spectacular failures of government policy in 2010 there is still a valuable and important place for bold ideas and the ambition to act collectively.

What would life be like without government?

In his 1981 inaugural presidential address, Ronald Reagan told the American public: "Government is not the solution to our problem. Government is the problem." Reagan was referring to an idea that had emerged in the latter half of the twentieth century from the writings of free-market economists like Friedrich Hayek and Milton Friedman, and which has reappeared in various guises to justify a range of attacks on the welfare state, including reducing pensions, slashing funding for education, and privatising public services.

This little idea has been remarkably resilient; in fact it's hardly changed at all since 1981. It has been used by some local commentators to argue that the problems with the Green Loans and insulation schemes prove that Hayek was right all along: government (particularly Labor Governments) should get out of the way and let the market do its job.

But is the distinction between good government spending and bad government spending so clear? It's curious how some of the present government's big ticket items (such as Green Loans, insulation programs and school halls) have been identified as costly fantasies, but the previous government's huge spending on the Pacific Solution and military commitments in Afghanistan and Iraq have been ignored.

Those who would argue the demise of Keynesianism and a return to Hayek's brand of economics are misrepresenting history; Hayek's work has been dogma among the economists who have been advising western governments for more than thirty years. In fact it was Hayek disciples who, as part of the Clinton administration, were responsible for removing the most important regulations placed on the U.S. banking system after the Great Depression, allowing room in the U.S. housing market for the unrestrained pursuit of free market first principles to bring the global economy to its knees during the recent financial crisis.

Milton Friedman's work, like Hayek's, has the authority of scripture among the "government is the problem" school of economists. What is striking about Friedman's work, and indeed the work of the anti-government brigade generally, is the absence of any understanding of the value of public programs that tackle problems at the structural level. The logic seems to go something like this: if, as Margaret Thatcher once said, "There is no society," then there can be no structural inequalities, and if there are no structural inequalities, why bother to fund structural solutions?

It's this refusal to recognise the possibility of supportive public programs that explains the hostility towards "expensive and grand designs" in government spending. But this misses the point that ambition is the essence of great public works. It has produced some of Australia's most loved icons, such as the Sydney Harbour Bridge, and some of its most appreciated public services, like Medicare.

It's true that failures in government policy, and in policy implementation, can have drastic consequences. There were serious problems with the implementation of the Green Loans scheme, and terrible consequences from the certification of dodgy insulators. But just because something has been done badly doesn't mean it can't be done better. The government needs to seek out examples of exceptional policy and practice, and then learn from its own mistakes.