

Essay:

Libertarian nation by stealth

Author:

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libertarian – A person who holds the doctrine of the freedom of the will, as opp. to that of necessity ... Believing in free will.

liberticide – A destroyer of liberty ... Destructive of liberty.

– *The New Shorter Oxford English Dictionary, Vol. 1*

Politics is a battle of contending story lines. Victory goes to the leader with the dominant narrative. After four federal election wins and a decade in power, Prime Minister John Howard must be judged a superior storyteller. The moment for analysing the storyline and holding it up against the reality is overdue.

I predict that eight words will live on from the Howard era: “relaxed and comfortable”, and “I make no apologies for ...” How did these eight words ease John Howard into more than a decade of national government? What is the intrinsic power they possess that helped transform the washed-up political has-been that was John Howard— an election loser in 1987, victim of an Andrew Peacock leadership coup in 1989, and subsequently overlooked twice by his party in favour of leadership alternatives John Hewson and then Alexander Downer in the early 1990s – into an election winner in 1996 that made everything that followed possible?

Both Australia and John Howard were traumatised in their own ways by events in the 1980s.

Australia began the decade with a catastrophic recession and devastating drought, after several years of stagflation in the 1970s. The mid-1980s were punctured by a massive terms of trade plunge and devaluation, necessitating an aggressive fiscal policy tightening and accelerated restructuring of the Australian economy. Two years later, in October 1987, world stock markets crashed. Liquidity engineered by central banks to cushion affected Western economies triggered an asset price boom. To cool Australia’s overheated economy, monetary policy was drastically tightened, and it eventually tipped Australia into recession. As interest rates soared, many workers lost their jobs, many mortgagees lost their homes, many businesses were crushed.

The infamous epithet of then-Treasurer Paul Keating – that it was “the recession we had to have” – implied that a thorough thrashing and purge was good for the economic soul every now and then. The people and businesses broken by the experience understandably didn’t like his attitude.

When the Liberal Party finally offered them a vaguely plausible alternative – the resurrected John Howard at the 1996 election – voters returned the favour and purged the Keating Government from office in a Liberal landslide.

The Hawke-Keating Labor governments of 1983 to 1996 never had a moment’s economic peace. With the exception of the recession that flowed from their monetary policy missteps in the late 1980s and early 1990s, they responded intelligently, creatively and decisively with economic reforms that fundamentally changed the nation’s prospects for the better.

It was traumatic for Australians affected adversely on the ground. Yet federal Labor kept winning elections with an exhilarating combination of almost wartime economic reconstruction rhetoric and sledgehammer politics waged against the Coalition.

As Opposition Leader from September 1985 to May 1989, John Howard was on the receiving end of that sledgehammer for much of the 1980s. The decade started with a win – the success of Malcolm Fraser’s 1980 election campaign, won in the final week with a capital gains tax scare conjured up against the Bill Hayden-led Opposition – but it was turbulent thereafter.

As Fraser’s Treasurer, Howard had to deal with recession and drought in the early 1980s, the bottom-of-the-harbour tax schemes flushed out by the Painters and Dockers Royal Commission, and then being cast into opposition with the loss of the 1983 election. Howard had been an indifferent Treasurer. Fraser’s tendency to micromanagement emasculated many of his ministers, including Howard – who was young when he was promoted into the job and lacked the organisational skill to harness his office and department successfully as a team against Fraser’s formidable staff economists and department.

The early years in opposition as deputy leader to Andrew Peacock were, in contrast, golden. It was then that Howard crafted his first coherent self-narrative: the questing libertarian reformer of the Fraser Government, frustrated by prime ministerial resistance. Howard was the self-cast white knight of libertarian reform, brutally crushed by the old-think liberal Malcolm Fraser, so the narrative went. Only Howard – and by clear implication *not* the then Opposition leader Andrew Peacock – could deliver the grail of economic deregulation, sweeping privatisation and attendant policy side-serves.

Howard’s peg for the narrative was his public stewardship, as Treasurer, of the Campbell Committee of Inquiry into the Australian Financial System towards the end

of the Fraser Government. The Campbell Committee recommended significant financial deregulation. Behind the scenes, it was widely known that the idea of the inquiry came from Fraser's office and was passed on to Howard to oversee with prime ministerial endorsement.

In fact, the perception inside the Fraser Government was that Howard had dragged his heels in establishing the committee and responding to its report. Nowhere has any official, academic or biographer unearthed credible evidence – Cabinet documents, for example – to support Howard's self-narrative of the frustrated libertarian reformer, in relation to the Campbell Committee or anything else.¹

But in terms of politics as played by politicians like Howard, facts can be barely relevant. Whether or not the narrative was factually sound, it worked brilliantly, reinforced by Howard's now open enthusiasm for breaking union power, selling public assets, cutting taxes and public spending, and generally walking down the Thatcher road.

Howard became the hero of influential libertarian reform advocates – the Centre for Independent Studies, the Institute of Public Affairs, the H.R. Nicholls Society, and many members of the "dry" policy ginger group inside the Liberal Party inspired by the work of backbenchers Bert Kelly and John Hyde in the late 1970s – for whom the term "Fraser Government" had become synonymous with "wasted opportunity". Howard became the toast of the Canberra press gallery, which loved his bold, decisive, intellectually coherent and internally consistent policy responses to whatever issue was thrown at him. As deputy leader of the Opposition between 1983 and 1985, Howard shone as he never had before and would not again until actually winning the prime ministership in 1996.

This did not happen in a vacuum. Howard's career as Fraser Government Treasurer and then newly libertarian Opposition deputy leader was sandwiched between University of Chicago economist Milton Friedman's Nobel Prize for Economics in 1976 and Rupert Murdoch breaking the unions at his Wapping newspaper plant a decade later. Reviewing Friedman's career, economist Paul Krugman pointed out that the concept of utilitymaximising *Homo economicus* has dominated economic thinking for the last two hundred years: "The hypothetical Economic Man knows what he wants; his preferences can be expressed mathematically in terms of a 'utility function'. And his choices are driven by rational calculations about how to maximise that function ..."²

Friedman's triumph as an economic theorist, Krugman argues, came from applying the "hypothesis of rational behaviour to questions other economics had thought beyond its reach". Friedman's student, and later University of Chicago colleague, Robert Lucas took it the final ten yards in his development of rational expectations theory in the early 1970s which, by the early 1980s, had come to completely dominate the economic landscape.

Then good fortune – or disaster – struck. In 1985, a series of internal political miscalculations by Andrew Peacock saw the Opposition leadership fall into Howard’s lap. It was the beginning of nearly four years of deep political misery.

The Hawke Government, especially Treasurer Paul Keating, was in peak political form, dealing heroically with economic crisis and reconstruction, and devastatingly effective in parliament. Liberal MPs were torn between those who thought Howard’s hard, dry policy outlook made him unelectable and those who thought the same thing about the political “soufflé” Andrew Peacock because of his lack of policy substance. The Opposition leaked like a sieve; every parliamentary Question Time brought new agony as Labor painted Howard the Opposition leader as a “New Right” extremist.

I have an abiding memory of observing Howard early one morning in the mid-1980s, standing stony-faced and still behind his desk in the Opposition leader’s suite in the old Parliament House, looking at the front page headlines of every metropolitan daily newspaper available in Canberra, every single one of them dire. Each month, as Opposition leader, he seemed to move further into the bunker, retreating from his colleagues, unable to persuade press journalists that the bold policies they had found exciting when he was deputy leader remained so. Towards the end, according to the inner circle, it was literally a case of John and wife Jeanette against the world.

Just before Peacock recouped the Opposition leadership in his surprise 1989 attack, Howard was interviewed by his former chief of staff, Gerard Henderson, who challenged him about why he seemed to be talking less about policy as his time as leader went on. Howard replied: “If there has been a mistake in our handling of things in the last couple of years, it is that we sounded a little too mechanical and not directional enough. But that doesn’t mean to say that I don’t want to talk policy ... *One of the frustrations for me in having led the debate in these areas is that I find I’ve won but we’re still in Opposition.*”³

So, while still Opposition leader, Howard felt he had won the philosophical battle but lost the electoral war over libertarian reform – that he had done the hard yards arguing the unpopular case, in the process making Labor’s economic reform task easier, but that he had been electorally punished for it.

In another interview with Henderson, this time after losing the leadership to Peacock, Howard revealed the other defining psychological scar from his first time in the Liberal leadership: lack of legitimacy. He believed that Liberal MPs had really wanted Andrew Peacock as leader and him as deputy, and that he was not perceived as the “legitimately installed leader” by his colleagues. “The problem I had was that I became party leader by accident. When I became party leader the party didn’t really want me to be its leader.

It’s just that because of the particular circumstances Andrew felt that he could no longer continue and obviously with him not there they were going to elect me

over anybody else ... I became leader by accident and I lost it by ambush. Neither of which bode well for the post-leadership change settlement.”⁴ Howard, in other words, seemed to have suffered a kind of “victor guilt” (perhaps akin to “survivor guilt”) because of the bizarre manner in which the Opposition leadership fell into his lap in 1985.⁵ This self-perceived lack of legitimacy is sometimes identified as a factor limiting Malcolm Fraser’s prime ministership. The argument is that, coming to the job via the dismissal rather than by conventional means, Fraser never really felt legitimate in the job and suffered a diffuse, subterranean guilt that constrained his performance.

Did it work that way for Howard as Liberal leader first time round, in the 1980s? Indecision, ambivalence about power, increasing and ultimately extreme isolation from staff and parliamentary supporters: the behind-the-scenes descriptions of Howard’s behaviour at the time by Gerard Henderson and others suggest this is the case. Henderson recounts an exchange as Howard shaped the new shadow ministry in 1985: “Exasperated, he turned to me and asked: ‘Are you sure we wanted this?’ Well, I knew I did. But from that moment I doubted whether Howard circa 1985 had the killer instinct that successful leaders need.”

So Howard’s take-out from his searing first stint as Liberal leader was this. First, that bold libertarian reform plans make one unpopular with journalists and voters, and make one a big target in parliament. Second, that the manner he had acquired power made him somehow illegitimate and implicitly guilty as leader – the kind of feeling that makes one feel involuntarily apologetic. And third, that there seemed to be good reasons for iron-willed, centralised control of the front bench and the party room by the leader – which Fraser practised (and Howard hated) between 1975 and 1983.

Was it any surprise, therefore, that when Howard got his second life as Liberal leader and approached the 1996 election, the memorable campaign rhetoric became his aspiration for Australians to be “relaxed and comfortable” under a Howard Government? No sign of radical libertarian reform there. No, Howard said, he would not break the unions; no, he would not sell off the family silver; no, there would not be a GST – never ever. Howard had learnt the lesson of the classical Greek orators that victory most often goes to the person who avoids the strident note and instead speaks in the voice of the “reasonable man”.

Nor was it a surprise, reacting against his earlier creeping victor guilt, and latching on to the libertarian crusade against so-called “political correctness”, that the words that should most easily roll off his tongue the second time round as resurgent Liberal leader should be: “I don’t apologise for ...”

So when government was his, Howard – like Fraser – ruled with an iron fist: punishment for dissenters, preferment for acolytes on a vast, systematic scale and unremitting application.

The Howard Government is John Howard. “Relaxed and comfortable” and “I don’t apologise for ...” are his and his government’s rhetorical shield and sword, centralised control of his government and increasingly centralised control of the nation his signature in office.

When the Australia still latently traumatised by the economic dramas and restructuring of the 1980s met the Howard apparently remade by his own traumas during the same period, it was as though two powerful magnets joined. Voters’ implicit compact with Howard at the 1996 election was that he wouldn’t put them through the reform wringer any more and that they, like him, wouldn’t have to apologise (for diffuse, unspecified sins) any more either.

The result was a massive victory for Howard: Labor lost thirty-one seats and slumped to 46.4 per cent of the two party-preferred vote. Less than one-third of seats in the House of Representatives were occupied by Labor MPs. It was a rout.

John Howard will go down in history as the stealth bomber of libertarian politics. British Prime Minister Margaret Thatcher (1979–90) was the libertarian trailblazer; US President Ronald Reagan (1980–88) was her trans-Atlantic twin. But in his ten years in office, John Howard has achieved a libertarian transformation of the public policy landscape in Australia no less dramatic in depth, no less ambitious in scope than either Thatcher or Reagan achieved in their own domains.

Even late in Howard’s disastrous first experience of Opposition leadership, he held fast to his plans, as made clear in Gerard Henderson’s interview with him in 1989 just prior to being toppled by Peacock:

Henderson: Industrial relations. Assuming a Liberal Government were elected tomorrow, what would you do?

Howard: Implement our policy root and branch. If we do that we’ll effect a revolution.

Henderson: Straight away?

Howard: Yes. Absolutely. Nobody should be in any doubt. Our attitude on industrial relations has not changed one iota. ⁶

The leadership loss, reflection on the negative political yield from his policy candour during that period and seeing the Coalition sunk by then leader John Hewson’s radical “Fightback!” platform at the 1993 election all taught Howard to keep his mouth shut publicly about libertarian reform. But Howard had not abandoned his plan to pursue it in office.

At the 1996 election, reform and restructuring-battered voters thought they were buying a breather from radical change when they elected Howard as prime minister. But, under the cover of the “reasonable man” voice and the soothing denials of radical

intent and persistent reassurance about the future of iconic institutions like Medicare and the Industrial Relations Commission at that election, Howard gave them the beginning of a decade's fundamentalist reform instead.

Over that decade, the rhetoric remained "relaxed and comfortable"; the reality was libertarian revolution.

But, with the patience and cunning of a person who has previously possessed power and then felt the keen pain of its loss, Howard made maintenance of power his overriding goal. The pace of the (latent) program was never allowed to outstrip the ability of voters to remain in a "relaxed and comfortable" lull. The agenda at any given moment was never allowed to be so crowded with transformational policy change that voters might be startled. Short, plain, bespectacled Howard, with his Akubra and the complete confidence of power, developed a "don't you worry about that" style, a suburban version of his old National Party *bete noir*, Joh Bjelke-Petersen.

The work of libertarian philosopher economists Friedrich von Hayek and Milton Friedman nevertheless forms the intellectual foundation of the Howard Government. The primacy of free markets as the underpinning of social and political freedom lies at the heart of the libertarian program. A decisive shift in power and resources from the public to the private sector is the keynote of libertarian policy change.

The central difference between the Howard Government and those of Margaret Thatcher and Ronald Reagan is that Howard never announced the revolution – he just quietly, over time, piece by piece, did it. By this means, at least until the recent passing of the Work Choices legislation, he preserved his government from any massing of popular opposition to change.

The central difference between the Howard Government and the Hawke/Keating Governments is that the Labor governments saw a crucial role for the public sector across the policy framework and actively used it – especially in relation to issues of economic inequality, about which libertarians are unconcerned. (Witness the widening wealth gap which occurred during the Thatcher and Reagan years in Britain and the United States, and in Australia during the life of the Howard Government.) The other main difference is historical. The Hawke/Keating Governments had to negotiate adverse international economic developments for most of their tenure while the Howard Government has enjoyed a massive terms of trade boom in the context of rapid global growth, the extra wealth a lubricant to ease policy change past any remnant voter resistance.

The all-embracing sweep of the libertarian approach is, generally speaking, not well understood. US legal scholar and Reagan favourite Robert H. Bork spelled out in his influential *Slouching Towards Gomorrah: Modern Liberalism and American Decline* (HarperCollins, 1996), published the year Howard won office: "Culture eventually makes politics." Bork wrote: "'Culture,' as used here, refers to all human behaviour and institutions, including popular entertainment, art, religion, education,

scholarship, economic activity, science, technology, law, and morality. [It] seems highly unlikely that a vigorous economy can be sustained in an enfeebled, hedonistic culture, particularly when that culture distorts incentives by increasingly rejecting personal achievement as the criterion for the distribution of rewards.”⁷

The libertarian logic is that, since personal freedom and the existence of free markets are inextricably entwined, and since – as Bork puts it – “vigorous” economies are vulnerable to being “enfeebled” by particular cultural practices, then the champions of personal freedom have a licence to police cultural practices – in the interests of freedom and economic vigour. Thus libertarians can reason that difference (for example, multiculturalism, homosexuality) must be eliminated so that the economy can function better – reasoning that is absurd, to say the least.

That the libertarians’ pursuit of their vision of personal freedom could therefore involve liberticide for others was not understood by voters when they embraced Howard at the 1996 poll. Australians did not think they were installing a government that would rule by dividing the community on race, sex, lifestyle and religious lines, reversing the social tolerance and cohesion that had progressed steadily in the postwar period.

Especially in Australia’s world city, Sydney, where Howard’s long-held economic agenda had many supporters among the business elite, what actually unfolded after the government took office in terms of explicit social division was a shock – a shock whose pain was quickly dulled by successive tax cuts massively skewed in favour of the wealthy. Enthusiasm for the divisive “dog whistle” politics the government practised from the moment it won office was notable among many blue-collar “Howard battler” voters and gave the government a big political return at subsequent elections in traditionally Labor-voting areas.

Multiculturalism, immigration, border security and indigenous policy all became sharp weapons in the government’s re-election toolkit. The “Culture Wars” so famously fought by libertarians in the United States were adapted for Australian conditions with verve by Howard. His crusade against the so-called “black armband view of history” is right up there with the most egregious American examples. The so-called “Australian values” debate, the mandating of a national history curriculum, depriving higher education institutions of proper funding, strategic staff and board appointments of Howard favourites to cultural and other bodies are all part of a piece, directed by the government to moulding Australia in its own image. When Howard hammers “political correctness”, it is not just a political line: it is the battering ram that primes the way for the libertarian initiatives that follow, conditioning social relations in a way that makes Australians ripe for acquiescence.

It would be a mistake, though, to see Howard as a pointy-headed, tract-reading libertarian intellectual. No one can remember catching him in his office curled up with a copy of Hayek. Conversely, one book remembered as being in Howard’s office in

the 1980s was *The Power of Being Debt Free: How Eliminating the National Debt Could Radically Improve Your Standard of Living* by Robert H. Schuller and Paul Dunn (Nelson, 1985).⁸

Published by Nashville-based Christian book publisher Thomas Nelson, this may have been more Howard's speed. Robert H. Schuller is "The Hour of Power" preacher, the televangelist with the world's biggest televised church audience, who claims Norman Vincent Peale (of *How to Win Friends and Influence People* fame) as a mentor. It is intriguing to speculate whether Schuller's affirmations scattered through a plethora of positive thinking books written before and after *The Power of Being Debt Free* helped Howard come back from political catastrophe. "Failure doesn't mean you are a failure, it just means you haven't succeeded yet" is one Schuller saying especially relevant to the Howard experience. It is the sort of affirmation to which he might even have been exposed at home growing up in Sydney's western suburbs.

Indeed, one of libertarianism's great comforts for those of modest intellectual standing is its explicit anti-intellectualism. Robert Bork makes clear that "intellectuals" are by definition "the other" and are therefore damned: "Intellectuals ... are often referred to as the 'chattering class', people who spend their time, and usually make their livings, by producing or distributing, at wholesale or retail, ideas and symbols. They need not be, and often are not, very good at dealing with ideas. They may not even be very intelligent or sensible ... The intellectual class, then is composed of people whose mindset is very like that of the student radicals of the '60s: hostility to this culture and society coupled with millenarian dreams. Those students ... had no direct responsibility for practical affairs, no first-hand knowledge of the world's workings, and hence were free to demand that reality be something other than what it was or could be. People so constituted are, in today's circumstances, necessarily of the Left."⁹

Howard's steady, systematic embedding of the libertarian policy agenda in Australia, largely without fanfare and often via backdoor means, can make his approach look ramshackle and puzzling in places – like that of the modestly bright service station owner's son from Earlwood that he seems to be. It contrasts with the flashy "Fightback!" of John Hewson (PhD in economics from Johns Hopkins University, former International Monetary Fund and Reserve Bank staffer, and University of New South Wales Professor of Economics), and the big, clean policy lines of Paul Keating.

But it has not made Howard less effective in terms of achieving his strategic policy ends. History shows that it has made him more effective. Hewson couldn't win the only election he led the Coalition to, and then couldn't hold on to the leadership long enough to get another shot. This was a tragedy for Liberals who wanted the economics of libertarianism without its nasty social agenda. Hewson was about the economics, not about the Culture Wars.

After unarguably the most impressive treasurership in Australia's history, Keating failed to keep the nation with him long enough as prime minister for Labor to reap the economic dividend and entrench itself in power. The result has been a decade of root-and-branch libertarian change at Howard's hands.

Howard's patchwork quilt of powerful changes tells the story. At first glance, it looks at best a case of policy playing a tactical second fiddle to the overriding strategic goal of maintaining power – with the Hawke Government looking favourable, in contrast, as one which managed to fully integrate its power *and* policy objectives.

But in fact Howard's tessellation of the task, his willingness to do any sort of political deal, to make any tactical changes and compromises necessary to get the central elements of his program up while still retaining office, has worked perfectly for him. Howard's practice of presenting as the "reasonable man", with appropriate rhetorical cover, while systematically and massively shifting the balance in Australia toward the private sector across four terms of office has been – there is no other word for it – masterful.

The rhetoric has been one of decentralised power, states' rights and co-operative federalism. The reality has been the centralisation of power embodied in laws like Work Choices, national curriculum requirements and the takeover of water policy for the Murray–Darling Basin.

The rhetoric has been about deregulation and light-touch government. The reality has been exponential growth in government regulation as the federal government centralises and extends its control.

The rhetoric has been about market solutions; the reality has been about setting up public institutions to fail through under-funding, and pointing to resulting shortcomings in performance as proof public institutions are no good in a bid to boost demand for private alternatives. At the same time, subsidies, direct grants and tax breaks have all variously been used to pump up those private alternatives. Public health and public education have now suffered a decade of this dynamic with predictable results.

The rhetoric is free trade. The reality is a plethora of preferential trade deals (misleadingly named Free Trade Agreements), bilateral and regional trade deals instead of non-preferential or multilateral trade deals.

The rhetoric has been about the protection of individual liberty. The reality has been the stigmatisation of indigenous Australians, migrants, homosexuals, the unemployed and people of certain religious faiths, and the reinforcement of traditional female roles. Externally, the reality has been tokenistic human rights representations in countries where Australia has major trade interests, including China.

The rhetoric has been about an apolitical public service. The reality is compliant public service where Westminster forms are retained but are hollowed out in practice by the government's active exploitation of contract employment and performance pay regimes.

The very messiness of this approach, its varying styles, differing timetables and, at times, its apparent contradictions have helped camouflage the audacious scope and scale of Howard's overall libertarian push. Unleashing what are virtually untrammelled market forces in the workplace through a massive increase in detailed, prescriptive legislation seems contradictory, yet it achieves the strategic goal.

Starving public education and public health of funds, thus guaranteeing their under-performance, while pumping funds into and boosting capacity in private education and private health can only have one result: more people choose private education and private health services. It is more subtle, but just as effective as vouchers.

The misallocation of water resources in the Murray–Darling Basin could be solved overnight by inducing the states to introduce a pricing regime that accurately reflects water's scarcity. Instead, the government moves to take over water powers in the Murray–Darling and buy out some water rights – less effective, but a move in the direction of more realistic water use and one that the government can survive politically.

One element which is not actually part of the libertarian agenda but serves Howard's purpose in implementing it is elimination of the previously "free and frank advice" culture of the Australian Public Service. Here the government has created the worst of all possible public service worlds – a "Washminster" system which combines the form of the traditional Westminster system of apolitical career public servants with the Washington system of politically sympathetic, or at least compliant, appointees in the public service's upper echelons.

Howard used changes naively made by the Hawke Government to public sector employment, namely the introduction of contracts for departmental heads and performance pay, to bring the public service to heel upon taking office. Frank and fearless advice is now something Canberra public servants read about in textbook histories of bureaucratic practice rather than practise or observe in real life.

The Latham legacy – an election loss by the Labor Opposition in 2004 so big that it handed control of the Senate to the government – saw Howard gain enough power to achieve the final remaining elements of his libertarian reform sweep: breaking trade union power and the full sale of Telstra. It is the first time Howard, the libertarian stealth bomber, has clearly broken cover.

The pro-private sector forces created by Howard Government spending patterns on health and education continue to work their way through those sectors. The desire

for ever lower and flatter tax rates remains a never-ending quest. But, by and large, in just ten years John Howard has seen his libertarian wish-list well on its way to completion and until the Workchoices legislation, all this with only the barest of public consciousness that the revolution has been fought, won and is now all over bar some shouting from the labour movement. It is no accident that the break in public opinion polls from early 2006, against the Government and towards Labor, followed Howard for revealing his true ideological complexion.

Can the gap between the rhetoric and reality of the Howard Government be reconciled and its apparent lack of political costs be explained? John Howard and Robert Lucas, the University of Chicago economist who developed rational expectations theory, both got big breaks in 1995 – Howard regained the Liberal leadership and Lucas won the Nobel Prize for Economics in recognition of the fact that rational expectations theory now reigned supreme.

But perhaps Howard had been reading more widely, and developing his own experience-based take on how the world works. It is behavioural economics rather than the rational expectations, so inextricably bound up with the Thatcher and Reagan administrations' operations, which seem to provide the answer to questions about how Howard pulled the local libertarian revolution off with barely any political pain. And interestingly, it is economists who have tipped us off that this might be the case.

Productivity Commission chairman Gary Banks headed the Reducing Regulatory Burdens on Business Taskforce for the government last year. In a speech on the taskforce's work, Banks pointed to increasing "risk aversion" in society as a driver of regulation creep, arguing that any adverse event these days tends to be laid at the door of government to fix. "The pressure on government to 'do something' is heightened by intense, if short-lived, media attention (sometimes referred to as the 'Alan Jones Syndrome')." ¹⁰

Readers of Chris Masters' *Jonestown* (Allen & Unwin, 2006) will appreciate just how real the "Alan Jones syndrome" is. In the culture of the Howard Government, Alan Jones' radio pronouncements are beyond important: they are critical. The Prime Minister's Office strokes him; staffers are specifically tasked to neutralise problems and smooth relations between him and ministers who have fallen out of his favour. But the key characteristic of "Alan Jones syndrome" is that his show is, at worst, a daily squall that passes when Jones' shift ends. He can only fulminate about one or two issues at a time. Media attention spans are such that few issues attract long-run attention.

In fact, the media's tendency to attention deficit disorder makes governments like that of John Howard tenable despite the gap between rhetoric and reality. Short news cycles mean that assessments about what is happening over the long run are unlikely to occur – and if they do, they ensure that those assessments are not the focus of attention for long.

Treasury Secretary Ken Henry explored the phenomenon in detail as it affects administration in Canberra¹¹ at the beginning of this year. Henry delivered what he described as a cautionary tale using the experience of his minister, his department and himself over public scrutiny of Treasury's cross-currency swaps strategy in 2002. The analysis drew heavily on the work of Nobel laureate economist Daniel Kahneman, "Maps of Bounded Rationality: Psychology for Behavioural Economics",¹² and drew conclusions about how things actually operate in the adversarial realm of politics.

First, "facts play poorly relative to perceptions". Second, "penalties and rewards are not scored symmetrically", with losses weighted more heavily than gains (ministers' risk tolerance is close to zero, he notes). Third, performance is often judged according to how well it plays – or could play – in the media over other factors. Fourth, "events in the short-term time horizon are overvalued relative to events at a distance".

In the guise of a beginner's guide to behavioural economics, Henry gave his audience an astonishing inside guide to how Canberra really works. The central insight of behavioural economics, he said, is that people form judgements intuitively, not rationally. Henry cites Kahneman's observation that people reason poorly and their behaviour is "not guided by what they are able to compute, but by what they happen to see at a given moment".¹³ Kahneman goes on to locate the origins of his approach in an intellectual tradition in psychology which emphasises "the power of the situation".¹⁴ It is in this space that John Howard is the master.

Henry underlined the insight that judgements tend to be made "quickly, effortlessly, automatically and emotionally" and are strongly influenced by "current stimulation". The media's role in this is critical and has little to do with the facts of a situation. "You may well have formed the view ... that all media stories are wrong. Well, believe it or not, that's beside the point. In the political environment in which you operate, what matters is not whether the story is true or false, accurate or misleading. What matters is whether the story is positive or negative, complimentary or critical, supportive or hostile."¹⁵

If politics is a battle of contending story lines, and if victory goes to the leader with the dominant narrative, what does behavioural economics tell us about how to win elections? It says that perceptions, not facts, emotion rather than reason, are the key; that people's propensity for short-time horizons is there to be exploited; that risk is to be avoided; that pitches must be brief, simple and capable of being processed quickly; and that there is a premium on "current stimulation" suggesting that powerful lures close to polling day are more persuasive than equivalent lures spread out over the term of office.

This is the complete Howard political playbook. And the rhetoric/reality gap? The propensity for short-time horizons ensures voters do not perceive it – that they cannot see the libertarian wood for the trees.

Nor is there a conflict, really, for Howard between the political framework provided by Kahneman's behavioural economics and the ultimate *Homo economicus* sketched by Friedman and coloured in by Lucas with his rational expectations theory so loved by libertarians. For Rational Man nestles comfortably within the "current stimulation" box of Kahneman's framework. When Howard pulls out the tax cuts and family grants come election time, he knows that is the time and place where behavioural economics and rational expectations converge.

Life in John Howard's Australia means being able to be "relaxed and comfortable" even as the libertarian revolution unfolds around you. John Howard won't be apologising for that, or anything else. ■

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- [1](#) Wallace, Christine, *Hewson: A Portrait*, Melbourne: Pan Macmillan, 1993, pp. 11–26.
 - [2](#) Krugman, Paul, "Who Was Milton Friedman?", *New York Review of Books*, vol. 54, no. 2, 2007, p. 15.
 - [3](#) Henderson, Gerard, *Australian Answers*, Sydney: Random House, 1990, p. 160; my italics.
 - [4](#) Henderson, Gerard, *Menzies' Child: The Liberal Party of Australia 1944–1994*, Sydney: Allen & Unwin, 1994, p. 289.
 - [5](#) Henderson, *Australian Answers*.
 - [6](#) Henderson, *Australian Answers*, p. 159.
 - [7](#) Bork, Robert H., *Slouching Towards Gomorrah: Modern Liberalism and American Decline*, New York: Harper Collins, 1996, p. 2.
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