



LIMITED GOVERNMENT

THE PUBLIC SECTOR IN THE
AUTO-INDUSTRIAL AGE

Peter Murphy



Limited Government

This book explores why, despite increased government spending on income-support, health and education, the costs of public goods are rising and their quality is declining. Charting the rise of big government, the author identifies a growing divergence between public-sector ideals and the realities of troubled political economies grappling with debt, deficits, ageing populations, improvident social insurance, declining education test scores and multiplying health costs. *Limited Government* analyzes in detail the social and political factors in major economies that drive up public spending, as well as the relationship between spending and outcomes. By developing an alternate model of public finances, and engaging in a critique of the managerial society, the author emphasizes the positive effects of self-management, social self-organization and technological automation, arguing that high-quality, low-cost goods are the result of nations that save, not states that tax. A sociological account of public finances, *Limited Government* outlines how governments can spend less and yet help ensure good broad equitable standards of health, education and income security.

Peter Murphy is Adjunct Professor in the School of Humanities and Social Sciences at La Trobe University, Australia and Adjunct Professor in The Cairns Institute at James Cook University, Australia. He is the author of *Auto-Industrialism: DIY Capitalism and the Rise of the Auto-Industrial Society* (2017), *Universities and Innovation Economies: The Creative Wasteland of Post-Industrial Societies* (2015) and *The Collective Imagination: The Creative Spirit of Free Societies* (2012).



Taylor & Francis

Taylor & Francis Group

<http://taylorandfrancis.com>

Limited Government

The Public Sector in the Auto-Industrial Age

Peter Murphy

 **Routledge**
Taylor & Francis Group
LONDON AND NEW YORK

First published 2019
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge
711 Third Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

© 2019 Peter Murphy

The right of Peter Murphy to be identified as author of this work has been asserted by him in accordance with sections 77 and 78 of the Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Trademark notice: Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library

Library of Congress Cataloging-in-Publication Data

Names: Murphy, Peter, 1949- author.

Title: Limited government: the public sector in the auto-industrial age / Peter Murphy.

Description: 1 Edition. | New York: Routledge, 2019. | Includes bibliographical references and index.

Identifiers: LCCN 2018024839 | ISBN 9781138894631 (hbk) | ISBN 9781315179896 (ebk)

Subjects: LCSH: Expenditures, Public. | Finance, Public. | Liberalism.

Classification: LCC HJ7461 .M87 2019 | DDC 336.3/9--dc23

LC record available at <https://lccn.loc.gov/2018024839>

ISBN: 978-1-138-89463-1 (hbk)

ISBN: 978-1-315-17989-6 (ebk)

Typeset in Times New Roman
by Deanta Global Publishing Services, Chennai, India

Contents

<i>List of tables</i>	vi
<i>Acknowledgments</i>	viii
1 Introduction: limited government	1
2 A self-organizing society	22
3 Ordered liberty	33
4 Social liberalism	41
5 The anxious society	48
6 The managerial society	60
7 Conservative realism	72
8 Political economy	81
9 Health 1	95
10 Health 2	124
11 Education	155
12 Income	182
13 Conclusion: auto-industrial society	202
<i>Index</i>	211

Tables

1.1	Public sector spending	2
1.2	US state and economy, averaged indicators for specified time periods	9
2.1	Long waves, US	28
8.1	Taxes: US federal government receipts by source as % of gross domestic product, 1934–2020	88
8.2	US federal debt, 1940–2015	92
8.3	General government debt as % of GDP, 2014	93
9.1	US labor productivity, hospitals and medical laboratories, 1993–2015	96
9.2	Contribution of health multifactor productivity to US private nonfarm business productivity, 1987–2014	99
9.3	US labor productivity medical services, 1967–1994	100
9.4	US labor productivity education and training, 1968–1994	101
9.5	US states health outcomes, spending and productivity	104
10.1	Percentage of health expenditure by source of expenditure, 2013	125
10.2	Total health expenditure per capita in constant 2015 dollars (PPP), 1930–2015	127
10.3	Health spending vs. health outcomes	129
10.4	Increase in government expenditure as a percentage of GDP, 1960–2000	131
10.5	Total health expenditure as percentage of GDP	132
10.6	Good value countries	135
10.7	Over 65-year-olds, percentage of population	136
10.8	Age distribution of US average healthcare spending per person, 2009	136
10.9	US coverage numbers and rates by type of health insurance, 2015	142
10.10	Number of full-time equivalent staff employed in NHS hospitals and community services by category, UK, 1951–2011	148

11.1	US primary and secondary education performance	156
11.2	Reading and calculation tasks not successfully performed by students in US NAEP testing	158
11.3	PISA, Programme for International Student Assessment, OECD, 15-year-olds	159
11.4	Government spending on primary and secondary schools, Australia, 1999–2016	161
11.5	Australian labor productivity, 2013	164
11.6	US literacy	171
11.7	US general social survey WORDSUM vocabulary test, by decade of birth	172
12.1	US social security and Medicare contribution-benefit ratios, 1940–2030	184
12.2	Household income, US, 1962–2016	186
12.3	Size of independent workforce, US, 2011–2017	188
12.4	Rate of self-employment, US, 1948–2014	189
12.5	Self-employed entities (nonfarm), US, share of business receipts and profits, 1980–2013	190
13.1	Australian city size	204

Acknowledgments

While I was writing this I benefited greatly from conversations with John Carroll, Peter Dansie, Peter Fenwick, Ken Friedman, Trevor Hogan, Vrasidas Karalis, Simon Marginson, Greg Melleuish, Anders Michelsen, Michael Moore, Brian Nelson, John O’Sullivan, Ken Phillips, David Roberts, John Rundell and Keith Windschuttle.

Thanks to the editors of *Quadrant* magazine for their kind permission to draw on material from ‘The Legend of the Nurturing State’, *Quadrant*, July–August 2016.

1 Introduction

Limited government

A century of spending

The facts speak for themselves. In 1830, the United Kingdom spent 10 percent of its GDP on public outlays.¹ The country had a GDP that was a little over 0.4 billion pounds. Industrial capitalism rapidly expanded the size of the country's wealth. By 1860 Britain's GDP had risen to 0.7 billion pounds. In the meantime, government spending had fallen to 9 percent of GDP. By 1890 GDP was 1.4 billion pounds and spending a still-modest 10 percent. Yet after the 1890s, something changed. In the first 15 years of the twentieth century, public outlays rose to an average of 15 percent of GDP. From that period onwards, public expenditure kept climbing.

The biggest leaps in twentieth-century public spending were connected to the First and Second World Wars (Table 1.1). Public expenditures invariably spike during wars. But in the twentieth century, having risen they did not return to pre-war levels once hostilities were over. This broke with previous experience. In the past, mass conflicts like Europe's deadly Thirty Years War (1616–1648) did not lead to a permanent increase in the size of the government. So something else aside from the effects of war was at play as the twentieth century unfolded. The fiscal consequences of the great wars of the century were folded into a larger and historically distinctive structural dynamic. The public sector in the major international economies expanded dramatically and persistently (Table 1.1). Britain spent 27 percent of its GDP on public outlays in the 1920s and 1930s. Then 36 percent in the 1950s, 39 percent in the 1960s, 49 percent in the 1970s and 51 percent in the 1980s. It declined in the late 1980s to 46 percent. This paved the way for the longer-term average of 46 percent through the 1990s and 2000s. From 2010 to 2017 this dipped slightly to an average of 44 percent. The trajectory across the decade was downward. Elsewhere, in other major economies, public spending grew from an average of 22.8 percent of GDP in 1937 to 27.9 percent in 1960 to 43.1 percent in 1980.²

The growth of the state was not uniform across the board. Some segments ballooned. Over the long run, other parts hardly grew at all. We see this if we compare the cases of defense, welfare, pensions, health and education spending along with the remainder (general expenditure). In 1900, public spending on these

Table 1.1 Public sector spending

Year	US Public Spending		UK Public Spending		Germany Public Spending		Australian Public Spending		Singapore Public Spending	
	US President	Total spending % of GDP	UK Prime Minister	Total spending % of GDP	German Chancellor	Total spending % of GDP	Australian Prime Minister	Total spending % of GDP	Singapore Prime Minister	Total spending % of GDP
	US President									
1880		3.0	Gladstone	8.5	Bismarck	11.3				
1881	Arthur	2.9		9.2		12.3				
1882		2.4		9.4		13.6				
1883		2.6		8.7		13.9				
1884		2.4		9.1		14.2				
1885	Cleveland	2.6	Salisbury	9.4		14.8				
1886		2.2	Gladstone + Salisbury	9.6		15.3				
1887		2.3	Salisbury	8.9		16.7				
1888		2.3		8.8		16.9				
1889	Harrison	2.3		8.7		16.9				
1890		2.4		8.5	Caprivi	18.1				
1891		2.6		8.6		18.8				
1892		2.4	Gladstone	8.6		18.7				
1893	Cleveland	2.7		9.0		18.1				
1894		2.9	Rosebery	8.7	Chlodwig	19.0				
1895		2.5	Salisbury	8.9		18.2				
1896		2.5		8.8		18.6				
1897	McKinley	2.5		9.0		18.4				
1898		2.9		8.7		19.5				
1899		3.5		9.5		18.2				
	108%^		97%^		127%^					

1900		2.9			11.9	Bülow	19.4		
1901	T. Roosevelt	2.6			11.9		20.4	Barton	1.2
1902		2.3	Balfour		11.9		21.0		2.5
1903		2.2			9.8		20.1	Deakin	2.8
1904		2.6			9.3		18.4	Watson + Reid	2.6
1905		2.3	Campbell-Bannerman		8.9		17.9	Deakin	2.6
1906		2.0			8.5		18.7		2.5
1907		2.0			8.2		19.2		2.4
1908		2.6	Asquith		8.4		20.0	Fisher	2.8
1909	Taft	2.3			8.8	Bethmann-Hollweg	21.6	Deakin	2.4
			92%^	111%^		105%^			
1910		2.3			9.2		21.2	Fisher	2.7
1911		2.2			9.0		20.8		2.7
1912		2.0			9.2		19.2		2.9
1913	Wilson	2.0			9.0		39.2	Cook	2.9
1914		2.2			27.0				3.0
1915		2.1			44.3			Hughes	5.0
1916		1.6	Lloyd George		71.3				7.2
1917		3.8			70.1				8.9
1918		19.3			57.0				8.9
1919		25.0			37.7				9.7
			258%^	351%^				225%^	
1920		8.5			27.2				8.0
1921	Harding	8.2			30.4				6.9
1922		5.9	Law		28.0				5.9
1923	Coolidge	4.9	Baldwin		28.1			Bruce	4.9
1924		4.4	MacDonald		27.3				5.1
1925		4.2	Baldwin		26.5		12.3		5.6
1926		3.9			28.4	Luther Marx	14.4		6.2
1927		3.8			26.9		12.8		6.0

1928		3.8			26.7	Müller	14.3		6.4
1929	Hoover	3.7	MacDonald		26.5		14.6	Scullin	6.3
	82%^		80%^					112%^	
1930		4.4			27.6	Brüning	16.7		6.9
1931		5.5			30.0		13.1		10.9
1932		8.9			31.0	Papen	13.1	Lyons	10.4
1933	Roosevelt	9.4			28.9	Hitler	12.0		7.4
1934		11.2			26.5		13.6		9.0
1935		10.0	Baldwin		25.9				8.6
1936		11.0			26.1				8.0
1937		9.4	Chamberlain		24.9				7.5
1938		8.9			25.8				7.3
1939		10.6			24.3			Menzies	7.9
	174%^		98%^					137%^	
1940		10.0	Churchill		31.9				9.5
1941		11.3			53.5			Curtin	14.3
1942		21.8			59.9				18.6
1943		40.9			65.9				26.2
1944		44.4			67.1				26.1
1945	Truman	45.7	Attlee		71.7			Chifley	24.2
1946		29.3			65.9				20.5
1947		18.0			55.6				17.1
1948		14.2			41.4				14.3
1949		16.7			36.9			Menzies	14.0
	283%^		203%^					220%^	
1950		15.4			37.3	Adenauer	27.4		13.3
1951		14.6	Churchill		32.6		30.4		14.0
1952		19.8			36.8		30.7		15.5
1953	Eisenhower	21.2			36.8		30.7		14.0
1954		20.3			38.4		31.4		12.6
1955		18.0	Eden		32.5		30.3		12.2

1956		17.6		34.9		29.9		11.9		
1957		18.2	Macmillan	36.2		29.0		12.3		
1958		19.3		37.6		29.4		12.2		
1959		19.6		36.2		29.7		11.4	Lee, K.Y.	
	73%[^]		65%[^]				69%[^]			
1960		29.7		36.8		23.4		24.2		
1961	Kennedy	30.9		35.1		29.7		25.8		
1962		31.1		37.2		30.0		25.1		
1963	Johnson	30.9	Douglas-Home	40.9	Erhard	30.1		25.4		
1964		30.3	Wilson	35.9		30.0		25.9		
1965		29.8		37.6		29.4		28.3		
1966		30.7		38.8		29.4	Holt	28.0		
1967		32.6		43.2	Kiesinger	30.2		28.8		
1968		33.0		43.6		30.1	Gorton	27.7		
1969	Nixon	32.6		42.3		31.2		27.1		
	169%[^]		108%[^]		98%[^]		206%[^]			
1970		33.7	Heath	46.0	Brandt	40.4		27.7		
1971		33.8		45.0		41.9	McMahon	28.4		
1972		33.6		46.0		42.8	Whitlam	29.4		
1973		32.8		47.3		43.5		28.9		
1974	Ford	34.1	Wilson	52.1	Schmidt	47.3		33.5		
1975		36.6		53.1		51.8	Fraser	35.5		
1976		35.6	Callaghan	53.7		51.1		36.2		
1977	Carter	34.7		51.3		50.7		37.0		
1978		33.9		50.6		49.3		36.3		
1979		33.9	Thatcher	49.7		49.2		35.8		
	109%[^]		126%[^]		159%[^]		123%[^]			
1980		36.1		52.5		50.3		36.7	Lee, K.Y.	15.3

1981	Reagan	36.8		56.4		51.5		37.2		17.9
1982		39.5		56.0	Kohl	52.0		40.8		16.2
1983		39.7		55.3		50.9	Hawke	41.4		16.5
1984		39.0		55.4		50.2		43.2		18.8
1985		39.9		53.8		49.6		43.9		18.0
1986		40.2		49.4		48.5		43.8		22.7
1987		40.2		47.2		48.7		41.0		27.0
1988		39.4		44.4		48.3		39.5		19.0
1989	Bush 1	39.5		43.7		47.0		39.1		17.6
	113%[^]		103%[^]		106%[^]		123%[^]			
1990		40.6	Major	44.8		47.4		40.4		17.1
1991		41.6		45.9		48.9	Keating	42.2	Goh	17.9
1992		42.2		48.0		50.3		41.7		16.5
1993	Clinton	41.5		48.1		51.3		41.9		14.6
1994		40.5		47.7		51.0		41.9		10.9
1995		40.6		47.5		58.4		40.9		11.9
1996		39.9		45.8		52.5	Howard	39.4		16.1
1997		38.7	Blair	44.1		51.6		37.5		13.6
1998		37.7		42.9	Schröder	51.4		37.3		15.7
1999		36.9		41.7		51.4		36.7		14.8
	102%[^]		88%[^]		103%[^]	51.4	98%[^]		78%[^]	
2000		36.3		39.5		48.3		37.6		15.8
2001	Bush 2	38.2		42.5		50.7		37.0		18.3
2002		38.7		43.1		50.9		36.2		16.3
2003		38.9		44.1		51.5		36.3		16.0
2004		38.6		44.9		49.9		36.2	Lee, L.H.	14.5
2005		39.0		46.2	Merkel	49.8		35.3		12.6
2006		38.7		46.2		48.2		35.0		13.1

2007		39.7	Brown	46.1		46.3	Rudd	34.9		12.2
2008	Obama	41.8		50.1		46.8		37.4		14.6
2009		45.2		53.3		50.8		38.6		14.4
	108%^		100%^			95%^	91%^		99%^	
2010		45.1	Cameron	53.4		50.4	Gillard	38.4		12.6
2011		43.7		48.2		47.1		36.7		12.9
2012		41.4		44.3		44.3		34.7		12.6
2013		39.8		44.1		44.8	Rudd	34.7		12.6
2014		39		42.5		44.5	Abbott	35.2		13.5
2015		39.3		41.3		44.1		35.7		16.7
2016		39.7	May	40.6		44.2	Turnbull	37.5		18.74
2017	Trump	35.8		39.4		44.7		36.8		19.14
	102%^		96%^			96%^	102%^		100%^	

^percentage increase over the previous decade.

Sources: IMF, Historical Public Finance Dataset 1800–2011, government expenditure as % of GDP plus government interest payments on debt as % of GDP (cf. ourworldindata.org/public-spending for calculation methodology); US and UK 2012–2016, ukpublicspending.co.uk, usgovernmentspending.com; Australia 2012–2015, Singapore 1980–2015, Germany 2012–2015, IMF Government Finance Statistics Yearbook 2016; Singapore 2016–2017, UK 2017, US 2017, Australia 2016–2017, Germany 2016–2017, IMF Fiscal Monitor.

in the UK consumed 3.87, 0.57, 0, 0.3, 1.36 and 8.05 percent of GDP respectively. In 2016, spending on the same devoured 2.39, 6.02, 8.25, 7.40, 4.48 and 12.1 percent of GDP.³ Across the century, defense spending declined while general expenditure increased quite modestly. In contrast, the share of GDP spent on welfare, pensions, health and education expanded radically: 10-fold, 80-fold, 24-fold and 3-fold respectively. The classic core of the state—as it had been constituted in the nineteenth century—was smaller at the beginning of the twenty-first century than at the start of the twentieth century. Amongst other things mechanization had made armies less expensive. Meanwhile the income-support and healthcare functions that the state acquired early in the twentieth century grew to such an extent that they dwarfed the old classic core.

The growth of state spending and public employment had a dampening effect on economies. Industrialism—in combination with modern capitalism, large-scale urbanism and the public sphere—had a catapulting effect on modern economies after the 1770s. What resulted was a massive and historically unprecedented expansion of wealth driven by increases in productivity. The fruits of this wealth were broadly distributed to populations through rising real levels of household income. A great upward spiral occurred. Increased affluence drove greater wealth that sought higher productivity that produced added real wealth that resulted in more prosperity that was reflected in greater purchasing power. But the pace of this beneficial upward spiral was slowed by one thing. Beyond a certain virtuous level, public spending inhibits economic activity (Table 1.2).

Good public spending is a function of necessity. Most human needs can be satisfied by multiple providers. But a limited number of needs are best suited to one provider. Private armies bring chaos, not order. Likewise private police forces. Neither are very efficient. Similarly, it would cause bedlam if a plaintiff and a defendant in a court of law could rest their cases on different systems of law. Nor does it make sense for me to build my own highway or try to control the spread of infectious diseases. As a matter of practicality, some things in life are best suited to a monopoly provider, namely the state. The state can directly provide these or else can license a private operator to do so. But even if the latter proves more efficient, there is still only one underlying payer. A private-toll, i.e. privately taxed, highway may well avoid cost-inflating construction feather-bedding. Even so, the state remains the ultimate owner of the highway.

But with the benefits of the state also come costs. Beyond a limited range of functions, the costs begin to outweigh the benefits. Why is this so? *First*, every dollar that the state raises has a cost.⁴ Taxation has to be complied with, administered and enforced. This is an expensive way of raising revenue. Much more so than savings and investments. *Second*, the primary media of the state—instructions and rules—are time consuming compared with the media of promises and patterns that are widely used in markets and industries. Laws that are based on general principles are efficient. But the micro-rules of government regulation are not. Overall, government spending is significantly more wasteful than private spending. The problem is not so much that public sector employment is ‘unproductive’ as Adam Smith (1723–1790) put it.⁵ Rather its productivity is low

Table 1.2 US state and economy, averaged indicators for specified time periods

Time periods	Public spending as % of GDP	State sector (government) employment as % of total nonfarm employment	Education and health services as % of total nonfarm employment	Number of pages of US <i>Federal Registry</i> regulation book	GDP per capita (USD constant 2010 prices)	GDP per capita increase or decrease on previous time period	Annual multifactor productivity percentage growth
1891–1913	2.5				\$7,147		1.26
1913–1928	6.6				\$9,486	133%	1.51
1928–1950	15.9	12.9		9,074	\$12,706	134%	3.36
1950–1964	21.9	15.1		11,598	\$18,165	143%	1.75
1964–1972	32.1	17.2		20,059	\$23,989	132%	1.53
1972–1979	34.5	18.5	7	53,449	\$28,200	118%	0.98
1979–1988	38.4	17.4	8.5	60,646	\$32,871	117%	1.01
1988–1996	40.7	16.9	10.6	62,100	\$39,049	119%	1.18
1996–2007	39.2	16.1	12.2	75,147	\$47,678	122%	1.95
2007–2016	41.0	15.7	15.5	80,743	\$50,546	106%	0.50

Sources: IMF, Historical Public Finance Dataset 1800–2011; Rose, Table 7.3; Belman, Gunderson, Hyatt, Table 2; Anderson, Table 2.6; US 2012 Census of Governments: Employment; US Bureau of Labor Statistics, Employment, Hours, and Earnings, 2012; Tucker, Table 1; Gordon, 2010, Table 4; OECD multifactor productivity, annual growth rate (%), 1985–2016; OECD, Public administration, defence, education, health, social work, % of value added, 1970–2016; Economic Report of the President, series 1950–2016.

(Tables 9.1, 9.2, 9.3, 9.4 and 9.5). By applying machinery to production, industrial capitalism unlocked the secret of productivity. But public-sector organizations routinely resist the logic of industrial society. Consequently, the larger public-sector employment is, the greater the drag on a nation's economic productivity. This affects its wealth, prosperity and general well-being.

From natural rights to purposive organizations

Through the nineteenth century an invisible ceiling applied to public expenditure, at around 10 percent or less of GDP. There were exceptions, like Bismarck's Germany (Table 1.1). But the exceptions proved the rule. Ten percent of GDP was the natural limit of limited government. It meant, in effect, a 'night watchman' state devoted to defense, law, order and essential public infrastructure. It had the same means of acting as any state has. It could compel behavior by law or force. What made it different was that it mobilized such means in the service of a clearly defined set of purposes. The function of the minimal state was to protect persons, property and promises and, where necessary, provide public works when private works did not suffice. Whether the state acted by means of law or force, it did so in principle for a limited range of purposes. But where did such purposes come from? Ultimately, they are rooted in the doctrine of modern natural rights formulated by the seventeenth-century English philosopher John Locke (1632–1704).

Locke's key proposition was plain and simple. The state existed to protect an individual's 'life, liberty, and estate'.⁶ In a more expansive formulation of this he proposed that state power was properly limited to the preservation of the 'civil interest' of an individual. This was a person's 'life, liberty, health, and indolency of body; and the possession of outward things such as money, lands, houses, furniture, and the like'.⁷ Indolency referred to the absence of pain. The American Declaration of Independence (1776) restated Locke's sentiments in hard-boiled prose: 'We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.'

Like all general principles, the idea of the natural rights of the individual was subject to interpretation. In some twentieth-century interpretations the right to life was transformed into a 'right to health care'. In other interpretations 'life' suggested a moral duty of the state to outlaw abortions. In still other interpretations 'life' was translated into a 'right to a minimum living income'. In the nineteenth century, the idea of property was subtly refigured to include skills and talents. What followed from that was the assertion that individuals had a natural 'right to an education'. Education provided by the state was deemed necessary to develop the gifts of every person into express and useful talents. In such ways, the doctrine of natural rights evolved into a doctrine of social entitlements and human rights. Classic liberalism turned into social liberalism. What accompanied this was the evolution of the small state into big government.

Lockean liberalism was built on the idea of natural rights. 'Nature' implies something unchanging. Yet Locke's concept, reinterpreted over time, was

dynamic. The modern idea of individual natural rights differed from the classic idea of nature. The former prescribed the legitimate ends of the state. The latter drew attention to the shape and form—the *kosmos* or order—of society.⁸ All societies are part-order and part-organization. The distinction between natural rights and natural order reflects two views of society. One says that what matters is organized action. The other says that what's important is society's self-organizing pattern-order.⁹

There is a degree of overlap between these two views. A society invariably contains both order and organization. The key question then is: in what proportion do these factors properly co-exist? What is the right mix of the two? In the twentieth century, organization had the upper hand. In the century before, pattern-order dominated. Neither of these histories tell us what mix will dominate in the future.

In the nineteenth century—and before that in the eighteenth and seventeenth centuries—the liberal party, that is, those who looked to natural rights, paid little attention to the question of the *eidos* (the form, shape and pattern) of society. They preferred instead to direct attention to society's organizations and in particular to the state. In so doing, the advocates of natural rights sought to limit the state—society's largest organization—to the pursuit of specific enumerated ends. Such ends, however, had a tendency to inflate. So over time, the classic liberal party evolved into the party of social liberalism. The small state with circumscribed ends gradually morphed into a big state with expansive ends. The liberal party turned into its illiberal opposite.

In theory, classic Lockean-liberal limited government is an organization that employs legal direction and physical compulsion for defined purposes. It does so against individuals and organizations, including other states, that rely on force or fraud or deceit to attain their ends. The state uses compulsion where necessary to protect individuals in emergencies and against enemies and dishonest or violent persons. Otherwise, it observes the principle of non-interference. Governments with limited purposes are less oppressive and less able and willing to interfere with the liberty of individuals to do as they choose subject to the liberty of other individuals. That is to say, limited government is not paternalistic. It does not tell individuals what to think or say, how they should live their lives or what they should spend their money on as long as those individuals don't interfere with the liberties of others. It respects the independence of persons. The nineteenth-century French liberal Benjamin Constant called this the 'liberty of the moderns'.¹⁰

The philosophy of modern natural rights provided what seemed initially to be a powerful justification for limited government. The state existed for the specifically defined purposes of protecting each individual's natural right to life, liberty and property subject to the life, liberty and property of others. The state also recognized artificial persons in addition to natural persons. Non-state organizations by analogy possessed life, liberty and property. That was the theory. As to the practice: over time the meaning of 'limited' expanded. It began principally with real persons but grew to include many fictional persons. Universities, schools, hospitals, clubs, associations, firms and corporations expanded in scale and influence. This accelerated in the course of the twentieth century, which

became the age of organizations. In step with this, limited government became increasingly unlimited.

Pattern order

Attributing defined purposes to the organization of government is not the only underlying principle of limited government. Adam Smith argued that the state should be limited to four key functions: defense and the administration of justice in the first instance, a contribution to public infrastructure and education offset by user fees in the second instance.¹¹ Yet Smith's outlook was not simply a re-statement of Locke. Smith's idea of a natural order of things was distinct from Locke's natural-rights-based state. Smith turned attention away from state organization to society's pattern-order.

Imbued with natural rights, Locke's individuals are free to make choices. They can make good choices or bad choices. In principle, the state does not interfere with their choices except when those choices interfere with other individuals' power to choose. Government is not omniscient. The officers of the state do not know better than the citizens, subjects or legal residents of a state. Locke observed that individuals had the 'power to think, or not to think; to move, or not to move, according to the preference or direction' of their own mind. Adam Smith agreed but also observed something else in addition to this.

Locke's limited government is concerned with relations between individuals. The state applies and enforces laws (i.e. general rules of conduct) to stop individuals behaving violently or fraudulently against each other. The state exists in order to uphold peaceful, civil and honest dealings between individuals whether they are acting alone or else part of an organized body. From the single individual, solitary person and sole trader to the family business and partnership to the firm, corporation, charity, hospital, school and university, the principle is the same. It encompasses real persons and legal persons, actual individuals and artificial ones. In a free society, individuals are not subject to the paternalism of the state. They are (mostly) free from the state's direction. They have the liberty to consume, trade, produce, invent, dress, think and speak as they choose. The state exists in order to reconcile the freedom of one person, organized or unorganized, with that of another, by prohibiting force and fraud in their many and varied guises.

Locke's individuals have a two-fold relationship to the world. Either they are unfree or free. When they are unfree they are caught up in some social or political hierarchy. Hierarchies vary. They include clan, tribal, patrimonial, feudal, legal-rational and procedural hierarchies. When persons act freely, they decide on purposes and initiate courses of action for themselves. They cooperate with others by making promises and contracts, and they compete with others by the means of industry and invention. Yet, as Adam Smith recognized, this kind of free action cumulatively amounts to something more than simply relations between individuals. As liberty grows, it also scales. Free action acquires features that are collective as well as individual in nature.

Large-scale free collective action of this kind is different from the ‘collectivism’ of the twentieth-century command economy or its distant relation the interventionist state. The command economy was an attempt by totalitarian states to subject all social activity to a single all-consuming political hierarchy. As its name suggests, everyone in a totalitarian society is subject to its commands and instructions. It dictates literally what people can produce, who can produce it, what persons can buy, at what price, and what they can view, hear, and say.

The interventionist state is much more piecemeal in its approach. It’s a polyarchy. It generates multiple official hierarchies to regulate diverse kinds of activities. These range from local government planning committees to national environmental authorities to international customs unions. Each of these are organized as legal-rational bureaucracies. They are subject to rules and procedures. No one of these distinctly modern procedural hierarchies absorbs the whole of society. Rather, each regulates part of it. In addition, non-government organizations proliferate side-by-side with government organizations both in the public sector and private sector. These appear in the guise of firms, charities, universities, sports clubs, hospitals and schools. They enact procedures and codes. These rules authorize or prohibit an ever-widening range of action. Combined, government and non-government organizational hierarchies in the twentieth century generated a new kind of ‘rule by rules’.

Free action on a large scale is different in nature from either totalitarian collectivism or liberal interventionism. Nonetheless, it has a collective character. It is more than individuals acting with initiative, ambition, industry and judgment to achieve purposes and reconcile freely undertaken purposeful actions with the free purposeful actions of others. The liberty of persons to think, move, do and forbear also has a systematic character. This means that the free choices of individuals—the natural liberties they exercise, interacting with others, cooperatively, competitively, in tension and harmony—is meshed into remarkable systems of large-scale social order. The state finds it difficult to create or direct these systems. Rather, they are self-organizing or autopoietic.¹² They self-assemble in ways that their participants are often not even aware of. They shape behavior but mostly in tacit ways.

Human beings are self-conscious. They are aware of the world around themselves and they are aware of this awareness. They set goals, possess intentions, form ambitions and pursue them. To minimize clashes of purpose and ambition, and in order to combine for common goals, they utilize hierarchies and rules. But beyond hierarchies and rules, they also cooperate through patterns and forms.¹³ Where hierarchies and rules are explicit, patterns and forms are implicit. Where the former are intentional, visible and overt, the latter are implied, invisible and unspoken. One is direct; the other indirect. Patterns and forms can be made explicit. They can enter into deliberate decision-making. But just as often they work quietly in the background.

Take the case of choosing a restaurant. Imagine a person on Main Street looking for somewhere to eat. There are numerous options. Explicit criteria are weighed up (‘I think I’d like a Chinese meal tonight’). But other tacit factors enter into the

decision. The person walks down the street looking at the alternatives. Some restaurants are crowded. Others are nearly empty. The Chinese one is 95 percent full. What started out as the likely favorite is dismissed. People like to eat in places that are neither too empty nor too full. Around 60 percent table occupancy is the most desirable. This is a pattern that shapes human behavior.

So then, if patterns shape human behavior, what shapes patterns? How do we explain morphogenesis? Patterns reconcile opposites. They take contraries of all kinds and join them together in pleasing ways. In the case of restaurant patronage, the preferred table-occupancy pattern reconciles emptiness and crowding. A venue that is 10 percent or less occupied can induce in us a mild sense of the *horror vacui*, the fear of empty space. Conversely, over 70 percent occupied, we start to become more uncomfortable at the thought of squeezing in. We tend to feel most comfortable around the 60-percent-full point where fullness and emptiness are in a kind of equilibrium.

Pattern order affects most human behavior. A social media marketing company asks: what is the right mix of promotional content, owned content and curated content?¹⁴ Its answer: 10:30:60. Something similar applies to color schemes for interior decoration. Tripartite schemes are often aesthetically pleasing: 10 percent accent color, 30 percent secondary color, and 60 percent primary color.¹⁵ The tie, shirt, suit jacket combination follows the same proportionality. As does the ratio of fixed items, accessible space and furniture in an attractively laid-out lounge room. 10:30:60 is also a way of proportioning by volume cement, sand and aggregate in a concrete mix for building foundations.

What makes the division of something into (a) 10 percent (b) 30 percent and (c) 60 percent parts so resonant? Unit *a* is one third of unit *b*; unit *b* is one half of unit *c*. In themselves, neither of these fractions, a/b or b/c , is of great explanatory interest. The ratio of these fractions, however, is interesting. It is close to 1:1.6. It approximates the golden ratio, ϕ , *phi*. Whether it is arranging a lounge room or choosing business clothes to wear, the mind mixes three elements in ideal proportions. Such proportions resonate through art, society and nature. The point being that such schemata are not unusual. In fact, they are pervasive if often tacit in human experience. Human beings deploy them usually without explicitly knowing what they are doing. We often feel uneasy when we depart from these inexplicit patterns that are built into the fabric of nature, even if we can't necessarily say why.

Income-support, health and education

The large growth of the state in the twentieth century was premised on the assumption that state-organization was better than self-organized order. Organization was key to income-support, healthcare and education. So the state entered these fields in a large way. It began to provide retirement pensions, welfare income, hospitals, doctors, schools and universities. It did this directly itself or else indirectly by subsidizing public and private organizations, or by regulating these. It funded the expansion of non-government public and private sector organizations along with

the expansion of government. This was paid for by increasing levels of taxation. The taxation state increasingly supplanted and crowded out the savings-based provision of health, education and retirement income.

The public provision of income-support, healthcare and education was popular with voters. Yet the consequences of the state funding of these goods often proved less popular. Take the case of income-provision (see chapter twelve). On the surface it sounds good. Yet state pensions can never rise beyond a fairly austere minimum because state money is inert. It is not investable. As in the examples above, nature's 10:30:60 is also a method of calculating private retirement income. Ten percent of such income is typically sourced from money that is saved during a person's working life; 30 percent from the investment returns before retirement; and 60 percent from investment returns during retirement. So while the state might be benevolent in its intention, the consequence of state pensions is to immiserate retirement income. State-provided income is a function of zero-sum taxation rather than growth-orientated saving and investment. Purposive organization rarely matches the performance of pattern order.

Cities are one of the great examples of pattern order. Their flexible patterns house millions of people. Historically, in the major economies, the 'multiple' of 'median house price to median income' was in the 2s and 3s.¹⁶ It took the equivalent of somewhere between 2 years and 4 years of household income to pay off a house. Today, in many major economies, the multiple has risen to 8 or more.¹⁷ There are two reasons for this.¹⁸ One is the relatively poor productivity of the domestic housing industry. The second is that national, state and local government spending expanded four-fold in a century. This expansion required money, specifically tax money. Some taxes are explicit; others are hidden. Governments like to hide taxes if they can. Voters like the idea of state-provided goods. They are less happy to be taxed to pay for them. So governments institute stealth taxes. This explains the increased cost of housing. Governments impose on housing heavy property taxes or lengthy regulatory processes with fees attached to them. The natural proportion of three years of household income to pay off a house is distorted and undermined by governments hungry for revenue.

Publics are another prime example of self-organizing order. Modern life is built on the printed word. Books, newspapers and magazines, and the high literacy that underpinned them, grew up spontaneously over the centuries after the invention of Gutenberg press. A society that is well read benefits from increased levels of creativity and invention, pattern thinking and disciplined reasoning, and from the cognitive character traits of persistence, focus and concentration. Government funding of classrooms expanded three-fold in the twentieth century (chapter eleven). Did society's capacity to read expand accordingly? Not at all. Today, children read less. Adults read less. Word proficiency has sunk in the course of the century. In many advanced societies, student reading, writing, science and mathematics test scores have been static or have declined in recent decades while government spending on schools has risen dramatically. This suggests a major misallocation of resources to an institution (the classroom) that does not improve learning.