



the  
fragility  
of *freedom*  
Why Subsidiarity Matters

Peter Francis Fenwick



## Prologue

*It's the best possible time to be alive, when almost everything you thought you knew is wrong.<sup>1</sup>*

### *What is wrong?*

If you are like me, you know in your heart that things are not right, and you wonder why. Major economic problems such as unemployment and insufficient funds for government spending on pensions, health, education and infrastructure seem intractable. Nowhere have the problems that caused the global financial crisis (GFC) been addressed and no one has been brought to account. Too often, leaders in politics, religion, business and the trade unions have been exposed as corrupt and self-serving; they have abused positions of trust.

I seek a better world where people are free to live their dreams in peace and have opportunities to develop their talents to the full. Where virtues such as responsibility, love, hope, charity, prudence, justice, fortitude, thrift, diligence, industriousness, reliability, trustworthiness, courage, civility, generosity, hospitality, duty and honour prevail.

### *The political failings of the twentieth century*

On 9 November 1989, the Berlin Wall fell and the communist experiment was over. Established with so much hope and intellectual support, it had delivered poverty, destroyed trust among its citizens, and terrorized, censored and imprisoned those who disagreed with the party line. The contrasts between East and West Germany were palpable, similar to those seen today between North and South Korea.

Less than twenty years later, in 2008, the GFC exposed the weaknesses of unregulated capitalism. Governments in the USA and Europe had to protect their economies by bailing out financial and industrial companies that were "too big to fail". The conventional opinion was that market regulation had failed and that stricter regulation was required. More considered views suggest that the failures in London and New York, and the subsequent problems in Greece and other European countries, exposed the errors of the welfare state and crony capitalism.

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<sup>1</sup> *Tom Stoppard, Arcadia*

The beneficiaries of the welfare system had not been the poor and the disadvantaged; they had been those with influence who could capture and manipulate the system. The widely held belief that the liberty and prosperity that comes from free enterprise can be maintained at the same time as it is shackled with interventions, regulations, and wealth transfers to favoured groups is no longer credible.

The state has become pervasive in our lives. We have lost the belief that we can do things ourselves. We live with the peculiar notion that if we cannot afford some desired service it should be provided by the government. A cargo cult has developed in which the state has an inexhaustible supply of funds. The consequences are unmanageable debt, unsound money, poor investment decisions, and unfair burdens on the productive, the thrifty and the young.

### *The error of distributive justice*

For most of the last century, the prevailing view has been that it is a legitimate role of government to redistribute income and wealth; to enrich some people at the expense of others. The principle began innocently enough. In theory, the state takes from the rich and gives to the poor and the disadvantaged. In practice, the benefits are usurped by those with political influence to capture the regulatory process for their own ends.<sup>2</sup>

Once the state is allowed to enrich some groups at the expense of others, it creates the motive for political influence and the mechanism for the illegitimate use of the state for selfish interests. As detailed in chapter 5, the consequences of this mistake have been dire. A sense of entitlement prevails. Individuals lack responsibility. Power is abused. Civil virtues decline.

### *The problem of electoral representation*

Newly elected political leaders proclaim that they will govern for all constituents. That never happens. Our democratic system ensures that politicians act in the best interests of themselves, their party, their electorate, and the sectional interests that support them. They do this at the expense of the wider group.

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<sup>2</sup> The term “capture” was coined by Chicago economics professor, George Stigler, writing about the economics of regulation.

We sense that we are being disadvantaged so that the government can fund benefits to others. We ask for our share and the spending spirals out of control. It can happen in small ways. Funding may be made available for a local sporting team's new facilities, or the city's opera society. A railway crossing upgrade may receive priority, or a new local road or railway line may be extended. It can happen in large ways. Aggressive wars may be initiated which provide business opportunities for political colleagues and work opportunities in selected electorates. Well-funded sectors may influence policy through lobbying, advertising, and bribery. Those in the know may purchase property in advance of government rezoning that dramatically changes its value. Consequently, government spending rises well beyond what people are prepared to pay for in taxation and for the rest the state goes into debt, putting the burden on the next generation.

Following a dramatic fall in expected revenue, the Australian Federal Budget for 2013 was framed in a way to minimize the deficit. And yet ...

It was a single line in Wayne Swan's budget papers, but the \$2.2 million handout for a new surf clubhouse at Crescent Head on the NSW mid-north coast was the latest in a long line of big victories for Rob Oakeshott.

Four years after the independent won \$2.7m of federal money to rebuild the Wauchope-Bonny Hills Surf Lifesaving Club in Port Macquarie, it seems that while the rest of the country is tightening its belt, the only cutbacks in Mr Oakeshott's electorate of Lyne are those being performed out on the waves. Other surf clubs in the electorate to win federal government funding for redevelopment and equipment acquisition projects in this year's budget were Black Head (\$47,500) and Crowdy Head (\$50,000). Another \$317,500 will be distributed to community clubs and facilities in Lyne, including Taree Motorcycle Club, Tinonee Community Hall, Wingham Scouts and Cundletown Soccer Club.<sup>3</sup>

Politicians must buy favours to fund expensive election campaigns. Jeffrey Sachs in *The Price of Civilization* describes how US Congressmen are more beholden to their electoral funders than to the ideals of their party. A Democrat who might be in favour of environmental protection will vote against a bill that would impose effluent treatment costs on the petrochemical plant in his electorate. He may be against war but will vote in favour of increased defence spending because of the armaments factory that employs so many of his voters.

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<sup>3</sup> Stephen Fitzpatrick, *Swell's up as funds flow to Oakeshott*, *The Australian*, 16<sup>th</sup> May 2013.

The solution is not to bemoan declining morals, but to reduce the role of government to its essentials and to separate the creation of laws from their administration. Parliament should create general laws and allocate funds for general purposes, but give the power over particular allocations to separate, independent, professional organisations. Moreover, the latter should be subject to judicial review to ensure that their decisions are competent and unbiased. In this way the problem of ministers overriding expert advice for their own financial or political interests will be avoided. Infrastructure decisions provide a good example. Instead of government making ad hoc project choices for political reasons, it would be better if they decided on the overall level of funds and a professional planning authority decided on which roads to build and when.

Freed from the politics of buying favours, the quality of our politicians' decisions might improve. They might focus on policies for long-term benefits that are general in their application, rather than being confined to benefitting a particular person or group. They might become more statesmanlike.

Parliamentary democracy is a pillar of a free society. However, the benefits are lost when the politicians representing their constituents believe that their role is to win favours for their sectional interest. Simply having a democratic form of government, with elections every three or four years, is of itself insufficient. We need to ensure that political power is dispersed, that there are opportunities for active participation, and that government decisions are transparent and subject to scrutiny.<sup>4</sup> The case of Eddie Obeid illustrates the point:

In August 2013, the Independent Commission Against Corruption, after an historic three and a half year inquiry into NSW political corruption, recommended criminal charges against former state Labour ministers Ian Macdonald and Eddie Obeid. The ICAC found Mr Macdonald, Mr Obeid and his son, Moses, corruptly agreed to create a mining tenement over the Obeids' farm in the Bylong Valley in 2008. The decision enriched the family by \$30 million and potentially more than \$100 million.

Mr Obeid, a former NSW mining minister, was a highly influential figure in successive state Labour governments. He was the leader of a powerful sub-faction of the parliamentary Labour Party's dominant Right faction, the Terrigals, which the ICAC heard had 'disproportionate power' over the government, including the selection of premiers and ministers.

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<sup>4</sup> *Hear Our Voice* by Ken Coghill and Paula Wright offers an excellent discussion of these issues.

ICAC found Eddie and Moses Obeid acted corruptly by entering into an agreement with Mr. Macdonald that the Mount Penny tenement would be created and they would receive confidential information about the tender for a coal licence.<sup>5</sup>

Once it is accepted that a politician may influence a decision to support his re-election, it is a small step to the corruption of decisions that financially favour his friends. The case of Eddie Obeid and Ian Macdonald is not an aberration; it is what flows from the structures created. As noted earlier, once you allow the state to enrich some groups at the expense of others, you create the motive for political influence and the mechanism for the illegitimate use of the state for selfish interests.

### *Crony capitalism: the corollary of the welfare state*

Crony capitalism is the unexpected corollary of the welfare state. Corporate business uses government intervention to provide subsidies, inhibit agile competitors, fund its research and development, give it monopoly positions, enable it to profit from extremely risky positions, and to bail it out when it becomes "too big to fail". It uses lobbyists to curry favours and to buy influence. The extent and the corrupting influence of lobbyists are a blight on society (see chapter 5).

### *Never-ending growth in government spending*

Politicians and public servants are forever coming up with schemes to spend money on projects that they believe the market has failed to provide. Viewed in isolation these projects may be worthwhile. However they have to be paid for, and such spending is at the expense of alternative projects or increased taxation which reduces our opportunity to spend our money how we choose. Policies are usually presented to show only their immediate effect or their effect on a single group. For balance, it is necessary to investigate the long-term effects, which may prove to be less desirable, and the expense of the policy on the wider group:

The art to economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.<sup>6</sup>

Government spending can be paid for in one of two ways – either through taxation or through inflation. Politicians gain kudos with their electorate by largesse, but they incur the public's displeasure by increasing taxes to pay for it. So they err on the side of increasing debt. They print more money and that leads to inflation. The process penalises the thrifty, rewards the profligate and passes today's costs on to future generations.

Vaclav Havel, writing about Czechoslovakia in 1992, has some comments on government debt that seem pertinent to the crisis in Greece twenty years later:

For decades, the population was bribed with money that, under normal circumstances, would have had to be invested in new technology, research and development, energy saving schemes – in ways and means of increasing productivity and the quality and competitiveness of goods – but instead went to pay for our modest social security.

We lived, as is frequently and properly pointed out, at the expense of the future.

Now the bill for all this is being presented to us, in the form of sacrifices. They are considerable, and greater ones await us. They are and will be as great as the loan we all took out of the bank account of the future. The size of this debt is directly proportional to the depth of silence with which we accepted the Communist exploitation of the future.<sup>7</sup>

### *Sound money is essential for liberty*

Many people rail against the crassness of a society which makes economic assessments based on money. They miss the point. Without money, economic decisions must be made by officials who will decide what is produced and what people will receive based on an assessment of their worth. Money gives people the freedom to choose, to set their own ordinal values, to decide what to buy and sell, and at what price and when.

Sound money has been replaced throughout the world by fiat currencies dependent on the solvency of the governments that print them. The system is inherently unstable. The control of money by government limits people's liberty.

Sound money is discussed in detail in Chapter 6. Wresting control of money from government may be the most important, if least obvious, change we need to make.

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<sup>5</sup> *Michaela Whitbourn, The Australian Financial Review, 1<sup>st</sup> August 2013*

<sup>6</sup> *Henry Hazlitt, Economics in One Lesson*

<sup>7</sup> *Vaclav Havel, Summer Meditations*

## Gathering ideas

### *Illustrations from my personal experiences*

For thirty-five years, I managed the professional services firm I founded in 1976. Fenwick Software implements commercial systems for business in the manufacturing, distribution, and waste management industries. Most of our clients are small-to-medium-sized enterprises, often family businesses. It is an area of the economy where the free market thrives. My clients cannot afford lobbyists to win them special favours from the government; they are too politically insignificant to be propped up. If they add or shed staff, it is such a miniscule event that it goes unreported. They are independent and proud, and do not expect government help; in fact they would be embarrassed to receive it.

My philosophies about individual liberty consciously influence the culture of my firm. Our employees are granted an appropriate degree of autonomy and responsibility for their own actions, are provided with opportunities to grow and assume more responsibility and are encouraged to apply their skills to help each other and to deliver value for their clients.

The practical work experience I gained running a business in a free market economy has given me a unique opportunity to apply my liberal philosophies and, where appropriate, I use anecdotes from my work experience to illustrate my ideas.

### *Beliefs*

Despite all the ills of our society that we witness on a daily basis we are loathe to admit that the fault is systemic. We prefer to blame leaders we do not like.

We are ready to accept almost any explanation of the present crisis in our civilization except one: that the present state of the world may be the result of genuine error on our part and that the pursuit of some of our most cherished ideals has apparently produced results utterly different from those we expected.<sup>8</sup>

People's belief systems develop and change over time. They are influenced by their family and friends, by those they admire – perhaps a teacher, preacher, sports coach or inspiring boss – by the experiences they have had and the books they have read.

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<sup>8</sup> *F.A. Hayek, The Road to Serfdom*

There are views that used to be widely held or even law that today would be considered inappropriate – "every age having held opinions that are now recognised as absurd".<sup>9</sup> There are scientific views (for example: the world is flat; the sun travels around the earth; synthetic chemicals will cause a cancer epidemic; acid rain will destroy all the German forests; global famine is inevitable due to the population explosion). There are social norms and cultural conventions (for example: no one should be permitted to give evidence in a court of law who does not profess a belief in a God; a wife should love, honour and obey her husband; jazz should be banned because it has a corrupting influence on the young). There are philosophical views (for example: the logical structure of the mind is dependent on a person's race or social class or nation). Views that were thought to be immutable may not be so.

John Stuart Mill argued that if people's views were not tested in the fire of debate then they were no more than prejudices:

Not the violent conflict between parts of the truth, but the quiet suppression of half of it, is the formidable evil: there is always hope when people are forced to listen to both sides; it is only when they attend only to one that errors harden into prejudices, and truth itself ceases to have the effect of truth, by being exaggerated into falsehood.<sup>10</sup>

Many people believe that minimum wages protect young and low-skilled workers from exploitation; or that the government provides services, such as health and education, more efficiently than the private sector; or that profits are made at the expense of the workers; or that the government has a duty to protect its citizens from harming themselves; or that sport should not be played on days of religious observance. I don't.

I believe and shall argue that human dignity is dependent on individual rights and that "*the state may not use its coercive apparatus for the purpose of getting some citizens to aid others, or in order to prohibit activities to people for their own good or protection*".<sup>11</sup> That is not to imply a callous disregard for the needs and suffering of others, but rather that such alms should be supplied by small, local, voluntary organisations and not by large, impersonal, condescending, remote government bureaucracies.

## *How free enterprise mimics nature*

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<sup>9</sup> John Stuart Mill, *On Liberty*,

<sup>10</sup> John Stuart Mill, *Ibid*

<sup>11</sup> Robert Nozick, *Anarchy, State, and Utopia*

Views about organisations changed forever in 1992 when Margaret Wheatley published *Leadership and the New Science: discovering order in a chaotic world*. In this book she applied new discoveries in biology, chaos theory and quantum physics to the study of organisation theory. It is a remarkable work. Through her consulting work she continued to refine her ideas and, by 1996, in *A Simpler Way* she defined her beliefs about human organisations:

The universe is a living, creative, experimenting experience of discovering what's possible at all levels of scale, from microbe to cosmos.

Life's natural tendency is to organize. Life organizes into greater levels of complexity to support more diversity and greater sustainability.

Life organizes around a self. Organizing is always an act of creating an identity.

Life self-organizes. Networks, patterns, and structures emerge without external imposition or direction. Organization wants to happen.

People are intelligent, creative, adaptive, self-organizing, and meaning-seeking.

Organizations are living systems. They too are intelligent, creative, adaptive, self-organizing, meaning-seeking.<sup>12</sup>

Wheatley's concepts are relevant well beyond the sphere of organisation theory. They apply to an understanding of economic and social life. Just as living creatures respond to their changing environment, absorbing information and changing themselves to meet its challenges, so the entrepreneur responds to the messages from consumers, crafting new products and services to meet their demands.

Likewise, your ideas may change as you absorb new information.

### *The principle of subsidiarity*

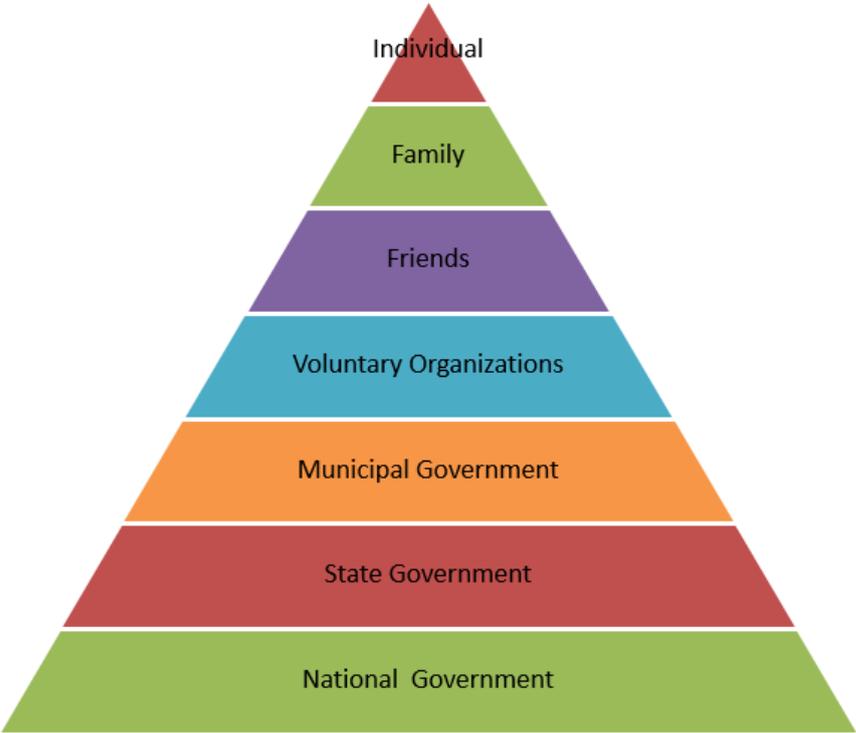
Subsidiarity forms a major plank in my prescription for a better society. It is not a new idea. Its advocates range from Alexis de Tocqueville in 1835 to Pope John Paul II in 1991. Here it is sufficient to present it in outline.

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<sup>12</sup> Margaret J. Wheatley and Myron Kellner-Rogers, *A Simpler Way*

Subsidiarity is the principle of devolving decisions to the lowest practical level, that what individuals are able to do, society should not take over, and what smaller societies can do, larger societies should not take over. It facilitates a wider range of solutions, quicker and more informed decision-making, and greater involvement of more citizens. Because there is a diversity of solutions there is less chance of one bad decision causing a systemic failure. Because there is more responsibility for one's actions there is less opportunity for moral hazard.<sup>13</sup>

It involves people doing whatever they can themselves, with their families, friends, and neighbours. It means forming voluntary organisations – businesses, clubs, and societies - so that like-minded citizens can achieve their common objectives. Government activity is kept as local as possible, jointly funding only those activities that the local group commits to, and keeping people closely involved in what is relevant to them.



Responsibility begins with the individual. Each is firstly responsible for themselves and then for their family. Their friends and neighbours, work colleagues and customers come next, followed by voluntary organisations that form their immediate community, and then the various levels of government. At each level, support is provided by the level below. Responsibility and expectation of support wane as activities move down the triangle.

The model appreciates the ever-present economic factor of scarcity. It draws on the economic principles of distributive justice from St Augustine. People have a responsibility to provide food and shelter and love for their children. They have a lesser responsibility, due to the limits of their means, to provide for other people's children.

### *The search for a solution*

The main task in the coming era is a radical renewal of human responsibility. Our conscience must catch up with our reason. Otherwise, we are lost.<sup>14</sup>

The dominant political views of the twentieth century, which aimed to provide more fairness and justice for all, have been counterproductive. If we are to solve the problems that beset society, we will need to challenge our assumptions and change our world view. We will need to be receptive to new information and prepared to act upon it. Mostly though, we will need to become responsible for ourselves and to cease asking "what is the government going to do about it"?

Peter Drucker, the famous author on business management, once wrote that we could not add a cubit to our span but we could extend our reach by standing on the shoulders of those who had gone before – or words to that effect. Matt Ridley expresses the same sentiment when he claims that "Ideas have Sex".<sup>15</sup>

In exploring what is wrong and how it might be put right, I have turned to scores of writers whose views have stood the test of time. There may be some that you have not met before. I hope you will be encouraged to read their works and delight in all you discover. As an interlude between chapters, I have inserted reviews of a few of my favourites.

Come with me on a journey as I discuss the core attributes of liberty, prosperity, and free enterprise; the consequences of socialism, the welfare state, distributive justice, and fiat currencies; and propose policies for a better world. Let us build a responsible society.

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<sup>13</sup> *Moral hazard refers to situations where risky behaviour is encouraged because the costs of failure will be borne by someone else.*

<sup>14</sup> *Vaclav Havel, Speech at Harvard University 1995*

<sup>15</sup> *Matt Ridley, The Rational Optimist. Also a TED talk on You-Tube Video.*

## More about The Fragility of Freedom

*The Fragility of Freedom; Why Subsidiarity Matters* was published by Connor Court Publishing.

The book provides readers with a basic understanding of the cultural heritage of our Western Civilisation – the fundamental principles of liberty, prosperity, and free enterprise. It discusses the consequences of socialism, the welfare state, distributive justice, and unsound money. Replete with quotations from over fifty philosophers and economists, it introduces readers to some of our great thinkers. It equips them to engage in informed debate and to challenge conventional wisdom.

It is available in paperback or e-Book formats from the publisher at <https://www.connorcourtpublishing.com.au/>

Alternatively, you may purchase it from your favourite bookseller.

Peter Fenwick provides libertarian commentary on current affairs on his blog at <https://www.peterfenwick.com/>