Towards a 'Balanced' History of Australian Economics

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Peter Groenewegen and Bruce McFarlane's approach to *A History of Australian Economic Thought* is literary and humanistic. They are heavy on biography and light on the actual economic analysis used by their subjects. A cavalcade of characters crosses their pages. These characters represent various schools of thought and ideological proclivities and beliefs. They are people of their times, and are not (with the exception, it seems, of their heirs, their sons and daughters practising today) the slaves of a single paradigm. Most of them practise within the dominant mode of thought of their day. As time goes by, the economic thought of Smith, Ricardo, Mill, Bastiat (interestingly), Marshall, Keynes, Samuelson, Arrow and Debreu and Friedman is reflected in the writings of the antipodean economists. But there are ratbags, heretics, cranks and *amateurs* as well. Pleasingly so, it seems to Groenewegen and McFarlane. For it is they, it appears, who provide the wild yeasts to the ferment, and give the resulting vintage its particular flavour and interest.

We see in this book some thorough and fascinating scholarship. The names from the past familiar to most Australian economists are fleshed out. Beginning with W.C. Wentworth (born in 1790) and ending with Stephen Turnovsky (born in 1941), there are pen portraits of Pell, Syme, Hearn, Shann, Coghlan, Mills, Giblin, Copland, Crawford, Clark and many more. It is a fascinating and interesting collection.

Yet there is something missing in all of this. The authors try to come to grips with the question of whether there is such a thing as an 'Australian economics'. Fairly early on in their analysis, they decide that there has never been an 'Australian School' in the same sense as there is in the history of the discipline a recognised Austrian or Swedish School, for example. They find instead in our thinkers from the past, a national political economy, a method of analysis characterised by a "... willingness to use robust assumptions, assemble stylised facts for analysis and make rather audacious excursions into policy recommendation." (p.238) There have not been, it seems, any major or fundamental breakthroughs in either theory or methods of analysis that have come from our part of the world. Sure, there is the Swan contribution to growth theory, and brief mention is made of other bits and pieces. But the reader (or at least this one) gets the impression that had there never been any Australian economists, there would be very little in modern economics different

Review article of Peter Groenewegen and Bruce McFarlane, **A History of Australian Economic Thought** *(Routledge, London, 1990)* from what is there today. Is this fair to our predecessors? I think not.

There are several contributions to economic analysis that Australian economists have made which are not given sufficient coverage by Groenewegen and McFarlane. I do not accept the proposition that lack of space imposed by the publisher's word limit (p. xiii) is responsible for these contributions not being given a sufficient coverage. Rather, it is due, I would argue, to the methodological and ideological framework within which the book is written. I will return to this theme.

To me, and I suspect to many people who teach international economics, it is a matter of some pride and fascination that the pages of international economics textbooks and monographs seem to have a large Australian content. The Australian contributions to international economics are many and varied, spanning the pure theory of trade, commercial policy, and open economy macroeconomics. From David Syme to Max Corden and Murray Kemp, Australian economists have a long history in this field. Two contributions stand out for their particular Australian content. The first is the debate surrounding the Brigden Report of 1929. The second is the debate commencing in the 1930s and continuing at least into the 1960s about stabilisation policy in a dependent economy, with seminal contributions by Wilson, Salter and Swan. To international economists who have never (or rarely) set foot in Australia, if they know anything at all about Australian economics, these two pieces of analysis would be good bets to be mentioned as Australian contributions to the subject.

Neither of these debates is given sufficient space by Groenewegen and McFarlane. The Brigden Report and the debates around it are discussed in just under four pages (pp. 119-122). Despite the vigorous debate in the pages of the *Economic Record* that preceded the handing down of the Report in 1929 and the critical reviews it received afterwards, there is no detailed discussion of the contents and methods adopted in the Report. The wider theoretical issues are simply not discussed. These issues have been of continuing interest to trade theorists with an historical bent since the 1930s, and were recently resurrected by the observations and analysis of Gary Manger and Paul Samuelson in the pages of first, *The Quarterly Journal of Economics*, and then in *Australian Economic Papers*. This important trade theoretic debate deserves more recognition and analysis in this book than it receives.

Turning to the dependent economy model of Wilson, Swan and Salter. Except for a paragraph in the final chapter and one paragraph in each of both Swan's and Salter's biographical sketches, this most important contribution is all but omitted from this study. This really is an important mis-judgement, not the least because the priorities and historical record in the development of this model are controversial: see the series of notes in the *Journal of Economic Literature* in 1974 and 1975, and Arndt's note in *The Economic Record* in 1976. If, due to the importance of this particular problem to the Australian economy, Australian economists were instrumental in developing this analysis, then the analysis and its history should surely be thoroughly and completely examined in a book on the history of Australian economic thought. Three paragraphs or just over a page is hardly sufficient.

A part of the dependent economy model which is of crucial policy importance in Australia is the determination of the domestic cost structure. In this area, as in Sweden in particular, and in some other Scandinavian and European economies, the determination of domestic costs and thus the price of non-traded goods is particularly problematic due to the system of centralised wage fixing that Australia has had on and off since 1907. No doubt due to the somewhat peculiar institutional arrangements that have surrounded the determination of money wages in this country, Australian economists have been at the forefront of the analysis of the interaction between productivity changes across the industrial structure, the terms of trade, and the macroeconomics of money wage determination.

This was particularly the case in the 1950s and 1960s when the pressures on wages due to a rapidly expanding economy faced with periodic balance of payments crises led to a concerted outpouring of articles in the academic literature and expert commentary before the Arbitration Commission by Australian economists on the economics of centralised wage fixing in the context of a dependent economy. Contributions which spring to mind include Russell (and Meade), Isaac, Lancaster, Karmel, Hancock, Whitehead, Pitchford and so on. In addition, the transcripts of the evidence of the academic expert witnesses who appeared before the Arbitration Commission during the 1950s and 1960s may well provide a rich vein for historians of thought interested in fully documenting developments in this area.

Unfortunately, none of this is well-documented by Groenewegen and McFarlane. The history of the on-going debate about the economics of the Australian system of centralised wage fixing is covered in a paragraph on p. 231, and the earlier history of how the system came into being is considered in only the odd passing comment (p. 120, p.133). The system has survived now for nearly a century; and it continues to play a major role in Australian economic policy and debate. It deserves far more space than it has received in Groenewegen and McFarlane's book.

The third area where Australian economists have contributed significantly is in the theory and applied analysis of international commercial policy. Much of this area is, with the exception of the debate surrounding the Brigden Report as noted above, covered somewhat more thoroughly by Groenewegen and McFarlane. This is due to the fact that the theoretical maestro in this area, Max Corden, receives a lengthy biographical pen portrait. The point is made that much of Corden's work is generally applicable, and not uniquely Australian, although interestingly the authors see, correctly in my view, a theoretical continuity between Corden's tariff theory and his analysis of open economy macroeconomics in its Australian context. It might well be argued that the important work on the theory and measurement of the rate of effective protection (a concept independently first analysed by Corden and H.G. Johnson) receives too little emphasis. However, the problem with Groenewegen and McFarlane's treatment of the Australian contribution to commercial policy is that it is really only discussed at all within the confines of the biographical discussion of Corden and his work.

The Australian contribution to the theory and applied analysis of commercial policy extends beyond the work of Corden. For his work, and that of other Australian trade economists resulted in one of the few concerted official research programs to analyse the effects of commercial policy in a country. The Industries Assistance Commission, growing out of the old Tariff Board, and its intellectual backbone the IMPACT project which developed the computable general equilibrium ORANI model, has provided a very impressive body of work - reports, academic papers, books and so on, that have had a profound effect on the political economy of commercial policy in this country, and, it may well be argued, on attitudes to and analysis of commercial policy elsewhere. Important names here are Allan Powell, Peter Dixon, David Evans, Brian Parmenter and others.

A further area that is not adequately discussed in Groenewegen and McFarlane's History is the long and distinguished history of the contribution of agricultural economists in Australia. Along with the United States, Australian Universities have a long history of separate agricultural economics departments. This sub-branch of the profession has its own internationally respected journal (*The Australian Journal of Agricultural Economics*). Its policy importance was recognised in 1945 with the establishment of the Commonwealth Government's Bureau of Agricultural Economics. And importantly, this sub-branch embraced empirical methods very early on in its history and contributed not insignificantly to the teaching and use of econometric methods in this country and the development of econometric theory and practice more generally. This interplay between agricultural economics and econometrics is particularly obvious in the strength of both disciplines in Australia's only long-established rural university, the University of New England. Some of these developments are mentioned in passing (p. 179) and in the biographical sketch of Sir John Crawford, the founder-director of the B.A.E.; however, the rest of this story is very inadequately treated in only a footnote (p. 226). It deserves much more than this.

The major problem with Groenewegen and McFarlane's *History* is that it is unbalanced. It devotes too much space to minor characters, and pushes the cause too much of other (perhaps important) economists at the expense of under-emphasising the major strands in the history of Australian economics and the economists associated with these strands. Whereas some of the major themes in economic analysis in Australian economics are given cursory treatment, there is a wealth of biographical detail and discussion of minor individuals and themes. For example, almost a whole chapter is devoted to three characters who, given their contribution to mainstream economic theory or policy analysis, deserve at best a footnote or two. It is astounding that the minor agricultural analyst, J.H. Kelly, is given two pages (his namesake "modest farmer" and "modest member" does not even rate a mention despite *his* undoubted influence on the tariff debate); the sunspot analyst, H.I. Jensen is given four pages (more than Trevor Swan's three, Wilf Salter's three and about the same as Max Corden's four - and Dick Downing got none!). And who either knows or cares about L.St.C. Grondona except for his heirs and loved-ones? He gets two pages (more than Murray Kemp by a quarter of a page and E.R. Walker is relegated to a footnote!)

In a similar vein, the space devoted to R.F. Irvine is disproportionate to his contribution and standing in the profession. Irvine rates over ten pages in this book, more than any other single individual. He is mentioned or discussed in virtually every chapter Of course, Irving's economic thought is on altogether a different plane to that of the three gentlemen referred to above. A very real case can be made for him anticipating several important features of Keynesian economics. And had Irvine through his advice and influence on E.G. Theodore, Federal Treasurer in the Scullin Labor government, held sway rather than the Committee of Experts and the pre-Keynesian analysis of Copland and Shann, the 1930s Depression in Australia might have taken an altogether less miserable path than it did. Yet is it so that Irvine is Australia's greatest economist? On the basis of sheer weight of discussion in this book, it would appear so. Only Copland and Giblin receive more page references, but neither receives the sustained analysis Irvine does.

This lack of balance would not be so bad if it were not for the fact that the very interesting story of the arrival of Keynesian analysis in this country remains very sketchily told. This is particularly disappointing in that it has been argued that the Australian economics profession of the 1930s was very receptive of Keynesian ideas and was at the forefront of the acceptance of Keynesianism. Whether Giblin anticipated the Kahn-Keynes multiplier has been long debated by Australian economists and by historians of Keynesian economic thought. This important debate is (too) briefly discussed in two paragraphs and two footnotes (pp. 110-111). That Giblin was a frequent correspondent with Keynes is well-documented elsewhere. In addition, very soon after the publication of *The General Theory*, W.B. Reddaway came from Cambridge to The University of Melbourne and published a sympathetic and perceptive review of Keynes' work in the *Record*, and Colin Clark arrived from Cambridge not long thereafter in 1937 and immediately began work on Keynesian ideas and themes with J.G. Crawford (Clark's work is well discussed pp. 110-111). Neville Cain has argued the case for Sir Ronald Walker as an early importer of Keynesian ideas to Australia after Walker's graduate studies in Cambridge in the early 1930s. This important economist (he was extremely well published in the Australian and international academic literature) again is only given footnote recognition. Downing has argued that the Melbourne economists, in particular, and Australian economists more generally, were most receptive to Keynesian ideas.

In short, the arrival of Keynesian economics to Australia does not receive a balanced treatment in this book. It may well be argued that Australia was at the forefront of the acceptance of Keynesian ideas, yet this is not discussed by Groenewegen and McFarlane. The in-depth discussion of Giblin occurs in a chapter on non-academic economists despite occupancy for over a decade of the Ritchie chair at Melbourne, arguably the most distinguished chair in Australian economics. Clark is discussed, perhaps more justifiably, in a chapter about the long tradition of economic statisticians in this country. The rest of the story of the arrival of Keynesian economic analysis is either not discussed or is hidden away in disparate paragraphs and footnotes. Nowhere is the fascinating story of the arrival of Keynesian ideas adequately brought together.

I have argued that Groenewegen and McFarlane have either omitted major themes in the development of economic analysis in Australia or have presented an unbalanced view of the history of economic analysis in this country. I now wish to argue that the reason why this is so is due to the methodology which they have adopted in writing their *History*, and the ideological framework within which it is written. Their approach stresses the intellectual diversity of debate. The views of the radicals, the outsiders, the cranks and heretics are considered as valid as the views of the mainstream economists and professors. They do not seek and do not find a unifying theme or paradigm in Australian economics. In fact, when they approach the present time and see a unifying and, perhaps, universal paradigm in place in modern Australian economics, they criticise it vigorously and attempt to denigrate it as an unfortunate disease imported from the United States.

A major part of their story is the belief in a healthy skepticism towards market processes and market solutions to economic policy problems by the better of the old Australian economists. It seems that their admiration is for policy advice laced with a good dose of State interventionism. Nowhere in their argument is this nostalgia for an activist, interventionist role for the State more obvious than their discussion in chapter 9 of the role of the so-called non-academic, government economists in the period 1938 to 1970. Groenewegen and McFarlane discuss the official policy advice coming from economist policy advisers like Coombs, Crawford, Melville, Swan, Wilson and their associates through the war and immediately after. They argue that there was a real sympathy for very considerable State intervention "... when a virtually planned economy was being guided by a group of outstanding economists." (p. 205) There is little doubt that the generation of economists that lived through the arrival of Keynesianism in Australia and the War and post-war reconstruction were pre-disposed towards interventionism. Coombs, Crawford, Wilson and most of the other prominent figures of this period certainly believed in Keynesian interventionism and many flirted with more severe forms of planning of the indicative type. Groenewegen and McFarlane argue that this perspective gave rise to a particular type of economics and economic policy advice.

The Groenewegen and McFarlane picture is of an independent, somewhat streetwise group of policy advisers who, although enthusiastically embracing Keynesianism, rejected any one paradigm for policy analysis. Their ideal mode of economic policy analysis is the assessment of some stylised facts about the economy leading to the adoption of rule of thumb policy which is activist and which may be somewhat daring and unconventional, but which is unhindered by over-reliance on theoretical (for which, read neoclassical) dogma.

However, this presents a real dilemma for historians of the economic thought of this country. For it is obvious that as times change, so does the nature of economic analysis, perhaps even the dominant theoretical paradigm, and the policy advice that follows. A very important microcosm of this process in the history of Australian political economy is the changing of 'the Treasury Line' over the years, "... the rise, decline and fall of Keynes' economics as an influence on Australian macro-policy making" as Groenewegen himself has written (*Economic Record*, 1988. p.223) when reviewing Greg Whitwell's excellent study of the Treasury.

The approach of Groenewegen and McFarlane which stresses individual biography and philosophical currents clouds the authors' vision and thus Groenewegen and McFarlane do not do justice to their subject. The approach does not permit them to see the very same influences operating on Australian economists from early times to the present as those which operate everywhere. It might be argued that what Australian economists have done over the years is to analyse particular economic problems facing or characteristics of the Australian economy, adopting and adapting the tools of analysis that were in vogue in the leading journals and used by the leading economists at the time. If instead of engaging in long biographical sketches (interesting though they might be), and searching for as wide a variety of economic thinkers that they could possibly muster, and emphasising the diversity and dissent in the history of Australian economics, the authors had emphasised the actual economic analysis that was dominant in the Australian economics literature over the years, they would have found many useful and interesting attempts at answers to problems thrown up by our particular economic environment. It is not by accident that international trade and payments, wages policy and the economics of agriculture have figured prominently in Australian economics.

As the Groenewegen and McFarlane approach the present, they do not like what they see. The dominant paradigm at the moment seems to be a fairly strict adherence to an internationally uniform neoclassical analysis that stresses the desirability of market outcomes and market solutions. The confidence of the previous generation of economists which enthusiastically embraced Keynesian interventionism has been lost in the 1970s and 1980s. The ideology of the authors finds this something of an anathema and engage in some rather silly and offensive "Yank bashing". Rather than see a world- wide swing in the economic pendulum back towards acceptance of market solutions, they rather tastelessly blame what they see as this modern ill on the influence of American economists and the American graduate schools. Part of the attack also comprises some techniques ludditism. Not only is modern economics non-interventionist and American, it is also mathematical. As is made clear from the discussion of the work of both Murray Kemp and Stephen Turnovsky, the authors believe that because Kemp's and Turnovsky's work tends to be both neoclassical and mathematical, it is country neutral and is thus not relevant to commonsense policy like the work of the economists of the old Australian school.

This line of argument is simply the search for a scape goat. Modern economic analysis is universal and international. And the important point is that it has always been so since the professionalisation of the discipline late in the nineteenth century. It is simply misguided to attribute perceived grievances with it to a particular country or system of graduate training. Good economists have always used creatively and interestingly the tools and methods of the dominant theories and approaches of their day. Of course there will always be critics of the dominant paradigm - Geoff Harcourt is the critic *par excellence* today. However, good Australian economists of the past were not any different from those writing today. Like Australian economists today who aspire to make a contribution to the understanding of their subject and its relevance to the society in which they live, the Australian economists of the past drew on the dominant theories and methods of their time and tried to use these theories and methods to analyse their society. To ask whether they succeeded or not, is to ask whether the economic analysis that they used was adequate or not. However, the assessment of adequacy is only possible by concentrating on the history of the analysis used by the leading economists of our past.

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