

A Conversation with John Neville

John Lodewijks*

John Neville was born in Perth and completed a Bachelor of Arts degree at the University of Western Australia. In 1953 he went as a Rotary Foundation Fellow to the University of California, Berkeley USA, where he completed a Master of Arts degree and a Doctorate of Philosophy. He returned to Australia to become Lecturer in Economics at the University of New England. In 1960/61 he was Rockefeller Senior Fellow at Harvard University. He was promoted to Associate Professor of Economics at University of New England in 1963. In 1965 he was appointed Professor of Economics at the University of New South Wales. Professor Neville is a Fellow of the Academy of the Social Sciences of Australia and a former President of the Economic Society of Australia. This 'conversation' took place mid-1992.

The Early Years

1 *Your father was a State Supreme Court Judge in Perth and your mother a former (graduate) secondary school teacher. What role did your family have in your early development as an economist?*

My father was not only a lawyer. He also had an Arts degree, majoring in economics and history, and taught economics (part-time) at the University of Western Australia for a few years. I have in my files a copy of a reference for him written by Edward Shann in 1929. My grandfather was a Fabian and a lot of this had rubbed off on my father. So I grew up in a house where there were books on the shelves on economics by outstanding economists, e.g. Cassel and Marshall. Most of these I did not read, but I did read books about economic problems written for the general public by people like G.D.H. Cole. I'm sure that my parents, fairly subtly, put the idea of studying economics into my head. It was not taught at my high school, but there was never any question in my mind that it would be one of the subjects that I took at University. So, probably, if it were not for my family I would not have become an economist.

The sort of economist that I developed into, also reflects my upbringing. I was born during the great depression of the 1930s. My parents were not only personally affected, but were also very concerned by what they saw happening about them. They were very aware of the horrors of unemployment and had a real concern for the least well off in our society. It is unlikely to be a coincidence that much of my professional life reflects these concerns.

Similarly, my general philosophical or ideological position as an economist can be traced back to family influences. I certainly grew up believing that economics is important as a way to improve the welfare of people, especially of those who are less well off.

2 *During your student days you were actively involved in the Student Christian Movement. This was known for its liberal views about foreign aid and its social conscience generally. You were later National Chairman of Action for World Development, active in the Australian Council of Churches and have had some contact with the Sydney Christian Economists Group. In what ways have your Christian beliefs influenced your choice of research topics or policy advocacy?*

To a large extent my choice of research topics just reflects the things in which I have been interested. In that sense I guess that I have been self-indulgent. In part this interest is based on intellectual fascination and in part on concerns arising out of Christian faith. Often these two reasons for interest reinforce each other, as in the case of macro policy to restore full employment. But there are some things that I did purely because of intellectual fascination, e.g. the 1962 *Economic Journal* article, and there are others that I did solely because of concerns arising out of

Christian faith. The very little work that I have published on economic development in third world countries and some of the work on income distribution fall into this category. More fundamentally, I think that my Christian beliefs have played a very large part in making me the sort of person that I am, and hence in determining what sort of research I was interested in pursuing.

3 *Who in particular influenced your thinking at UWA? Did you have much contact with either W.E. Salter and R. J. Hawke as classmates?*

I had a lot of contact with Wilf Salter - he was a year ahead of me, but in the very small University of Western Australia of those days most classes after first year had both second and third year students in them. Also I played in the same rugby team as Wilf. Bob Hawke I knew quite well. He was in the same year as me majoring in economics for his BA, but he already had a law degree and was now a part-time student so I did not see so much of him. However, I don't think either of those two had any particular effect on my thinking.

When I went overseas to study I chose the University of California at Berkeley because I was interested in business cycles and wanted to study under R.A. Gordon. That interest must have been aroused by the Professor at W.A., F.R.E. Mauldon, who taught the topic. The person on the staff at the University of Western Australia, who made the greatest lasting impact on my thinking as an economist, was a senior lecturer called Wilfred Dowsett. He taught a compulsory course on Marshall's *Principles* in my honours years which really aroused my interest in that book. This stood me in good stead in later life. For example when, many years after I was supposed to read it as an undergraduate, I became interested in Keynes' *General Theory*, I found it much easier to understand because I had some familiarity with how Keynes' own teacher Marshall thought. My note on Keynes' aggregate supply function in the *Journal of Post Keynesian Economics* is an example of how this worked.

4 *You have said that at Berkeley R.A. (Aaron) Gordon (father of Robert and David) and Robert Dorfman were influential in your training as an economist. Did the concern with macro policy issues, and that theory must be relevant to real problems, come from Gordon? Where did the empirical orientation come from? Why did you later, for example, become an Associate Editor of the Australian Journal of Statistics? Who stimulated your interest in macro modelling?*

Gordon certainly reinforced a concern for relevance, as well as rigour, that was already there but I'm sure that he had a big influence more generally. The empirical quantitative emphasis also came from Gordon. Although he never claimed to be an econometrician, he put forward the view that macroeconomics had to be quantitative. In lectures (in 1954) on business cycles he pointed out the need to get quantitative estimates of relevant parameters and 15 to 20 years later he was on the steering committee for the Link Project. It is also interesting that a high proportion of that class on business cycles became famous as econometricians or quantitative economists. Mind you, as far as I can remember there were only 5 in the class, but two others were Arnold Zellner and Irma Adelman.

Having said all that, there is also no doubt about the influence of Dorfman, who was emphatic that any applied economist must have a good knowledge of econometrics. When I decided to spend my first study leave learning econometrics it was Dorfman who advised me where to go and his support that got me a Rockefeller fellowship so that I could study full time and not have to teach on my study leave.

Contributions to Australian Macroeconomics

1 *You are best known as one of Australia's leading macroeconomists through such books as Fiscal Policy in Australia: Theory and Practice, (Cheshire, Melbourne 1970), Inflation and Unemployment, (Pelican, Melbourne 1972), Policies Against Stagflation, (Longman, Melbourne 1981) and Inflation and Unemployment: Theory, Experience and Policy Making*

(Allen and Unwin, London 1985). *In what ways has the study of macroeconomics changed since the early 1960s?*

If by study you mean at the research level, I'd say that the major change has been from arguing about theories on the basis of logic, plausibility of the assumptions and so on, to testing theories (or hypotheses) using econometric techniques. This change rests on two other changes, first the great growth in national accounting and other areas of economic statistics, which has given macroeconomists so much more data to work with, and secondly the growth in computing which gives us so much more ability to use the data. The change in the method of doing macroeconomics is not as great as might appear at first sight. The data is such that it is often difficult to make a definitive test of a theory. Too many competing theories can not be rejected by the data, however sophisticated our econometrics. But sometimes theories can be rejected, at least as not applicable to a particular economy at a particular time, and there is widespread agreement among different schools of macroeconomics on the need to refine theories until they can be tested against the data.

Another difference is in what area is (or was) controversial and exciting. In the early sixties it was growth theory and policies for growth. While this area is making a comeback in the nineties, the theoretical basis for short run stabilisation policy (or even for the desirability of such policy) and the characteristics of the labour market and of production and pricing decisions which determine the effectiveness of policy is now at the centre of macroeconomic research.

At the undergraduate level, of course, there is a vast difference in that thirty years ago there was an agreed theoretical framework for the material taught to undergraduates. Now it is necessary to give undergraduates an understanding of competing approaches.

2 *Your early work, however, was on the theory of income distribution and growth. Your work became the "accepted wisdom" in Australia on measuring the wage and profit share. But the stress on factor shares sounds very classical; you don't find this in modern macro texts, particularly the North American variety. What made you first think that this was important? Does its neglect in orthodox works lead to policy error?*

It's not surprising that this sort of work was done in Australia and not in the U.S.A. It is a matter of some importance when there is a central very influential wage setting authority, but much less so when wage setting is decentralised.

The reason that I first started working in the area is quite simple. Bob Hawke asked me to. He was the ACTU advocate at the time. There had been some theoretical work done (by Peter Karmel and Eric Russell as I remember) about wages, productivity growth, factor shares and inflation, but this was at a very aggregate level. Bob thought that if one went behind the aggregate data, the situation would be shown to be more favourable to the union case for wage rises. He wanted me to show how this could and should be done and both to do it and publish the results, in time to be quoted in the next national wage case. I was happy to do it. It sounded like an interesting problem to tackle and it's always nice to oblige a friend by doing something that you expect to enjoy doing.

3 *You have maintained this interest in growth issues, investment, technical change and R & D, and productivity growth. In many macro texts secular growth trends are shunted aside in preference to a focus on cyclical fluctuations. Why have you found it important to continue researching both concerns?*

Marshall emphasised the importance of both demand and supply. As I see it, in the macroeconomic context demand is usually the dominant one of the pair in determining changes in aggregate variables in the short run. If we define short run, as Marshall did, as a period short enough for it to make sense to assume a constant stock of fixed capital, it is clear that supply factors will not change greatly in the short run. But in the longer run supply is also important. Even then demand has an important influence on supply, e.g. through its influence on the rate of capital accumulation, but factors quite independent of demand are important and need to be studied. Another way of looking at this is to start with the observation that two of the things that

most affect the economic welfare of people are the level of unemployment and the rate of productivity growth. Short run phenomena, especially aggregate demand, are dominant in determining the level of unemployment but, while there is cyclical variation in productivity growth, longer run phenomena are important in determining productivity change.

4 You built the first Keynesian macroeconomic model of the Australian economy in 1962. Can you tell us something about the origins of the model? It is said that the Treasury and RBA owe a debt to you in terms of the development of their own models. How have later models departed from your lead?

In the late 1950's I returned to my interest in business cycles. It seemed obvious to me that the dynamics of the Australian economy, whether there was an endogenous business cycle and if so whether it was explosive or damped, depended on the values of a small number of key parameters, propensities to consume and parameters in investment functions. At that time some work had been done on estimating Australian consumption functions, notably by Arndt and Cameron, but virtually nothing had been done on investment functions. Therefore, with the aid of a grant from the Reserve Bank I spent a couple of years working on investment functions for Australia. When this was completed, I combined my investment functions with Arndt and Cameron type consumption functions that I estimated and some equations summarising empirical regularities between different income variables in the non-farm sector: gross national product, company income, personal income and disposable income. The result was the 1962 article "A simple Econometric Model of the Australian Economy". This model was then expanded for the Vernon Committee and further developed for my 1970 book on fiscal policy.

The modelling work in the Reserve Bank only owed an intellectual debt to my work in the sense that all econometricians build on what has gone before them. On a more practical level the example of my work showing it was feasible to build models of the Australian economy and use them in policy analysis and discussions that I had with Austin Holmes, who was another of my generation at the University of Western Australia, may have helped convince Austin that the bank had to get into modelling.

Although the first RBA model, developed under the leadership of Bill Norton, was a Keynesian model like mine, Bill was his own man. He went the way of fashionable US models towards a large quarterly model. The second generation RBA model developed by Peter Jonson returned to my idea that smaller models were more illuminating, but owed more to the theories of Chicago economists, including Harry Johnson, than to those of Keynes.

I think that the Treasury/Bureau of Statistics early modelling owed most to the Ph.D. supervisors of Higgins and Fitzgerald and little to my work in any direct way. Chris Higgins did write me a letter when the 1970 book was published congratulating me on the model and expressing his attraction to the idea of using modelling as at least one input into determining the value of policy variables.

5 The model was extremely well received. It contained a number of unique features for the time and presented an Australian application of Keynesian ideas. Economists were delighted about the use of Australian data to estimate key macro concepts, there was nothing comparable available, and it led to important policy implications. In what ways was the model useful for economic analysis and policy?

The model enabled analysis of past policy changes and evaluation of the likely impact of current policy changes. Analysis of effects beyond the immediate impact effect was made possible through simulation studies. Jack Duloy and I published the first simulation study of the Australian economy in the *Economic Record* in 1965.

In general the model gave a feel for the size of effects, especially of fiscal policy changes, that was in many ways quite revealing. For example, it suggested that expenditure multipliers were generally smaller than had previously been thought, and pointed to the fact that indirect tax rate

changes had more powerful effects on the economy than changes in income tax rates. Both these insights were confirmed by later models.

6 *The Neville model remained "small", a model for students and a good teaching device. Why didn't the model expand like the Klein models in the USA?*

Partly because this would have meant I had to work full time on the model as a team leader, and I did not particularly want this role (apart from the need to find a very generous donor to finance it), but mainly because of a very strong conviction that models should remain small enough so that one could trace through the causal mechanisms and see which results depended critically on which assumptions.

7 *It is claimed that you were the first practical Keynesian macroeconomist in Australia. Meaning that you were concerned with assessing the effects of macro policy in a practical way, getting the numbers and orders of magnitude. Estimating different multipliers and the cyclically adjusted budget, for example. Can you comment on this?*

I think that this is true with respect to fiscal policy and related parameters, but I would not claim to have been a pioneer in measuring the stance or impact of monetary policy.

8 *Your interest in inflation and unemployment is well known. You regard inflation as primarily a conflict over income shares among different groups in society and that with lower growth rates this conflict intensifies. You note that inflation does not primarily occur through the actions of government. How different are you from the monetarists on this and what are your views on monetarism generally?*

My major difference with monetarists of the Friedman type and their successors, the new classical economists and the real business cycle theorists, lies in a judgement about how important market failure is at a macro level. I think that it is very important; the monetarists and their successors think that it is very unimportant. On the particular question of inflation, I do not believe that if the government makes sure that the money supply, however defined, grows at some appropriate rate then market forces will ensure that wage bargains will be such as to produce a non-inflationary, full employment equilibrium situation. Quite the contrary. It may be true that when inflation lasts over any length of time, the government must have validated this inflation by allowing the money supply to increase at a faster rate than that necessary to prevent inflation. But it does this, not out of perverseness or ignorance, but because if it does not the economy will suffer increased unemployment, at least in the short and medium term. Despite the transitory fashionableness of new classical economics, there is now widespread agreement that engineering disinflation through tight monetary policy will increase unemployment, at least in all but the long run. The disagreement is about whether or not it will also increase unemployment in the long run.

9 *You have stressed that the key factor in inflation is award wage rates, which can rise for non-economic reasons, and there is a need for genuine wage restraint. Hence you have been a strong supporter of the Accord. In what ways do you think it has been successful and will we always need wage-price policies?*

I think that the Accord has been remarkably successful. In its early years it enabled a significant fall in both unemployment and inflation. Over the whole of the 1980s there was a downward trend in both unemployment and inflation. The achievement on the inflation side is particularly notable. It is not generally realised that, for periods as long as a year, the highest rate of inflation while Hawke was prime minister was no higher than the lowest rate of inflation while Fraser was prime minister. It is true that understandable mistakes in monetary policy precipitated a recession which undid the good effects of the Accord on unemployment. Some have argued that the existence of the Accord prevented fiscal policy from being tightened and caused an undue

reliance on monetary policy. All I can say is that in 1988-89 and 1989-90 fiscal policy in Australia was among the tightest in the world. To say all the weight was put on monetary policy is nonsense.

Yes, I think that there will always be a need for incomes policies, unless we wish to rely on unemployment to combat and control inflation.

10 You have also said that fluctuations in the level of unemployment have been relatively unimportant in causing changes in the inflation rate. Indeed, unemployment is an immoral way to combat inflation as the costs of disinflation are too high. How do you differ from new classical economists in this respect?

The new classical economists believe that it is possible to eliminate inflation through appropriate monetary policy without increasing unemployment, as long as everyone knows what the government is trying to do and believes that the government is serious about winding back inflation. As I said a moment ago, this view is now held by only a small minority in the economics profession. I also believe that it is possible to eliminate, or at least greatly reduce, inflation without increasing unemployment but through appropriate incomes policy, not monetary and fiscal policy.

11 Contrary to many younger macroeconomists you see no powerful mechanisms in the system driving the economy to any particular "natural" rate of unemployment. You have stated that in most cases the causes of unemployment are beyond the control of the person unemployed. Further, the importance of high real wages in increasing unemployment is not clear, while alternatively the rate of growth of output is far more important in explaining unemployment. Is this now a minority view in the profession? Why? You do note, however, that a rise in real wages, faster than productivity, must lead to a fall in the share of profits and hence investment will fall and so output and employment. But this approach is non-orthodox. Why?

If it's a minority view to be sceptical of the concept of the natural rate of unemployment and the theory behind it, I'm in very good company in belonging to that minority. The current president of the American Economic Association has described the term "the natural rate of unemployment" as "one of most vicious euphemisms ever coined".

12 Your work has noted the open economy effects of macro policy. Expansionary policies leads to increased spending on imports and an exchange rate depreciation but with rigid real wages, wage earners will demand compensation for higher import prices, so we can get a devaluation-inflation spiral. How does this complicate macro management? What are your views on the move to flexible exchange rates?

The move to flexible exchange rates was a necessity, at least as far as Australia was concerned and given developments in the rest of the world. But the decision to float the Australian dollar was an unfortunate necessity, not a brave, and to be applauded, dash for deregulation. It certainly benefited the financial sector, but its effects on the rest of the economy were not beneficial. The increased uncertainty discouraged investment, particularly I suspect in import competing industries. This was especially the case when businessmen realised that the value of the exchange rate often changed not because of changes in real factors which are relatively predictable, but because of financial factors and swings in market sentiment.

Milton Friedman sold the idea of a floating exchange rate in part with the argument that floating rates would give national governments control over macroeconomic policy. To appreciate the irony of that one only has read media comment on the disastrous effects that will arise from adverse exchange rate movements if the market judges this or that proposed macro policy move not to be appropriate to the needs of the financial sector.

13 What sort of eclectic Keynesian are you? We have mentioned the focus on growth issues and factor shares. You also believe that pricing decisions are based on costs at normal levels of output (mark-up pricing). Your recent work focuses on the difference between Keynes and

orthodox Keynesians' views. You have stated that since protection in manufacturing hasn't worked well we can liberalise this sector, while the labour market has worked well so there is no need to deregulate. Then, heresy of heresies, you have supported the virtue of rules! In 1972 you argued for a fiscal policy rule on the grounds that the record of economic forecasting was so bad that, as often as not, major policy shifts had been perverse. What box can we put you in?

I'd like to think that I'm the same sort of Keynesian as Keynes was: a pragmatic one. I'm certainly not ideologically committed to a particular policy stance: regulation or deregulation, rules or discretion and so on whatever the circumstances. In the 15 years before 1972 fluctuations in economic activity and unemployment in Australia were small by today's standards and the record of forecasting the relatively small variations had been bad. Today the skills of forecasters may not be any better, but it is easier to decide the appropriate stance of policy when unemployment ranges from 5 to 11 per cent than it is when unemployment ranges from one and a half to two and a half per cent.

Social Policy Issues

1 *You have written in *The Root of All Evil: Essays on Economics, Ethics and Capitalism* (1979) that:*

Capitalism, with its associated market system, is the most efficient method so far devised to run an economy. But the resulting division of the cake can be extremely inequitable. If capitalism is to have any moral validity it must have superimposed on it the principles of a welfare state".

Can you expand on this? Do you still believe in a guaranteed minimum income for all?

By most efficient method, I mean the method that will give the greatest output for a given quantity of inputs and, more importantly, over time will result in the fastest rate of productivity growth. I think history has shown conclusively that capitalism has these characteristics. But capitalism divides up the cake, or what is produced, on the basis of what people can afford to buy.

It does not take much observation of the world around us to make the point that reliance on free market forces leaves many people without dollars to buy what they need to live, and without the ability to earn dollars. I do believe in a guaranteed minimum income for all, or, even better, a guarantee to all that they will be able to earn a minimum income by acceptable means. When I read the old testament prophets I am struck by the emphasis, in their visions of an ideal society, on everyone owning their own plot of land. In the agrarian society of ancient Israel that was another way of saying that everyone should be guaranteed the means to obtain a reasonable minimum standard of living.

2 *Elsewhere you have mentioned that economists have become less concerned with reforming the world and more with publishing technical papers in good journals to advance their careers. What is the role of the academic economist in contributing to the discussion of social issues? Do economists have a duty to deal with poverty and economic injustice? Do they have an ethical responsibility for the alleviation of poverty through supporting both high employment policies and constructive social programs?*

I am completely certain that economists have a major contribution to make to debates on social issues. They have insights that others do not. For example, in the environment debate politicians and social policy specialists are unlikely, by themselves, to realise that unless steps are taken to change the situation the cost of greening of Australia is likely to be borne disproportionately by the less well off in our society.

The alleviation of poverty in any lasting way is basically an economic matter. Economists do have an ethical responsibility to put forward ways of achieving this and to debate the merits or otherwise of various schemes to reduce poverty in Australia, and indeed throughout the world. They also have a responsibility to see that the distributional consequences of all significant policy initiatives are not overlooked.

3 *In other places you have lamented the influence of economic rationalists and the influence on Australian economics in the 1970s and 1980s of libertarian philosophy imported by graduate students returning from the USA and LSE. In what ways has this harmed the profession and society at large?*

I think that it has harmed the profession. As Lester Thurow pointed out, many, though by no means all, economic rationalists have come to be guided in the final analysis by ideology rather than rational investigations. This has diminished the quality of economic discussion and policy analysis. Moreover, the public at large has started to perceive this, which has not helped the public image of the profession.

But far more important is the damage done to our economy in encouraging the wrong-headed introduction of inappropriate policies on the basis of ideology rather than rational economics. Still, so-called, economic rationalists are not always wrong. Perhaps even more serious in the long run may be a move in Australia to reject all the recommendations of economic rationalists, because all will be tarred with the same brush. On some very important matters economic rationalists are correct, e.g. the debilitating effects of high tariffs on the Australian economy.

4 *Back in 1979 you were pessimistic about growth trends and predicted that only very small increases in real take home pay would be possible for the majority of the Australian workforce over the next decade or so. But some progress was possible with respect to the social wage and improving the lot of the poor. Has your prophecy turned out to be true? Why or why not?*

Well that is exactly what did happen. In the decade following the advent of the Labor Government, there was significant progress in relation to the social wage and also with respect to government redistribution of cash income to ameliorate the effects of the market on the incomes of the least well off in our society. But the real take home pay of average wage earners declined for much of this period. Consequently, while the rich got richer the really poor did not get poorer. It was the majority in the middle who were squeezed.

5 *Given your research focus, it is not surprising that you have had considerable involvement in government and have served on a number of public and private sector advisory bodies dealing with such topics as Australia and Japan, Taxation, Housing, Australian Manufacturing, and Science and Technology policy. What does the economist contribute and gain from such associations?*

What an economist contributes depends both on the issues under discussion and on how good an economist he or she is, but even a run of the mill economist can contribute a lot in the company of scientists and technologists, particularly by emphasising things that flow from the concept of opportunity cost and the advantages of weighing up costs and benefits at the margin rather than seeing things in terms of black and white.

6 *Finally, how does your interest in the Japanese economy fit in here? How did it develop?*

Strictly speaking my professional interest has not been in the Japanese economy as such, but in the effects of the Japanese economy on economic activity in Australia both in the long run through the role of Japan, as an economic partner, in Australia's economic growth and in the shorter run through the transmission of business cycles from Japan to Australia. This interest is a natural extension of my major professional interests. Also ever since 1966 there has been a flow of visiting professors to the School of Economics from Japan. Some of these e.g. Moriguchi and Ishi, have become my very firm friends, which has made it easier to study the Japanese economy. In addition I guess there is the natural fascination of an economy which is both very different and very successful.

Contributions to the University of New South Wales

1 *In 1965 there was a shortage of academics and the University took a gamble on a very promising fellow from UNE. You were thrown in at the deep end and simultaneously made Professor and Head of School. You were located on the other side of Anzac Parade, David Rowan had gone, Alex Hunter had just left for the ANU and Murray Kemp was no longer teaching. Don Lambertson was there (and he had been with you at UNE). What was the School like when you arrived and what did you see as your major tasks?*

The most obvious feature of the School of Economics when I arrived was that it was severely understaffed - not only in the sense that the student-staff ratio was appallingly high, but also in the sense that we had vacancies that we could not fill with suitable people. My most important task in the first year or two was to fill the vacancies including new positions created as student numbers rose. I tried to keep a balance between the need to have enough adequate teachers to "put in front of classes" and the need to fill a reasonable proportion of positions with people with proven research records or at least with potential to be successful in research and publication, with the corollary of keeping a few positions vacant if they could not be filled with people with research ability. Also in principle it was desirable to appoint a mix of different types of economists, but in the early years this had no operational significance. We appointed any good people that we could get.

Secondly, I tried to maintain and build morale. This was not difficult. Generally morale was reasonable when I arrived, and the first five years after we moved into the John Goodsell building in 1966 were in many ways a very happy and productive period in the life of the School. We had adequate accommodation (for the only time in the life of the School) in one building, a steady flow of interesting visitors (including two called Kakwani and McManus) and the school was small enough for there to be a real team spirit and esprit de corps which united the school, whereas now I think this spirit only exists in particular groups within the school.

2 *You were clearly overburdened as an administrator. You were Head of School (until 1982), Head of the Department (until 1982), Chairman of Faculty (1968-75), Dean (1982-89) and Director of the Centre for Applied Economic Research (CAER) (1976-87). What were some of the major changes to the Faculty and School over these years and the achievements during your years in office?*

In 1965 the Faculty had four schools (Economics, Accounting, Hospital Administration and Business Administration) and a total of 53 academic staff. The School of Economics had 23 academic staff plus two secretaries and one research assistant. In 1989 the Faculty had 105 academic staff and 5 schools and one independent department, though Hospital Administration had been transferred to Professional Studies and the School of Business Administration had been disbanded when the AGSM was founded. In 1989 the School of Economics had 69 academic staff and it is interesting that about half the growth occurred in the eight years that I was head of school. In 1989 there were 43 academic staff in the Department of Economics compared with 23 in the whole school in 1965. So the most obvious change is just tremendous growth.

There have been many other changes of course. Some of the most important are the very successful development of post-graduate study, the introduction of quotas and the steady rise of the cut off point, the introduction of the B.Ec., the foundation of CAER. Things that were the result of my initiatives are the introduction of course work masters degrees (in particular the M.Com. Hons. degree), the founding of CAER and the introduction of Japanese studies.

3 *During your period as Dean the relative importance of schools changed in the Faculty and this led to some tension, for example, over the compulsory economics component of the undergraduate degree. How did you deal with these issues and what role did the development of the B.Ec play in this process?*

Ever since I came to the school there had been periodic discussions about whether we should change the name of the degree for economics majors from BCom. to BEc. But there seemed little need before the 1980s. Until then there had always been adequate numbers of students majoring in economics. However, many of these were intending high school teachers and by the 80s the bottom had dropped out of that market. Also, in the 80s the combination of quotas and an increasing range of vocationally oriented majors led to few and fewer students majoring in economics. Hence, the same circumstances both changed the mix of students in the Faculty and increased the desire in the School of Economics for a Bec. The former, and especially the introduction of subjects that did not grow out of economics, did lead to tensions in the Faculty. My way of dealing with this was to try and get the senior people in Faculty, professors and heads of schools together, as frequently as reasonable, to talk about issues, and to get to know and as far as possible trust each other, in the hope that a compromise would emerge that the people in leadership positions would all support.

4 *As an administrator you were regarded as someone always striving for consensus and compromise. An easy going, good natured person and not particularly authoritarian. You were also known for your "behind the scenes" work and for being very fair and supportive of your staff in forums like the Promotions Committee. Any reaction to these impressions? I can not resist also asking you here about your working relationship with John Hewson, given the obvious political differences.*

In principle I am very much in favour of discussion and consultation. Sometimes an administrator - or rather an executive - has to make authoritarian decisions because it may be impossible to get agreement on a sensible course of action in a body with groups with sharply conflicting interests. But such decisions should come after consultation and discussion. I did not always live up to this ideal, but when I did not it was due to laziness or disorganisation or just lack of time. Consultation and discussion take a lot more time than unilateral decision making.

With respect to your last question I have always had good relations with John Hewson. I think he was a little more flexible in his views when he was an academic, but in any case our differing political views did not stop us working together harmoniously or writing a joint article.

5 *It is said that you put your own very definite stamp on the school and strongly influenced its growth and development. You gave UNSW a reputation as down to earth, practical, policy-oriented, with a focus on the important economic issues of the day. Through the appointment of applied people you gave a distinctive flavour to the School's research output. Is this a fair assessment? How did you go about achieving this objective?*

The presence of Murray Kemp ensured that the school had a reputation as a place for economic theory. I certainly wanted it also to have an outstanding reputation for practical policy-oriented work. When I came here the University of New South Wales, as a whole, had a reputation as a university which was professional, down to earth and interested in both research and education to help meet practical needs in this country. I thought that this was admirable and wanted the School of Economics to play its part in sustaining that role. Sometime in the 1960s a businessman asked me what was the difference between the Department of Economics at Sydney and the School of Economics at the University of New South Wales. I responded that "They're the gentlemen, we're the players".

6 *The focus on applied economics and an active interest in policy issues lead naturally to a discussion of CAER. Why did you set it up? What role did you think it would play? The early CAER papers contained contributions from a number of important non-UNSW economists and numerous symposia and conferences were held attracting a large number of eminent economists. In what ways do you think CAER was successful during your years as Director?*

I guess I set up CAER because I thought that in the mid-seventies there was need for more policy-oriented applied economic research and more informed debate about economic policy issues in Australia. If the School of Economics could contribute to meeting this need in a high profile way this would not only be good in itself, but also would add to the reputation of the school. The symposia, which brought in speakers from outside the University of New South Wales, were aimed at stimulating and informing policy debate. They were very successful. The proceedings of the various symposia were all best sellers and were widely quoted.

I also thought CAER would encourage members of the school to do research in teams of 2, 3 or 4 or more. This, I thought, would lead to more productive research, and also might lead to some people who had become quite inactive doing research as members of a team. This happened, but not to the extent that I had hoped for.

Thirdly, I hoped that the existence of CAER would make it easier to raise money for research. I think it did, though I guess it could be argued that most, though not all, of the money we raised could have just as well been obtained using the Department of Economics as the vehicle rather than CAER.

7 *Finally, what are your current research interests and your plans for the future?*

Over the next year or so I hope to write a book on economic rationalism and human welfare. I aim to do at least three things. The first is to examine the values underlying economic rationalism. This will expand the material on this topic in my article in the June 1991 issue of the *Economic and Labour Relations Review*.

The second and the third tie in with my interests in income distribution and in the sources of productivity growth. Most of the book will be concerned with the effects of policies, inspired by economic rationalism, on the welfare of the least well off in society, particularly Australian society. Do, as is commonly believed, policies inspired by economic rationalism make the distribution of income more unequal and do, as proponents of economic rationalism fervently believe, such policies increase the rate of productivity growth? If the answer to both questions turns out to be yes, does the increase in productivity growth raise all income enough so that the least well off are better off in absolute terms, even if they are worse off relative to the average level of income in the community?

When I describe what I plan to do it sounds like much more than a year's work, especially as I am sure I will continue to comment on current macroeconomic policy issues and, after my retirement, I plan to work a little less than full time. In general, I expect from now on to write more that reflects on the intertwined economic and ethical aspects of current issues and less that describes, in technical terms, the results of research projects.

* School of Economics, the University of New South Wales, Sydney, NSW, 2052, Australia. Originally prepared for a festschrift for John Nevile and published in B.B. Rao (ed.) *Essays in Economics*, CAER, UNSW, 1994).