Australian economics in the twentieth century

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In this, the eightieth year of the formalisation of the Australian economics profession, a survey of it seems appropriate. While the profession's beginnings were marked by an idiosyncratic, heterodox tradition, the paper finds that those attributes have by now been largely dissolved by internationalisation. To demonstrate this, two periods in Australian economic history, and the role of economic opinion within each, are examined. One concerns the mobilisation of native economics expertise in developing policies to deal with the Great Depression, while the latter episode covers the rise of neo liberal policy or economic rationalism in Australia. Unlike the interwar period and the post war era, contemporary Australian economics, despite its policy success in reform ing the economy has problems in attracting young minds to its fold.

Key words: Premiers Plan, Neo liberalism, Americanisation, Vernon Report, The Accord
JEL classifications: A110, B290, B310, B300

1. Introduction

Australians have always disliked scientific economics (still more) scientific economists. (Hancock, 1930, p. 86)

The public reputation of Australian economists is strikingly at odds with the stellar performance of their economy. For the longest period in its history, some 14 years, the Australian economy has been recession free. Seven years after being dubbed a miracle economy in 1998, Australia remains one of the fastest growing economies in the world. A generation of young Australians has, therefore, no collective memory or experience of recession; nor on the other hand, have they much exposure to economics instruction. Apart from prudent fiscal management, the reason for the Australian economy's extraordinary performance is attributed to its having undergone a structural reform programme over the past 20 years. The neo-liberal economists who designed, from the top down this highly performing, resilient Australian economy have been accorded little gratitude for their efforts. This ingratitude, reflected by the historian Keith

Hancock's observation in 1930 is, of course, hardly unique to Australia; economists since Adam Smith have always been regarded with suspicion by the populace.

It is ironic, then, that while Australian economists have, over the last 20 years, provided the intellectual sustenance for their country's embrace of a neo-liberal agenda, the public reputation of the profession has suffered. In contemporary Australia, economists are pilloried as zealots and made the butt of jokes. Membership in the State branches of the Economic Society, bar Canberra, has fallen (Edwards, 2002). The public campaign against economists has stimulated a belated defence of the profession (Coleman, 2004). During the high tide of negative public reaction against economists in the early 1990s, Anderson and Blandy's (1992) attitudinal survey of the profession found that they shared views similar to their American counterparts rather than their British ones. This paper argues that Australian economics exists today as a somewhat diminished body: 'diminished' in the sense of contending not just with student lack of interest in the subject but also denuded of the theoretical plurality that once embellished it.

This paper briefly charts the twists and turns of the Australian economics mainstream since it first became formally established 80 years ago in 1925. The paper attempts to chart briefly the traverse of Australian economics from *dirigiste*-state to neo-liberalism, from parochialism to an internationalised profession, using the surveys undertaken of it by Copland (1951), Butlin (1966), Corden (1968), Groenewegen (1989, 1995), Gruen (1978) and McAllister *et al.* (2003). It will be argued that the broad thrust of Australian public policy has been shaped by prevailing academic economic opinion. To illustrate this particular attention is paid to the activities of economists in two critical decades when economists figured prominently—the 1930s and, more recently, the 1990s. Both decades proved ones of economic reform and readjustment. However, the public reputation of economists in the 1930s and early 1940s contrasts markedly with that in the later period. It will be shown that the Australian economics profession has exhibited certain idiosyncrasies and features that set it apart from other economic professions abroad. This peculiarity is alas now disappearing.

2. Humble beginnings and early triumphs

Australian economics formally dates from 1925 when the Economic Society of Australia and New Zealand was founded. Before then, economics had existed 'as an unwanted child of the universities, poorly regarded and with a very menial training object' (Butlin, 1987, p. 1). It quickly became a Cinderella science. The Economic Society was designed to drown out the voices of economic mavericks coming from the underworld. Initially, Australian economics had a rich vein of amateurs, monetary cranks and scribblers within its fold before it became formalised (Goodwin, 1966; Groenewegen and MacFarlane, 1990). Their output tended to politicise the teaching of economics, making it worthy therefore of being taught only at tutorial classes of Workers Educational Associations (Heaton, 1926, p. 235). Usually, these doctrines from the underworld were quarantined from university economics but, sometimes, the leaders of the profession sought to relate the findings of these scribblers to conventional economic thought.

By 1925, there were six Australian universities offering instruction in economics, usually as part of the Arts Faculty (Groenewegen, 1989, pp. 98–9). The profession was Cantabrigian in orientation with Marshall its foundation stone (Cain, 1973). The economics of Edwin Cannan, too, was influential, particularly his stress upon welfare analysis. Cannan's legacy bestowed upon Australian economics the insight of visualising 'the economy as a whole, and of realising the possibility of instituting centrally planned policy to counteract maladjustment within the economy' (Copland, 1951). The discipline was marked by a high-minded mission of serving the public, with economists deemed educators and policy advisers (Crozier, 2002, p. 140). This was due to the activities of Douglas Copland and Lyndhurst Giblin. Copland was inspired by the Marshallian–Pigovian view that only economics was equipped to stand aside from sectional and class interests and provide a scientific and objective approach to problems in society. Dramatic economic circumstances would help bring this about.

In designing Melbourne University's Bachelor of Commerce, Copland held that economics was the queen of the social sciences, with economists tantamount to philosopher-kings. Like Marshall, Copland felt the faculty's first calling should be to offer businessmen some formal understanding of the world of commerce. Business houses reciprocated, giving Copland's faculty financial assistance, even office furniture. Copland eschewed a narrow specialisation in economics for a broad-based education that would suit aspirants entering the business world. He made sure, however, that subjects like sociology were excised from the degree (Crozier, 2002, p. 129). Seventy-five years later, the sociologists had their revenge (Pusey, 1991).

It was the policy-making world, though, that Copland really wanted to infiltrate. He had been astounded, whilst on a Rockefeller study tour of America, to see how economists 'honeycombed' the US administration. In contrast, Australia had no economists within the Federal Treasury or the central bank. The symbiotic relationship in Melbourne between 'town and gown' which Copland helped establish become unstuck in the 1930s when he and Giblin, sided, at least initially, with the proto-Keynesian cause in the debate over anti-depression policy in 1930. Another stumbling block with their patrons was to push for devaluation of the Australian pound, thereby cutting the imperial link with sterling.

These measures had to do with Australia facing a grave economic crisis. The Scullin Labour government of 1929–31 was beset by falling export prices in tandem with the cessation of loans from London. Australia's current account deficit shot up to an unsustainable level as the terms of trade collapsed. Despite the incumbent Labour government being, like the wider community, suspicious of economists, the profession exploited the political gridlock between the federal government and central bank by proposing policies designed to prevent Australia defaulting on her overseas loans. Before that juncture, the previous administration, led by S. M. Bruce (1923–29), had welcomed the promise of economics expertise by commissioning economists to inquire into the optimal level of the Australian protection. The Brigden Report on the Australian tariff became the first time economists advised upon a major policy issue in Australia (Copland, 1951). Keynes felt the findings and method of analysis implicit in the report to be 'a brilliant effort of the highest interest'.[1] Frank Taussig hailed Copland and his colleagues for their work: 'I wish I could say that work as good came from the immensely larger number of American economists.'[2]

[1] J. M. Keynes to L. F. Giblin, 28/8/1929, University of Melbourne Archives, Faculty of Economics and Commerce, hereafter UMA FECC, Box 213.

[2] F. Taussig to D. B. Copland, 13/12/1929, UMA FECC, Box 48.

The Scullin Government did not share in the rapture. It closed down one economic agency and vetoed moves to establish a Bureau of Economic Research. Scullin led the charge in denouncing 'scientific' economics (Castles, 1997). Labour politicians, moreover, equated the prescriptions of local economists with that of Sir Otto Niemeyer who had been sent out by the Bank of England to tell Australian Governments to balance their budgets quickly. It was, however, hardly true.

In a second major episode of utilising native economic wisdom, Copland, Giblin, along with two more orthodox economists, Leslie Melville and Edward Shann, devised in June 1931 an alternative to Niemeyer with what became known as the Premiers' Plan. It was one of the first instances anywhere of the mobilisation of economics expertise to deal with the Depression. By today's standards, the Plan would be akin to an IMF stabilisation package imposed upon some spendthrift Third World state. While the plan was fiscally austere, it offered some novelty in a limited monetisation of budget deficits and also prescribing cuts to rentiers' income commensurate with an earlier cut to wages ordered by the Arbitration Court. This formed part of the economists' prescription of sharing the real burden of loss consistent with the fall in export prices. Keynes recognised elements of the Premiers' Plan from the National Treaty expedients he had put before the Macmillan Committee in 1930. The Plan was complemented by a devaluation of the exchange rate. Besides sympathising with the policy line that Australian economists took, Keynes praised the plan for having 'saved the economic structure of the Australian economy' (cited in Copland, 1951, p. 23). It did not, however, save the Labour government from annihilation at the polls. Labour was hounded from office, even though it carried out all the necessary measures for Australia's economic rehabilitation. Sixty years later, another Labour Prime Minister, Paul Keating, was also banished from office by an electorate unappreciative of the new streamlined and reformed economy he had designed and instituted over a 13-year period. While the trade unions and the trading banks were wary of economists, they emerged from the drama of 1931 to some acclaim, even if their policies initially placed Australia into deeper deflation. The economists had been helped by the gravity of the situation and the need for Australian Governments to balance their books. The threat of default ranked before deflation.

The leading economists of the 1930s were an extraordinary bunch. None of them, bar Copland, had much formal training in economics (Butlin, 1966, p. 509). Copland noted how his contemporaries were free of academic reserve and willing to enter into the fray of public debate. Copland felt that, in contrast, the post-World War II generation of economists did not have the same gusto for entering into the fray of policy-making (1951, pp. 9–10). This was partly because the Commonwealth Government established its own pool of economic expertise after 1945 (Corden, 1968, pp. 58–9).

While the interwar generation of economists were great practitioners, they were not renowned as theoretical innovators. The main research contributions were in the field of the costs of tariff protection, fiscal equity between the states, Giblin's export multiplier and some pioneering work on national income estimation (Groenewegen, 1989, p. 101). The first issues of the *Economic Record* were devoted to economic development and associated problems like population growth, land settlement, public borrowing and the development of manufacturing industry. Australian economics was characterised, therefore, by a pragmatic, empirical bent focusing almost exclusively upon national economic problems. The genius of interwar Australian economists came in adopting theoretical tools to deal with these problems. Giblin summed up the axioms and values that characterised his contemporaries: ‘In Australia economists are a peculiar tribe. Rarely are they nourished by the pure milk of the word. Mostly they have been advisers to governments for many years—permanently or intermittently, publicly or privately. Governments do not love them but are inclined to believe them honest . . . They are frequently more practical and realistic than businessmen . . . They are resented, of course, by sectional business interests. The word of complaint or abuse is “academic”; but, in truth, they are the least academic of God’s creatures’ (cited in Hytten, 1960, p. 96).

During the 1930s, students flocked to do economics courses. One of them was Richard Downing, who reported upon how, even before 1936, the depression years were a period of excitement, not embarrassment, for Australian economists: ‘We were bred to the world of affairs, public policy and applied economics which they [Copland and Giblin] brought to the Melbourne school’ (cited in Brown, 2001, p. 30). Copland revelled in the publicity from leading the official committee that brought forth the Premiers’ Plan. He told Irving Fisher about the almost Machiavellian agenda behind the economists’ handiwork underlying the Premiers’ Plan: ‘Our economists and monetary advisers knew pretty well what they wanted but I am quite sure that neither the Treasury authorities nor the Commonwealth Bank Board quite appreciated the nature and importance of the experiment they were conducting.’[1] In other words, the economists had free rein.

Following the success of the Premiers’ Plan, Copland was invited by Keynes to give the 1933 Marshall lectures. As the ‘public relations man of Australian economics’ Copland reported on the rehabilitation of Australia from near bankruptcy to one of the first economies to recover from the Depression (Cain, 1973, 2). The process had been helped by having four key economic agencies coming under the influence of independent economic advice. One of those tribunals, the Arbitration Court, ordered the emergency wage cut of 10%. Copland was the expert witness appointed by the Court to urge the necessity for wage cuts. This advice confirmed Labourist opinion that Copland was in the pay of employers and the banks. Yet the powerful financial community would also come to regard Copland as too radical.

By the mid-1930s, Australia was regarded by one Indian economist, B. P. Adarkar, as ‘the Utopia of practical economists’ because problems like wage fixation, tariff setting, monetary management and federal finance were dealt in a scientific way by experts and Governments working together (Goodwin, 1974, 236). The English economic historian, C. R. Fay, congratulated his Australian counterparts for their ‘good fortunes to live in a country where economists are occasionally heeded’ (cited in Goodwin, 1974, p. 236). The Australian Prime Minister, R. G. Menzies observed, too, that ‘[i]n the economic history of the last fifteen years nothing will be more notable than the rise in influence and authority of the professional economist’ (1942, p. 6).

Giblin encouraged the Australian public service to recruit more graduates instead of being a repository for returned servicemen. The growing professionalisation of economics was matched by the gradual placement of economists within the Australian public service. The first two appointees had been outstanding academic economists.

[1] D. B. Copland to I. Fisher, 23/11/1934, UMA FECC, Box 23.

Melville joined the Commonwealth Bank in 1931, and, in the following year, Roland Wilson joined the Federal Treasury. It was a slow process of accretion until war intervened (Petridis, 1981).

The rising Turks of the Australian economics profession were all receptive to Keynes's *General Theory.* The Keynesian revolution would, in King's words 'conquer Australia like the Spanish inquisition' (1997, p. 298). Certainly by 1939, Melville recalled that the small corpus of economists in Australia were all Keynesian in policy persuasion if not analytical framework (Cornish, 1993, p. 19). It was helped in that process not only by Keynes's dealings with Copland and Giblin, but also in having two of his associates, Colin Clark and Brian Reddaway, spend time in the Antipodes. Reddaway's thoughtful and incisive précis of what Keynes was saying became the first published academic review of the *General Theory.* Clark had gone out to Australia in 1937 on a visiting lectureship but was expected back in Cambridge to head up a department of applied economics. Clark told Keynes of the attraction of remaining in Australia: 'People have minds which are not closed to new truths . . . and with all the mistakes Australia has made in the past, I still think she may show the world, in economics . . . in the next few years' (Keynes, 1983, p. 808). They were poignant words.

In 1939, Australia switched smoothly to a total war economy, because economists serving in a key advisory committee convinced the then Federal Treasurer, Percy Spender, that, before resorting to taxes and borrowing expedients, the war effort could be met by putting all human and physical resources to work (Coombs, 1981, p. 7). Copland reckoned that a war effort of 15% of resources was possible before any strain on resources would emerge (1951, p. 5). Australian economists advised their Government therefore to shepherd resources by borrowing until the economy reached full employment. This was around the same time Keynes applied the *General Theory* framework to war economics in *How to pay for the War.* In short, Spender assimilated a physical resources view as distinct from a monetary view. As in Britain, the bulk of Australia economists were quickly inducted into wartime service, heading government departments and advisory committees.

3. Consolidation, growth and heterodoxy

Economists are often vulnerable to fighting the last policy battle. After World War II, there was apprehension of a return to depression economics. However, the transition back to a peacetime economy was easier than anticipated. The overriding problem for the Australian economy in the entire post-World War II era was not underemployment but perennial excess demand creating both balance of payments and inflationary problems (Cornish, 1993).

Economists had served Australia well in the defence effort, and recognition of this gave the profession a boost in prestige. This led to their becoming nation-builders in establishing post-war policies aimed at establishing a mixed economy able to deliver full employment, a diversified economy and an adequate welfare system. If the 1930s had been 'a golden age' in terms of policy influence or even theoretical innovation, period between 1950 and 1980 was to be the quantitative equivalent in terms of growth of the profession (Groenewegen and Macfarlane, 1990). The demand for microeconomic and macroeconomic management meant a huge demand for economics expertise. The number of universities offering instruction in economics doubled from nine to 19 (Groenewegen, 1989, p. 101). Noel Butlin estimated that between the period 1916 and 1947 some 5,000 persons graduated with an economics degree, the corresponding figure for the interval 1947–86 was ten times this (1987, p. 2). Economic bachelor degrees rose from 6% of the total degrees awarded in 1930 to 12.5% of the total by 1980.[1] There was, in this period of expanding student numbers, a commensurate growth in the number of instructors. These were the salad days for Australian economists. In the years 1968–78, there was a boom in the hiring of academic economists with growth rates between 9 and 12% per annum (Gruen, 1979, p. 225). The profession embarked upon the greatest expansion in its numbers, with many dedicating their expertise to the public service.

Petridis found that an economics degree was the principal or 'generalist' form of graduate qualification into the Australian public service (1981, p. 409). The fact that economists occupied the top positions within the bureaucracy and wanted to replicate themselves entrenched the selection bias in graduate recruitment. It was, however, a different type of economics training, embodying a 'deadly combination of positivism and specialisation' that did not dissipate with age (Pusey, 1990, p. 82). The degree regimen became 'more technical and specialised ... Americanised and more attuned to rational maximising behaviour. Increasingly this training seemed to prefer efficiency to humanity' (Butlin, 1987, p. 2). Groenewegen (1995, p. 6) dates this 'Americanisation' of Australian economics from the late 1960s onwards. It was later argued, somewhat provocatively, by the sociologist Michael Pusey, that this pattern of training and hiring of economists bore a significant influence upon government policy. Pusey (1991) specifically argued that economists within the central policy-making agencies were the *force majeure* behind the economic transformation Australia underwent in the 1980s and 1990s.

In the 1950s, Copland warned against a creeping element of hubris, particularly among the advocates of full employment. They were becoming too cavalier against 'the powerful forces arraigned against them' (Copland 1951, p. 25). It was to become a familiar refrain in the late 1960s that Keynesianism gave economic planners a hubristic sense of omniscience and omnipotence. Copland's concerns were echoed by Syd Butlin, a Cambridge man himself, who became alarmed by the preponderance of 'Keynes-worshippers among the young men' (O'Donnell, 1996, p. 6). In the 1990s, as we shall see, there would be an equal charge of an uncritical and eager acceptance of neo-liberal ideas. That aside, Australian economics in the 1950s and 1960s was of a Cambridge Keynesian vintage, culminating in the halcyon 1960s when macroeconomic balance was achieved (Perkins, 1977, p. 5). While the 1960s were often cherished as a golden economic era, academic economists noticed how Australia's performance over a number of economic indicators compared unfavourably with other OECD countries (Whitwell, 1995, pp. 181–2).

While there were economists employed in a number of advisory agencies, the Federal Treasury remained pre-eminent in tendering policy advice to the Government. Academics were being shut out from officialdom. In 1965, the Vernon Report threatened to end Treasury's stranglehold on economic advice by proposing to establish an Advisory Council on Economic Growth (Corden, 1968, pp. 53–6). The Menzies Government shelved the idea, stating that it did not need an alternative source of

[1] By the end of the century the same ratio had fallen to 1.6% (Millmow, 2000, p. 45).

economic advice. The Federal Treasury also circumscribed the influence of academic economists upon policy-making by going to the lengths of writing reports on the economy in a light favourable to its own management (Jones, 2003). In the Menzies era, Australia's central bank, too, danced to the tune of the Treasury; an attempt by the Reserve Bank to set up an intramural committee of academic advisers was sabotaged by Treasury (Coombs 1981, p. 178). The Treasury's pre-eminence in the formulation of economic policy would continue up to the 1990s, when it reached its apogee.

It was, however, the input from academic economists and especially conservative think-tanks, rather than Treasury officials, which lay behind the sea change in economic policy during the 1980s (Mendes, 2003). Shaun Goldfinch's (2000) survey of the key executive players involved during the Hawke–Keating term of office (1983–96) refuted Pusey's thesis that narrowly trained economics bureaucrats within the central policy-making agencies were primarily responsible for the embrace of neo-liberalism. It was politicians, the press and opinion-makers that led the charge. Ultimately though, their ideas sprang from the groves of academe.

4. Dry economics for a dry continent

Just over 25 years ago, a group of libertarian economists from the Australian National University and Monash University gathered for a conference entitled 'What Price Intervention?: Government and the Economy' (Hyde, 2002, p. 69). The conference was organised by the Centre for Independent Studies, a small libertarian think-tank modelled on Britain's Institute of Economic Affairs. Today, the CIS is Australia's most influential think-tank with unrivalled access to the press, politicians and policy-makers (Mendes, 2003). The editorial board of its house journal, *Policy*, lists the prime movers and shakers behind the neo-liberal economic revolution in Australia. Much of post-war economic research focused upon Australia being a small, relatively open economy, dependent upon the global economy. In an insular, regulated society, Australia's leading economists cut their teeth on trade and growth models that called for the very opposite—free trade and less intervention. Their arguments for more market-orientated economic, trade and industry policies fell on deaf ears until the 1970s. Apart from an avalanche of journal articles bemoaning the distortions of Australia's trade and industry policy, perhaps the first definitive statement of a comprehensive dry economic and industrial relations agenda came in a book written by five economics professors entitled *Australia at the Crossroads* (Kasper *et al.*, 1980). Today, much of its content, bar education vouchers, has been implemented. In some areas, like industrial relations, Australia has exceeded the expectations of the economists' modest proposals for reform.

The mid-1970s saw Australian economics adopt a version of the Hayekian–Libertarian school of economics rather than take the heterodox path as proposed by Gruen (1971). The orientation in Australian economics towards libertarianism hailed from an agricultural economics or trade background, both being pristine neoclassical domains (Jones, 2002). Petridis claims that the story of the complex and subtle transformation of the Australian economics profession towards libertarianism has yet to be written (1994, p. 181). There has, however, been an attempt by Battin (1997), though his treatment focuses more upon macroeconomic policy than on the sociology of the economics profession. Groenewegen and MacFarlane's (1990) more provocative account is discussed below.

By the end of the 1970s, if not earlier, the Australian economics profession was, like elsewhere, intent upon overthrowing the Keynesian consensus and shedding the vestiges of protection, regulation and wage fixation. The move rightwards was sparked by the profession's disenchantment with Australia's economic performance (Gruen, 1979, pp. 230–1). Perkins noted how, in the post-war era, economic policy, particularly the period 1951–76, was marked by a 'remarkable disinclination to use the market' (1977, p. 1). There was a myriad structural controls upon trade, capital, the exchange rate, credit and bank lending which facilitated and complemented macroeconomic policy (Jones, 2003). There was also, of course, a regulated labour market which gave Australian economists their own research niche (Corden, 1968). Perkins felt that, with the widespread distaste expressed towards using the market Australian economic policy, particularly in the 1970s, was marred by serious policy errors like an inappropriate exchange rate. Academic economists, in contrast, had begun to advocate a more market-orientated approach to macroeconomic policy. They much preferred the Reserve Bank's approach of fine-tuning, via interest rates, than the Treasury's preference for subjecting the economy to fiscal therapy.

The doctrinal despair of most Australian economists was prompted more by 'government failure' and the policy errors manifested by the Whitlam administration that any deficiency in economic theory. Only a free market economy, it was held, would boost productivity, trade and growth. This neo-liberal outlook went against the Cambridge Keynesian rubric of both post-war and interwar Australian economics (King, 2002).

While the Vernon Report reaffirmed that the tariff did sustain Australian living standards and industrial diversity, the Tariff Board had misgivings about preserving protectionism. Neo-liberal economists, led by Max Corden and his effective rate of protection concept, were concerned that tariffs were harming both Australia's productivity and economic efficiency. Economists lent their support, therefore, to the Tariff Board's attempt to develop a more rigorous economy-wide perspective to giving assistance to sectors of the economy and quantifying the cost of protection to industries (Jones, 2002, pp. 46–7). In 1973, the Board was replaced by the Industries Assistance Commission, which was staffed with economists who used Walrasian general equilibrium modelling to demonstrate the negative effects of protection. The Whitlam Labour Government welcomed the infusion of reforming expertise that came from economic advisers (Petridis, 1981, p. 414). Whitlam was a champion of free trade and despised the 'protection all round' racket of the Menzies era (Leigh, 2003, p. 493). A graphic application of that was the 25% general tariff cut of July 1973, advocated, not by the Treasury, but by ministerial advisers. Instead of defusing the excess demand pressures building within the economy by a revaluation, the advisers chose to increase aggregate supply via a tariff cut. The Whitlam government also hailed this new approach to structural and industry policy as the means towards building a better Australia. Whitlam also appointed the Coombs Royal Commission into the Australian public service, which recommended the streamlining the processes of economic policy-making.

Like its British Labour Party counterparts, the Whitlam government became confounded by stagflation and eventually dropped hydraulic Keynesianism in 1975 for the new creed of monetarism and the mantra of 'fighting inflation first' (Hughes, 1980, 115–16). Stone (2004, p. 267) stated that this conversion initially 'found no comprehension among Australian economists' at the time and was articulated only by Treasury economists. This is corroborated by Nevile and Stammer's (1972, p. 9) finding that 'Australian economists . . . are mostly confirmed Keynesians' in their belief in the worth of fiscal policy. Hughes (1980, p. 44) corroborates this, saying that, apart from the acceptance of inflationary expectations, monetarism remained 'a minority taste'. The new doctrine of creating unemployment to suppress inflationary expectations which won over many Australian economics professors left Post Keynesians like Geoff Harcourt in disgust. Harcourt (2001, pp. 196–9) and others under the rubric of the 'Adelaide School' favoured the indexation of wages, prices and profits to defuse a wage-led cost-push inflation.

The shift in theoretical and empirical orientation within the Australian economics profession was mirrored in the *Economic Record*, which from the 1960s onward contained more technical, specialised contributions befitting a modern day economics journal. Butlin (1966, 514) noted how contributions were increasingly devoted to the pursuit of esoterica where the emphasis was more on 'the virtuosity of the technique' and 'mathematical exhibitionism' than in solving real problems. The change in orientation from the practical to the theoretical and quantitative meant a narrowing in readership and appeal. Butlin held out hope that the editorial policy for future issues of the *Record* would 're-vivify Australian academic economics'. This did not transpire, as the Australian economics profession became internationalised not just in research focus but also in composition. Shortages of locally trained expertise due to the encroaching demands of the public and private sector were met by recruitment from Europe and, more lately, East Asia and the Indian subcontinent (Butlin, 1987).

In the 1960s, the young Turks of the Australian economics profession began to regard Chicago, not Cambridge, as the new Mecca. In the interwar era, all of Sydney University's complement of economists received their graduate training abroad, usually at Oxbridge.[1] But something else had changed. Dowrick (1994, p. 28) argued that the experience of young Australian economists training in North America was far more influential on their minds than the views of the older generation of Australian economists, many of whom were more pragmatic than their American counterparts. The younger Australian economists were ever mindful that, to be promoted, they must publish their research in internationally refereed journals. This outlook has generated some returns. Twenty-four Australian or Australian-based economists, for instance, are listed in Mark Blaug's compendious *Who's Who of Economics*. A study showed that in economics Australia's share of the total journal citations between 1981 and 1997 was 3.3% compared with 10.7% for Britain and 64.8% for the US (McAllister *et al.*, 2003, p. 4). Nor has greater scrutiny of academics' research productivity by the authorities resulted in 'dry holes', that is, work rarely cited (Laband and Tollison, 2003). Contesting somewhat these findings is an audit recently undertaken by Pomfret and Wang (2002) showing, in fact, that the great majority of Australian university economists generate little, if any, significant research.

The tyranny of distance has always weighed upon Australian minds. In the 1930s, it was thought that Australia's isolation meant there could be little theoretical innovation here. Reappraising the state of Australian economics in the 1980s, Corden did not see

[1] For instance, only three Australian economists Roland Wilson, Arthur Smithies and Hermann Black undertook higher studies in North America during the 1930s.

any need for it being apologetic about its being too derivative, since it did 'not make it different from the greater part of the economics profession elsewhere' (cited in Groenewegen, 1990). Groenewegen and MacFarlane (1990, pp. 234–5) warned that the Australian tradition in economics could fade away, as it fell under the 'fatal embrace of North American economics'. Australian economics would become 'a minor sub branch' of the American Economics Association. Only a more critical appraisal of the overall suitability of American economics to Australian conditions would prevent this. While accused of 'Yank-bashing' Groenewegen and McFarlane were rightly concerned at the uncritical acceptance of American mainstream economics without due regard to the peculiarity of Australian institutions, culture and history. Groenewegen (1995) still felt the national element was important in teaching economics. Despite the ongoing neo-liberal transformation of the Australian economy, there was still enough peculiarity about Australian institutions and settings along with a unique cultural environment to warrant casting a censorious eye over imported economic dogmas.

By the turn of the century, Groenewegen and Macfarlane's prophecy had come true as Australian economics, certainly at the instruction level, became internationalised. It had lost the vibrant element of heterodoxy and uniqueness that Gruen (1971, 1979) and Groenewegen (1979) noted in their surveys of the profession. The wellspring of radical economics that once fed and infused the mainstream has mostly dried up. It has left groups like the Post Keynesians, Marxists and Institutionalists as mere billabongs of economic thought.

As mentioned, the Australian economic profession's reaction against controls and Government *diktat* reached a high water in the late 1970s. The Fraser Government's (1975–83) reluctance to adopt the structural and trade reforms advocated by libertarian economists frustrated the academic and business voices calling for reform. A welter of structural reforms was held up until, again, a Labour Government came to power in 1983. Much of the Labour Party's corporationist and Post Keynesian manifesto on economic policy, expressly prepared by Geoff Harcourt was dumped. More policy U-turns followed as the structural reform process, praised by the financial markets, built up its own momentum. An avalanche of market reforms subsequently took place through the 1980s. One of the early pivotal decisions, to float the Australian dollar, was vehemently opposed by Treasury. Meretricious players—personal economic advisers (drawn from academia) for both the Treasurer and the Prime Minister—wove their spell.

The Labour Party did, however, still have an incomes policy with the Australian trade union movement and also created an Economic Planning and Advisory Council to advise upon long-term issues. For this, it drew upon the services of Harcourt who, inspired by one of his mentors, Eric Russell, designed a consensus-based incomes policy which was fashioned into policy by Ralph Willis (Harcourt, 2001, p. 14). Later entitled 'The Accord', Harcourt envisaged how this incomes policy, managed by the Arbitration Commission, would engineer money wage restraint in exchange for augmenting the social wage. It would also be complemented by expansionary economic policy to enable growth and ongoing structural change (Harcourt, 2001, p. 93). In its early days, the Accord enshrined Wilfred Salter's wage-setting formula of adjusting money incomes to increase at the same rate as productivity plus inflation. This incomes policy would thus allow the economy to achieve high rates of productivity growth and structural change as uncompetitive industries fell by the wayside. Real incomes would grow therefore at agreeable rates, with the fruits distributed between employers and employees (Harcourt, 2001, p. 328).

Something distinctly not included in Harcourt's discussion paper blueprint was the financial deregulation and privatisation of state-owned instrumentalities which occurred in the 1980s. Finally, in the 1990s the Australian labour market and centralised wage fixation—long the bane of neoclassical economists—has been deregulated much to Harcourt's horror. In that regard, the Federal Treasurer during the Keating Government John Dawkins later admitted that the much of the economic reform agenda was identical to what the Business Council of Australia wished for (Goldfinch, 2000). While there were concerns that the Labour Party had lost its ideological heritage, the embrace of market-driven policies was legitimisd in the name of growth and jobs. This was a line from the orthodox school that insisted that economic efficiency and growth were the panacea to all society's ills. Equity and other social considerations could be addressed so long as international competitiveness and the primacy of the markets were assured (Keating, 2004). Linda Edwards (2002) was adamant that economists, including less zealous market reformers, had foisted this mindset upon Australian politicians, meaning that debate about economic policy became stilted. When, moreover, the promised gains from economic reform did not materialise, the stock response from economists was to argue that the reform programme had not gone far enough. This mentality was particularly the preserve of the original set of libertarian visionaries, who decried any attempt to prevent the transformation of the Australian economy (Dowrick, 1994, p. 29). For a while, this excuse wore thin, since the recovery from the 1991 recession appeared to be a jobless one. From 1997, however, the Australian economy began to evoke the title of 'miracle economy' after it not only withstood the fallout from the East Asian financial crisis but also generated jobs to reduce the official unemployment to rates last seen in the 1970s.

5. End point—Australian economics in the twentieth-first century

Australian economics has survived its first century. The canvas of Australian economics research is now mostly concerned with dabbling with the, at times, arcane world of micro theoretic issues. The main research areas, identified by McAllister *et al.* (2003), were privatisation, an ageing workforce, urban and infrastructural reform and the environment. Productivity growth remained the lodestar of economic policy. Despite being touted as a miracle economy, there has been community disquiet about relinquishing traditional Australian values such as 'mateship' and egalitarianism, and economists have been singled out for bringing that about (Argy, 2003). Put another way, the profession suffered a decline in moral authority. Twenty-five years earlier, Groenewegen had portrayed the Australian economics profession as split between heterodox and 'bourgeois' traditions (1979, p. 173). That schism no longer exists, but it would be inaccurate to imagine the profession as monolithic in support of the mainstream. There are lingering pockets of heterodox thought with journal outlets for their expression.[1]

[1] There are three heterodox journals in Australia, namely, the *Australian Journal of Political Economy*, the *Journal of Economic and Social Policy and Economics* and *Labour Relations Review*. In its earlier days, *Australian Economic Papers* was also an outlet for heterodox articles.

Moreover, there has been contemporary debate among Australian economists about how far one should uphold the primacy of the market. Fred Argy (1998) labels the dispute over economic rationalism as one between the hard liberals or libertarians and progressive liberals like himself. In that camp, he is joined by social democrat economists. Their strategy couples some interventionism with a market-based liberalism. Priority is given to solving unemployment and distributional issues. This vision contrasts with the gung-ho free market radicalism of the 'hard liberals'. Argy (1998) and John Nevile (1994) have made the point that that economic rationalists' claim that their policy prescriptions devolve from standard economic analysis, and not from value judgements, is not entirely correct. Judgement is involved not just in interpreting the empirics, but also in employing one's deductive reasoning. And the values that underpin the rationalist view of the world are the freedoms of the individual matched against the oppressive power of the state.

That said, when it comes to surveying the opinion and attitudes of Australian economists, it is possible to discern a certain mellowing in their views and attitudes from an earlier survey (Anderson and Blandy, 1992). A recent survey undertaken by Argy (2001) of the Canberra branch of the Economic Society, perhaps the bastion of economic rationalism within Australia, found that with micro issues the fraternity was quite rationalist. On other issues, however, many favoured income redistribution and gave support to fiscal policy in combating recessions, and, in general, emerged as progressive liberals. Economists were not, seemingly, the heartless know-alls the media portrayed them as (Coleman, 2004). More evidence of a shift in values was the orthodox Productivity Commission conceding in a recent research paper (2003) that social capital tended to be underprovided and mal-distributed if left to market forces alone. The paper concluded that there would be benefits in integrating social capital considerations into mainstream policy analysis. That is, the efficient functioning of the economy was enhanced by social norms, networks and trust, all of which facilitates exchange.

In contrast to the 1930s, the appeal of economics to Australian youth faded through the 1990s, though this is not solely attributable to the negative consequences of economic rationalism. It was also due to vocationalism among the young, together, with the rise in business and management education. Economics had become, perhaps, victims of its own success in creating an enterprise culture. The organisational strength of the profession, after reaching a steady state in the early 1990s, began to weaken, with a fall in the number of university economics departments as many were integrated into business schools. There was also a net loss of some 60 to 70 jobs from within the academic economics profession (Maxwell, 2003, pp. 80–1). It is at some risk of missing out upon the huge boom in business and management education—something that would have left Alfred Marshall aghast, given his view that economics was the stuff of business life. And while much of what was taught in business schools descends from economic inquiry, it was not economists that drew the kudos. Today, it is not unusual for the Australian business student to do just one conflated unit in economics (Guest and Vecchio, 2003). Mainstream economics sometimes had a hard time justifying its existence within business schools while, at secondary school, economics was fast disappearing, with the number of students undertaking it more than halving during the 1990s (Fullarton *et al.*, 2003, p. 28).

Some might argue that the institutional decline in Australian economics education should be taken as a sign of economists having fulfilled their historic mission and becoming, as Keynes once put it, as humble as dentists. Others were not so sanguine or relaxed. What was not in doubt was that Australian economics had indeed succumbed to the 'fatal embrace' of American economics. It had, consequently, lost much of its idiosyncratic tradition, its uniqueness, and, perhaps its greatest loss, an attraction to young Australian minds

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