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THE ASCENDANCY OF AN IDEALIST ECONOMICS IN AUSTRALIA

Evan Jones*

The economics profession is a necessary evil. Economists exist to lecture individuals, organisations and governments on the need for efficiency and restraint. Increasingly, it seems, they are more evil than necessary. Over the last forty years, economists in Australia have become more idealist, more arrogant and more influential. By 'idealist', I mean committed to conceptual structures derived from fixed axioms that are innocent of and immune to experience - in practice, the neoclassical paradigm. Moreover, this entails a commitment not merely to interpreting the world through this vision, but changing the world to make it fit the vision.

The useful economist is a person cognisant of the social constitution of economic activity. He (or she) will be aware of the deep need of individuals for stability and regularity in the processes of economic life. S/he will be aware of the strong moral purpose that motivates people to resistance and action when confronted with instances of structured injustice (whether affecting themselves or others). S/he will be well read in history, and in the peculiarities of economic structures and processes in time and place. S/he will have some awareness of the technical and social dimensions that underlie the production of goods and services (or will defer to experts so informed). Such individuals will also possess humility towards the robustness and utility of their conceptual framework

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by which the world is interpreted. The respected economist in Australia has none of these attributes.

The economists that rose to prominence between the two World Wars – Edward Shann, Leslie Melville, Douglas Copland, Colin Clark, James Brigden, Lyndhurst Giblin, Richard Mills – were all imbued with the economising spirit. However, they were all men of the world, and their conceptual apparatus and their prejudices were generally articulated within a discourse cognisant of the broad cultural and political forces through which economic imperatives are mediated. (*c/f* Groenewegen & McFarlane, 1990).

The next generation was similarly moulded by Depression, but more significantly by the experience of total war and post-war reconstruction. John Crawford, Herbert 'Nugget' Coombs, Ronald Walker, Roland Wilson, Ronald Mendelsohn, Trevor Swan, Bernard Hartnell, Horrie Brown, Richard Downing, Neil Crowley, Gerald Firth, and so on, exerted a formidable influence. All of them were at some stage full-time public servants, and their written work (rarely publicised) was forged in the pressure of public service. This generation combined analytical ability with an appreciation of the detailed working of the economy and of the political realities of developing economic policy advice under particular governments. Their contribution was forged by working with and taking advice from experts in other fields, whether engineers, physical geographers or accountants.

Economic Analysis Jettisons its Institutional Moorings

This tradition atrophied during the 1950s. It is apparent in the evolution of one person, Trevor Swan, whose writings became more abstract and less politically meaningful as he moved from bureaucratic career to academic career at the Australian National University.

Probably a pivotal moment in the rise of a new era was the appearance of a series of articles and papers on the Australian tariff by the ANU's Max

Corden from 1957 onwards.¹ Corden's work on the tariff, although suffused with knowledge of recent hearings before the Tariff Board, was increasingly centred on an other-worldly vision of an Australian economy that was unrealistic and unachievable. The tariff would become the most important arena of economic controversy in the 1960s, and Corden's writings contributed significantly to shaping anti-tariff opinion within academia, the bureaucracy and journalism (Glezer, 1982: 271). Since that early important but flawed contribution, Corden's work became more detached from material processes, and his international stature has grown commensurately.

The flight to idealism achieved significant momentum with the establishment of the Industries Assistance Commission in 1973 by the Whitlam Labor Government. The IAC was created to break the protectionist processes embedded in the Tariff Board, the IAC's predecessor, and the supplicant mentality of manufacturing industry. At least in the first instance, some IAC staff were experienced public servants. Increasingly, however, the burgeoning staff comprised inexperienced graduate economists. Experience in or knowledge of industry became reason for suspicion rather than admiration.

Alf Rattigan, the architect of the IAC, was influential in the entrenchment of the cult of the economist. An experienced but ill-educated bureaucrat from the Department of Trade and Industry, he found in a new breed of academic economists a powerful ally against his bureaucratic enemies.² Rattigan also oversaw the entrenchment of the concept of 'the effective rate of protection'. The concept was criticised at

1 Corden's early articles are referenced in Corden (1963).

2 No respecter of tradition, as (the last) Chairman of the Tariff Board, Rattigan took confidential material submitted to the Board by particular businesses to his economist allies for comment, one of several procedures that earned him enmity from some of his fellow Board members (interview, Lindsay Dudley, member of Tariff Board 1968-1973, 18 March 1996). Rattigan was also a member of the [Jackson] Committee to Advise on Policies for Manufacturing Industry. His minority report (fearing industry-wide consultation as a plot to derail his 'scorched-earth' agenda, a view copied from *The Bulletin's* Peter Samuels) is a reflection both of his ignorance and his malevolence.

the time, to no avail³; it has since been reproduced uncritically whenever a convenient case against the 'bad old days' of protectionism is needed.

Contemporaneous with the rise of a more monolithic bloc of economists in the tariff dispute, a new generation of agricultural economists was appearing. The agricultural economists were perhaps more purely neoclassical than the typical economist, with the University of New England an important breeding ground.

Amongst agricultural economists, there was a gradual development towards greater abstraction, with a concomitant deterioration of institutional detail.⁴ This trend coincided with (tied into?) academic trends in the heartland of agricultural economics in mid-western USA, with enhanced theoreticism, and (inconsistently) attraction to the presumed certainties of econometric estimation. Representative of this trend was the UNE's John Dillon, who teamed up with the boffins at Iowa State University to produce such tomes as *Agricultural Production Functions* (1961) and *Agricultural Decision Analysis* (1977). The estimation of production functions, in themselves theoretically mis-specified, represents a significant diversion of energies into a past-time of no intellectual or policy significance whatsoever. The excursion into 'decision analysis' represents a crude extension of the economist's abstraction of 'rational economic man' into the farming milieu. The relentless drive to theoreticism can be observed in a perusal of the sterile contents of the last thirty years of the house journal, the *Australian Journal of Agricultural and Resource Economics*. Predictably, the theoreticism has proved to be of a particular character. A recent self-congratulatory evaluation of Australian agricultural economics by an insider notes that 'the profession has been faithfully and uncritically neoclassical' (Godden 2001: 31).

3 Later, internal misgivings from a non-economist staffer within the IAC, one J. L. Schaiffer, were ignored.

4 The trend to greater abstraction meant that the 1981 Campbell Report and subsequent financial deregulation were met with uncritical acceptance by agricultural economists, to the detriment of the farming sector (Jones, 2002a).

Abstracted Empiricism

The attraction to simple analytical models does not preclude empirical work. The involvement of economists in public policy, as public servants, advisers or proselytisers, necessitates substantial involvement with economic data and institutions. Yet this engagement has been constrained in practice by the *a priori* attachment to a pre-conceived conceptual framework. There is no dialectical interaction of conceptualisation and empirical/institutional detail. For want of an extant label, I call this process 'abstracted empiricism'.

This process has been tangibly reflected in the work of the dominant official research body, the IAC (later Industry Commission, now Productivity Commission). Even when the IAC was requested by governments to perform detailed industry studies, over which it effectively possessed monopoly jurisdiction, the result was typically a resources-wasting report organised according to an ordained formula.⁵

Perhaps the most virulent embodiment of *a priorism* has been the IAC's dependence on Walrasian general equilibrium modelling for the estimation of likely overall impact of policy change. The 'Orani' model embodies this predilection. Among other absurdities, the model assumes full employment. In Brian Toohey's words: "any resources (including people) 'freed-up' by the process of 'structural reform' are always put to a more productive use and never left unemployed" (Toohey, 1994: 170). There is thus a structural bias towards over-estimation of the net impact of economic change, and a structural bias towards under-estimation of the potential adverse distributional impacts of economic change.⁶ The

5 Representative of this cookie-cutter production line was the IAC's report on the heavy engineering industry, neglecting that industry's uniqueness, for the Labor Government's deliberations over the Heavy Engineering Plan (Jones, 1993).

6 This structural bias has generated an ironic twist. After the publication of the Hilmer Report on National Competition Policy in late 1993 and meetings of the Council of Australian Governments in 1994, the States and dissenting organisations (consumers, unions, etc.) were faced with a policy dictat drafted by federal Government bureaucrats. The Government diverted dissent by promising an inquiry into the benefits of implementing the policy. Prime Minister Keating envisaged the research being done either by the Industry Commission or by the less orthodox Economic Planning Advisory Commission secretariat. The States.

continued use of such modelling, and successive governments' flaunting of the meaningless numbers so derived, exemplifies the pervasive dishonesty surrounding contemporary economic analysis in Australia (*cf* Quiggin, 1997).

In the domain of significant policy documents, two important reflections of abstracted empiricism are Ross Garnaut's *Australia and the Northeast Asian Ascendancy* (Garnaut, 1989) and Vince FitzGerald's report on National Saving (FitzGerald, 1993). Garnaut's commonsense support of better linkages with Asian cultures is marginalised by glib nostrums regarding Australia's 'comparative advantage'⁷, the associated merits of free trade, and the means to enhanced competitiveness of Australian industries.

FitzGerald's report infers from the statistics showing declining national savings that the problem is due essentially to government deficits (beginning with Whitlam's expenditure splurge on welfare). FitzGerald neglects his own figures that show the decline of private savings. His causal inferences are embarrassingly crude – savings drives investment; high foreign debt is due to low domestic savings; differences in savings rates are due to different levels of generosity of national welfare provision; better quality investment driving higher productivity will be guaranteed by microeconomic reform; and so on. There is no treatment of the lessons of the late 1980s boom and recession for government budgeting, national savings and productive investment. There is no historical perspective on the post-world war II boom whose savings standards FitzGerald takes as an ahistorical 'norm'; there is no perspective on the budgetary history of the Whitlam period.

Yet figures such as Garnaut and FitzGerald became respected authorities in the Labor Government's pantheon of advisers, and their authority has

due to lose significant autonomy over State-based infrastructure, strongly supported the IC to do the job because the IC's expected inflated estimates of overall benefits would result in larger compensation payments to the States (interview, Glenn Withers, then Head of EPAC, 23 September 2002).

7 This vision included an Australian comparative advantage in polluting industries, seemingly because of the lower population density than that of Asia. The costs of this vision are now reflected in the opposition of the expanded Australian energy sector (especially aluminium) to signing the Kyoto agreement.

been enhanced by their appearance on, and uncritical reception by, myriad public forums.

As if the extent of 'economic correctness' in official think tanks and amongst key advisers was not enough, it has infiltrated into economic history as well. The sub-discipline of economic history has had a modicum of independence, if tenuous, from the mainstream of its 'parent' discipline. Yet respectability in economic history is now synonymous with orthodox economic theory itself (in spite of the latter's ahistoricity).⁸ The 'lessons of history' have now been appropriated by economic idealism as well.

The Material Gives Way to the Ideal; the Backdoor Appearance of Free Market Ideology

The tendency to idealism in economic theorising is associated with a shedding of the institutional garb (or its opportunistic appropriation) that complicates and grounds more useful economic theorising.

In an earlier age, Australia's famous economists had a streak of humility regarding the analytical underpinnings of their 'expertise'. The evidence of L. F. Giblin to a Tariff Board hearing in 1933 is instructive in this regard (Copland & Janes, 1937: 17):

In general, in a perfectly free-moving economic system which you never have in practice, you expect two things to happen with a movement in the exchange. You expect the prices of imported goods to move up to the extent of the movement in exchange. ... You also expect [in the long run, an equivalent rise in internal costs]. This is, as I say, in a perfectly free-moving economic system, which does not exist, and under conditions where you are moving from one position of equilibrium to another position of equilibrium, and that again never happens because, when you move the exchange, it is almost certainly on account of a want of

⁸ Economic Correctness is embodied in works such as Anderson & Garnaut (1987) and Butlin *et. al.* (1982). The first is a criticism of tariff protection devoid of context; the second is a shoddy Australian history from an *a priorist* 'economic theory of politics' perspective.

equilibrium or balance; so that the general theoretical expectation helps us practically not at all. I think I may say, on behalf of the economists with whom I have been able to discuss the matter, that there is no approximation to those conditions here and now in Australia ...

To put it bluntly, Giblin is putting the boot into the conventional economic wisdom and his own formal expertise. With the theory viewed tentatively as a heuristic, Giblin proceeded to employ his intelligence, his common sense and his detailed knowledge of the problem at hand to offer 'expert' advice to his audience. By comparison, Giblin's latter-day equivalents would be reading from the textbook and expecting the world to comply with its prescriptions.

Apart from the formulaic reporting of the IAC / Industry Commission, idealism is unfortunately pervasive in two of the most important official reports in the last 25 years – the Campbell Report (Committee of Inquiry, 1981) and the Hilmer Report (Independent Committee of Inquiry, 1993). The Campbell Report opens with the claim that "the most efficient way to organise economic activity is through a competitive market system which is subject to a minimum of regulation and government intervention" (p.1). This claim displays an appalling ignorance of the historical record, and of the conditions that led to the regulatory structure that the Committee was appointed to investigate.

The Campbell Report does at least have informed commentary on some aspects of its brief. The high point of idealism is the Hilmer Report into 'national competition policy' and its aftermath in the National Competition Council and the Council of Australian Governments (CoAG). The Hilmer Report contains statements of exemplary naivete.⁹ The Report worships 'competition' without elaborating on its authors' understanding of the concept, and it exudes limited understanding of the workings of competition in practice. The Report's central political intent is to undermine the dominant historical role of publicly-owned authorities in the provision of infrastructure. Both the presumed

9 The Report was apparently written by a handful of relatively junior public servants under the zealous guidance of Fred Hilmer, the Committee's Chair.

problems needing correction and the appropriate means of their correction are stated axiomatically, without evidence (Jones, 1995).

To compound the dangers in the Report itself, the Report's agenda was imposed on the States in a top-down process by the federal Labor Government, overseen by a handful of federal public servants and State officials (Sheil, 2001). Further, the Report's implicit recommendation that competition policy should be extended solely to the commercial dimension of governmental activity was *de facto* extended to the whole of governmental activity.

The simplicity of the language highlights that officialdom has succumbed to free market ideology. This phenomenon needs to be delineated from the ascendant analytical orthodoxy. The two are often conflated under a single rubric such as 'economic rationalism'. There is undoubtedly a symbiotic interaction, but the two domains have distinct languages and implications. It is likely that neoclassical economics and economists have been used opportunistically by free market ideologues, providing a better resourced environment for its entrenchment. Crude theorising opens the door to the greater influence of the ideological domain in purportedly explanatory propositions and in policy recommendations. Behind the excesses of the recent policy agenda is the obliteration of the social fabric from economic analysis and its concomitant replacement by crude economic ideology.

How the policy process in Australia reached this state of madness requires some speculation.

Whence the Spanish Inquisition?

Many critics have found fault with the character of the current economic wisdom, but we are poorly served for an explanation of its origins. Elements of the story are suggested below, but important components remain elusive.

In the fifty-seven years since the end of World War II, the total number of economists trained in Australia has grown at a prodigious pace. The representative University syllabus is now more predominantly theory-

based, with less institutional and empirical trappings than previously. This, in itself, is deleterious to understanding, but the marked shift in the balance of the syllabus is a relatively recent phenomenon, and post-dates the shift in the public policy ethos. Moreover, ivory tower models have typically been at the *core* of the syllabus from the moment at which economics was constituted as a separate field of study - the Giblin quote above highlights the longevity of idealism in an economist's training. The issue is the changing attitude towards the role of those models.

There is now a large establishment of University-based economists who might naturally be subject to 'ivory tower' idealism. The predominance of academics in general intellectual exchange (compared to the greater significance of non University-based writers and publicists before World War II) has reduced the breadth of perspectives available in the printed word. But the location factor is not the sole cause. Much idealist reasoning has been produced at the heart of the policy process - witness the output of Ross Garnaut, adviser to Prime Minister Hawke and then Ambassador to China, and Vince FitzGerald, with a long background at senior levels of the public service and now in policy consultancy.

It is not even clear that one needs economists in place to ensure the entrenchment of economic orthodoxy. In pre-1950s Britain, the economic orthodoxy of the British Treasury was embodied in the 'general administrator' (an early embodiment of 'managerialist' principles). Thomas Balogh noted disdainfully (Balogh, 1959: 79):

In fields in which specialized knowledge or training is required to carry on a sustained argument, the absence of such specialized knowledge invariably leads - not to the absence of theorizing, to 'hard-headed realistic empiricism' - but to jejeune meditations based on a set of simple theology and beliefs, if not on some long-since exploded fallacy.

Contemporary progressives hoped that the influx of trained economists into the British public service would contribute to the marginalisation of economic orthodoxy. How wrong they were! The lesson is that the entrenchment of particular modes of thought in policy-making is not to be explained purely by the formal training of the major participants. It helps the cause if graduate employees are consciously sought from 'safe'

institutions, and that potential recruits are examined with questions drawn from the economics textbook, but these are ephemeral details as the die has already been cast.

Some other clues may be found in the evolution of the broad context of economic policy in practice. A pertinent consideration is the channels of influence by which policy gets made. Relevant is the institutional configuration and its hierarchy, but also the more intangible domain of the political culture, which has contributed to shaping that institutional configuration.

Context

Regarding context, it is instructive to consider the import licensing regime that reigned in Australia for almost an entire decade, from 1952 to 1960.¹⁰ If there was ever a regime flouting free market principles, this is it. Some economists were opposed to the regime (Corden and his English mentor James Meade; James Perkins); some saw its short-term worth, acknowledging the policy complexities (Trevor Swan); and some were supportive, claiming the price mechanism's inflexibility (the University of Tasmania's Gerald Firth and Alfred Hagger).¹¹ The significance of this phenomenon is that the contemporary economists were not all unified against the regime, and that the Coalition Government continued to ignore its detractors. The economists would be listened to, but the Government would ultimately abide by its own counsel.

Corden decried the administrative complexities of import licensing, but he neglected the prevailing administrative competence. The federal bureaucracy acquired an enhanced capacity during the War in executing its comprehensive responsibilities in resources allocation. That capacity

10 All merchandise imports were subject to government licensing and a draconian total import quota. The proximate cause was a massive trade deficit of \$700m. (equivalent) in 1951-52 which followed an unprecedented trade surplus of \$500m. in 1950-51 (Moffatt, 1970).

11 The various opinions (save those of the 'dissidents' Firth and Hagger) are collected in Arndt & Corden (1963: Chs. 6, 7, 23-26).

was maintained afterwards with substantial continuity of personnel, and the continuance of multiple controls deemed necessary to ensure stable post-war reconstruction. Prime Minister Menzies abandoned some controls inherited from Labor, then unabashedly widened controls in the context of threatened remilitarisation and of balance of payments crisis. The bureaucracy was up to the task.¹² The academic Corden was not cognisant of the specific structures through which economic processes are mediated, and their malleability in the service of social ends. A comparable bureaucratic capacity is inconceivable in early Twenty-First Century Australia. However, its prior existence highlights that current bureaucratic incapacity is a product of conscious choice and not a product of theoretical impossibility.

During the 1960s, most economists carried on a strong empirical and institutional (if conceptually constrained) scholarship. However, those who had a purity of vision were mostly drawn to two policy arenas – tariff protection for manufacturing industry, and the support programs for the rural sector. Both these arenas were interpreted as embodying excessive distortions of market principles and politicised processes by which these distortions were created and maintained. It is probable that these two arenas provided the vehicle for the ascendancy of idealist economics in Australia.

The 'causes' were up and running by 1970, but the engine for escalation was the Australian Labor Party in office after December 1972. There was Gough Whitlam himself, a free-trader for whom Rattigan was the ideal dogs-body to lead the anti-protectionist charge. But there was also the 'party political' dimension that added force to Whitlam's crusading zeal. Manufacturing protection and rural subsidies were seen as a legacy of the former Coalition Government's weakness, at best, or pork-barrelling, at worst.

This catharsis occurred during boom conditions, not economic crisis. Inflation, another dimension of boom, brought forward another form of

12 When the Menzies Government obtained a series of dollar loans from the World Bank after 1950, the labyrinthine task of administering the programs was smoothly handled by fitting the process into extant structures administering dollar licensing and import licensing.

economic purity. The inflation bogey (a genuine problem) ushered in the passion of the federal Treasury for macroeconomic repression. Then the end of boom brought forward a further form of economic purity - an attack on wages, union power and labour market distortion. The Treasury took up the cry of 'real wages overhang'.¹³ The Treasury had played a minimal role in the Tariff controversy but was now central in the battle against inflation, budgetary profligacy and worker 'selfishness'.

Malcolm Fraser, who had little interest in economic controversy, gained parliamentary power in 1975. His government provided the vehicle for the importation and implantation of Monetarism while simultaneously back-peddalling on tariff protection and rural assistance. It mattered little that the attack on unions as the source of inflation was incompatible with the Monetarist explanation of inflation. When Labor returned to office in 1983, tariffs and rural assistance were put back on the agenda again and Monetarism was relegated to the background.

The erratic appearance of fragments of orthodoxy highlight that neither logic nor coherence are the source of its vitality. Rather, one finds a pervasive opportunism. When reform of some regulatory structure is thought desirable (as for tariff protection or in the finance sector), simple solutions are offered up. Economic crises have recently been a particularly fruitful time for opportunism - as after 1975, in 1985/86 (Treasurer Keating's 'banana republic' statement and the ensuing radical policy thrust) and in 1992/93 (when the FitzGerald Report and the Hilmer Report were initiated).

Opponents of this simplicity have been regularly disarmed by the sheer quackery of the claims. Connections are presumed as if they have all the force of logic. Such are the claims, for example, that if any economic dysfunctionality exists the answer, of necessity, is to be found in purist orthodoxy. Recent specific examples include the claim that the successful expansion of exports of the Australian automobile industry is a product of tariff reductions; or that any current improvement in living standards internationally is a product of 'globalisation'. The universalism

13 Real wages were said to be above their 'normal' long-term level, reflected in an 'abnormal' wages share of the national income.

of the solutions is a clear indication of their religious character; ideology has rushed in to fill the vacuum left by the poverty of the analysis.

The Policy Channels

So much for context. The specific channels of influence in Australia are also an important consideration.

Labor came to office in 1972 with the federal Treasury monopolising the provision of economic advice. This situation was not inevitable. An important early moment in institutional change (one whose implications would only be felt much later) was the structuring of the federal bureaucracy following the accession of the Menzies Government in December 1949. It was the ambition of Coombs, Director-General of the Department of Post-War Reconstruction, that a permanent peace-time replacement for that Department be established to provide a vehicle for strategic economic thinking. No such development occurred. Moreover, the new Department of National Development in 1950 was quickly disabused of its ambitions for a broad strategic policy role. Treasury became the pre-eminent department for not merely financial policy but also economic policy – this in spite of the fact that there were initially less economists in the Treasury than there were elsewhere in the bureaucracy.

Roland Wilson, Treasury Secretary from 1951, set about enhancing his Department's authority. This ambition was partly for its own sake, although this process inevitably had intellectual/ideological implications. Treasury faced an unexpected competitor for influence, after 1956 in the new Department of Trade (after 1963, Trade and Industry) and its Minister, John McEwen (Jones, 1998). With Labor's dismantling of Trade and Industry in 1972, Treasury had no bureaucratic rivals. One Labor experiment with an alternative policy powerhouse, the Department of Urban and Regional Development, was quickly side-lined. Fraser's creation of the Department of Finance in 1977, out of Treasury (in an attempt to reduce Treasury power), served ultimately to forge two 'economic rationalist' central agencies in the place of one. Since 1972, the loss by Treasury of some functions has more than been made up by

the acquisition of other responsibilities. The enhancement of the power of the Department of Prime Minister and Cabinet under Fraser (and its subsequent continuation) has generally involved the reinforcement rather than countervailing of Treasury wisdom.

This particularistic structuring of the bureaucratic hierarchy (with parallels in the other British Dominion countries, Canada and New Zealand) is profoundly important in the fundamental structuring of policy parameters and the intelligence by which policies are nurtured (or starved) and implemented.

The Policy Culture

Behind the importance of context and the specifics of policy channels is the underlying policy culture. Political philosophies and their ideological offspring influence the structuring of institutions and the structuring of relationships. It is arguable that the political ideology that is dominant in Australia is that of liberalism.¹⁴ In intellectual culture, neoclassical economics (rooted in methodological individualism) is itself partly a by-product of liberalism. Regarding economic and political structures, institutions have been structured and attitudes moulded which entrenched arms-length relationships, providing organic support for a 'free market' mentality.

There are advantages and disadvantages of liberalist culture. The culture inhibits cooperative and strategic initiatives, which in practice may be advantageous or disadvantageous, depending on the morality of the initiatives. However, this inhibition makes difficult the development of socially cohesive welfarist policies and, significantly, it makes difficult policy development facilitating industrial dynamism.

Liberalism is a protean doctrine, and is subject to numerous tendencies (Jones, 1994b). This appears to have made liberalism not less but more

14 The long-standing importance of liberalism (in the English-speaking world in general) might explain why government activity is misleadingly labelled 'intervention' and why even the defenders of such activity acquiesce in the use of the label.

robust. It is arguable that the major political ideological conflicts in Australia are substantially influenced by divergent strands of liberalism (in particular, classical and social liberalism). Myriad efforts at nation-building have drawn on social liberalist values; yet the structures created have often not been deeply rooted, and have been susceptible to ultimate erosion – the legal basis for trade union existence and action, for example. Moreover, myriad efforts to improve the efficiency and innovatory potential of Australian industry have either not ‘got up’ or have been inadequately implemented and subsequently subject to decay and dismemberment. In this process, the evolution of the key policy channels has exerted a persistently adverse contribution – in particular, through the power of Treasury.¹⁵

The bipartisan pragmatism that fostered an exemplary burst of nation-building developmentalism for the first fifteen years after 1945 reflected the resurgence of social liberalist values, a product of the atypical experience of the administration of total war and its aftermath. The implications and lessons of the administration of a war economy and of post-war reconstruction would atrophy as the 1960s progressed. Many of the structures that had been put in place or reproduced while a purist liberalism was in check now became vulnerable.¹⁶

Having examined key dimensions of the Australian environment in which an economic idealism has arisen, it is desirable to return to a further examination of its character.

The Purists are Always With Us

For most of human history the motif of faith has been religion. Only in the last several hundred years has the faith become secular. Of course, there are numerous secular faiths, each with its own ‘ism’, but the most powerful has been liberalism, buoyed because of its symbiotic relationship with English-language capitalism.

15 A significant post-War reflection of this process is outlined in Jones (2002b).
 16 Whitlam’s welfare expenditure would reassert social liberalist (social democratic?) values but much of it has been subject to attack ever since.

A vignette from the early 1930s, with the West's intelligentsia fighting over the carcass of global capitalism, is instructive as to the nature of the beast. In a much reprinted book, the economist Arthur Salter gave a classic rendition of the idealist's interpretation of the 19thC (British) economy as a Golden Age, a standard against which real world imperfections should be judged. Said Salter (1933: 10-12):

But the distinctive feature of the system ... was its self-regulating and automatic quality. Over the whole range of human effort and human need, demand and supply found their adjustments without anyone estimating the one or planning the other. ... Production and distribution were adjusted by a process that was automatic, elastic and responsive. ... The distinctive feature and signal merit of that system was that under it the multitudinous economic desires and activities of the world were, so to speak, democratised. They governed themselves with the liberty, elasticity and variety, of freedom. ... The same principle permeated the whole of the financial and credit system. ... In the days of its greatest triumphs, and its scarcely challenged supremacy, no one realised how miraculous was the self-adjusting quality of this individualistic, competitive, free, unregulated, unplanned and unplanning system ...

Elegant, triumphalist, and incorrect.¹⁷ Salter himself went on to discuss the passing of that Golden Age. Indeed, Salter acknowledged that perhaps 'economic man' was an approximation rather than a description and that the system in practice had its flaws such that rational minds were devoted immediately to modifying its workings. This is a mess, but at least Salter acknowledged the qualitative evolution of the system. Thus, even within the literature of respectable economists, the quality of analysis has deteriorated markedly. The simple myths have a knack of being remembered and reproduced, whereas the complexities and qualifications disappear.

17 Salter's interpretation of the 19th Century is representative of a pervasive tendency amongst intellectuals to impose their idealised mental constructions onto history (Jones, 2001). Economists are not alone in this tendency, but their key role in economic propaganda lends their mythical historical stories particular significance.

John Strachey competed for audiences with Salter's *Recovery*. If Salter is now ignored by economists, Strachey (being sympathetic to communism) did not penetrate their consciousness. Strachey's *The Coming Struggle for Power* (Strachey, 1934) devoted a chapter to the ambitions of the 'market restorers' to implement the ideal model to solve the 1930s crisis. The representative proponents were Lionel Robbins and his coterie at the London School of Economics. Robbins was instrumental in bringing Friedrich von Hayek to the LSE in 1931 to further his cause.

They diagnose the malady from which capitalism is suffering as being due to interferences with free exchange. Hence, they believe that the cure is to be found in the abolition of these interferences, and the restoration of the nearest possible approximation to what the economists call 'a perfect market' (p.132).

Cockett, supportive biographer of the 'market restorers' and their ultimate success, agrees with Strachey's interpretation. "For Robbins, what was required were not measures such as increased public spending to *circumvent* these rigidities in the economic system, but measures designed to *tackle those rigidities themselves*, chiefly fixed rates of wages..." (Cockett, 1995: 37).

This is remarkably prescient of the 'microeconomic reform' ambitions of the economic rationalists half a century later. It appears that the economic idealists are ever-present. They represent a psychological archetype, having pathological roots. In pre-commercial society they attacked original sin; they now attack market imperfections. In the case of former Liberal leader, John Hewson, the personal transition was from fundamentalist Baptist to fundamentalist economist overnight. While working on a model of international dollar flows at the IMF in the early 1970s, Hewson experienced a biblical-style conversion from one dogma to another. Instead of trying to understand the broader character of the post-war international economy, Hewson found the Market God:

Markets will win out. ... [G]overnment in there is going to stuff up that system unless it's only working in areas where markets are failing, or government's got a role to play. All that came to me in the early seventies. I came back with a completely different

view of the world. Where I saw a regulated financial system, I said: I want to deregulate it. I saw a regulated labour market: my God, we've got to deregulate it (Wallace, 1993: 90, 91).

Greg Lindsay, the creator of the Centre for Independent Studies, is the exemplar of a purist who has no understanding of the workings of the capitalist system, offering simple solutions to current problems, and now treated as a guru (Lindsay, 1996; 2001-2002).¹⁸

Economic idealists are like a virus, omnipresent. The relevant issue is – what conditions reactivate the virus from its quiescent state?

Strachey understood that the actually existing capitalist system of 1932 was a product of organic evolution, not fostered by external 'interferences'. He inquired what substantive interests could provide backing for the ivory tower economists' ambitions to remould the world to their vision. Strachey saw the only objective possibility in a subsection of the petty bourgeoisie who had suffered under large capital and its state support. Yet this group had no power. Strachey concluded: "The free traders are able to prove that their solution is the only one; yet they have not the slightest prospect of being able even to attempt to apply it" (p.150).

Fast forward to the 1970s and 1980s, and inquire what sectional interests would stand behind the successful reactivation of the virus. There were individuals whose 'dry' vision was no doubt influenced by their personal experience – Bert Kelly (see below), Rattigan (Chairman of the Tariff Board from 1963), and John Hyde (Western Australian Liberal Parliamentarian and ex-wheat farmer). Such instances have to be acknowledged as individual responses to experienced problems (though in all three cases, their knowledge of history was impoverished). But such spontaneous outbreaks of enthusiasm do not a counter-revolution make. Where are the resources?

18 Lindsay created a local Adam Smith Club to hand out annual awards to darlings of the New Right. The acid test of intelligence is in the interpretation of Adam Smith's *The Wealth of Nations*. Anyone who believes (as does Lindsay) that Smith's 1776 excursion into Conservative reform, couched in the curious metaphysics of its day, is a libertarian tract for the 21st Century is, of necessity, a simpleton.

The Sectional Interests and the Publicists

From the late 1960s onwards, a gathering herd of substantive forces adopted free market ideology as a rallying cry for change. All the 'new' vested interests have powered their way to influence behind a diversionary ideology (the 'free market'), itself given spurious legitimacy by an opportunistic association with an idealist economic analysis.

The disparate rural lobby organisations were welded into one umbrella organisation – the National Farmers' Federation. From its inception, the NFF took a 'dry' stance. This stance represented continuity with the interests of grazier capital, especially wool, but an abrupt truncation of the influence of small rural capital, previously captured by the epithet of 'agrarian socialism'. The Australian Woolgrowers' and Graziers' Council provided the values and intelligence for this process.¹⁹ The establishment of the NFF was thus not a product of consensus but a takeover.

Mining capital became represented centrally by the establishment of the Australian Mining Industry Council in 1967. However, the AMIC initially acted more narrowly in pursuit of its sectional interests. Individual mining executives spear-headed the broader propaganda effort, especially Hugh Morgan and Ray Evans of Western Mining, and Charles Copeman of Consolidated Gold Fields, later Peko Wallsend.

The new rural and mining lobbies may have had the 'privileges' of manufacturing capital in their sights. However, the most important commonality of opposition was towards the union movement. The NFF raised a fighting fund to attack union militancy, with significant victories

19 An embodiment of this influence can be found in the dry economist and ideologue, David Trebeck, who went from the AWGC to the NFF, later forming his own consultancy ACIL, which is on the Howard Government 'drip'. Trebeck was a pivotal figure in orchestrating the new right's counter-revolution against the industrial relations system ('Opposition weighs support for policy', *Australian Financial Review*, 21 March 1986). Upon the accession of the Howard Government in March 1996, ACIL was rewarded immediately with a contract to oversee the attack on the Maritime Union of Australia, for which ACIL received the best part of \$1.3m. paid to the anti-union consortium (Hansard, Senate proceedings, 3 December 1997; 11 March, 12 May 1998).

at the Northern Territory Mudginberri Abattoir and the Melbourne-based Dollar Sweets confectioner. In 1979, the H. R. Nicholls Society was created by a hard core of 'dry' forces to work towards the destruction of the extant industrial relations system.

More general industry lobby groups were divided internally, not least over differences on the tariff. A major achievement of the new right was to appropriate the Chambers of Commerce for their cause. The Australian Chamber of Commerce and Industry was built on Andrew Hay's presidency of the Melbourne Chamber of Commerce (Moore and Carpenter, 1987), and is now a bastion of free market ideology and big business opportunism.²⁰

Surprisingly, it was not until 1983 that a purely big business think tank and lobby group, the Business Council of Australia, was created; even more surprising, it was created within the shell of the killed-off Australian Industries Development Association, the ardent protectionist lobby.

During the 1960s, the general push towards analytical idealism was greatly facilitated by the ideological leanings of the financial press and its support of particular interests (*cff* Glezer, 1982: Ch.14). The *Sydney Morning Herald* had always been 'dry'; but was probably the most sober in its stance, especially under its able financial editor Tom Fitzgerald. Most important was the rising importance of the *Australian Financial Review*, whose long-term crusade against 'protection all round' was spearheaded by journalists Alan Woods, Max Walsh and Paddy McGuinness. The *AFR* provided a platform for the anti-protectionist South Australian Liberal Parliamentarian, Bert Kelly, whose columns ran from 1969 to 1987 and served as a rallying cry for 'free marketeers'.²¹ The most rabid of the protagonists was Max Newton, publisher of a series of business newsletters. Newton was a publicity conduit for Billie

20 The bulk of ACCI's membership is small business, but the ACCI's lack of concern for small business, reflected in its submission to the Reid Committee inquiry on big business exploitation of small business (culminating in the 1997 report, *Finding a Balance*), highlights that small business membership fees are appropriated essentially for big business objectives.

21 Kelly was the privileged scion of a grazier family whose father, W. S. Kelly, was a long-time (and cautious) member of the Tariff Board.

McMahon ('Billie the Leak'), long a functionary for Packer family interests and, as Treasurer, a virulent opponent of John McEwen, Minister of Trade, and McEwen's defence of tariff protection and rural support mechanisms. Newton was also a publicity conduit for the Basic Industries Group, an anti-McEwen lobby.²² Newton's work was complemented by commentary from the hysterical Cold War Liberal, Peter Samuel, in the Packer-owned *Bulletin*. Murdoch's *The Australian* was initially favourable to McEwen but had cooled by 1970, with Ken Davidson as Economics correspondent. A decade later (by which time, any integrity in economic commentary had been obliterated), orthodoxy was preached in *The Australian* by the rabid Des Keegan.

The proselytising work of the press was later complemented by a revitalised grouping of new right think tanks (Barnett, 1988; Wheelwright, 1995). In particular, the Melbourne-based Institute for Public Affairs was revitalised, apparently with funds from Hugh Morgan. The Sydney-based Institute for Public Affairs was revitalised (with a name change to The Sydney Institute in 1988), with funds from various corporate executives. The Centre for Independent Studies was created in 1976 by Greg Lindsay, an energetic zealot, utilising start-up funds from Hugh Morgan.

The integration with and dependence on the ideas and resources of the Anglo-American think-tank equivalent is transparent and significant. The British created the model in 1955, the Institute for Economic Affairs.²³ The intellectual incubators were the academic economists at the London School of Economics (the same group that Strachey had called infantile

22 The BIG was a lobby both for wool interests (who claimed, erroneously, that they were being discriminated against by not receiving any government assistance) and for Marrickville Margarine, which *was* suffering discrimination in favour of the dairy industry (the then approach to the butter substitute was 'colour it pink and make it stink').

23 The IEA was initially financed by Anthony Fisher, who (unusually) combined individualist ideology with tangible entrepreneurial skills, having made a fortune introducing chicken to the regular English diet after importing American production techniques (Cockett, 1995: Ch.4). Fisher actively fostered the creation of comparable think-tanks overseas, including the CIS in Australia.

in 1932)²⁴, with American support at the University of Chicago. In turn, nurturing the British incubator was a handful of Austrian economists, who conceived of the most abstract liberalism ever devised in the laboratories of their minds in a hostile cultural environment. Like-minded intellectuals formed a discussion group, the Mont Pèlerin Society, in 1948, to disseminate the vision (Cockett, 1995: Ch.3). The fraternal American think tanks now provide the financial muscle, underpinning the global propaganda process.²⁵

This is a curious phenomenon – the forces behind this glorious upsurge have been generally not those of ‘battler’ small capital but of large capital. In Australia, Hugh Morgan has been outstanding in his support. It was Maurice Newman (later Chairman of the Australian Stock Exchange and *confidant* of Prime Minister Howard) who brought Milton Friedman to Australia in 1975. The NFF’s politics have been oriented towards large rural interests. The BCA took up the cudgel from the NFF in attacking the industrial relations system, and was then instrumental in the National Competition Policy Inquiry. This liaison has more than a whiff of opportunism about it, being rooted in intellectual dishonesty.²⁶

We have grown accustomed to the fact that the incorporated business is treated as an individual at law. This outcome has been partly a product of graft, and largely a product of pragmatism within the regulatory apparatus over the last one hundred and fifty years (Nader, 1977). It is well to be reminded that this state of affairs rests on a gigantic fiction,

24 The LSE had been started by Fabians to counter orthodoxy in economics education. By 1930, it had become the centre of a revived orthodoxy. Cockett (1995: 54) claims that the LSE was the recipient of major financial backing from the Rockefeller Foundation between the wars.

25 Key US libertarian think tanks and their estimated 1989-90 budgets were: Heritage Foundation (US\$18m), Hoover Institution on War, Revolution and Peace (sic) (at least \$12.7m), American Enterprise Institute (\$9m), Hudson Institute (\$5m) and Cato Institute (\$2.6m). In comparison, the Australian think tanks had budgets of: IPA (A\$1.5m), Tasman Institute (\$1m), CIS (\$0.9m) and Sydney Institute (\$0.5m) (Stone, 1991: 207).

26 That there was a certain inconsistency in the liaison of idea and backers is evidenced by the near universal hostility of business in Australia to the Whitlam Government’s 1974 Trade Practices Act and the complementary Prices Justification Tribunal. Here were two institutions that offered tangible attempts to approximate the ‘liberal’ economic ideal, but business found them anathema.

whose adverse consequences for individual liberty are immense. It is thus surprising that these zealous defenders of economic liberty should be silent on this anomaly, and notoriously tight-lipped regarding the sources of their budgets.

The Labor Party

The Hawke Labor Government was elected in 1983 on a platform of renouncing the orthodox components of Fraser Government policy. Labor's Accord with the ACTU replaced the adversarial environment under Fraser, and there was a two-year grace period of relatively benign policies.

However, the thirteen years of the Hawke-Keating Governments were pivotal to the acceptance of economic idealism and its ideological counterparts into mainstream political culture. Some changes were effected cautiously (as with the movement from universalism to targeting in welfare provision), but many policies were effected in an ill-considered or unconscionable manner (financial deregulation, the reduction of funds to the States, the monetary repression of the late 1980s, changes in media ownership laws, privatisation of the Commonwealth Bank, implementation of national competition policy, etc.).

At worst, some of these policies involved the rewarding of business 'mates' (*c/f* Pilger, 1989: Ch.6). More generally, many policy developments, or the manner of their conception and implementation, involved the uncritical adoption of the axioms of economic idealism. Economists with known orthodox worldviews were put in key policy positions. Hawke hired, as key economic adviser, Ross Garnaut, an ANU academic whose major claim to fame was an expertise in resource rent taxation. John Dawkins encountered Vince FitzGerald at the Department of Finance, where the latter's competence may have been fitting; but Dawkins inexplicably took FitzGerald to the Department of Trade as Secretary when Dawkins became Minister, a post for which FitzGerald was singularly ill-suited. Hawke and Keating nodded while bureaucrats with 'dry' credentials were posted to the Senior Executive Service in all

Departments, inhibiting the development of intelligent policy and of a healthy bureaucratic environment fostering an interplay of competing opinion and interests.²⁷ Those who opposed the conventional wisdom joined the bandwagon, kept their heads down, or left their jobs. The dumbing down of the federal public service is one of the worst legacies of the Hawke-Keating years. The predictability of official opinion after the mid-1980s makes public service capacity under Curtin, Chifley and Menzies appear halcyon by comparison.

The progression to orthodoxy was a living and strategic process. The 'industry development' component of the Accord was marginalised, save for some industry-specific plans inherited from Fraser or foisted on the Government from within the industries (Jones, 1997). Attempts by Labor Party and union elements to derail the power of the Industries Assistance Commission were themselves derailed; the IAC emerged from a 1984 inquiry stronger than before (*ibid.*). Alternative sources of opinion – the Economic Planning Advisory Council and the Australian Manufacturing Council – were narrowed in management and focus almost immediately. A vibrant culture for strategic development of appropriate trade policies was emasculated with the 1987 abolition of the Department of Trade (Jones, 1994a).

David Barnett (friend and later biographer of John Howard) has noted (Barnett: 1988):

The enormous political irony of the New Right phenomenon is the way in which the [Labor] government used it as a spectre to scare the electorate and then, with its own policy-making institutions failing to produce the recipes for the times, has used the prescriptions of the Intellectual Right to tackle the economic problems facing the country. It has left the Opposition with very little to say.

27 For example, in 1996, the House of Representatives Standing Committee on Industry Science and Technology established an Inquiry into Australian Industry Participation in Major Projects. The submissions from the three key Departments – Industry Science and Tourism, Foreign Affairs and Trade, and Primary Industries and Energy – were all products of an idealist mentality and were shocking in their ignorance and banality.

Hawke and Keating came to office promising intelligent reform, and they delivered it on the margins. But the centre of gravity of their legacy was grounded in the twin dogmas of idealist economic analysis and free market ideology.

Conclusion

The intellectual environment that currently underpins economic policy-making in Australia is remarkably ill-informed and dogmatic. The substantial scale of resources devoted to official economic research is complemented by its systematic crudity.

In academic economist circles, analytical orthodoxy is reproduced by a rigorous socialisation process comparable to that of a fundamentalist religious sect. In the public service, the bureaucratic equivalent is reproduced by an environment fostering cowardice, conformity and opportunism. At the political level, there is bipartisan acceptance of the tenets of orthodoxy. The Labor Party is the most accepting of the two sides of Parliament, being more susceptible to the cult of the expert technocrat. After three successive election losses, federal Labor has initiated a blood-letting over 'union power', but has not examined the forces responsible for its central direction over 13 years, and their role in its electoral marginalisation.

Behind this entrenchment are a range of vested interests and their considerable resources. This has been an age of the dramatic restructuring of power to serve a different set of vested interests. This is a familiar historical phenomenon. However, the extent of the camouflage erected in the form of 'respectable' economic opinion has been unprecedented.

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