10. The rise and fall of economic rationalism

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Introduction

The term economic rationalism is one of political categorisation, commendation and criticism. Although economic rationalist thought and policy were part of a broader international trend, the term itself represents a particularly Australian contribution to political rhetoric. First deployed in the 1970s to commend the ‘economic rationality’ of Gough Whitlam’s Labor government, the term came to increasing prominence in the late 1980s and early 1990s to disparage market-oriented economic policies, economics and economists. During this later period, advocates and opponents of the economic reforms of the successive Labor governments of Bob Hawke and Paul Keating (1983–96) often argued their case within the language of economic rationalism. Perhaps more than at any time in recent Australian history, these debates brought economic policy regularly, even obsessively, to the forefront of public attention. As a result, government ministers, journalists, commentators and ordinary citizens became accustomed to using a new rhetoric that included references to ‘competition’, ‘level playing fields’, ‘price signals’ and ‘picking winners’. Advocates of ‘markets’ often singled out their capacity to ‘discipline’ or ‘punish’.

Disputes over the term and the phenomena it described provoked a wide range of responses that included: accusations of dogma, appeals to history, claims about human nature, as well as the advocacy of competing social and moral religious values. At times, the debates were bewildering because participants on all sides regularly made accusations of irrationality against the arguments of their opponents (e.g. Stilwell 1989; Hyde 1993a, 1993b; Makin 2013). Even though the term has largely been abandoned by academics, in favour of the more conventional term ‘neoliberalism’, it still appears sporadically in the media (Gittins 2011; Edwards 2013; Makin 2013), historical accounts, and retrospective analyses (e.g. Kelly 1992, Bell 1998, Nevile 1998; and Megalogenis 2012). It is also referred to in everyday political discussions among educated citizens. This chapter sketches the evolution of the content of the rhetoric, indicates a select range of arguments over it, and discusses its political significance since the 1970s.

Intellectual and political contexts

The rhetoric of economic rationalism originally offered a shorthand way of understanding and criticising fundamental shifts in Australian policy that were initiated by federal Labor governments. Over time, however, the term was also deployed to criticise those who championed free market ideas. Pertinent examples include business associations, such as the Australian Chamber of Commerce (from 1992 it became the Australian Chamber of Commerce and Industry), neoliberal theorists, such as Friedrich Hayek, and think tanks, such as the Institute of Public Affairs and Centre for Independent Studies. For some, therefore, economic rationalism was the trimmed down rhetorical successor to that of the 'New Right'. There are, however, no clear lines of *historical* demarcation between the New Right and the onset of 'economic rationalism'. One of the last books on the New Right in Australia (Coghill 1987) was published four years into the Hawke government and the contributors were overwhelmingly members or supporters of the Australian Labor Party (ALP).

The New Right is a term drawn from British politics and applied to criticise the ideas and policies of the Liberal and National Party governments of 1975–83, led by Malcolm Fraser (see Sawyer 1982). The term was applied to those such as British Prime Minister Margaret Thatcher (1979–90) and US President Ronald Reagan (1981–89). These leaders pursued a combination of radical free market economic policies and conservative social policies, along with a belief in the value of a strong state over democratic participation. Economic rationalism of the Labor variety generally supported a strong welfare state and did not promote an unduly conservative social agenda. Nonetheless, observers of the Hawke government pointed out how during that period social security policies moved away from the principles of universalism and towards those of targeting and selectivity, as well as encouraging the privatisation of certain kinds of welfare provision (Gibson 1990: 184). Nor was Labor expressly anti-democratic, though some critics discerned such tendencies.

In its simplest formulation, economic rationalism was a label applied to the philosophy of government action that gave greater priority to encouraging market forces. The advocates of economic rationalism wanted to reduce direct government intervention in the economy with the aim of increasing the role that markets, economic competition, and prices could play. In practice, this entailed policies to: (1) limit or reduce government spending and lowering taxes; (2) privatise and corporatise the public sector; and (3) deregulate the economy. The latter included removing controls on the exchange rate, and deregulating financial and labour markets. Such policies were intended to reduce constraints upon markets and capital, and promote economic productivity and growth. It

has to be said, however, these policies had uneven and unanticipated outcomes, and were not always successful in achieving their objectives (See e.g. Quiggin 1997; Fenna and Tapper 2012).

The core principle and associated economic policies had their intellectual origins in neoclassical economic thought. In its later versions, economic rationalism was based on a combination of the macroeconomic and microeconomic theories of the 'Chicago School' (see Quiggin 1997: 2). These theories emphasised the merits (efficiencies) of economic competition and the drawbacks (inefficiencies) of government intervention to correct market failures. Because of the centrality of neoclassical economic thought to the mainstream of the economics discipline in Australia, professional economists were generally regarded, sometimes erroneously, as the standard-bearers of economic rationalist ideas. It is also important to note that the debates over economic rationalism mapped onto the longer conflict between the advocates of a more radical Marxian political economy and orthodox, liberal economists working within university economics departments. The political economists, many of whom worked in other disciplines, were among the notable critics of economic rationalist ideas and policies (see e.g. Rees et al. 1993).

Since colonial times, there have been many debates over economic policy and the best means for governments to promote economic development (See e.g. Butlin et al. 1982: 10–28; Head 1986; Horne 1976). Arguments about the relative priority that should be given to state intervention and free markets has a long history in which Australians and their governments widely accepted that markets ought to be subordinated to contemporary social values and national imperatives (e.g. Melleuish 1990). Such conclusions were later buttressed by Keynesian arguments about the role of government in the economy. The apparent incapacity of Keynesian policies to address inflation and other economic problems, however, led to a fracturing of the post-World War II consensus on economic policy in Europe and Australia. The practical problems of economic growth, inflation, 'stagflation', unemployment, and taxation, created a space for alternative ideas and models of economic reform.

In Australia, this space opened up with the end of the 'long boom' and the increase in unemployment during the Whitlam Labor government (1972–75). Under this government, economic rationality came to be considered a virtue when compared with previous policy traditions that justified and institutionalised economic inefficiency. Donald Horne appears to have been the first to use the term when he referred to those 'economic rationalists', among them Whitlam, 'who wanted to restore certain market conditions that they thought would lead to a more rational allocation of resources' (1976: 164). Thus the reformers pursued efficiency through policies that promoted 'economic rationality'. For

Horne, such an approach took account of both the limits of markets and the necessary role of government. For this reason, Horne saw economic rationality as 'the most subtle theoretical compromise of the mixed economy era' (1976: 244).

A.S. Watson used the term 'economic rationalism' to describe 'Labor thinking on agricultural policy' that embraced the new tendency to reduce assistance to producers and promote market forces in the sector (1979: 164). Similar to Horne, John Quiggin comments on the distinctiveness of this early approach: 'The views of the first generation of economic rationalists were generally in the economic mainstream of the period — Keynesian in macro terms and supportive of the "mixed economy" in micro terms' (1997: 2). Adherence to this first version among 'Labor' economists was evident in later debates. The promise of rationality and efficiency also gave economic rationalism its positive normative tone.

Barry Hughes applied a slightly problematic and more pejorative meaning to the term when he called attention to Labor Treasurer Bill Hayden's 1975 budget, which he saw exemplifying the 'new view of "economic rationalism"' (1980: 114). For Hughes, however, the political rhetoric surrounding this budget endorsed a *departure* from Labor's previous Keynesian expansionist policies that had aimed to promote full employment, along with the adoption of policies that aimed to reduce protection and combat inflation. Hughes, who later worked as an adviser to Keating during his term as Treasurer, used the term 'economic rationalism' to label this shift in the priorities of the federal Labor government, though he pointed out that the budget reality did not match the supporting rhetoric.

Glenn Withers referred to the term disapprovingly in the context of debates over labour market deregulation (1986: 23, 32). For Withers the 'economic rationalists', who he also called 'neoliberals', were pitted against the 'economic realists' who opposed deregulation and the 'neo-corporatists' who supported the Labor Accord between the government and the trade union movement (1986: 23, 32). Withers criticised those economists (proposing deregulation) who engaged in 'rationalism', by which he meant using an '*a priori* method', and deducing their conclusion from general (neoclassical) economic principles with little reference to empirical evidence (1986: 24). With this rendition we may see the shift to a criticism of not only the policies, but also the theory and methods used by some economists to support them.

With Brian Head's article on the topic, economic rationalism assumed the status of an 'ideology' characterising the era of economic reform that began with the election of the Hawke Labor government in 1983. Taking up, and giving content to, the issue of method, Head wrote:

The ideology of 'economic rationalism' derives from *a priori* assumptions of neo-classical economic theory. In particular, it assumes that *market*

forces typically unleash growth, innovation and efficiency, whereas *governmental* regulations and expenditures typically impede growth, stifle productivity and entrepreneurship, and generate inefficiencies in both the public and private sectors. (1988: 466)

Harking back to an earlier political critique, Head also distinguished a more 'bellicose form propounded by New Right ideologues' that represented the market as a 'cargo cult' whose benefits will only be delivered if its opponents, such as 'strong unions, high taxes, big government', were defeated (1988: 466).

Two years later, Greg Whitwell (1990) considered it fitting to announce the 'triumph of economic rationalism', which he largely attributed to the economic ideas and political power of the Australian Treasury Department, especially under the leadership of its Secretary John Stone (1979–84, later National Party Senator for Queensland).¹ Thus the rhetoric of economic rationalism came to be used critically to denote a new national doctrine of formidable ideological and institutional power.

The term took on a more explicit derogatory tone after the publication of Michael Pusey's *Economic rationalism in Canberra* (1991). This book provided an account of how those in the senior ranks of the Commonwealth Public Service had come under the influence of a new ideology that pushed the previously dominant one of nation-building to the margins. In Pusey's account, these officials subscribed to a free market agenda that broke with previous Keynesian and social democratic ones that gave priority to meeting social needs. Pusey's language was colourful and apocalyptic, provoking immediate robust responses from both supporters (e.g. Emy 1992; Leach 1991) and critics (e.g. Blandy 1992; Stone 1992). Even though Pusey (1991: 1) did not define clearly the 'locus strike' of economic rationalism, his book depicted a significant problem in the national bureaucracy and was a timely catalyst for opposition to these trends.² (It was published in the same year that the government began the first stage of selling off the Commonwealth Bank in a public float.) As a consequence, references to 'economic rationalism' proliferated, and supplied the rhetoric through which much Australian public debate on the role of government in the economy was conducted.

Just as important, the term economic rationalism became a category for organising subsequent historical reflection upon such debates and policies. For example, Paul Kelly's influential book on Australian politics in the 1980s argued that the Hawke/Keating Labor governments had instigated a remaking of the

1 Neil Johnston's commentary on Whitwell's paper reflects the meaning evident in the mid-1970s. He writes about 'the emergence of a new paradigm of economic rationalism which advances the market approach to allow for market imperfections' (1990: 141).

2 Even those sympathetic to the book observed numerous flaws. For a good overview see Bell (1993).

Australian political tradition.³ In this account, the older ideas and policies of the 'Australian settlement' that had been formed in the early years of Federation, were replaced by new ones, proposed by what he calls the 'internationalist rationalists'. Kelly saw 'Hayden's economic rationality' (1992: 19) as a precursor to the 'economic rationalism' of the Hawke/Keating governments (1992: 32). Nonetheless, Kelly also viewed economic rationalism as an element of the New Right movement that he saw as a group committed to deregulation of the labour market and radical reform of the Australian system of industrial relations (1992: 269). In his closing chapter, Kelly equated economic rationalism with market-based reforms, and refers to 'free market rationalism' (1992: 684, 686).

By 1992, two clear political and normative *uses* of the term economic rationalism were current, largely linked to the role of the state in the economy. With the first use, economic rationality, rationalism, and rationalists were usually expressions of commendation, primarily used with reference to Labor government policies that promoted economic efficiency in support of the larger national interest. For some advocates (e.g. Garnaut 1983: 161), support of free trade symbolised a stronger commitment to internationalism. Economic rationality was the general principle guiding a modernising Labor that sought to overcome the 'sentimentalism' and 'traditionalism' (Kelly 1992: 2) that legitimated economic inefficiencies, and supported sectional interests. In this use, it was understood that government was not abandoning its central role in regulating the economy, but simply opening up sectors to market forces where it was judged it would lead to greater public good.

On the other hand, economic rationalism also became a term of historical censure that signified a dangerous break with previous Australian social and economic traditions. In later reflection on these shifts, Lindy Edwards drew out their significance:

The Australian Settlement was embedded in our social values and was a coherent part of our cultural system. Economic rationalism is not ... Our social values dictate that government is the centre of our collective efforts to manage ourselves. It is strong and proactive. It negotiates social conflict and protects the vulnerable. (2002: 151–52)

In this view, the state had played, and ought to continue to play a major role, not just in setting the economic rules and parameters, but also in intervening directly in the economy by various means. Famously, the latter included the large national public sector trading corporations, such as the Commonwealth Bank, Australian Airlines, Qantas, Telecom (later Telstra), and other public utilities. It is this second dimension that set the tenor of criticism after 1991,

3 See Stokes (2004) for a critique of Kelly's arguments.

and to which the advocates of market imperatives were pressed to reply. In so doing, an ideology of economic rationalism emerged, as well as a defence of the discipline of economics.

Methodological considerations

Although the title of economic rationalist came to have pejorative connotations, there were a few who adopted it as a badge of honour (e.g. Harper 1993; Hyde 1991; James et al. 1993: xxi–xxiv). Nonetheless, many of those accused of being economic rationalists refused to accept what they saw as a simplistic label, or else contested aspects of the explicit and implicit content (e.g. Brennan 1993; Blandy 1993). None formulated a systematic doctrine. Furthermore, some commentators applied the category loosely to the New Right movement (including Pusey 1993), and to political figures who would not have been familiar with the term. George Megalogenis, for example, recruits Thatcher as an economic rationalist (2012: 124).

These features of the debate created difficulties for the task of critique, which usually begins with trying to understand what the advocates of a line of thought say or write in support of it, and then evaluating the quality of the arguments, and the various consequences. That is, the critic asks: are the claims true, coherent, or plausible, and will the measures proposed lead to the intended outcomes? Because the character of economic rationalism relies a great deal upon what its *critics* say about it, this approach is problematic. What tended to occur was that the critics produced an ideal model or extreme position that had a particular coherence, but to which few academics, public servants, or political leaders held unqualified allegiance.

Possibly the best example of this extreme came from Pusey, who articulated in stark terms what he saw as the key propositions of neoclassical orthodoxy:

It's *always* necessary to cut public spending.

Wages and salaries are *always* too high and we must *always* redistribute the nation's income upwards away from wage and salary earners ...

Welfare spending is *always* too high.

It's *always* a good idea to move the burden of taxation away from inputs on business and onto consumers ... and/or wage and salary earners.

We must *always* accept ever higher levels of unemployment.

We must *always* deregulate the private sector and remove public controls over business. (1992: 65)

Elsewhere, Pusey writes in a similar manner: “‘Economic rationalism’ is a doctrine that says that markets and prices are the *only reliable* means of setting a value on anything, and, further, that markets and money can *always*, at least in principle, deliver better outcomes than states and bureaucracies’ (1993: 14).⁴

Whatever the evidence for such views in the higher echelons of the public service of 1985, it is not clear that any reputable economist would have espoused all such claims, especially those that did not differentiate between levels or sectors of the economy. Nonetheless, such models served the purpose of demonstrating what the critics saw as a number of the main tenets of a major doctrine that both described and justified a significant change in governmental policies and practices. It also specified the intellectual sources of the doctrine, as well as the officials and institutions that supported it. The political base of the new policy trend was located in the central public service economic agencies of Treasury (see Whitwell 1986), and Finance, along with their ideological allies in the Industry Commission that was established in 1990.

Pusey’s book (1991) on the topic was not a study of political thinkers, but of the emergence of a new culture among the senior public servants of Canberra. It is arguable, therefore, that economic rationalism may be understood as a form of critical political rhetoric, which points to a set of ‘ideas embedded in practice’ (see Stokes 1994: 246–48). These ideas ‘operate to set the practical terms of government debate and action’ (Stokes 1994: 247) and do not exist in explicit doctrinal form. Once they are given attention, however, both the critics and supporters are prompted to search for doctrinal support and inspiration. This quest for antecedents and doctrine leads directly to scrutiny of the ideas of leading economists and the discipline of economics itself.

Overall, the critics of economic rationalism tended to see it as a more or less coherent — even utopian (Melleuish 1998: 79) — philosophy of the role of government in economy and society. For J.W. Nevile, economic rationalism is not driven by economics but by ‘social philosophy’ (1998: 173, 179). When looked at this way, economic rationalism takes a stronger shape and historical agency, somewhat akin to the political ideology (see Battin 1992 and Edwards 2002: 36). In this form, it allows a critique that is wider and more multidimensional than would perhaps normally be directed towards a shift in bureaucratic culture and

4 See also Tim Battin who defines economic rationalism as ‘the belief that the market is the only legitimate allocator of goods and services in *society* at large not just in the *economy*’ (1991: 296).

government policy. By drawing out the particular political logic of this position and the criticisms of it, one may better understand a few of the key issues at stake within the rhetoric of economic rationalism.⁵

Debates over ideology, economic history, society and democracy

The critics of economic rationalism ranged over a number of economic, political and social themes. It is not possible to canvass all of them, nor all those who have contributed to the debates. I have therefore selected exemplars and where necessary included my own reflections. I have not pursued the technical debates on specific economic policies, such as the role of the public sector, labour markets, financial deregulation, and international trade, but focused on a selection of larger, more general issues.

Ideology and social science

One of the major criticisms of economic rationalism was that its advocates claimed it was a value free and neutral form of social science when, in reality, it was an ideology, in the sense of a dogma that largely disguised specific value commitments. Further, these values were those of an individualist, competitive and libertarian kind that conflicted with the ‘social’ values of equality, cooperation, and concern for the public good. More specific to Australia, such economic rationalist dogmas were seen to undermine longstanding national commitments, such as those to full employment, wage justice and social equity.

Ian Harper subscribed to the neutrality claim when he wrote: ‘The fact is that so-called “economic rationalism” is the attempt to apply (reasoned, logical) economic principles to the formulation of public policy which has as its ultimate aim the improvement of living standards for all Australians’ (1993: 23). Stone rejected the allegation of ideology to write: ‘economic rationalism is not basically about political ideology at all (and hence not basically about cultural and moral positions either), but chiefly about *what works*’ (1992: 27). For Tony Makin, economic rationalism is ‘a synonym for using time tested economic principles to improve policy outcomes’ (2013). Geoffrey Brennan tried to clarify the claim by saying: ‘economics appeals to a “rationalist” method in the sense that it presupposes a distinction between ends and means, ... and is concerned with the relation between means and ends rather than the appropriateness of those ends’ (1993: 5). The ends or values, he argued, are not specified by economics.

⁵ On this topic see Edwards (2002).

Nevertheless, it is hard to avoid the observation that for economic rationalism the primary means or instruments to achieve social 'ends' were markets, in which particular economic principles hold, or ought to hold, sway. From the critics' perspective, two values were central. First, in assessing efficiency, markets were believed to be the most efficient means for achieving a variety of ends. Second, markets both required and inculcated particular values, such as those of self-reliance and a competitive and possessive individualism. The critics' argument would be that the raised scientific status accorded to economic principles overruled other, less 'scientific' social or political principles, such as social equity or democratic participation, that would support government-directed or corporatist economic planning. Essentially, the latter values were regarded as 'sentimental' and 'nostalgic'.

For many critics, the claims to science also effected a closure on empirical analysis, and particularly on what can be counted as evidence. Thus economic rationalists failed to appreciate that some relevant factors could not be quantified, and were often ignored. The criteria of 'relevance' may also be contested from different value perspectives. Although deductive logic may be value neutral, there are no neutral means for collecting facts or neutral techniques for organising them. Values of an epistemic *and* ethical kind influence the selection of variables to be assessed and the empirical facts to be collected, as well as for assessing their significance. That is, there was no unmediated empirical base or 'raw data' against which to test economic propositions: their selection and interpretation required normative judgement. Nevile explains: 'This judgement is heavily influenced by the values of the person making the judgement' (1998: 175). Such are the kinds of theoretical and empirical arguments that Hugh Stretton (e.g. 1969; 1987) formulated over a long period. So troubled was Stretton by the general direction of the teaching of economics that he spent many of his early 'retirement' years writing a massive 852-page alternative, introductory textbook to the discipline (Stretton 1999). This issue of values and the selection of facts became relevant in assessing the trajectory of Australian economic history.

Australian economic history and causation

The economic rationalism narrative drew upon a reinterpretation of the history of Australia's economic performance, its rates of economic growth and standard of living. Key parts of this story can be attributed to journalists such as Max Walsh (1993) and specific reforming/rationalist authors, such as Ross Garnaut, who became senior economic adviser to Hawke from 1983–85 (see Beeson and Stone 2013). On the rationalist account, Australia went from being an 'open' economy in the 1870s, when there were few restrictions on international trade, to a closed one with numerous barriers, notably tariff protection. Kym Anderson and Garnaut, amongst others, argued that protection brought less economic

growth in Australia when compared to other less protectionist economies (1987: 12–17). On their historical evidence Australia had declined in its world ranking from 3rd in GDP per capita in 1950 to 14th in GDP per capita in 1980, and much of that decline was attributed to its high rates of protectionism. They showed that by 1984 the Australian economy had become less open to foreign trade, when most other major economies were becoming more open, particularly in trade of manufactures. Australia was experiencing a decreasing share of not only world trade, but also trade in manufactures. In addition, our living standards had declined to 15th in the world.

The causes of these problems were primarily attributed to industry protection, which led to lack of competition and low productivity (see also Anderson and Garnaut 1986). In this oft repeated account, the economic consequences of tariffs brought higher costs to the 'efficient' export industries of farming and mining, and therefore made these sectors less globally competitive. In addition, the higher prices for consumers had caused most harm to the poorest Australians.

Other factors were thought to contribute to decline. The high wages brought about by centralised arbitration conducted behind the 'tariff walls' of protection prevented employment of more workers and led to higher unemployment. It was also claimed that the deficit budgets required by social security and industry support sapped entrepreneurial initiative. Government regulations also added higher costs to production than were necessary. The rationalists argued further that it was politically difficult to resolve such problems because Australian governments were overly influenced by special interests, namely, trade unions, manufacturers and, in the past, the farm lobbies. For some commentators, all this was leading Australia down the 'Argentinian road' to economic and political decay. In 1986, Keating's reference to the potential for Australia to become a 'banana republic' dramatised a particular economic assessment (Kelly 1992: 196–97), and symbolised a crisis that had to be addressed.

Such accounts of Australian economic history were challenged by those on the left and right. Colin White, for example, argued that league table comparisons of standards of living were an inaccurate guide to Australian achievements (1992a; 1992b). Given the size of the possible statistical errors, they offered little proof of economic decline. White made the contrary positive argument that our economic history represented a series of triumphs over the adversities of climate, geography, distance and small domestic markets. In this more heroic narrative, the state was crucial in fostering diverse forms of economic development and overcoming high levels of risk. Cooperation between government and business was also vital. For White, and others, one of the major social outcomes of previous policies was a more egalitarian class structure, an achievement that was now under threat.

White also offered an alternative explanation for current economic problems, arguing that they arose from the very policies designed to overcome the previous problems (1992a: 34–36). For example, lower protection reinforced the trends towards de-industrialisation and financial deregulation helped created other difficulties, such as a massive increase in the overseas debt that it was supposed to solve. Indeed, the nature of the debt also changed from direct investment towards more speculative finance. Nor were the costs of the economic transition taken into account. Ian McLean's (2012: 10) book *Why Australia prospered* largely confirms White's arguments that Australian Government economic policies were 'rational' and successful: 'At the core of our story lies a policy and institutional adaptability in the face of markedly changed economic conditions that ensured enhanced living standards for a rapidly expanding population over most of the past two centuries' (2012: 10).

Interestingly, White's argument found an ally in C.D. Kemp, one of the founders of the Institute for Public Affairs. In the ironically titled article 'Those terrible 80 years' (1991), Kemp repudiated the historical interpretation of the years since Federation and criticised the views of John Hyde and Garnaut. He too claimed that the facts did not support the claims of policy mistakes, and the statistics did not allow conclusive international comparisons to be made about standards of living. For Kemp, protection was essential for establishing new industries. He drew attention to the postwar achievements of full employment for 25 years and rising standards of living.

Like White, Kemp gave different explanations of the economic problems of the 1980s. He pointed to foolish public *and* private sector decisions on large projects, many of which he suggested had led to increased overseas debt and the chronic weakness in the nation's balance of payments. Perhaps more telling, Kemp criticised extreme market philosophies that enthroned the values of greed and self-interest. In his view, business had relinquished its responsibility for the whole society, and for economic and social progress and stability. In the late 1990s Malcolm Fraser (e.g. 1997a; 1997b; 1998) joined the debate to criticise economic rationalism and celebrate its eventual demise.

Human nature, community, and society

At the heart of these debates were ethical concerns, not only about the negative consequences of economic rationalism, but also values, and assumptions about human nature. For the critics, economic rationalists understood individuals primarily as rational agents and creators of their own destiny. To draw on an older formulation from C.B. Macpherson (1962), possessive individualism lay at the heart of economic rationalism. Individuals were essentially 'liberal economic subjects' and largely defined by their possessive capacities, particularly those

to possess property (see e.g. Marginson 1988). As the critics saw it, economic rationalism relied on a conception of human nature in which people were generally motivated by self-interest, and in which the (a)morality of greed and pursuit of financial reward were central. Where such values dominated, it is argued, they tended to overwhelm collectivist and altruistic ones, and damage community. In these circumstances, the state was essential as a protector of community, the weak and the vulnerable.

Whereas Michael James among others denied that the promotion of markets necessarily entailed a morality of 'greed', he did propose that individuals were 'rational actors' who had particular ends, and were generally motivated by self-interest, which he claimed was not necessarily the same as 'selfishness' (1993: 162). Accordingly, individuals can choose rationally the best means to realise those ends or values. Human beings are maximisers of personal utility, which when pursued freely will create greater economic and public good. In this view, markets are the best facilitators of both individual utility *and* good communities.

Such claims were evident in John Hewson's electoral manifesto *Fightback!* (Liberal Party of Australia 1991). When Hewson became Liberal Leader of the Opposition he made the values of economic rationalism the foundation of his electoral tilt at the prime ministership: 'Because markets are based on voluntary cooperation and decentralised decision making, they also create the only conditions in which a moral community can emerge' (Liberal Party of Australia 1991: 27). For the economic rationalist, people were essentially consumers, customers, or clients, bent on getting the best that the market(s) can offer. Any behaviour that did not fit this rational actor model would be deemed non-rational or 'irrational'. Yet, as James demonstrated, markets do rely upon a more expansive range of 'elementary virtues', such as 'honesty, fairness, truth-telling, responsibility, reliability and promptness', many of which are supported by law (1993: 163).

Hyde took up these issues to affirm that indeed, economic rationalism and classical liberals 'believe that a civil order based as much as possible upon voluntarism is more just, more stable and more efficient than one based unnecessarily on authority' (1991: 27). Such a liberal order was not anarchy, but one in which 'the rules of social interaction are relatively few, certain and maintained by governments that do not enter the game on behalf of individual players'. For Hyde, therefore, economic rationalism opposed economic discrimination, favouritism, and privilege, which he saw as able to be checked by impersonal markets, as well as other political checks and balances that 'disperse authority' (see also Hyde 1993a). Yet, true to an older classical liberalism, there were few references to democracy.

Democracy

For some critics, economic rationalism was an attack on political democracy. Yet, avowed economic rationalists made claims to advancing democratisation. Wolfgang Kasper, for example, argued that open market competition could promote autonomy and freedom and overcome the anti-democratic features of Australian government (1991: 31):

Australians — at least those living north of Victoria — now realise that the institutions and policies that gave us a comfortable, if inefficient, regulatory order have failed. Our economic system needs transformation as urgently as that of Eastern Europe. Government of the people, by the bureaucrats, for the rent seekers is in disrepute. Instead people want more autonomy, less government intrusion, lower taxation and are less supportive of institutions that seek and grant privileges by regulation, central wage-fixing, comprehensive welfare and bipartisan politicking.

At the heart of this view is the repeated claim that government had been captured by special interests, such as trade unions, corporations, and sectional community groups, who, in addition to imposing extra tax burdens on the rest of the citizens, also prevent them from fulfilling their personal goals.

Complementing this assumption was that of the 'entitlement consensus', which describes the view that 'all members of the community have a right to certain entitlements including, amongst other things, a free education, free medical treatment, and protection of employment' (Valentine 1996: 9). The rationalist criticism was that little attention is given to assessing whether society had the economic means or resources to pay for such entitlements. Thus the rights of citizenship needed to be subject to a rigorous cost benefit analysis. On the other hand, it is argued by some economic rationalists that markets actually enhanced democracy and citizenship by expanding individual choices and strengthening civil society (Rutherford 1993).

The critics of economic rationalism also noted political events in New Zealand, where Roger Douglas, the finance minister in the Labour Government from 1984 to 1988, had become a convert to free market principles, but had not publicised the fact before assuming office (Bromby 1993). Douglas also espoused the view that it was often politically unwise to engage in much discussion of radical reforms before embarking upon them, lest they be derailed by 'special interests'.

With such claims in mind, the critics expressed concern about the power of elites, the narrowing scope for political decision-making, and the reduction in the domain of citizenship. The first concern derived from Pusey's depiction of an elite of economic bureaucrats that determine economic policy in Canberra. As John Carroll described it, a 'new mandarin caste' of 'econocrats', specialists

in a particular type of economics, have taken over key positions of economic policy advice (1992: 13). Where Treasury was the main power base (Whitwell 1986; 1990), the economic ideas had spread to other Commonwealth agencies and public service departments. Often explicit, or at least implied, in these analyses was the view that government was controlled by unelected technocratic elites.

Peter Brain regarded economic rationalism as an ‘undemocratic doctrine’ because its

... central proposition is that the community should not extend its control into many areas that are important to community welfare. Implicitly, economic rationalism endorses the primacy of established private interests over future private interests, as well as over current and future collective community interests. (2001: 300)

Brain’s solution was to strengthen representative democracy through the breakdown of party discipline and/or the two party system (2001: 317–18). Battin adopted a similar line of criticism in arguing that economic rationalism presented the economy as the embodiment of the general interest and thus excluded as partisan any views or interests that challenged it (1992: 16). Problems of allocation and distribution were not regarded as subject to political negotiation, but reduced to an economic calculus or technique.

From a social democratic perspective, the critique of economic rationalism offered the opportunity to recommend a democratisation of the economy. Geoff Dow (1992) and others (e.g. Rees et al. 1993) saw potential for creating institutions to enable wider participation in formulating economic policy. Generally, this meant encouraging formal involvement in policy making from those outside the political and bureaucratic elites, such as trade unions and business. For others, such models of economic policy making drew upon the incipient Australian tradition of corporatism evident in the early institutions of arbitration and conciliation. Pusey argued a similar line with reference to the social democratic models in Western European countries (1992: 65–66). For Michael Muetzelfeldt economic rationalism reduced citizenship to the, albeit greater, active participation in markets, rather than as a passive claimer of rights to social security (1992: 194). James Walter argued further for an active citizenship that would serve as a check upon both the state *and* the market (1996: 108).

Politics and rhetoric after economic rationalism

It is arguable that the dispute over economic rationalism had a number of consequences for Australian politics and political rhetoric. First, the political

momentum for economic reform slowed somewhat with Hewson's 1993 loss of the 'unlosable election' to Keating.⁶ Staking all on maintaining reform through his electoral package of policies, Hewson put economic rationalism on the electoral agenda. For many critics, *Fightback!* was the radical extension of what had come before, and the epitome of economic rationalism (see e.g. Melleuish 1998: 80–81). *Fightback!* set out an individualist, social and economic philosophy (e.g. Liberal Party of Australia 1991: 26), but among the microeconomic policies was a new consumption tax. This was a bridge too far at the time and Labor under Keating was able to exploit these commitments for electoral advantage.

It could also be ventured that economic rationalist policies were partially responsible for the upsurge in populism, as exemplified in electoral support for Pauline Hanson's One Nation movement from 1997. Those damaged or threatened by economic reform and rapid shifts in global markets sought populist electoral remedies. The One Nation rhetoric picked up the critique of elites, their lack of respect for 'ordinary Australians', and encouraged them to punish governments (Stokes 2000).

At the other end of the political spectrum, however, the decline in the language of economic rationalism corresponded with a revived national concern with citizenship (*Whereas the people* 1994; Walter 1996: 105; Hudson and Kane 2000). It seemed as if the discursive conflicts and political divisions stimulated by economic rationalism required soothing with talk of rights and responsibilities. The Keating government established programs to promote citizenship and civic education throughout the country, with a view not only to encourage political knowledge and participation, but also to promote both difference and inclusivity. These programs continued under the ensuing Howard government, but with a shift in the terms of reference to the subject of democracy (see e.g. Hirst 2002). The rhetoric of citizenship and democracy was also part of a wider trend to renovate Western liberal democracies in the wake of the collapse of the Soviet Union after 1989.

With the arrival of globalisation discourse in the mid-1990s, and debates over the effects of trade and economic policies, the dominant political rhetoric changed again, but it carried a more neutral and determinist tenor. For its uncritical enthusiasts, globalisation described an empirical phenomenon that had to be both understood and accepted (see Stokes 2009). Global economic determinism replaced the normative determinism of economic rationalism. In this context, the agency implied in active citizenship remained an important political resource for confronting the rhetoric of determinism.

6 According to Quiggin, however, there was simply a change in government strategy towards a more elitist and technocratic approach, such as that implemented through the national agreement on the National Competition Policy (2005: 29). See discussion below.

Within Labor thinking, the focus shifted towards that of how to absorb and shape globalisation. The departure from the past lay first in wider acceptance that freer global markets and more open international trade were of universal benefit. The second difference was the expression of stronger doubts about the relative value of government intervention in the economy. Mark Latham's *Civilising global capital* (1998) represented a mix of the old and new Labor thinking on the Australian economy and society. Dispensing with economic rationalism in a few pages, Latham set Australian social democratic thought squarely within the context of the challenges of globalisation (1998: 37–42). Along with likeminded others around the world, he embarked on a quest for a 'third way' between capitalism and socialism, one that was to be based on new forms of citizenship and social cooperation (1998: 325).⁷ These ideas paralleled those formulated by the sociologist Anthony Giddens (1998) and taken up by the UK Labour Prime Minister Tony Blair (1998), which became part of the rhetoric of New Labour. In 2003, Latham became the federal Labor Leader of the Opposition, but resigned from parliament after losing the 2004 federal election.

As the rhetorical and analytical importance of globalisation grew in significance, 'economic rationalism' began to disappear from the critical discourse, to be replaced by the more conventional and universally accepted terms 'market liberalism', 'economic liberalism' and, eventually, 'neoliberalism'. The latter appeared with a vengeance in an essay on the 2007 global financial crisis, written by then Prime Minister Kevin Rudd (2009), which attracted wide attention in Australia and internationally. The language of Rudd's critique of market failure was reminiscent of that directed at economic rationalism, but now placed in a global context. Although the term economic rationalism has fallen out of favour, much of its supporting rhetoric has remained current.

More important perhaps than the residual rhetoric, the policies and practices of economic rationalism have continued to be implemented. For example, various institutions have been established to promote its values, such as 'competition', and to extend microeconomic reform. The National Competition Policy (NCP), which was agreed upon by the Council of Australian Governments in 1995 and continued until 2005, instigated new principles and extended revised federal trade practice laws to the conduct of publicly owned trading enterprises at federal, state, territory and local levels of government (National Competition Policy 2007). Overseen by the National Competition Council, the new laws aimed at reducing 'barriers to competition' and had a profound impact on state-owned business enterprises that had previously enjoyed monopoly status in sectors such as the provision of water, energy, transport and communications. Because

7 Barry Hindess (personal communication) argues that the quest for a 'third way' has a long history in social democracy, beginning with Eduard Bernstein and continuing through the work of Anthony Crosland's *The Future of Socialism* (1956).

these entities could no longer maintain their monopolies unless there was a clear 'net public benefit', they had to open their markets to competitors. Most were also 'corporatised', meaning initially that they were bound to embrace the governance models and management practices of private enterprise. Many such business enterprises have been partially or wholly transferred to private ownership. Such transfers generated \$61 billion in proceeds for state and Commonwealth governments from 1990–97 (Reserve Bank of Australia 1997: 1). One innovative, hybrid funding model has been the introduction of 'public private partnerships' to undertake large infrastructure projects whose value is in excess of \$50 million. Also created in 1995, the mission of the Australian Competition and Consumer Commission (2012) has been to promote 'competition and fair trade in markets', and administer the *Trade Practices Act*.

Governments and business organisations still pursue 'flexible labour markets', and the institutions of wage arbitration, bargaining, and conciliation have been transformed to implement this concept. Under Keating, the Labor government established the Australian Industrial Relations Commission (AIRC), which promoted decentralised 'enterprise bargaining' over centralised wage fixing. The ensuing Howard government continued this trend with its 'WorkChoices' laws and, in 2006, established an Australian Fair Pay Commission, that had a more limited remit than its predecessor the AIRC. The quest for greater 'productivity' is enshrined in the Productivity Commission (successor to the Industry Commission), established in 1998. Its economic models are informed by neoclassical economic theory, and their reports are widely regarded as authoritative.

Whereas privatisation has mostly run its course at the federal level, due to the inevitable reduction in the number of existing public sector trading corporations, the NCP has ensured that this practice has maintained momentum at the state level. The corporatisation of public services has also proceeded apace with greater use of private sector management techniques, such as employment contracts and performance bonuses, as well as the 'outsourcing' of services, implementing 'user pays' policies, and budget requirements for 'efficiency dividends'.

The deregulation of financial markets has brought new public actors and styles of rhetoric into economic reporting in the mass media. Global financial credit ratings agencies, for example, deliver regular updates on whether governments have 'AAA credit ratings' or lower. This rhetoric has a hard edge to it, however, as low rankings can penalise poorly performing governments and constrain their access to credit and loan funds. In this way, a key accountability mechanism has evolved outside parliaments and beyond national borders.

More broadly, the substantive ideas of the early debates have persisted without reference to 'economic rationalism'. In May 2013, on the 70th anniversary of the founding of the Institute of Public Affairs, Rupert Murdoch, the Chairman

and CEO of News Corporation, delivered a stirring address on the morality of markets. The speech was an unqualified paean to the virtues of markets and capitalism. Murdoch argued how free markets advanced not only freedom and individualism, but also justice and fairness (2013). In this exercise of 'soft power' the tougher rhetoric of 'discipline' and 'punishment' was notably absent. The speech marked out the rhetorical requirements for success in the contest of ideas over the respective roles of governments and markets.

Conclusion

Throughout the rhetoric and critical commentaries may be observed at least four analytical *meanings* of economic rationality and rationalism. In the first broad sense, as described by Quiggin, it referred to 'policy formulation on the basis of reasoned analysis, as opposed to tradition, emotion and self-interest' (1997: 2). This had its antecedents in the Weberian concept of instrumental rationality, understood as action oriented towards a goal. In the second meaning, economic rationalism refers generally to 'economic efficiency', however that is determined by economic theory, and in which markets are the optimum means of attaining the designated goal. A third meaning can be discerned, namely that of the use of argument based upon an *a priori* method, or deduction from abstract general principles or self-evident assumptions (Withers 1986: 24; Quiggin 1997: 2). Again, the assumptions and principles relate to the ideal working of markets, rather than being drawn from empirical observation and testing. A fourth meaning draws on these dimensions, but conceives economic rationalism as a world view or ideology that encompasses, but extends beyond, economic theory. When combined, as they were in the minds of most later critics, these elements comprised a social and political doctrine, one of whose distinguishing features was its dogmatism.

In each of these forms, the language of economic rationalism enabled those who used it to criticise or commend those political, economic and social agendas that appeared to break with tradition. The rhetoric helped distinguish between political friends and foes, make judgements on economic history, specify the causes of contemporary predicaments, and propose alternative strategies for the future of Australia. As outlined above, both the normative assessment and substantive content of the rhetoric evolved over time. Where its earliest use was mostly one of approval, it later became largely a vehicle of condemnation. From being used as a simple pointer to economic efficiency in specific sectors, it came to represent an all-encompassing ideology that applied to all aspects of economy and society.

Economic rationalism is but one among a number of forms of rhetoric that, since the 1970s, have served to frame, criticise, and defend government economic policy. Perhaps more important, with the rise of economic rationalism as both an ideology and a government practice, it is arguable that the language of Left critique changed from that of Marxist political economy and socialism to that of mainstream economics and liberalism. In this way, the more radical critiques from political economy that relied upon concepts such as capital and class lost rhetorical power. Economic critique thus became conducted mostly in the Weberian and reformist terms that generally accepted the imperatives of capitalism. It has to be said, however, that, whatever the socialist rhetoric, the mainstream of the ALP had always operated on this political terrain.

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