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## **REVIEW**

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### **Rationalism Revisited**

*Lindy Edwards, **How to Argue with an Economist: Reopening Political Debate in Australia**, Cambridge University Press, Cambridge UK, 2002*

*Reviewed by **Grant Scobie***

The 1990s will surely be viewed as a golden period of economic growth for Australia. Against a backdrop of macroeconomic stability, productivity soared and average real incomes reached historical highs. Her Kiwi cousins look across the Tasman with bewilderment tinged with envy. Even discounting mineral wealth, Australia seems to have been successful in creating unprecedented economic prosperity on the back of policy reforms that, while similar in large measure to those adopted in New Zealand, have apparently yielded greater dividends.

However, economic reforms do not take place in a vacuum. They both shape and are shaped by social relations in a society. Whether these reforms have had other consequences for the nature of social relations is a topic of legitimate enquiry. If the changes in the economic arena threaten social cohesion and weaken trust in social relationships, the ensuing political instability could mean that 'the fruits of economic prosperity will be temporary' (Saunders, 2002:7).

Edwards reopens this debate in a short pithy volume that questions the wider implications of reforms. It is her broad view of institutions, trust and social capital along with their complex interactions with economic policy that constitute the strength of this book. She attempts to 'build a bridge between the two camps' (p. 97): the so-called 'economic rationalists' (the policy makers) and the 'Australian punters'<sup>1</sup> (their public). But she goes further than just attempting to expose the flaws of the economic rationalists. 'The rationalist framework won't be ousted until there is an alternative way forward' (p. 97).

David Colander (1991) opens his book (by the same title) with the rhetorical question: Why aren't economists as important as garbagemen? He suggests that in contrast to a strike by garbagemen, (creating a mess in society), most people would concede that a strike by economists would leave the world unchanged. He continues (p. 19):

Economists simply don't play much of a direct role ... their advice is used if it supports what the proponents want and totally ignored if it does

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<sup>1</sup> A term adopted by the author to create the impression of connection to and empathy with the views of the man or woman on the street, in contrast to the implication that economists lack such a perspective.

not. Put simply, economists are not directly involved in the functioning of the economy.

In contrast, Edwards has a much less benign view. Her central thesis is that the economists of the parliamentary triangle are a faceless group of right wing, neoclassical Chicagoans obsessed with the role of markets, and who have captured their political masters. They have succeeded in exploiting this power to have their legislator puppets implement sweeping changes in almost every aspect of economic life. These changes have been to the detriment of the well being of the average Australian punter. The implicit counterfactual is that in the absence of such a supposedly influential group, the institutional structures and policies of the so-called 'Australian settlement' could have been preserved. Above all, the visible hand of the state might have continued to play the benevolent role Edwards ascribes uncritically to the past.

In arguing the case for the 'capture' model in which politicians mindlessly implement what their rationalist advisors prescribe, Edwards fails to build a model of political economy which could explain how this unholy alliance arose, and could 'predict' in a historical sense why the relationship apparently differed in the past. In fact there is a strange absence of any appeal to existing economic and political theories of bureaucracy.

As her subtitle states, Edwards' slim volume attempts to 'reopen' political debate (although one might wonder if there is any substantive evidence that it had ever been closed). What in fact she reopens is the now long-standing and extensive debate about 'economic rationalism'. Not having followed the finer points of this debate, I approached the book anxious to find how the author defined the term. Like me, readers seeking a clear definition will be disappointed. Despite an early promise that ... 'In Chapter 5 I will outline in detail the ideas that I am defining as economic rationalism' (p. 4) a search of that chapter reveals only an unsatisfying synthesis of the author's views on neo-classical economics. One is presumably left to resort to the only succinct definition that has been the reference point in the debate ...

... economic rationalism is a doctrine that says that markets and prices can *always*, at least in principle, deliver better outcomes than states and bureaucracies (Pusey, 1993:14; italics in the original).

It is immediately apparent that if such a definition is adopted then the implication that economic rationalism and neo-classical economics are synonymous is demonstrably erroneous. One has only to reflect on the analysis of market failure, public goods or imperfect competition to avoid such a simplistic association. But the author's case rests on a more subtle distinction. Economics writ large is seen as grand theory to which the author apparently subscribes; but the economic rationalists stand charged with adopting only a subset of economic views and becoming ideologues (p. 36). Arguably Edwards' distaste for economic rationalism lies more in the realm of moral philosophy than economic reasoning. In fact, she (unwittingly?) provides some clear syntheses of economic reasoning,

ironically that could well be used for 'How to argue with a *non*-economist!' The stumbling block appears to come because, in her view, economic reasoning is underpinned by a libertarian social philosophy that freedom of choice, self-reliance and personal responsibility are paramount. In fairness she would probably not ascribe those views universally to all economists; but at the very least to those who advise on policy in Canberra.

Throughout the book there is an intriguing use of the first person plural pronoun 'we' — an unidentified consortium of 'us' ... '*we* can transform the market at its core' (p. 155) ... '*we* can reclaim control' (p. 155); ... '*we* must set wages' (p. 157) (italics added). Who constitutes the 'we' who play such a critical role in the book? Are 'we' Australian society at large, some vague homogenous block? It would indeed be ironic for Ms Edwards to hold such a view given her (mistaken) condemnation of economics for treating all consumers or producers as identical. Had she pursued this argument she would have confronted the fact that observed job choices, consumption bundles and life styles demonstrate enormous diversity, which would hardly be consistent with consumers having identical preferences. Still history is littered with the corpses of elegant theories slain by gangs of brutal facts.

So 'we' (the readers) are left with an uneasy feeling that what is really behind the repeated use of 'we' is some notion of a paternalistic cabal who would use the power of the state to intervene in all aspects of the lives of others to shape society in their vision — (and this a counter to her view of the ideology of economists?).

Edwards bemoans the loss of community and social relations that she argues has accompanied the process of economic reform. It is undeniable that reforms will disrupt existing social relations. Social relationships are themselves endogenously determined and so reflect the extant economic and political forces. But social relations and institutions also change in response to technology and world economic conditions. So we would hardly expect the set of relations that was optimal for some past period to serve society today. Towns that arose around staging posts a day's bullock train travel apart could hardly be expected to play the same role under modern transport and communication systems.

Furthermore, the very policies that prevailed under the Australian settlement model, and that Edwards holds dearly were in their turn the source of disruption to prevailing social structures. One has only to consider the high tariff policies that shaped so much of the post-war Australian economy to recognise that they taxed heavily the rural sector while force-feeding an urban based industrial economy. Small towns were denuded by migration to job-rich metropolises with all the concomitant disruption to existing social norms and patterns. In short, while it is true that the reforms to correct gross economic distortions led to social change, the very policies that were being reversed had done likewise in the first instance. State intervention that proves unsustainable merely compounds, not solves, the problem of social disruption.

But let us turn to what Edwards offers as alternatives. These occupy scarcely more than a page and comprise: 1) a rejection of the market in favour of the universal community (state?) provision of services to meet basic human needs;

2) setting wages to ensure a minimum lifestyle to the least-well off; 3) pricing goods and services on a sliding scale proportional to income; 4) using environmental taxes to reflect social costs; 5) using tax incentives to encourage job-sharing; and 6) the provision of a universal education system. Perhaps a subsequent volume will fill in the missing gaps of the design of workable policies to achieve the goals that inspired these prescriptions.

In the end her counter to economic rationalism is to propose a return to greater reliance on an expanded welfare state for the collective provision of a wide range of goods and services that address basic needs. However, as Saunders argues:

... there is no going back to a bureaucratic model of standardised state provision because it is not possible to unravel the choices and market mechanisms that are now intertwined in the social fabric. Instead, we need to explore new ways of drawing positively on market forces while allowing individuals to express and achieve their choices in ways that also address traditional concerns with discrimination, poverty and inequality (2002:10).

Edwards proposes policies which she undoubtedly believes would improve the lot of the punters. But in the absence of any careful comparative institutional analysis, the reader may well be left feeling that her position is as ideologically driven as that of the economic rationalists she dismembers. What is the problem? What are the alternative policy responses? Is it government ownership, delivery or funding that is needed in her view? What targeting mechanisms would she advocate? Is the provision of food, surely the most basic of needs to be provided by ‘community mechanisms’ (presumably a euphemism for government control)? What incentive effects might be created by government sponsored programs for the ‘universal provision of basic services’? Is it not possible that some of the intended beneficiaries might be worse off? The reader can only wonder

The author is at pains to argue (p. 105) that she does not necessarily advocate a traditional big-government approach. However it is hard to imagine that in advocating that the community take collective responsibility, she does not envisage equivalent government intervention in people’s lives, albeit just in a different guise. Incidentally, exactly what is meant by the community taking collective responsibility for the universal provision of basic needs is never revealed — I thought that was how food was provided currently?

Apart from the fact that Edwards chooses not to bolster her arguments with either theory or any empirical evidence, one could question her overtly Aussie-centric view. The reader can only speculate as to whether her confidence in the state to collectively provide for the basic needs of its population might have been ever so slightly tempered by a consideration of such experiments in Albania, Myanmar, North Korea, East Germany, the USSR or Nyerere’s Tanzania.

The text is complemented by a short but useful index and an extensive bibliography, the latter lamentably, with pitifully few links to the text. While

recognising that this book is aimed at a wide audience, one feels that the author deliberately eschewed some touches of traditional scholarship. The work of Gregory receives a lengthy synthesis (pp. 144-146) but he fails to rate a citation. In like vein, one is surprised that the publisher's editors did not require citations for direct quotes — for example, from Krugman (p. 25) and John Stuart Mill (p. 54). Such editorial solecisms, while arguably of no great import in and of themselves, do cast a shadow of sloppiness on the work of a student based at the ANU.

While I cannot claim to have a complete overview of this peculiarly Australian literature, I found the bibliography somewhat selective. I suspect that many readers might well share my surprise that, in a critique of economic rationalism, the author chose to neither analyse nor cite such works as Brennan and Walsh (1990), Saunders and Graham (1992), King and Lloyd (1993), James, Jones and Norton (1993), Coleman (1999), Buchanan and Hartley (2000), Nieuwenhuysen, Lloyd and Mead (2001), Coleman and Hagger (2001) and Saunders (2002). Those delving into the debate for the first time or seeking a refresher course would be well advised to diversify their diet by including a sample from this list.

The title of the volume suggests that it belongs to the genre of instruction manuals of 'How to repair your car' or 'How to buy life insurance'... a sort of guide published by Consumer magazine. I would caution the non-economist reader who might have expected a cogent set of arguments that would win the hearts and minds of many economists. But to the extent it reminds us that economic policy is intimately related to its social context it will have served a purpose. Whether economic rationalism will be ousted by the proposed polices is left to the reader's judgement. My guess is the punters know the odds better than to bet their future welfare on a nostalgic view of one anti-market evangelist about what Australia was like in the good old days.

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*Declaration of interest: the reader should be advised that your reviewer started his career as a policy advisor in Canberra and currently carries the grandiloquent title of Principal Advisor to The Treasury, in Wellington. New Zealand. Apart from an extended cleansing period as an academic between these periods, he surely must sit squarely in the sights of the Pusey-Edwards class of those who have advised their political masters in wreaking havoc on the economy in particular and society in general.*