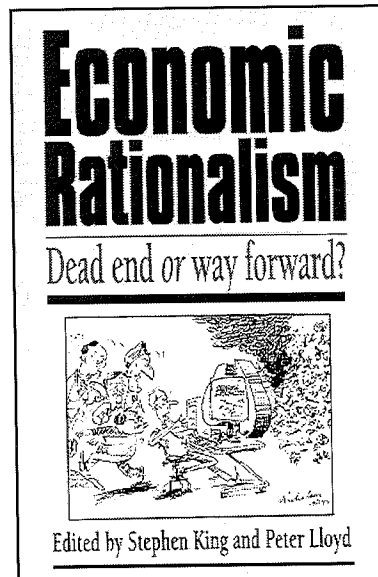


# Book Reviews ~

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*HUGH EMY, Professor of  
Politics at Monash University,  
reviews Economic Rationalism:  
Dead end or way forward?  
edited by Stephen King  
and Peter Lloyd  
(Allen and Unwin, Sydney, 1993)*

This is, to date, the most solid contribution to the debate over 'economic rationalism' (ER). Although a few of the contributions are restatements of existing positions, there are several excellent research based papers among the case studies. However, it is more a book for the specialist than the general reader. The economics content increases in technicality as the book proceeds. Despite the title, it is also a vehicle for academic economists to strike back at their critics. Out of 29 contributors, only two of the longer essays (by Pusey and Manne) and one of the commentaries (Davidson) are by out and out critics of ER, although three or four others express reservations. The high standard of the commentaries is worth noting. Unlike other books emerging from conferences, there is no lightweight material or padding here. The writing is clear though the actual content is sometimes dense.

Nevertheless, noting this and recent similar books, one must hope that this particular debate does not go on much longer: there seems little more to add. The real challenge is to work out what comes next: what policy mix should Australia develop in the next few years? Here the book is a touch disappointing. It does not really try to answer the question posed in its subtitle, perhaps because the editors thought that critics of ER did not



really have a valid point to make and future policy should be a matter of continuing and accelerating current policies. However, not all economists included here would agree. The last three case studies (by Gregory and Woodbridge, Dowrick, and Pincus) afford a change of emphasis from earlier essays and the commentary by Fitzgerald has some very apposite points to make. The question left hanging is whether the free market policies followed thus far will be sufficient, as distinct from simply necessary, to bring the process of structural reform to a successful conclusion and resolve Australia's social as well as economic problems.

There is some suggestion, both here and in other literature, that the policies followed in the 1980s represented round one of the reform process. Round two, consolidating a durable market economy in the face of globalisation, may require a series of incremental modifications to current policy. In particular, there is an urgent need, as David Kemp put it in *Quadrant* (December 1993, p.39) 'to fur-

ther refine the principles of government and of economic and social policy which are appropriate to a democratic state'. Although neoclassical contributors to this book seem keen to acknowledge a positive role for government, and some kind of reciprocal or supporting link between state and market, this issue is not dealt with explicitly. So a stronger conclusion than that provided by the iconoclastic Peter Walsh would have been in order.

The debate over ER has produced considerable bitterness, fed by overstatement on both sides and mutual non-comprehension. Critics of ER generally show too little understanding of Australia's very real economic and cultural problems. The reasons behind the whole program of economic liberalisation seem to have passed one or two of them by. Their attack upon the neoclassical position is often pushed to the point where one wonders whether they are prepared to take the market seriously at all; if not, just how then do they propose to build a stronger and more viable production structure in Australia? There is, one has to say, a certain over-the-top-quality in some of the criticisms levelled at ER, and some misunderstanding of the program of neoclassical economics itself: as several economists here point out, the latter is not synonymous with laissez-faire; it does not dismiss the place of government out of hand and to say, as Pusey does that 'markets and prices are the *only* reliable means of setting a value on anything' (p.14) goes too far. Neoclassical doctrines may well have been pressed into service by some groups on the political Right to promote particular goals, but anti-state, pro-market rhetoric in the political arena may not be the best guide to understanding

what professional economists actually think.

The latter have valid points to make in their own defence. What is called ER represents 'an attempt to inject rational (reasoned, logical) economic principles into the formulation of public policy with the ultimate aim of improving living standards for all Australians' (p.85). ER aims to remedy the abuses characteristic of a rent-seeking culture and overcome structural weaknesses in Australia's economy by utilising microeconomic policy principles to improve the efficiency of key markets, especially those for capital and labour. Critics of ER tend to overlook a key point: the rise of economic rationalism in the 1980s was part or a conscious attempt to impose greater discipline on resource allocation in the public sector, which had been dominated previously by largely political interests and considerations. Australia's increasing economic vulnerability demanded a more disciplined approach.

That said, *some* economists tend to misconstrue *some* of the criticisms directed at them. It is a little misleading to take Pusey and Manne as the paradigmatic critics of ER. Pusey tends to be too associated with a statist perspective and Manne with protectionism. It is too easy, therefore, to equate criticisms of ER with arguments for turning the clock back or halting the process of structural reform. While some critics of ER certainly favour doing just that, it is also possible to entertain significant reservations about *some* aspects of ER while still agreeing that economic liberalisation is substantially the best route for Australia to follow. So some economists here go over-the-top in their own defence. To be critical of ER is not necessarily to be anti-rational, as Freebairn for one thinks. And Harper and Leslie are missing the point when they accuse their critics of believing 'that rationalist policy

prescriptions are based not on objective analyses of the evidence but on mere prejudice' (p.85).

What Manne and Pusey are arguing is that some economists are in danger of forgetting that economics 'is a method rather than a doctrine' which by itself 'does not furnish a body of settled conclusions immediately applicable to policy' (p.143). Brennan puts it neatly in his opening essay. If economics does aspire to be a positive science, then economists have to be more self-conscious about the dividing line between positive and normative statements, and between the ends and means of policy. And, one should add, other social sciences have spent the last 30 years finding out just how difficult it is to draw a clear line between facts and values, and how nearly impossible it is to avoid secreting value judgments in theories of social phenomena. So there is some point to the criticism that economics suffers from a degree of intellectual isolation. The case for markets and neoclassical microeconomics is embedded in a social theory to an extent which makes it much harder to separate means from ends than some free market economists may suppose. There is, inevitably, an ideological dimension to any attempt to advance general theories about human behaviour. One should simply be aware of this – and remember the hypothetical character of one's own theories.

At least in some quarters, economics still seems wedded to a conception of positive science which most other social scientists would now regard as rather old-fashioned. Hence the argument that economics is in a unique position to provide more objective, higher status, advice on which means to adopt to develop more efficient markets, is likely to be received with a certain scepticism in other disciplines. Economics has a major contribution to make, *pace* critics of ER,

but economists could be more sensitive to the reflexive quality of the means-ends relations in the phenomena with which they deal: in seeking to advise on the best means to realise an apparently given and definite goal, they may be prescribing, implicitly, an even larger social outcome. Or, today's means can become tomorrow's sometimes unintended values.



**STEPHEN BUCKLE**,  
*Lecturer in Philosophy at the University of Sydney,*  
*reviews Adam Smith in His Time and Ours*  
*by Jerry Z. Muller*  
*(The Free Press, New York, 1993)*

Jerry Muller does a fine job of recovering the real Adam Smith, thereby rescuing him from his more enthusiastic supporters. Muller observes that Smith is much quoted but rarely read, even (perhaps especially) by economists, but when he *is* read, and in particular when *The Wealth of Nations* is set within the context of his other works, he emerges not as the popular hero of laissez faire, but as a disinterested social scientist with a deep concern for promoting the public good – a concern sometimes obscured by being steeped in the sceptical lessons of history, as revealed in Smith's sharp eye for the corrupting influence of sectional interests and for the unanticipated (but not inexplicable or unpredictable) consequences of social policy. He is not a believer in 'spontaneous order' – the capacity of private transactions reliably to produce orderly social arrangements – nor does he believe that self-interest is good and government intervention bad. This is, of course, a long way from turning Smith into a socialist, but it *is* enough to show him to be a very poor choice of figurehead by the