

The Struggle for Consensus on Good Policies

Blimey, stone the crows! A few weeks ago something happened in Australia that I never believed possible. An inveterate critic of Australia's economic reforms over the past 25 years came out and said he was wrong.

John Carroll is a professor of sociology at La Trobe University in Melbourne. He co-edited a book *Shutdown: The Failure of Economic Rationalism and How to Rescue Australia*, which was published in 1992.

The book blasted the Hawke-Keating government's economic reform programme that began in 1983. In essence that Labor government abandoned Fortress Australia policies, liberalised imports, floated the dollar, deregulated industries, corporatised and then privatised government businesses, and adopted more disciplined fiscal and monetary policies.

As Carroll put it in an article in *The Australian* (April 24), "My prediction was that an economic crisis was looming. The reality was just the opposite: nigh on two decades of unprecedented economic growth ... to me now, the past two decades support the maxim: if in doubt trust the free market."

Of course Carroll wasn't the only critic of Australia's economic directions. Others also lambasted 'economic rationalism' – as though economic irrationalism would have been better.

Another disparaging and inaccurate label was 'monetarism': at least in New Zealand, monetary policy was never targeted at the growth of the money supply.

'Neo-liberalism' was a further term of abuse that is still sometimes in vogue, including with Australian prime minister Kevin Rudd.

But there is nothing 'neo' about liberal economic policies – they've been time-honoured since Adam Smith's day. The original meaning of liberal was simply 'committed to freedom'.

Former OECD chief economist David Henderson rightly observed that New Zealand's reforms simply moved it some way towards liberal norms.

There's nothing unique about the Australian economic debate – the same debate occurred in New Zealand.

Academic counterparts to John Carroll were people like Brian Easton, Tim Hazledine, Paul Dalziel, Bryan Gould, Hunter Wade, Keith Rankin and Jane Kelsey. Journalists like Gordon McLauchlan, Finlay Macdonald, Simon Collins, Gordon Campbell and Chris Trotter pitched in.

To the best of my knowledge, none has 'done a Carroll' and recanted.

Some would probably try to argue that Australia did things differently from New Zealand. Of course it did: no two countries' policy evolution is identical. A more gradual approach in New Zealand might have delivered worse results, and foundered politically. Taken as a whole, and until the Labour government's policy reversals in New Zealand after 1999, the two countries' policy paths over a decade and a half were strikingly similar.

New Zealand initially had to move faster because it faced an economic crisis. But it is easy to forget now that some Asian leaders were saying 25 years ago that Australians were destined to become the "poor white trash of Asia", despite the country's natural resources and its earlier mining booms.

Neither in Australia nor New Zealand were the policy programmes ideal – either in substance or sequence. But given the realities of politics, perfection in economic management is not of this world.

What was common to both countries were post-reform improvements in economic performance in multiple dimensions: productivity, GDP growth, public indebtedness, unemployment and inflation.

New Zealand's policy settings are now comparable to those of other OECD countries and it has been matching them in terms of economic performance as one would expect – the relative decline has been arrested.

But Australia has stuck more consistently to better policies and is out-performing New Zealand – the income gap is widening. And in turn the dynamic, high-income countries of Asia are out-performing Australia.

When the global financial crisis struck in 2008 there was another chorus of criticisms of market-based economic systems and predictions of ‘the end of capitalism’.

However, it was clear from the outset that many of the problems had their origins in actions by governments. There has been no turning away from market systems; newly emerging economies, in particular, have continued to enjoy robust growth.

John Carroll was widely congratulated in Australia for admitting his earlier folly.

It takes integrity to acknowledge that long-held positions are mistaken, but it is an essential element of political consensus on sound economic and social policy.

Contemporary debates often have historical reference points. If we misread history and perpetuate myths we are likely to make poor collective decisions. “History does not repeat itself, but it rhymes”, Mark Twain once joked.

Carroll wrote in his article, “What may we conclude about the old free market v government debate? That it is over; and we have moved beyond it. Indicative is that both the leading political parties in Australia share the same basic view of economic management.”

There’s still some way to go to achieve the same level of consensus in New Zealand. Because institutions and policies matter most for prosperity, it is needed if we are to close the income gap with Australia by 2025.

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