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The Making of ECONOMIC POLICY

IN an article published two years ago we drew attention to the peculiarly undemocratic manner by which economic policy is determined in Australia.*

In theory, of course, this is not so. Economic policy is made by Cabinet which is responsible to Parliament, which, in turn, is responsible to the people. But, in practice, Cabinet leans heavily on its expert advisers attached to the various government departments and instrumentalities. Only the advisers have all the facts, and usually only the advisers have the time and knowledge required to evaluate the facts. The government may make up its mind what it would like to do, but it is the advisers who tell it what is possible, and, very often, what is wise. Even when the government determines the broad lines of the policy it wishes to pursue (and which may conflict with the views of the experts) it is the experts who must be left to fill in the details and the details may be little less important in their implications than the policy itself. For instance, the government may decide to institute control of imports, but the experts determine what is to be controlled and to what extent.

* See "A C.E.A. for Australia"—May/June, 1952 "Review."

This development towards government by experts is an inevitable accompaniment of the modern planned economy where the state has assumed responsibility for a vast range of matters which were previously beyond its compass. It is, of course, impossible to go back. The only question that remains is to ensure that the process of policy-making by experts should take place in the most democratic, and the most effective, manner possible.

This means, among other things, that the public, and especially informed sections of the public, should have the fullest opportunity to discuss and if necessary criticise the decisions that are being made on their behalf. For this to be possible they must be given adequate information about the changes occurring in economic conditions in a form in which it can be digested and comprehended, and also the arguments and reasons which lie behind the views of the experts. There are, it is true, some matters of high policy that must be treated as secret, but these are not nearly so numerous as present practice would lead one to believe.

If policy-making is to be democratic it should be exposed to discussion and criticism especially by specialists outside government, such as those attached to business and educational institutions and to newspapers and periodicals whose duty it is to inform and enlighten the public mind. *These specialists cannot, however, discharge this function adequately if the relevant facts are not available in a convenient form or if the reasons behind proposed policies are not made fully plain.*

The two conditions that must be observed, then, are:—

First, the facts of the economic situation must be made available to the public *in a form in which they can be comprehended*. The qualification in italics is all-important. It is probably true that a good deal of the vital data is already available in the numerous official statistical publications and in the specialised information issued from time to time by various government departments and authorities. But this is not enough. *The need is for these facts to be brought together for the benefit of the public in a single comprehensive and comprehensible whole.* No private group or individual has the time nor the resources to search through the multitude

of government documents to obtain information required for an intelligent evaluation of over-all economic conditions; nor have they access to material which must of necessity remain confidential.

Second, the government's and its advisers' own appraisal of the facts, and the policies which their appraisal indicates, should also be regularly placed at the disposal of the public. Unless this is done the public is not in a position to criticise intelligently, to say, in other words, whether it agrees or disagrees with the government's interpretation of the economic situation and with the policies which it is prescribing.

* * *

NEITHER of these conditions are satisfied in Australia at the moment. The making of economic policy tends to be regarded as the "close preserve" of a few experts close to the government. There is an attitude—an attitude for which the remoteness, both physical and intellectual, of Canberra from the centres of population and industry is partly responsible—that those outside the inner circle cannot possibly have all the information or the resources necessary for an intelligent appraisal of the total economic situation. The fact that this is true only confirms the substantially unsatisfactory character of the present methods and renders reform all the more urgent. At present, opportunities for disinterested authorities outside of government to influence the shape of national economic policy are extremely limited.

* * *

THE "hush-hush" methods and "close preserve" attitude that have grown up in Australia present a striking contrast with the United States. Here the process of economic policy-making takes place, to an extraordinary degree, in the open light of day instead of behind impenetrable departmental walls. In the United States, informed and intelligent public criticism is not only made possible; it is positively encouraged and invited. It is, indeed, regarded as an essential part of the process itself.

The process centres around the periodic Economic Reports of the President to Congress. These reports, which are

printed as public documents, give a comprehensive analysis of the state of business conditions in the United States and outline the policies considered necessary to achieve maximum employment and economic stability. The President's Report is based very largely on the advice of his Council of Economic Advisers, a small top-level body. The Report draws together the vital facts of the American economy and it is the document which enables the public and indeed Congress itself to appraise, in an intelligent and informed fashion, the economic policies of the Administration.

But that is by no means the end of the matter. The Report is in turn subjected to exacting and exhaustive scrutiny by the Congressional "Joint Committee on the Economic Report." This Committee consists of representatives of both Houses of Congress and of both political parties and it, too, is required to file a report with Congress containing its own findings and recommendations. In performing its functions it is empowered to conduct public hearings on economic conditions. At these hearings the Joint Committee hears testimony from top public administrators such as the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System. It questions the members of the Council of Economic Advisers on the findings of the President's Report. It discusses the Report with economic authorities outside government. The full transcript of the hearings of the Joint Congressional Committee are published, while day-to-day reports of the hearings appear in the daily press.

This procedure serves several highly important purposes:

It ensures, first of all, that the interested public are fully informed about what is taking place in the economy and also on the reasons behind proposed government policies. The published hearings of the Joint Congressional Committee are in themselves a mine of valuable reference and opinion on the problems facing the American economy.

Second, the hearings provide an official forum for economists and other highly placed experts outside of government to voice their views on government policies. The whole procedure means that government policies are subjected to minute and critical examination by non-governmental experts and

that the government advisers don't have it all their own way. They are, in effect, forced to answer for their views at the bar of informed public opinion, and the process of policy-making thus takes place in a manner more in conformance with democratic principle.

Third, the procedure means that the proposals of the executive are properly understood by the legislature. The procedure tends to lift Congressional discussion of economic policy above the level of the uninformed partisan debate with which we are so often inflicted in Australia.

Finally, and within the limits imposed by human fallibility, it makes certain that no stone is left unturned in the endeavour to achieve the economic goals of maximum productivity, employment and purchasing power. The procedure encourages well-informed and continuous examination and discussion of these supreme issues by the best brains inside and outside of government. So far as possible nothing is left to chance.

* * *

IN a recent discussion of the work of the President's Council of Economic Advisers, the first Chairman of the Council and one of the most respected of American economic authorities, Dr. Edwin G. Nourse, gave an admirable statement of the position:—

“Whatever our philosophy of government and economic life, whatever might be the popular declaration at the polls or the trend of our economic philosophy in this country, or whatever the economic dangers that may confront us in coming years, it is of great importance that their emergence be noted when the cloud on the horizon is no larger than a man's hand. The force and direction of coming storms should be measured with the most reliable instruments available, and the best of talent and judgment be applied to shaping measures for meeting these dangers. *To the extent that adverse forces are of a sort that can be corrected or turned aside, it is important that those in positions of responsibility shall have the readings currently charted, that they be studied in their totality, and that there be a consistent as well as an adequate programme that avoids both blind inaction and panicky meddling.*”

“The Economic Report of the President to the Congress at its opening, with supplemental reports as needed, seems to me an admirably conceived means to the ends just stated. It calls upon the Chief Executive to review the past year and to preview the coming year or years with the best of technical aid; and to map an explicit policy and programme of action in consultation with the heads of all administrative divisions of the government. And you are aware, probably, that the Economic Report which goes to the Congress, says: ‘This Economic Report, in accordance with the Act, has been prepared with the advice and assistance of the Council of Economic Advisers, Cabinet officers and agency heads.’

“I cannot believe that the emergence of this new state paper, into a position of top-rank importance and periodic appearance, is a mere episode of New Deal days. *It seems to me as natural an evolution of modern practices of large-scale business management and growing economic literacy among the public as is our Federal budget, and just as sure to become a permanent feature of our economic life.* As such, it should continue its evolution in form and content under the efforts, even though intermittent, of successive administrations to make it more and more adequate to its purpose. That purpose is to outline successive annual programmes under which government action would be so ordered as to promote maximum stability of the economy at the highest practicable level of private production.”

* * *

THE latest Economic Report of the President is concerned in the main with the problem of preventing the mild downturn that has taken place in American business over the past few months from developing into a serious recession, or worse, a depression. The various anti-recessionary measures that might be adopted are exhaustively considered and evaluated. The views of the Administration, as set out in the Report, have provided the basis for what is, in effect, a nationwide discussion of the policies needed to counter a recession in business activity and to maintain employment. The keenest economic minds in America have thus been focussed on what is by common consent the supreme national problem of the moment—the problem of averting a slump in American business.

This presents an interesting contrast with the position in Australia. What policies would it be desirable for Australia to pursue in the event of a recession or threat of recession? What would be the correct course for Australia to take if there were a steep fall in wool values? How much thought is being given to this problem? So far as the public has knowledge, virtually none. Probably the experts scattered around the various government departments have given it some attention and have formed certain views, but whether any generally agreed-upon plans have been devised is highly doubtful. And if there does exist an anti-recession policy in government circles, the public are entirely ignorant of it.

Yet this is a matter, surely, of the most vital importance about which the very best economic and business brains in the community should be thinking. There should be discussions up and down the country. But at present there is no established machinery by which the government can take the lead in stimulating and guiding such a nation-wide enquiry.

* * *

IN reply to the view expressed in this article it will no doubt be contended that the various government departments are already well stocked with economic advisers and experts and that these departments issue regularly documents for the information of the public. There are, for instance, the Annual Reports of the Tariff Board, and the excellent and informative surveys produced by the Bureau of Agricultural Economics and the Division of Industrial Development. But none of these or similar documents is concerned with the overall state of the economy and the changes taking place in business conditions. Nor, of course, do they attempt to prescribe the policies considered necessary to the maintenance of economic stability. That is, after all, not their purpose. The Annual Report of the Commonwealth Bank and the Annual Budget Speech of the Commonwealth Treasurer, admittedly, throw some light on the general economic conditions. But both these documents being necessarily concerned with a specific purpose are far from sufficiently comprehensive to give the total picture required. Moreover they are unavoidably coloured by the function and approach of the authority concerned.

To meet the needs we have outlined a far-reaching change in the machinery by which economic policy is manufactured would be necessary. A body similar in function and method to the Council of Economic Advisers in the United States would have to be constituted. Such a body would draw together the facts and thought provided by existing government departments, keep close touch with non-governmental opinion, and provide the expert over-all survey of economic conditions so indispensable to the proper functioning of the modern economy. It should not be necessary to emphasise how valuable the work of such a body would be to the Commonwealth Arbitration Court in major hours and wages inquiries.

What is needed is something similar to the American model we have described, tailored of course to fit the different circumstances applying in Australia.

* * *

THERE should be no misunderstanding about the argument advanced in this article. It is a criticism not of personalities, but of methods and machinery. There is no suggestion that in the sphere of high economic policy the various government experts are not doing their job as they see it. *What we do suggest is that the present machinery of government in Australia by which economic policy is devised is inadequate for the needs of the modern democratic community.* It is inadequate because it does not make proper provision for democratic participation by those outside government, and particularly by those most qualified to make important contributions and those in a position to bring the issues of economic policy to the attention of the general public. It is inadequate because it does not ensure that the policies themselves will be adequately discussed and prepared in advance of possible contingencies. It is inadequate because it does not place at the disposal of the community and especially parliament itself, the press, and the various organisations representative of business, finance, labour and primary production, the facts of the economic situation in a form in which they can be readily comprehended.