

THE MAKING OF ECONOMIC POLICY

SOME COMMENTS

An article published in the April/June "Review", "The Making of Economic Policy", suggested that we should establish in Australia a national economic advisory authority, similar to the Council for Economic Advisers in the United States *but tailored to fit Australian circumstances*. This article was an elaboration of a paper originally published in the May/June "Review" of 1952, entitled "A C.E.A. for Australia".

We believe this proposal to be of such great national significance, and of such paramount importance to business itself, that we invited a number of people engaged in industry, politics and academic life to comment upon it. These comments are published here.

It is not necessary to recapitulate all the many arguments we have advanced in support of this proposal in the two articles mentioned above. But one or two things need to be said.

Nothing is more vital to the survival of free democratic enterprise in Australia than the prevention of a serious business recession or depression and of the unemployment by which it would inevitably be accompanied. Large-scale and long-continued unemployment would deal a blow which could be fatal to the free enterprise system as we know it (even though such an occurrence might be due to no fault on the part of business itself). If a depression should occur, far-reaching measures of government control would almost certainly be introduced and a strong impetus would be given to socialistic doctrines. In that event all the educational work being done by the I.P.A. and other institutions to promote a wider understanding of the merits of free enterprise would be seriously undermined. Quite apart from the all-important human aspect, it is clear that business, perhaps even more than any other section of the community, has a strong vested interest, both political and economic, in the maintenance of economic stability and the prevention of large-scale unemployment.

What businessmen and others should ask themselves is whether the machinery of government in Australia today,

which has evolved out of circumstances vastly different from the present, is adequate to cope with the irresistible demands now made on governments all over the world for continued high employment. We believe it is not and that an important change is called for.

A threat to Australian employment, if it arose, would most likely come from a substantial fall in wool values. That may not occur, but we should be absolutely certain that we have left no stone unturned to prepare policies to meet such a contingency, if it should occur.

This type of work, we believe, can be effectively done only by a body entirely divorced from the demands of the day-to-day routine of government administration, and free from the pressures and political considerations to which the political arm of government is constantly subject. One of the greatest obstacles to the pursuit of sound economic policies, designed to maintain full employment, is the inevitable intrusion of frankly political issues and the supposed interests of particular groups no matter to what sections of the community they belong. To gain public acceptance of these policies, it is, therefore, necessary that there should be some means of educating the public on measures that may be necessary in its own long-term interest, even though, in the short-term, these measures may appear inimical to the interests of particular sections. The structure of the governmental machine does not, at present, provide the means by which this can be done; and the concessions that are made to sectional interests are consequently too great and too numerous for the best long-term interest of the majority. Economic issues cannot be solved satisfactorily by measures that carry too strong a taint of politics. The change we have suggested—i.e., the institution of a national economic advisory authority—would provide a powerful corrective of this dangerous tendency.

One of the main functions of the body we have proposed would be to issue regularly expert, periodical surveys of economic conditions and of the problems confronting the economy with its own assessment of how these problems can best be met. These surveys would be the means both of educating the general public and thus preparing the ground for popular acceptance of policies that may not be entirely palatable, and of advising the government on the best course to pursue.

Of course it is not difficult to find many points of weakness in this proposal. Naturally it would not work perfectly—far from it. But since when has perfection been attainable in government or public affairs? The question the critic should ask himself is whether or not the suggestion we have made would represent an improvement on the existing methods of formulating economic policies. If he thinks that it would, then he should throw his weight behind it.

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With one exception, all the comments published here reveal the author's belief that in various ways the present situation is capable of substantial improvement. Professor Firth's remarks are obviously based on a fundamental misconception of the course we have advocated. Naturally, we have never proposed that the President's C.E.A. and the procedure it follows could, or should, be precisely copied in the different Australian setting and form of government. What we have suggested is that the American methods present some ideas from which we can learn and some features which can be adapted with advantage to Australian conditions.

Nor would we be so naive as to propose that governmental decisions should not be made until the problems had been "talked out" by the nation at large. All we have suggested is that, before government finally makes its decisions there should be adequate means of consultation between the government's advisers and representatives of the major sections of industry and commerce. One of the avenues where improvement is obviously necessary is in the provision of estimates of future trends based on forward business commitments on such matters as orders placed overseas.

Canberra is unfortunately physically and environmentally remote from the rest of the Australian nation and the Canberra viewpoint may as a consequence not take sufficient cognisance of the problems that are exercising the minds of those at the decision-making centres of the nation's industrial life. Some special efforts should therefore be made to build a permanent bridge over a gulf that could otherwise threaten the realistic formulation of economic policy.

SIR JOHN ALLISON

President of the Melbourne Chamber of Commerce

MOST of us make several important decisions daily. If any of them involve the balancing of opposite points of view, I am sure there will be agreement—wry concurrence—that if all the reasons and motives for such decisions were known, much of the disputation which arises would be needless. If this can happen in our own business, representing but one small segment of commerce, how much greater is the likelihood of unnecessary and ill-founded criticism of Government decisions.

It is the merest truism to say that modern Government has become complex. And in no sphere of Government is this truer than in day-to-day economics. Whilst the actions of Government in many other matters are more readily understood, and so accepted, financial and economic decisions are often received with an absence of good grace because their basic premises cannot be readily recognised nor interpreted.

Whilst this is important, it is not the fundamental purpose of the establishment of an Economic Advisory Council. The primary function of such a council would be to make available to the Government constructive and informed opinions, refined in the crucible of debate, on economic and financial subjects submitted to it.

Consider some of the contentious matters upon which Government must act today. Budgets are no longer constructed merely to provide funds for Government services. In recent years we have seen the bud-

get used for anti-deflationary and anti-inflationary purposes or as an instrument of stability. Then again, there is universal acceptance by Government today of the responsibility for full employment.

Problems of convertibility, of fixed exchange rates, import and export restrictions, and international trade agreements—to mention but a few—all fall within the scope of Government. They demand for their solution a most comprehensive background of authoritative information and opinion—sometimes conflicting—which must be measured by the yardstick of the ultimate national good.

That Australia has so far conducted her affairs in these fields with skill is not merely accepted but is recognised with sincerity; and the able and conscientious part played by the permanent departmental officers is warmly applauded.

Nevertheless, is there not an urgent need for something which will provide a connecting link—a bridge between, on the one hand, the Government and its advisers, and, on the other, those who are directly affected by the Government's decisions.

There is, of course, nothing novel in such a suggestion. The value of committees and councils as an adjunct of modern Government has been amply proved. Whilst the greatest care would be needed to ensure that it was well balanced and representative of the important sections of the nation's economy, I would suggest

that selections should be on a personal, and not an institutional basis. Without doubt there can be found in Australia men of experience and capacity who would not only bring expert knowledge to such a council but would also be nationally minded in their views.

Sympathetic understanding is the principal ingredient of good will, and no Government is safe which lacks enjoyment of it. A Federal Economic Advisory Council would be, as the

name implies, purely advisory. It would not detract from the authority of Government; rather would it support that authority with an essential and unshakeable buttress—the goodwill of those who have to accept Government decisions and, very often, give them practical expression.

Democracy has progressed far beyond the 19th century limits of party, creed and dogma. We cannot afford to be without its best refinements.

MR. W. H. ANDERSON

President of the Federal Council of the Liberal Party

THE I.P.A.'s suggestion envisages in effect, the strengthening of the Prime Minister's Department, in two ways. The first is that it should undertake a more detailed study of economic trends quite apart from its responsibility for day-to-day Cabinet submissions. The second proposal is that it should submit to the Executive regular reports for publication.

The Menzies Government is not lacking in economic advice, or, indeed, in talent. It is true, as pointed out by the I.P.A., that the senior economic advisers are those in the Commonwealth Bank, Treasury and Departments of Commerce, Trade and Customs (Tariff Board), Labour and National Service, and others, each of which publishes valuable economic reports.

But the Commonwealth Government does not publish a yearly or half-yearly report on the lines of the U.S. President's Economic Report.

It published the report of the National Security Resources Board last March, but that report dealt with economics in retrospect; it did not disclose and examine likely future trends.

The work of the National Security Resources Board does, however, provide a good example of the present Government's earnest desire to have the assistance of experienced leaders in commerce and industry in the formulation of economic policy. The Board still functions under the chairmanship of the Prime Minister and with secretariat assistance from his Department. Another good example is the Immigration Planning Council.

Nor should it be overlooked that the Prime Minister's Cabinet Secretariat has been considerably strengthened since the Menzies Government came to office. Closer consultation has also been developed between Departments and between ad-

visers to the various governmental authorities. By way of example, the Prime Minister has frequently convened inter-departmental committees, which, in turn, have become responsible to Cabinet Sub-Committees. Their task has been to thrash out economic policy when there is an overlapping of departmental administration in some field or other of Government activity. In short, policy determinations are no longer arrived at by "hit or miss" methods.

To overcome delays and to allow senior Ministers to concentrate on longer term questions of economic and defence policy, it will have been observed that, in recent weeks, the Prime Minister has announced a division of his Cabinet into two functional groups. One is under his chairmanship, to consider questions of high policy. The other is under the chairmanship of the Vice-President of the Executive Council (Sir Eric Harrison) to deal chiefly with administrative matters.

I believe there is now a much more scientific approach to the formulation of policy than ever before. Research backing for policy recommendations, both at a Party organisation level (through the Research Section of the Federal Secretariat of the Liberal Party) and at a Government level (through the machinery set up by the Menzies Government), is much more thorough than it was

in the past, although the same cannot be said for State policy considerations.

The United States practice certainly has much to commend it; although circumstances are rather different there because the Executive under the President of the United States operates with a wider delegation of powers from Congress than is available to the Prime Minister and his Cabinet. In Australia, the ever-present problem is to reconcile sometimes widely diverse attitudes, all based on economic submissions, in the various Departments. I presume the same applies in the United States but that there the Executive, under the President, can treat more summarily the submissions of the departmental administrative people. Here, the separate Ministries take a more rigid individual line.

Apart from that, the question becomes largely one concerning the publication of economic reports by the Prime Minister, upon the advice of economic advisers within his Department. I have reason to believe that the Prime Minister concedes the need to publish more material explaining the Government's economic policy.

Mightn't it be a good idea, if, to combine experience and practice, future reports of the National Security Resources Board took a different form and filled the gap to which I.P.A. has directed attention?

MR. FRANK CREAN

Labor Member of the House of Representatives

ONE must readily agree that in the modern democratic community adequate information ought to be available to enable the discerning citizen to appraise the overall economic situation.

What is not so certain is that all those who read the signs will necessarily draw the same conclusions, or even if they agree as to conclusions, will they of necessity agree as to solutions.

In Australia there is probably broad agreement on the maintenance of full employment (although there seems to be some flexibility as to its precise meaning as evidenced by the term "overfull" employment) but experience so far has been in maintaining full employment in an inflationary situation. But should circumstances, either external or internal, lead to a deflationary situation, there would no doubt be some interesting variety and dissent as to what ought to be done.

These differences would be accentuated in Australia where there is more fundamental difference between the Labor Party and the Liberal Party than there is between the Republican and Democratic Parties in America.

Even in the U.S.A., however, it seems that there is considerable variety of opinion in the approach, say, of the Truman Administration and the Eisenhower Administration as to the solution of economic problems.

There were differences of viewpoint even during the Truman period, leading to the resignation of Dr. Nourse and his replacement as Chairman by Mr. Keyserling.

A completely new Council was appointed by President Eisenhower with a view presumably as much to change the advice as the advisers.

Philosophers may seek after absolutes and yearn for "patterns laid up in heaven", but economics is a more down to earth science where there is no absolute prescription for a given economic ill, and where, because of the economic role of the Government in a modern democratic community, the final decision tends to be political.

Professor Paul A. Samuelson well summed up this dilemma in the *Financial Times*, Lond., February, 1954, in an article "Testing Time for Prophets". He quotes the final paragraph from the Economic Report of the President, January 28, 1954, p. 114:—

"The minor adjustment under way since mid 1953 is likely soon to come to a close, especially if the recommendations of the Administration are adopted."

Here we have the whole position epitomized, what economists call a value judgment about a given situation (a minor adjustment) that will apparently be influenced (likely soon to come to a close) by a political decision (the recommendations of the Administrative).

By all means let us use the information at our disposal, let us have more information; but as Samuelson says, in the "vital clash of interests, the professional economist must step aside and the voters must decide".

In this country, through the Department of Statistics, the Department of National Development and the various special sections of the Treasury and Commonwealth Bank, we probably have splendid facilities for securing information on economic trends in Australia. Two important faults seem to exist, however:—

Firstly, that the information is not widely enough disseminated. It is more suitable for expert than for public consumption;

Secondly, when it is made available, it tends to be already out of date, and further, is isolated in its presentation, very little attempt being made to put a particular piece of information into a more general perspective.

The Commonwealth Budget is a case in point. Over the past ten years the trend has been to provide more information and to present it in a better form. The White Paper on National Income was an historic improvement.

In view of the importance of the Commonwealth Budget in the national economy, however, there is not yet any attempt made to relate the Budget to this broad canvas; nor is there any presentation in a popular form for the average citizen who can only exercise the responsibility that democracy demands of him if he is informed; nor is there any attempt made to forecast the influence of the Budget on the future.

A first forward move might be in the direction of preparing for Australia something akin to the annual Economic Survey as presented by the Chancellor of the Exchequer in the United Kingdom.

PROFESSOR G. C. FIRTH

Professor of Economics, University of Tasmania

THE article entitled "The Making of Economic Policy" suggests that its author may not have understood the fundamental difference between the American and British forms of government. American Government deliberately separates the legislative and executive branches, whereas in the British form these branches are closely related through the practice of Cabinet responsibility. Australian Government follows British practice in this respect. Constitutional forms such as Federalism and the Senate, which were originally borrowed from the United States, have turned out very badly in Australia, and there seems no reason to suppose that the "Council of Economic Advisers" would fare any better on alien soil. This country cannot afford the luxury of government by discussion, which appears to be the arrangement advocated by your article.

In the British system, "policy" grows naturally out of the day-to-day decisions made by Cabinet with the advice of senior public servants. Naturally these decisions are affected by the trend of opinion in Parliament and in the country. The effectiveness of government would be seriously impaired if decisions were held up until problems had been "talked out" by the nation at large. The British system carries the safeguard of Cabinet's responsibility through Parliament to the

electorate, which was the great constitutional invention of the nineteenth century. American Government has never adopted this invention, and has therefore to rely on the cumbrous safeguard of separating legislative and executive branches of government. In this atmosphere of incipient frustration, one can perhaps imagine that agencies with pompous titles may actually play a useful part.

Between the wars, the idea of an "Economic General Staff" was actually tried out in Britain. The analogy was ill-suited to peacetime conditions, and the experiment did not succeed. In 1951, I suggested that an "Economic Policy Tribunal" might be set up to carry out functions which appear at first sight not greatly dissimilar from those proposed for your Council of Economic Advisers. To that extent, I am now convinced that my proposal deserved the adverse criticism which it received from people with a lively appreciation of the difficulties which it involves. The most that such a body could safely attempt would be to review and criticise policy **after the event**, rather on the analogy of an Auditor-General. It may be doubted whether a special body is needed for this purpose, which, after all, is the traditional business of the Opposition in Parliament and of an informed public opinion outside it.

MR. GEORGE G. FOLETTA

President of Australian Industries Development League

THE "Review" has drawn attention to Australia's "hush-hush" and "close-preserve" methods of manufacturing economic policy and contrasted our methods with the "open-air" policy of the United States, where a Council of Economic Advisers has access to all factors—governmental, industrial and commercial—and proffers advice simultaneously to the President, Congress and the public.

The question is whether Australia should institute similar machinery!

Most will agree that Australia's approach to the making of economic policy falls far short of needs and suffers considerably through the lack of much information which can best be obtained from industry and commerce, and from other informed sections and people throughout the economy.

Some authoritative fact finding body is necessary.

Those who know the calibre of the men in high places in Government service have nothing but respect for their conscientious approach. Whether our machinery encourages sufficient co-ordination at this level is open to doubt. However, economic policy manufactured in the remote atmosphere of Canberra certainly suffers through lack of co-operation and co-ordination between the many factors outside Canberra who proffer advice.

We can make little headway by blaming either Governments or the experts who advise them. By turning the critical eye on ourselves, we may realise that responsibility for a more democratic approach lies principally with all who work within, or control the many divisions of industry and commerce.

Unity is strength! Whilst self interest divides, economic policy will continue to be imposed. A united front would ensure that all who must work within the framework of economic policy would have a great deal more say in its making.

Under Australia's pattern of democracy which swings from right to left, a council of professional advisers responsible principally to the Government of the day may not serve the best interests of democratic freedom.

We have a vivid memory of controls. Democracy thrives on a minimum of control. We must strengthen democracy, not weaken it; therefore our responsibility is to convince both the people and Parliaments that Australia's present system of making economic policy is insufficiently democratic and that existing machinery would be strengthened considerably by assistance which could be rendered by a fact-finding advisory body representative of all factors within industry and commerce — industry being interpreted to cover primary, secondary and tertiary—commerce to include all commercial finance and banking.

Such a body would need its experts, but they would be responsible to an Advisory Council whose members were drawn from various sections of industry and commerce.

This Advisory Council would need full accreditation and backing at Government level.

The will to co-operate is essential, if an advisory council is to be created and receive official recognition.

Over the past twelve months, a committee of the executive of the Australian Industries Development Association has been considering Australia's need of such a fact-finding advisory body. This Committee's work has been, and can only be, exploratory. The setting up of an Advisory Council would require the co-operative efforts of very wide interests. Such a body would have the full support of A.I.D.A.

