

Evaluating Australian Economic Policies

W. Max Corden, The Road to Reform: Essays on Australian Economic Policy, Addison Wesley, Lane Cove, 1997

Reviewed by David Henderson

THIS volume brings together 16 previously published papers by Max Corden, essentially as they were first issued though in some cases with abbreviations. Almost all were written for professional journals, so that, although the whole text is imbued with the author's characteristic and exemplary lucidity, this is a book for economists rather than the general reader. The scope of the essays is notably broad, in two respects. First, Australian issues are set in the wider context of the economic analysis that bears on them and the experience of other countries; and second, the range of topics covered is extensive.

The collection is in two distinct parts, each of which has a short introductory chapter by the author, written for the occasion. In both, there is a judicious blend of analytical and historical material. Part I, with seven republished essays, mostly of earlier vintage (the oldest appeared in 1957), is concerned with 'protection policy and trade liberalisation' in Australia. Essentially, it offers a set of windows on the extended process by which Australia has moved from being a staunchly protectionist country to the present situation, in which trade barriers have been substantially reduced while — notwithstanding the present government's recent equivocations — further moves in a liberal direction are to be expected. The whole story is surveyed in masterly fashion in Chapter 8, which contains Corden's Fisher Lecture of 1996 on 'Australian Liberalisation in International Perspective'.

Part II deals with 'macroeconomic policy and wages', and here there are nine papers dating from 1977 onwards. Of these, three are somewhat separate from the rest. Chapter 14 is a review — courteous and appreciative, but in some respects highly critical — of the (1985) Hancock Report on industrial relations, while Chapters 17 and 18 consider the question of whether and for what reasons a deficit in the current account of a country's balance of payments should be viewed as a matter of concern. The other six chapters review the macroeconomic experience and policies of Australia over the past 25-30 years, with Chapters 15 and 16 in particular providing some illuminating comparisons with developments in other OECD member countries.

It is useful to have these essays brought together in a single volume. Despite their relative antiquity, the earlier five contributions to Part I still make good reading, since their treatment both of the analytical issues and of the actual evolution of policies remains fresh and instructive. As Professor Kym Anderson notes in his foreword to the volume, Corden emphasises the relationship between tariff policy and the exchange-rate regime, an aspect that is apt to be neglected. Again, the essays bring out the incongruity between the general arguments for protection in the

Australian context, which presuppose an ordered and consistent approach, and the complexity and disorder of the protective system as it actually operated.

Two limitations of Part I are worth noting. Unfortunately to my mind, the author's fine essay on 'The Tariff', published in the early 1960s (Corden, 1963), has been omitted on grounds of length: I would like to have seen the historical sections of it included here. More broadly, these seven essays, as also the author's introduction to them, cover trade aspects only: there is nothing on the liberalisation by Australian governments of external capital flows, which makes an interesting and important story in its own right.

In Part II, a longer introduction from the author, or, better still, a further chapter written specially for this book, would in my view have added to the interest and value of the collection. There is a contrast here, as between the two subject areas. Where trade issues are concerned, the characteristic approach of mainstream economics, the prevailing vision of relationships and processes, has not radically changed in the course of the last half-century; and despite continuing professional differences, there has been and remains a consensus of sorts. Hence it is reasonable to consider policy issues without much reference to the changing state of professional opinion. When it comes to macroeconomic aspects, this is not at all the case. The earlier 'Keynesian' quasi-consensus fell apart in the 1970s, in the face of unexpected and dismaying developments in all the OECD economies. Since then, the profession has been struggling, as always against a background of continuing and often unforeseen changes on the world scene, to put together a more adequate agreed framework of thinking for the analysis of economy-wide events and trends. Hence the evolution of macroeconomic policies, and of the debates relating to them, forms part of a wider story which has to include the latest chapters in the history of economic thought. Some of the essays in Part II explicitly consider this latter aspect, and Corden has interesting things to say about rival models of the system, particularly in Chapter 11 of the book, the longest, which dates from 1977. However, I would have welcomed a more systematic and up-to-date review of these issues, taking account of unfolding events, and of related developments in professional thinking, over the whole period since the early 1970s.

In terms of current Australian categories, Corden clearly appears as an 'economic rationalist'. He has been a consistent advocate of liberal trade policies for Australia; and here the course of policies, which he has himself influenced by his writings and teachings over four decades, has broadly taken the direction that he had hoped for. On the macroeconomic side, he parts company from some 'rationalist' commentators in taking a favourable view of the mid-1980s Accord between the Labor government and the unions. However, the two main lessons for policy that emerge from Part II are anti-interventionist. First, and not peculiar to Australia, he stresses the importance of maintaining 'fiscal control', linked to a firm commitment by governments to low budget deficits. A second leading theme is the need for labour market reform as a means to bringing down chronically high unemployment rates; and here there is a distinctively Australian aspect, in the form of the award system which Corden views as 'job-destroying'. At the same time, and

despite its title, there is no suggestion in the book that the appropriate conduct of economic policy today can be viewed simply in terms of pressing forward with further market-oriented reforms. In particular, it is noted at the end of Chapter 15, in which macroeconomic policies are viewed across countries, that 'The difficulty of short-term monetary management, and of maintaining an expectation of low inflation while also stabilising aggregate demand somewhat, arises everywhere' (p. 250).

The publishers are to be congratulated on bringing out this rewarding collection of essays.

Reference

Corden, W. (1963), 'The Tariff', Chapter 6 in A. Hunter (ed.), *The Economics of Australian Industry*, Melbourne University Press, Melbourne.

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