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Geoff Harcourt and Economic Policy: Horses for Courses?

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Abstract

Geoff Harcourt was a renowned economist and political activist who made a significant contribution to public policy, particularly in his home country of Australia. As a leading contributor to post-Keynesian theory, he believed a capitalist economy would not create full employment without significant policy intervention. On the labour market, he devised an approach to wage bargaining that integrated fairness with productivity growth in the context of Australia's unique institutions of conciliation and arbitration. On tariff protection, he was agnostic, preferring a more proactive industry policy grounded in post-Keynesian principles and drawing on his early work on accounting theory and practice. His economic advice to the Australian Labor Party (ALP) Committee of Inquiry in 1979 refocused policy debate around the role of incomes policy, which became the centrepiece of the Hawke-Keating Government's Accord with the trade union movement.

Keywords: Cambridge controversies; Harcourt; inflation policy; labour markets industry policy; political economy; post-Keynesian

JEL Codes: B31; B51; B52

Introduction

Geoff Harcourt was not only a renowned economist but also a political and social activist who worked for peace and justice for Indigenous people and who supported full employment with decent wages and good working conditions for working people. As a Fabian, his activism was in the social democratic tradition. Geoff took part in a number of political debates and took a keen interest in economic policy and the important role of government in managing the economy.

Geoff joined the Australian Labor Party (ALP) in 1950, and when he and his wife Joan were politically active in the 1960s, Joan ran as a Labor candidate for the South Australian Legislative Council. Geoff's activism reached its peak as chair of the Campaign for Peace in Vietnam (CPV) and against military conscription. This put Geoff in touch with a number of peace activists in the ALP and the trade union movement, notably his former lecturer Dr Jim Cairns in Melbourne and young student activists and academics in Adelaide: Lynn Arnold, Peter Duncan, and Neal Blewett, all of whom became successful ALP politicians.

Geoff's CPV role also brought him into the orbit of prominent Labor politicians of the day to whom he was keen to offer his advice on economic matters, at least informally. This advice came mainly via the 'Adelaide Plan' with fellow South Australian economists Eric Russell, Barry Hughes, and Phil Bentley during the Whitlam Labor government. At this time, the government was struggling with stagflation – double-digit inflation and unemployment – and the prices and incomes policy proposed by the Adelaide Plan was then in vogue in a number of Western industrialised economies. However, this advice fell on deaf ears, as the Whitlam government was crippled by the so-called 'loans affair', involving borrowing from the Middle East oil cartel, a successive line of Federal Treasurers (including a short-lived Jim Cairns), and Whitlam's own inability to take a sustained interest in economic policy. Bob Hawke, the then president of the Australian Council of Trade Unions (ACTU), had already warned Geoff about this inattention, which later led to great frustration from Labor leaning advisers such as Professor Fred Gruen. However, Geoff's involvement in the Adelaide Plan did lead to his being an expert witness in some significant State Wage Cases in the 1970s and 1980s.

Geoff had better luck as an adviser with Labor in opposition, when Whitlam's successor as leader Bill Hayden appointed him to the ALP Committee of Inquiry that reviewed the election losses of 1975 and 1977. Geoff drafted the social and economic context sections of the inquiry report, where he developed some of his ideas on the mixed economy. These ideas were later elaborated, as we shall see in this paper, in his John Curtin Memorial Lecture, 'Making Socialism in Your Own Country' (August 1982) and his Donald Horne Lecture, Markets, 'Madness and a Middle Way' (February, 1992).

In these lectures, in reviews and in private conversation, three observations can be made about Geoff's policy stances. First, he was a moderate on wages policy. He wanted to use incomes policies to contain the rates of prices and wages growth in the economy but believed in using existing institutions – 'the Arbitration Commission and indexation procedures' (Harcourt, 2001, p. 226) and emphasised the point made by his mentor Eric Russell that a social consensus should be built 'to reach people's sense of fair play, to show that sacrifices are both necessary – that the problems are serious and real – and would be shared, before the problem of inflation would be brought under control – and most important, unemployment avoided' (Harcourt, 2001, p. 59). Geoff believed in consensus and placed great faith in Australia's conciliation and arbitration system of wage fixing.

Second, Geoff thought Australia's centralised system of wage fixing was consistent with micro-economic efficiency. He was much influenced by Wilf Salter who maintained that:

(a) Government economic policy should be directed towards creating a flexible economy which enables an easy transference of resources from declining, high cost and price industries to expanding, low cost and price ones.
(b) Wages policy should be national in scope rather than related to the circumstances of particular industries. Relating earnings to the 'capacity to pay' of particular industries tends to bolster the declining industries and hamper, progressive ones. It delays the introduction of new techniques and has a harmful effect on overall economic growth (Harcourt, 2001, pp. 268–269).

Third, despite his views on efficiency and resource allocation within the economy, Geoff was largely agnostic on the controversial issue of tariff protection and set greater store by industry policy, including nationalisation at a time when even parties of the centre-left had gone in the other direction. The Salter-type views Geoff picked up on national wage adjustments could also be applied to tariff policy. Allowing 'capacity to pay' wage arrangements was akin to giving declining industries tariff protection and only delayed structural adjustment. Here Geoff's views appeared to coalesce with those of international trade economists like Max Corden and Heinz Arndt, but he parted from their neoclassical model in striving always to balance competition in a more open economy with intervention where this was needed to secure long-term growth and jobs. Indeed, the most significant thread running through Geoff's work on economic policy was a commitment to full employment, to which we now turn.

Conceptual framework

Geoff was most deeply influenced by Marx, Keynes, Kalecki, Sraffa, and Joan Robinson. Underlying much of his thinking lies the view that a free-market capitalist economy does not automatically lead to full employment, that the path the economy has taken affects the final equilibrium position (path dependence) and that history is important. Further, following Gunnar Myrdal, he argued that 'cumulative causation' was important, and hence there was a possibility of multiple equilibria in economic systems. As he often wrote, he was influenced by Marx:

> . . . study of the processes whereby surpluses are created in economies, how they are extracted, who gets them and what they do with them . . . Capitalism does it in a particular way . . . I would like to help to create a society where the surplus is extracted and used in a way quite different from that of a capitalist society (Boianovsky, 2022, p. 15).
>
> The post-Keynesian view of the economy is as an historical process, with the unchangeable past influencing the present, and with inherent uncertainty about the future. This leads to a concern with historical time, where expectations have a significant and unavoidable impact on economic events (Harcourt & Kriesler 2015, p. 28).

Although Geoff was interested in economic theory and his best-known work was on the problem of the measurement of capital (Harcourt, 1972), what drove his research was his interest in making the world a better place by introducing economic policies towards that end:

> I have always regarded the *raison d'être* of our profession as helping to influence and to make policy. Of course, this may be done directly by proposing specific policies, following analysis of the issues which give rise to them; or, indirectly, through theoretical and applied work, or by examining what others, greats past and present have done (Harcourt, 2001, p. x).

How do we achieve full employment in a capitalist economy?

Following Keynes, Geoff argued that in a modern capitalist economy there were no forces to make the economy to move to a full employment position: because investment decisions were made by capitalist firms and saving was done by independent households, there was no mechanism to require aggregate investment to equal aggregate saving and hence to lead to full employment. As has been argued by authors like Leijonhufvud (1968), following Keynes, price signals do not provide agents (firms and households) with knowledge to make the correct decisions to move the economy towards full employment: there is no Walrasian auctioneer to solve the disequilibrium by adjusting prices. Geoff in his paper on Full Employment (1974) essentially argues similarly: '[unemployed workers] are also unable to signal to would-be employers that it would be profitable to employ them' (2014).

Since a free-market economy does not automatically lead to full employment, it is important for the government to introduce policies, mainly to increase aggregate demand, to move the economy by fiscal and other policies. In Geoff's analysis, these policies must be introduced with an understanding of how the economy has reached that stage (i.e., the history of that economy), an understanding of the uncertainty that dominates all economic behaviour, and the role of expectations of firms and workers. In the real-world economy, firms are not perfectly competitive price-takers but are, in fact, oligopolists who

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are price-makers. In this world, to get to full employment, the government must increase effective demand to stimulate production and employment. In addition, a government needs to introduce policies for training and retraining workers for a dynamic economy. He argued for cooperation between employers and workers (teamwork) about conditions of employment and decision-making by firms.

Geoff argues for a progressive government that should attempt to get to full employment by controlling the 'rate and composition of accumulation of capital goods' (Harcourt, 2001, p. 227). Public sector investment was needed to stimulate private investment and hence lead the economy towards full employment.

Geoff argued that full employment did not only mean that job vacancies balance unemployment rates, but also that their compositions must balance. In other words, it is necessary to have regional policies, training, and retraining policies, and that there should be cooperation between workers and employers, fair and decent wages, and agreed decision-making. Although he does not explicitly mention it in this context, he also argues for a tax system that is fair and equitable. He argued for a company profits tax, wages should be indexed to the price level, and that wage increases should not be a flat rate but proportionate. Unlike neoclassical economists, he believed that wages were determined as the outcome of a bargaining process that reflects the relative bargaining strengths of workers and employers and 'social historical, institutional and conventional processes' (Harcourt, 1974). He argued that a progressive government should attempt to get to full employment by controlling the 'rate and composition of accumulation of capital goods' (Harcourt, 2001, p. 227).

Following WEG Salter's suggestions, Geoff supported his idea that wage rates in declining industries should be the same as in growing industries ('comparable labor has the same price in expanding and declining industries' (Salter, 1960)) as this would lead to more investment in high productivity industries. Salter argues that when real wages are higher, firms will replace labour with capital (which embodies the latest technology) and hence increase productivity and growth. Thus, a uniform real wage would lead to lower productivity industries to cut back production and higher productivity industries to expand production. The same would apply within an industry, which supports the present push (August 2022, Jobs and Skills Summit) by the ACTU for a uniform wage. As argued by Salter, an economy where gross investment is cheap relative to labour costs will use more modern technology capital, than an economy where labour is cheap.

> Salter developed Marshall's analysis to explain why old and new machines of different vintages, when the latter had greater expected quasi-rents and were more cost-effective, could nevertheless operate side by side in firms and industries. Basically, it was because the older vintages only had to expect to cover their variable costs (bygones are bygones) in order to continue operating whereas new machines have to be expected to cover total expected costs in order to be installed. The core of the macroeconomic and systemic consequences of this finding is that the overall productivity regime to be established, both level and rates of increase, depends upon the rate at which average wage levels (with their accompanying relative wage structures) increase over time. If they rise at the rate determined by overall productivity (plus prices), then high productivity industries will be encouraged to expand, and low productivity industries will be forced to contract or even shut down. The overall result will be the maximum rate of increase possible in overall productivity in the given situation, as well as in accompanying real incomes. By contrast, if money incomes were to be adjusted by individual levels and rates of increase of productivity, the expansion of high productivity industries would be discouraged while low productivity industries, often already declining, would be able to linger on well past their sell-by dates. The overall productivity regime would *not* allow nearly as high

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> rates of increase of *real* incomes as could have occurred in the alternative scenario. This, in turn, would reinforce the coming into play of Kalecki's scenario and the creation of higher levels of unemployment via policy – so-called short sharp shocks – to push unemployment above its so-called natural rate and so change inflationary expectations, in reality, reversing the distribution of power between labor and capital. (Harcourt, 2007, pp. 5–6)

Inflation in the macroeconomy is determined, following Kalecki, by the struggle between workers and capitalists over the distribution of the (economic) surplus created in the sphere of production. As such, to control inflation, government policies should not use monetary policies to create unemployment and weaken the strength of the working class but should negotiate with them. Hence, post-Keynesians argue that it is necessary to introduce incomes policies based on an agreement with capitalists limiting profits by indexing prices and workers accepting an agreed increase in wages.[1] This was the basis of what had been called the 'Adelaide Plan' (proposed by Eric Russell, Barry Hughes, Philip Bentley, and Geoff Harcourt, 1974). In this Plan, they argued for an incomes policy where wages would be indexed to prices and stressed that they should be proportional, at least up to very high levels. It was hoped that wages would be controlled so that they would not exceed a fair increase over the previous rates. They also proposed a profits tax, or an 'excess profits tax'. Excess profits would be calculated as profits in excess of the average of the profits to sales ratio over the previous three years. The Plan argued for a consensus policy with fair play, where both sides (labour and capital) would make necessary sacrifices to achieve full employment. The Federal government was advised to provide funding to State governments such that they would not raise taxes. This was at a time of high inflation in the 1970s in Australia.

The Adelaide Plan was never a forerunner of the so-called 'Accord' that was introduced by Prime Minister Hawke and Treasurer Keating in 1983, but it did put incomes policies on the policy map in Australia. It also anticipated some elements of the Accord via commitment to full employment and consensual incomes policies. The Accord itself was an agreement between the ACTU and the Labor Government to return to full employment without causing inflationary pressure as had occurred in the mid-1970s and the 1982–1983 recession. The Accord was the brainchild of the ACTU Research Department of Bill Kelty, Jan Marsh, and the Shadow Treasurer Ralph Willis, himself a former ACTU Research Officer. Much of the Accord was developed when Bill Hayden as Opposition Leader and inherited by Hawke when he became ALP leader and Prime Minister a month later. As well as targeting unemployment and inflation, the Accord sought to adjust the wages-profit share and compensate for nominal wage restraint with an increase in the so-called 'social wage' (including the introduction of Medicare, education benefits, tax cuts, and later Superannuation). The agreement was to eliminate poverty by ensuring wage justice for low-wage earners, reducing taxes for low-income earners, raising social security benefits, and improving social infrastructure. There was much debate about the actual enforcement of this agreement and the extent to which it was successful. Some research suggests that the Accord was successful in controlling wage increases, and, by providing a degree of certainty to capitalists, it stimulated private sector investment (Chapman et al., 1991). The implementation of Medicare and Superannuation and other elements of the social wage have become a permanent part of Australia's economic and social infrastructure.

However, Geoff was concerned that policies that lead to full employment would strengthen the power of the working class leading them to demand higher wages. Hence, without unemployment, workers could not be 'disciplined'. This would likely lead to capitalists becoming concerned, and governments, in response, possibly forcing a slowdown of the economy by cutting government expenditure, thus leading to unemployment and introducing a political business cycle. This was the argument that Kalecki (1943) put forward in the classic: *The Political Economy of Full Employment*.[2]

Geoff and industry policy

While industrial policy was not a major preoccupation in Geoff's academic work, it was not an insignificant one either. Following Kaldor, Myrdal, and others, Geoff understood capitalism as a dynamic system characterised by cumulative causation, not simply as a static equilibrium model with goods, capital, and labour markets optimising welfare through a Walrasian self-adjusting interaction of prices and quantities. Not only could markets be 'imperfect', where neoclassical economists might concede the prospect of corrective action to achieve optimal market-clearing outcomes, but they could be dysfunctional, most notably in the case of less than full employment equilibrium. According to Geoff, the latter would require much more than a market correction, rather it would call for active fiscal intervention to boost effective demand combined in appropriate circumstances with a consensual prices and incomes policy. In addition, with a view to achieving productivity growth balanced with equity considerations, there was also a case for a purposeful industrial strategy not just to correct market failures but to deploy 'conscious and cooperative planning' that would shape markets and investment around designated economic and social priorities. Here, as we shall see, Geoff anticipated by half a century much contemporary debate on post-Covid recovery and reconstruction, including the work of the Organisation for Economic Co-operation and Development (OECD) think-tank New Approaches to Economic Challenges (NAEC) and Mariana Mazzucato's influential 'mission economy' approach to transforming capitalism.

From the start of his academic career, Geoff made good use of his accounting expertise in analysing industrial policy issues, as he simultaneously deepened his knowledge of economic theory and the history of economic thought. In 1962, he investigated the role of different types of 'investment allowances' in driving technological change and innovation in what we would now call 'frontier firms'.[3] This prefigured his later work on 'choice of technique' and indeed his analysis of the 'Cambridge controversies' on the measurement of capital, which questioned the entire edifice of the Arrow–Debreu neoclassical production function. However, it was only when he settled in Adelaide at the height of the Playford–Dunstan era of general economic prosperity that he became more fully aware of the role of industrial policy in translating comparative advantage in natural endowments (in South Australia's case, access to cheap energy) into competitive advantage in manufactured products and related services. We must remind ourselves that this was also the era of industrial protectionism which had its foundation in the early 20th century 'historical compromise' between capital and labour, comprising wage arbitration, tariff protection, and the 'White Australia' immigration policy. Geoff applauded the introduction of a nondiscriminatory immigration policy by the Whitlam Labor government and retained an unflagging commitment to the arbitration system as a mechanism for the coordination of incomes policy, but he was prepared to court controversy, and indeed lose some friends and colleagues along the way, through his forceful and consistent advocacy for the removal of across-the-board tariff protection.

Though he did not make much of this explicitly in his writings, Geoff had read and absorbed Donald Horne's famous lament in his 1964 book, *The Lucky Country*. The passage is worth repeating in full as it is often misinterpreted: 'Australia is a lucky country run mainly by second rate people who share its luck. It lives on other people's ideas, and, although its ordinary people are adaptable, most of its leaders (in all fields) so lack curiosity about the events that surround them that they are often taken by surprise'(Horne, 1964) As we have seen in this chapter, influenced by Wilf Salter, Geoff developed an

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approach to incomes policy which would adjust wages through indexation linked to prices plus productivity, subject to the exclusion of oligopolistic pricing behaviour that might otherwise artificially boost profit margins. This was 'classic Harcourt', balancing equity with productivity-enhancing measures that were designed to enable the most efficient firms and industries to expand and compete on value and forcing the least efficient to decline and possibly exit the market as they would not have access to low-wage competition. Today, this is conceptualised as a reliable measure of 'business dynamism'.

The problem in Geoff's mind, however, was that tariff protection provided another opportunity for the least efficient firms to survive and indeed became an incentive for them to do so, perpetuating the lucky country syndrome in the context of a commodity economy. Moreover, as Geoff presciently points out in his 1979 article with Prue Kerr on 'The Mixed Economy', 'Should mineral export earnings put pressure on the exchange rate the situation for both manufacturing and rural sectors would be exacerbated and even higher levels of protection would be required' (Harcourt, 2001). The 1929 Brigden report (Brigden et al., 1929) had rationalised this approach by arguing that Australia could flourish as a giant sheep run with sheltered industries, provided only that they paid good wages, but Geoff noted that the higher prices for manufactured goods would erode the purchasing power of wages and he rightly asked the question what if we ran out of luck? While coal and iron ore might replace sheep for now, wouldn't it be preferable for the long term to scale back protection and transition the workforce into the industries and technologies of the future, which enjoy 'increasing returns to scale', so we are not 'taken by surprise'.

Fifty years after the Brigden report, Geoff got a chance to make his mark on policy as part of the ALP's 1979 National Committee of Inquiry, reviewing its most recent election loss. Geoff was invited to prepare a discussion paper on the changing economic landscape and to contribute to the final report, which he did with great enthusiasm and commitment, even if some of his suggestions were watered down. The report's introduction even has a resonance with today's global economic predicament:

> Firstly, the Western capitalist world, including Australia, remains gripped in a prolonged economic malaise, characterized by stagflation, which constitutes the most serious crisis to have faced international capitalism since the Great Depression. Secondly, this international malaise has highlighted structural faults in the Australian economy – the stagnation of manufacturing industry, the dependence of manufacturing industry on protection, and the prevalence of youth unemployment. Thirdly, these events have coincided with the maturing of a social revolution in Australia, ushered in by the Second World War. As with all such complex social transformations, some of the elements of this revolution still appear to have considerable momentum, while others appear stable, or even exhausted. (ALP, 1979, p. 5)

While not a formal policy document, the report provided scope for Geoff to 'set out his stall', and as he later self-deprecatingly remarked, his broad suggestions in an accompanying discussion paper 'were accepted by Bob Hawke for at least half an hour after he became Prime Minister'. These suggestions particularly highlighted tariff reform and the future development of incomes policy, which was already advocated by Geoff and his colleagues in the 1974 'Adelaide Plan', as referenced elsewhere in this paper. This plan was taken up and promoted in most aspects by then shadow Treasurer and later Minister for Industrial Relations, Ralph Willis, and it foreshadowed the Hawke-Keating government's signature Prices and Incomes Accord, which laid the foundations for 13 years of a reform-minded government. The report was prescient in noting the changes in Australia's economic and social structures that might inform the ALP's future appeal to the electorate, including the increased pace of technological change, the shift to services

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activities in most developed economies, and the growing participation of women in the labour force, and it went on to summarise the conclusions of Geoff's discussion paper:

> As suggested in discussion paper no. 6, we believe that to remove the instability of the business cycle, to ensure a socially desirable output, and to undertake the restructuring of Australian manufacturing industry, a much greater national direction of investment is called for, possibly accompanied in the transition stage by an incomes policy. We also need a set of institutions which will have the effect of dampening the impact on real activity of financial aspects of the business cycle. In addition, the nettle of tariff reform must be grasped, but it is not obvious that a simplistic commitment to either high protection or so-called 'free trade' is the solution. (ALP, 1979, p. 7)

Here Geoff is reprising Adam Smith in *The Theory of Moral Sentiments*, as he was to do later in more detail in his 1992 Donald Horne Address, Markets, Madness, and a Middle Way, where he reminds us that for Smith, 'one of the essential conditions for competitive markets to function in a "socially desirable" manner was that economic and political power should be widely diffused', with government providing 'comprehensive and efficient infrastructures for society and a just and efficient taxation system for society's citizens' (Harcourt, 2001). Like Keynes, who believed that if we are to live in a capitalist society we may as well try to make it work as fairly and effectively as possible, Geoff remained convinced throughout his career that there was always 'a case for conscious guidance and direction of the broad compositions and levels of overall activity'. Indeed, when asked on one occasion what was the way forward for post-Keynesian economists, he replied that they should develop Goodwin–Kalecki cyclical growth models as the proper way for 'understanding capitalism and for putting policy around it'.

What might Geoff say to us today about contemporary industrial policy? In the 1970s, manufacturing was still around 30% of Australia's GDP, but comprehensive tariff reductions in the 1980s and 1990s reduced its share of the economy to 12%, despite 'structural adjustment' measures and sectoral industry plans. Unfortunately, these plans, while worthy in ambition, were designed less to create new industries than to smooth the decline of traditional ones. There was some limited success among 'world best practice' firms in shifting from low-cost mass production industries to more specialised, high-value 'elaborately transformed manufacturing' in fast-growing global markets and value chains, but these efforts were severely impacted by the subsequent commodity boom which boosted the dollar via more favourable terms of trade and hence made much of trade-exposed manufacturing industry uncompetitive. Instead of following the Norwegian example of a hefty resource rent tax on super profits from North Sea oil for investment in what has become the largest sovereign wealth fund in the world, Australia emulated the UK's response, which was to squander its windfall gains on a short-lived consumption boom.

Geoff was not particularly surprised by this outcome. Already in Markets, Madness, and a Middle Way (1992), he had anticipated that Australia had 'put two separate bits of lead in its saddle bags . . . by deciding to have a freely-floating currency and a deregulated financial system'. However, he recognised that

> Australia was not alone in doing this and probably could not avoid doing so. The important thing, then, is to understand the consequences. Australia needed and needs a considerable amount of restructuring of its industries. Its traditional export products have not only faced secularly declining demands over the last decade or so, but, for much of the period, demand has been pushed below trend by shorter-term cyclical demand deficiencies (Harcourt, 2001, p. 238).

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Geoff also explained that this was ‘one of the reasons for the horrendous state of its current account at the moment’ because

> Australia did not have anything like the cushion of North Sea oil to give it time and breathing space. Not that Britain took advantage of the cushion; much of it was dissipated in a consumption expenditure, import spree by those made richer by Mrs Thatcher’s income-tax cuts (Harcourt, 2001, p. 238).

How tragic and even more inexcusable it becomes in the context of these earlier observations that when Australia actually did enjoy its own equivalent of North Sea oil, its policy-makers would not take full advantage of the once-and-for-all potential benefits and moreover are still not doing so.

While Australia’s terms of trade boost from its commodity boom increased domestic living standards for a time, they also masked a structural deterioration in our productivity performance, which is now looming large with chronic wage stagnation, exacerbated in turn by the absence of the institutional wage setting arrangements that existed when Geoff was contributing to the policy debate. In addition, while other countries are massively increasing their investment in productivity-enhancing research and innovation, with gross R&D expenditure accounting for 4–5% of GDP in some cases, Australia has allowed its share of R&D in GDP to decline over the last decade from 2.2 to a dismal 1.79%. The lessons from endogenous growth models have not been learned by Treasury orthodoxy, let alone the Productivity Commission. As a result, manufacturing industry, which is the largest contributor to R&D, has slumped to 6% of GDP, with the manufacturing trade deficit doubling over the last two decades to around AUD 180 billion and the ‘complexity’ of Australia’s economy, measured by the diversity and research intensity of its exports, falling from a ranking of 55 out of 133 countries in the 1990s to 91 today, just ahead of Namibia. The problems identified consistently by Geoff in 1979 and on many subsequent occasions have still not properly been addressed, which leaves us with the unedifying conclusion that Donald Horne’s assessment of our political and business leadership, with some honourable exceptions, still holds true.

Unlike many other countries, however, Australia gets second (and third) chances, the latest being in the form of the newly elected Albanese Labor government, which is preparing the way for its own renewed approach to industrial policy, featuring a National Reconstruction Fund and a range of programmes that will be designed to transform Australia’s outdated industrial structure. The government currently faces what would appear on the surface to be similar problems to its 1980s predecessor, particularly sluggish growth and rising inflation, but these problems do not arise as they did then from the demand side of the equation. They are primarily due to supply-side factors, which require a different solution from that which central banks such as our own Reserve Bank are intent on imposing, seemingly on the basis that when you only have a hammer everything looks like a nail. For reasons best known to themselves, central bankers like to be seen to be taking action, which essentially means interest rate policy, even if that action turns out to be counterproductive. Geoff himself once wrote:

> Like Keynes, Kalecki, Kaldor, and Robertson, I am very skeptical about overreliance on changes in the rate of interest as an effective policy measure. The fiscal fine-tuners of earlier years were undoubtedly overoptimistic but what of the monetary fine-tuners in independent central banks in more modern times? There is a lot to be said, within given constraints, of setting relatively low interest rates and keeping them there, using other measures to tackle short-term fluctuations and long-term needs (Harcourt, 1997 in Harcourt, 2001, pp. 327–328).

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For Geoff, these ‘other measures’ comprise macroeconomic demand management combined with well-designed public policy interventions to create an inclusive and dynamic knowledge-driven economy. Clearly, this will require institutional capability at the heart of government. As he states in his 1982 John Curtin Memorial Lecture, Making Socialism in your Own Country, ‘we ought to develop institutions which allow us to take much longer horizons in planning the development of resources which are vital to the community as a whole, not only the current generation but future generations as well’. This is the essence of industrial policy, where according to management theorist Peter Drucker ‘the best way to predict the future is to create it’. Certainly, it will not happen by itself, let alone through the automatic operation of the market mechanism, and if it does it may not be the future we would want for our society. We leave the last word to Geoff from Markets, Madness, and a Middle Way:

> My generation of economists, like the one before it, was rightly inspired to try to create sustained full employment. But it should never have become an end in itself. Now we must try to make it possible for us all to have purposive lives and that requires that we ask what employment possibilities are socially admirable and consistent with being good citizens, not only of our own countries but of the world too. In pursuing these aims, I am sure cooperative pragmatism and give and take have much more to offer than any simple fix emanating from either the market or overall decree. (Harcourt, 1993 in Harcourt, 2001, pp. 245–246)

Summary

To summarise, Geoff was a consistent advocate for economic policies that would lead to full employment with fair and decent wages. His concern was always to maximise the public good, which, despite their claims to doing so, would not in his view be achieved by following the prescriptions of neoclassical models. Although Geoff was an eminent economist, his progressive views were not always taken up by governments. The Whitlam government was short-lived, and he returned to Cambridge before the Hawke-Keating government which might have provided an opportunity for more formal policy involvement, was elected. However, Geoff did provide highly influential advice to the ALP National Committee of Inquiry of 1979, based on both his theoretical work and his role in devising the 1974 ‘Adelaide Plan’, which foreshadowed the later successful application of prices and incomes policy and recognition of the need for structural change in the Australian economy.

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Notes

1 ‘. . . I have always thought indexation procedures the best way we could institute an *Australian* incomes policy that was acceptable and effective’ (Harcourt 2001, 208) (first published in 1978, Economic Papers, (60): 61–69).
2 Geoff quotes Thomas Balogh ‘Monetarism is the incomes policy of Karl Marx’! The argument was that monetarism would create unemployment (an industrial reserve army, according to Marx) that would slow down inflation.
3 ‘Investment and initial allowances as fiscal devices’, in Harcourt (2001).

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