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Economics hijackers could do with a history lesson

Simon Ville

University of Wollongong, sville@uow.edu.au

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Economics hijackers could do with a history lesson

Abstract

Behind every economic policy initiative lies a narrative justifying that course of action: immigration increases unemployment; public debt is unsustainable; manufacturing is interminably declining; city growth is out of control.

We have many “narrators” driving these discussions of economics – the media, political parties, public sector bodies, business and indeed universities – each with their own set of interests and values.

Unfortunately, among these claimants, the voice of economic history has remained largely silent or selectively galvanised to prosecute a triumphalist or doomsayer interpretation: “the clever country’s many successes in policy and business”; or “the lucky country’s history has been a series of fortuitous events now running out of steam”.

According to the recent review of the national curriculum, our ignorance of economic history begins early. Three times the report chastises the lack of economic history in our schools. The teaching of economic history in universities has become the victim of organisational pressures pushing out small disciplines and intellectual trends on either edge towards econometrics and cultural history.

The seriousness of the recent global financial crisis for many nations jolted economic history from its slumber. In its aftermath, *The Economist* asked a group of leading economists whether the crisis would affect the teaching of economics. Their overwhelming response was to reinstate economic history in the curriculum.

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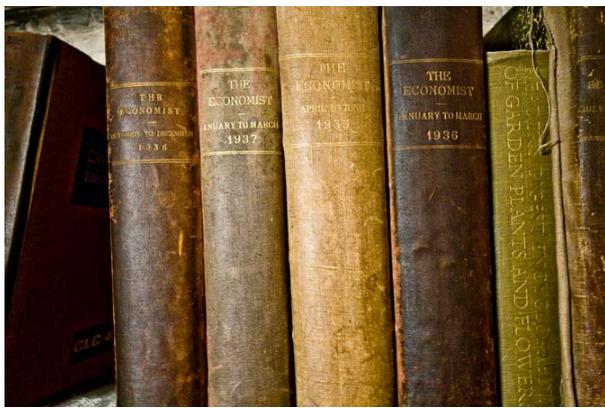
Economics hijackers could do with a history lesson

AUTHOR



Simon Ville

Professor of Economic and Business History at University of Wollongong



Who's afraid of a little economic history?

johnwilliamsphd/Flickr, CC BY-NC-SA

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Entering a new period

Michael Pettis, economic theorist, Wall Street veteran, merchant banker, equities trader and entrepreneur, exclaimed:

“Economic history should be at the heart of economics instruction.”

Just rhetoric? Written in the wake of the crisis, Carmen Reinhart and Kenneth Rogoff’s ironically titled *This Time Is Different* saw common patterns across hundreds of financial crises of many nations over nearly a millennium. How did so many well-paid bankers and public officials miss what was happening?

The financial crisis barely ruffled the secular boom Australia had been experiencing since the early 1990s. However, we are entering more uncertain times – less the sudden shock of a financial crisis, more the feeling of standing at a crossroads in our economic development.

Casting forwards, Australia has set foot in the Asian century, when Asian nations, especially China, will dominate development. Given the geographic closeness and trade complementarity, yet cultural and political differences, Australia faces a specific set of challenges in coming decades. If the recent past resonates with resilience, the near future speaks of potential frailties.

Learning from the past

It is timely, therefore, that published earlier this month was the Cambridge Economic History of Australia (the third attempt). While more descriptive than proselytising, it seeks to capture the detail and debate of Australia’s economic past. The debates and descriptions still resonate today and several examples are indicative. What should we produce, who should make it and where should they live?

Our contracting manufacturing sector creates angst among those who believe that a modern economy produces tangible goods. While this narrative fits many nations – Britain, USA, Germany, Japan, Korea and now China – it was never central to Australian economic history. Manufacturing’s share of economic activity has returned to its proportion at Federation. Its intervening expansion owed much to both tariffs and the rise of industries unsuited to international trading.

In spite of recent setbacks, natural resource industries have always dominated exports. Contrary to the advocates of the “resource curse”, primary industries have continued to reinvent themselves through the application of waves of innovation. The “elephant in the room”, though, is the services sector – about 80% of our economy, yet largely neglected in the public discussion. Nothing new about this either.

Should we believe that immigration will increase unemployment? Economic historians have shown that immigrants do not “rob jobs”. Each new arrival brings a demand for goods and services as well as taking up employment. Migrants respond to economic vicissitudes rather than create them – as history shows, they arrive in good times but rarely in downturns.

Concerns about urban growth have a long history. In 1897, Timothy Coghlan, the New South Wales Statistician, bemoaned:

"The abnormal aggregation of the population into their capital cities is a most unfortunate element in the progress of these states."

Coghlan, a chronicler more than an analyser, missed the point that Australian resource wealth originated in the bush but needed urban-related services – finance, transport, marketing – to realise that wealth through exports. We should plan our cities understanding that Australia has been highly urbanised for a long time.

No nation is purely a captive of its history – economies periodically shift equilibriums in the same way that genes mutate – but understanding past patterns is as important in the economic context as it is in the genetic.