Getting Blood out of a Stone:  
What John Stone Reveals about Treasury

At the end of 1984, John Stone resigned as Australia's Treasury Secretary. He now holds a position with the Centre for Policy Studies at Monash University, Melbourne: a think tank of economic mercenaries. From his role as Treasury's dogged autocrat, he has projected himself as a social commentator, making pronouncements on issues ranging from Aboriginal land rights to youth wages and from Australia's immigration policy to law enforcement—to name but a few. The fact that these views have been published in *Quadrant* gives a good indication of their political leaning.

While Stone's social commentaries are not in themselves worthy of review, it is nonetheless interesting to see revealed the world view of this once powerful bureaucrat. It shows so explicitly that the "Treasury line" which he represented for so long is not simply a product of objective, technical economic analysis. It is closely tied to a particular conception of the way society should be organised—socially as well as economically. Hence we find that Stone's reactionary social views and Treasury economics are not unrelated: they share a common ideological origin.

In this paper, I want to look at how the newly-revealed John Stone gives us access to an understanding of Treasury's approach to some fundamental issues of macroeconomic policy.

It would appear that there are two personal qualities which any Treasury Secretary must display. The first is a total commitment to a line of analysis and a relentless pursuit of its realisation. Accordingly, those who hold this position must be hard workers. It used to be said of former Treasury Secretary Sir Frederick Wheeler that it was always easy to tell when he was on holidays—he wore a sportscoat to the office. John Stone, too, is renowned for his diligence. The second quality required for the position is that of a visionary—preferably blinkered, but a visionary nonetheless.

These may appear demanding conditions, beyond the capacity of most. But libertarian economics provides the perfect ideology through which both qualities can be displayed.
its policies are simple, so that commitment need not generate self-doubt. The market solves all problems. And its vision is precise: a self-regulating world of calculating individuals achieving their optimum self-interest. The capacity of such a theory to provide precise and simple judgments (irrespective of their foundation) undoubtedly largely explains the current great appeal of libertarian economics both within the Treasury and within the Australian economics profession generally. When economists make that one small commitment to market solutions, all explanations of history, society and politics dissolve into clear-cut and resolvable technical problems.

John Stone has made that commitment intellectually, but it has never been articulated in its purity. While he accepts and espouses the integrity of libertarian theory, Stone is also a Treasury person through and through. In his perception, this requires that Treasury exercise a major influence on Australian economic policy. Thus, Stone's career has always exhibited the internal tensions between the libertarian approach of a market theorist and the regulatory best of a loyal Treasury officer. His commitment to the Treasury cause and his vision of the libertarian society have not always pushed in the same direction.

These two aspects tell something of Stone's relationship with the Labor government. The debate at the time of the election of the Hawke government, over whether Stone should be retained as Treasury Secretary, turned out to be the wrong debate. As the policies of the government have already shown, it is not simply a matter of whether Stone was too inclined to free-market economics to advise effectively a Labor government. The issue was what aspects of regulation and deregulation are perceived to be central to economic management. The irony is that, while Stone and the government both seek to develop a blend of regulated and deregulated spheres, their specific blends are exactly antithetical: the government supporting the regulation of industry and the deregulation of finance, and Stone the opposite.

So, while Stone was retained as Treasury Secretary, the effect was that, on major issues of economic policy, his advice was ignored. For a zealot like Stone, this is worse than being sacked. His decision to retire was the only means by which he could counter being ignored and, at the same time, draw public attention to his conflicts with government policy.

To highlight this conflict, Stone poignantly announced his resignation on the eve of the 1984 budget and, soon after, made a scathing attack on government economic policy.

This attack, presented in the form of the 1984 Shann Memorial Lecture, should be cause for concern. The lecture is recognised as Stone's swan song. Its importance, however, is not just as the reflections of a central figure in Australia's economic policy formation, for Stone remains an expression of the Treasury. His speech must be understood as a Treasury polemic, unfettered by the political decorum of Westminster loyalty. With Stone gone, the Treasury line remains, and Stone, in his jumpy, stilted, public-service-style prose, presented us with an unqualified expression of that line.

The Great Depression and Now

Stone's purpose was to proclaim his abhorrence at the refusal of governments to accept the free-market truths he sees as self-evident. He chose to do this in a rather peculiar way, which proved particularly revealing of his simplistic understanding of social processes. Rather than a systematic, direct assault on government policy, Stone chose to relate Ernest Shann's economic writings from the 1920s and '30s to his own views of the present. In drawing parallels between the 1930s and prospects for the 1980s, Stone revealed his conceptions of history, recession and of the state.

The central parallel he identified was the effect of the growth of government regulation and spending in distorting economic processes. Shann identified this from the 1890s and traced its progression to the Great Depression, Stone has identified the same process from the 1960s, and his speech speculated on a comparable progression.

In Australia, where capitalism grew only under the aegis of the British colonial state, it seems an odd twist to associate state intervention with the demise of economic activity. It seems history gets rewritten so as to construct an earlier developing Australia without the state! Only the facts are changed to protect the ideology. Stone's position contends that the economy exists in itself and then the state is imposed upon it. From
this premise, the existence of the state can be only distortionary because it is constituted as a historical imposition. The explanation of why the state intervenes accordingly is reduced to the capacity of certain vested interests to gain from the state a favourable distortion of market forces. Politics — the representation of opposed social forces within the state — becomes reduced to the corruption of economic processes. Politics — the representation of opposed social forces within the state — becomes reduced to the corruption of economic processes. Yet, in seeking to rid economic processes of political determination, Stone is in fact promoting exactly the opposite. If all social decisions are made through the control of resources in the market, then economics (the capacity to command resources) becomes the handmaiden of politics (the capacity to determine the social allocation of resources).

Stone goes further than posing the state simply as an impediment to economic processes. Implicit in his parallel of the 1930s and the 1980s are the propositions that governments positively cause recessions, and, following from this, that recessions have purely national explanations.

Governments and Recession

The first proposition follows from the belief that the market, if left to itself, will solve all economic problems. The market will ensure that all resources, including labour, which seek employment will gain employment when they are priced appropriately. When there is unemployment, price will fall and demand will grow accordingly. Thus, the only explanation available for why resources might be unemployed is that government regulations stop their prices falling.

This is precisely Stone's rationale for eradicating an award wage for teenagers. The fact that such a policy would probably increase teenage employment can be used by conservatives to affirm the general proposition that a fall in wages can generate an increase in employment. The fact that the fall in teenage employment will be at the cost of increasing adult unemployment then becomes the rationale for eradicating an award wage for adults too!

For Stone, contemporary unemployment is not seen as a product of recession (indeed, he has no concept of recession), but as a consequence of inflexibility in the labour market, caused by unions and the arbitration system. Yet such inflexibility did not cause unemployment in the 1950s and 1960s. It is clearly not possible to solve the problems of unemployment by wage flexibility; for employment responds to the level of economic activity more than to the price of labour.

In this context, it is strange that Stone, in the Shann lecture, should quote favourably the work of John Maynard Keynes, author of the famous General Theory. Keynes' principal point of departure from the classical economists of the day was his recognition that economies do not necessarily stabilise at a full employment level of activity — that various forms of state intervention, such as regulation of investment and employment-generating state expenditure, are necessary in order to lift economies out of recession. Why would Stone quote Keynes as an authority? Keynes saw that the wage and price cuts of the early 1930s, designed to price resources back into the market, were associated with growing unemployment. Yet these are the policies advocated by Stone!

A more solid conservative case for wage cuts might be made by contrasting the 1930s and the 1980s — that falling prices were inappropriate in the 1930s but necessary in the 1980s. This contrast rests on the claim that the contemporary Australian economy is integrated more fully into the international economy than was the case in the 1930s. The price cuts in the 1930s brought about a cycle of falling domestic income and falling domestic demand, requiring further price cuts; the price cuts of today are supposed to make our goods more competitive in international markets, without inducing the corresponding effects of falling domestic demand. But Stone's lecture made no such case. Instead, he sought to emphasise that the issues of the 1930s are the same as the issues of the 1980s. Historical circumstances and transformations in Australia's integration into the international economy are, for Stone, either trifling or irrelevant. More to the point, they
cannot be understood. For Stone, these issues have no history: it is simply the virtues of the market against the distortions of the state.

A National or International Economy?

A further proposition from Stone's lecture is that recessions are national in origin. Irrespective of the existence of recession in other countries, Australia can avoid unemployment by ensuring a flexible, market-determined domestic economy. The possibility that capitalism may have an inherent tendency towards crisis, or overproduction, or even simply economic cycles, is ignored — or not posed. Further, Stone appears to operate with a highly simplified conception of Australia's integration into the international economy, which makes it possible for him to conceive of the fortunes of contemporary Australia as separate from the fate of the rest of the world. (Here perhaps we find the appeal of Keynesianism.)

For Stone, there appears to exist an autonomous national economy which plugs into the world economy like an electrical appliance into the mains. If the connection is clean — if domestic price responses are sensitive — the national economy works well. If domestic price responses are distorted by state intervention, the national economy fuses. There is no recognition of the possibility that, with the fluid international movement of trade, money and production, the concept of a national economy, under the control of a national government, is increasingly outmoded. Stone grossly inflates the importance of government policy in exerting effects upon capital accumulation within Australia. This, then, provides the rationale for the inflated profile of Treasury within the state.

Stone's idealisation of the entity of a national economy is also the means by which we can explain his essential opposition to the deregulation of the international movement of finance — the floating of the dollar and the issuing of the new licences to foreign banks. Despite describing, in his Shann lecture, the deregulating measures of the government as "courageous" (which is not, in itself, an affirmative description), Stone is well known as an opponent of financial deregulation. Treasury's submission to the Campbell Inquiry shows some evidence of this. It appears to be a flagrant contradiction for Stone to espouse the virtues of the free market, yet oppose financial deregulation. One explanation is that Stone's opposition derives from the desire to hold major tools of monetary policy, particularly exchange rate policy, within Treasury influence. That is, to maximise the economic power of Treasury, he has advocated the deregulation of those things over which Treasury has no control (e.g. wages), but the continued regulation of those things over which Treasury does exercise control. But this explanation is not entirely satisfactory, for Stone is more an idealist than a pragmatist. Hence, he did not seek simply to grasp every tool of policy which may conceivably be utilised by Treasury. Rather, he sought to retain or acquire control over those policies which he considers will have a positive effect in ensuring market efficiency in resource allocation. An explanation of his opposition to financial deregulation must therefore identify why, as an essential libertarian, Stone believes that Treasury retention of financial controls will facilitate economic efficiency.

The most likely explanation is his anachronistic conception of an autonomous national economy, where internal efficiency is seen as a matter separate from external relations. Accordingly for Stone, with domestic free markets the national economy puts its most efficient line-up into international competition, but that line-up requires a manager to ensure internal integrity in the international field of play. Stone simply does not grasp the point that trade, money flows and investment flows form a complex pattern which moves across as well as within national borders with relative ease. Border controls on the movement of each are important, to be sure, but this should not lead to the belief that domestic resource flows are somehow apart from international resource flows. For the understanding of resource flows, the national economy is not the obvious unit.

A focus on the national unit, and its assumed integrity as an economic entity, is the means by which Stone has inflated his perception of his own importance, as well as that of Treasury, by contending the capacity of government economic policy to determine absolutely (albeit negatively) economic performance within the national entity. The current expansion of the Australian economy, along with the US economy, despite the existence of government policies which Stone condemns, is a clear illustration of the over-exaggerated emphasis Stone gives to the autonomy of the national economy.

John Stone's demise must be seen, by his own criteria, as the ultimate expression of his lack of political power. As one with a true missionary zeal, Stone has been preaching loudest at the time when he is least believed. And the louder he preaches, the less believable he becomes. Like all missionaries, his vision of the efficient after-life has no relevance to the material conditions of the souls he seeks to save.

It must be recognised, however, that there is no point in vilifying John Stone the individual: to do so would fall into Stone's own ideology of exaggerating his importance in economic events. Similarly, we should not look to the possibility of the new Treasury Secretary, Bernie Fraser, exerting a significant impact on the Australian economy. The state of the economy does not revolve around personalities, but is determined by wider social forces within a class-divided society. In this context, Stone the individual must be understood as force. When he has laid bare his views in the Shann Memorial Lecture and in subsequent statements, he has not been advancing an "objective", technical economic analysis. He is asserting a particular ideological position about the way society should be organised. In this respect, he remains a true representative of Treasury.

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