Critics charge that 'economic rationalism is irrational'.
David Burchell is not so sure. He argues against underestimating the strength of the tradition from which economic liberalism springs.

Economic rationalism was the definitive slogan of Australian public life in the 1980s. As a prescription, it purportedly drove the policies of governments of most complexions, from the Keatingesque austerity of federal Labor through the grand illusions of WA Inc to the hard-faced managerialism of Nick Greiner’s NSW. Those who attempted to flout it—at least, this is how its adherents tell the story—were consumed in the attempt: witness the sorry end of dirigisme, Victorian-style. And even those who, like John Kerin, make no secret of their scepticism of Treasury dogma, nevertheless find themselves bound to the mast of the good ship ‘rationalism’ as it braves the Scylla and Charybdis of the current account deficit and protracted high unemployment.

Over the last few months, however, all that seems to have changed: ‘economic rationalism’ is under siege, and within its own citadel. Now the Victorian Liberal opposition has discovered that railing against ‘rationalism’ strengthens its public support in a state wrecked by industrial closures. Even Malcolm Fraser (who after all presided over the rise and rise of ‘rationalism’) now decries it as “a bankrupt attitude towards government” which will leave in its wake “a wasteland as barren as the moon”. (Sydney Sun Herald, 3.11.91)

To its more longstanding opponents, of course, the term has always been something of a swear-word. The most overused slogan of the decade from the backblocks of Left politics was the hardy perennial ‘Economic rationalism is irrational’—a valiant if ill-starred attempt to turn the very formidable sound of the term on its head. Now, however, the orthodox Left critique which for most of the 80s seemed so out of season has come back into vogue—the simplicity of its opposition to ‘economic rationalism’, once an impediment to its value in mainstream debate, now apparently a strength. Probably the most elegant formulation of this
point of view was provided by Michael Pusey in his Economic Rationalism in Canberra (the first edition sold out, and is now being reprinted). And probably the most succinct definition of 'rationalism' itself was stated by Pusey in a recent article in the Sydney Morning Herald (17.10.91):

"Economic rationalism is the dogma which says that markets and money can always do everything better than governments, bureaucracies and the law. There's no point in political debate because all this just generates more insoluble conflicts.

"Forget about history and forget about national identity, culture and 'society'...Don’t even think about public policy, national goals or nation-building. It’s all futile. Just get out of the way and let prices and market forces deliver their own economically rational solutions."

It's not difficult to see why this highly polemical critique of 'rationalism' should now at last be finding a receptive audience. It already has an inbuilt constituency in the humanities faculties of the universities, where just about every policy decision of the last decade is viewed with abhorrence. Again, the political mood among policymakers, media opinion-makers and 'educated opinion' is more anxious and less self-confident than at any time in recent memory. And in the trough of recession old-fashioned fiscal pump-priming is starting to come back into fashion—partly aided by its once arch-nemesis, Paul Keating.

And clearly the critique carries a good deal of weight. Much of the economic commonsense of the past decade has been maintained as a dogma. The prejudice against the public sector has been informed by theology rather than argument or evidence. And 'rationalists' have tended to act as if politics were an unpleasant and irrational incubus on
the supposedly superior policy-making capacity of economic logic. Perhaps most importantly, ‘rationalism’ has had little or nothing substantial to offer in the really crucial debate on the future of Australian industry.

However, I want to suggest something rather uncomfortable but at the same time, it seems to me, inevitable. I want to argue here that the point of view so ably summed up by Michael Pusey, while a lively propagandistic assault on some ideological balloons in need of pricking, is ultimately not very useful from the point of view of people hoping to make an impact on the policy debate in contemporary Australian public life. Ultimately, it seems to me, the critique serves little practical purpose other than as an understandable if ineffectual cry of horror on the part of the liberal intelligentsia against the economic-mindedness of the last decade.

This may seem on the face of it perverse. After all, if ‘economic rationalism’ is a problem, and the orthodox critique appears to offer a clear-cut alternative, why not go in to bat for it?

My answer to this objection has several parts. First, by outlining my misgivings about the ‘economic rationalism’ is irrational’ school of thought, I’m not meaning to protect ‘rationalism’ from the very sensible criticisms I’ve outlined above. Yet it seems to me that by its very nature this assault offers no handle on understanding the power and resonance of the doctrines it abhors. Again, I think the critique fails to appreciate the strength of the political and economic tradition from which the current dogma of ‘economic rationalism’ derives its sense of legitimacy. More particularly, because it rejects ‘economic-mindedness’ wholesale it is unable to engage with the real and important governmental and economic problems which ‘economic rationalism’ claims to address. Thus while it provides a good rallying-cry for critics of the present policy orthodoxy, it seems highly unlikely that its advocates will be able to shift that orthodoxy by more than just a token extent. I will explain all of these misgivings in greater detail below.

First, however, it is necessary to define what ‘economic rationalism’ actually is—or at least (and perhaps more importantly) how the term is used. One, narrow, definition is to equate it with neoclassical (or, if you prefer, ‘orthodox’) economic theory. The defining feature of this kind of economic thinking is the picture of the economy as a collection of markets all striving to find equilibrium through the mechanism of supply and demand, regulated through the price mechanism. There are a number of problems with this narrow definition which are beyond my scope here (the most important being the fact that ‘economic orthodoxy’ is far from monolithic and may be taken either to support or disprove many of the policy stances of ‘economic rationalists’). The more important point here is that the term is usually used in a wider sense, to indicate a set of attitudes, prejudices and policy prescriptions which may or may not strictly derive from the principles of economic theory.

In the polemic quoted above, Michael Pusey defines ‘rationalism’ as ‘the dogma which says that money and markets can always do everything better than governments, bureaucracy and the law’. This seems to me a succinct expression of the general current usage of the term. It also seems to me to highlight some of the fundamental problems with the popular critique and its adherents.

Critics of the record of the present federal government are wont to argue (in Pusey’s words) that “for the last eight (sic) years we’ve had nothing else” but ‘rationalism’. Clearly, though, if rationalism is defined as above this is not a very plausible picture of the record of the last nine years. Certainly, financial deregulation and the privatisation and ‘rationalisation’ of public enterprises could plausibly fit this definition of ‘rationalism’. The term fits less easily, however, such policy initiatives as the Accord; the steel, textiles and car plans; the ambitious and highly centralised Dawkins higher education revolution (whatever its academic detractors may think about it); or the various environmental decisions made since 1983. In other words, the complicated crab-like policy progress of the Hawke government is difficult to reconcile with the simple formula ‘more market good, more state bad’.

But there’s also a trickier point here, more difficult to define. Economic rationalism may well be associated with the reduction in the size of government and increasing the ‘freedom’ of markets. And it’s true that in the minds of some of its more virulent advocates this may equate with a ‘return’ to the kind of laissez faire capitalism associated with the era of the classical economists.

But this kind of fantasy is the right-wing equivalent of old-style revolutionism on the Left: a powerful mobilising force, but with absolutely no utility to practical politics. In fact, ‘economic rationalism’ can never hope to abolish the need for the kind of extensive government supervision and intervention which characterises modern-day economies across the globe.

Indeed, in certain respects ‘economic rationalism’ may require even greater exertions on the part of government to secure the many and varied reforms this form of ‘economic logic’ suggests. The tortuous and protracted progress of ‘microeconomic reform’ is an obvious example. Again, while it might be ‘economically rational’ to float the currency, it can also be seen as ‘rational’ to pursue a vigorous competition and anti-merger policy through the Trade Practices Commission—something which requires increased, not decreased, surveillance of the activities of the private sector.

Or take another, even better, example. The creation of a competitor to Telecom—labelled by many a species of privatisation—was ‘economically rational’ (at least in principle). Yet it is in all likelihood going to require a regulatory regime far more extensive and intrusive than that which applied in the old monopoly conditions. It has even been argued from the British example (see Graham Thompson’s ‘The Private Paradox’, ALR 124) that the privatisation of all public utilities like telecommunications,
gas and water tends to require a greater government involvement in those industries in a regulatory capacity than existed under public ownership.

There is, in other words, a very considerable gulf between 'economic rationalism' as a dogma or faith for the edification of its adherents, and the role it actually plays—or is forced by the very nature of its environment and subject matter to play—in public policy.

That this should need saying at all is testament, I suspect, to the pervasiveness of the Puseyesque definition of 'economic rationalism' as a narrowly economic phenomenon. Being narrowly economic, so the argument goes, 'rationalism' is incapable of understanding the broader social imperatives which ought properly to inform public policy. But this seems to me to seriously underestimate the economic and political tradition of economic liberalism, beginning with Adam Smith, of which 'rationalism' is a part. This tradition, I want to argue here, is emphatically not "either asocial or anti-social in its basic orientations to policy" (Pusey). In fact, it is less a set of economic theories as such than an 'art of government' which uses economic thought as an organising force.

Here I'm borrowing (and adapting) the term 'art of government' from the late Michel Foucault. By it I mean two things: the methods and techniques of governing a population in the modern world, but also the means of 'governing best'—the method of government which is thought to attain most effectively the ends of policy without (in Foucault's words) "provoking results contrary to those desired".

The idea of an 'art of government' was hardly the invention of economic liberalism—it dates back, in one form or another, to the classical world, and in its first modern forms to the era of Machiavelli. But the common theme among pre-liberal 'arts of government' was that they took as their datum the person of the sovereign, and his or her relation to their subjects. In this conception the sovereign was a somewhat God-like figure, whose main goal was to dispense happiness and wellbeing to his or her people.

Liberalism turned this 'art of government' on its head by shifting the focus from the all-seeing sovereign to the society upon which the 'art of government' had to be directed. And, rather than viewing society as a passive entity which the sovereign could manipulate at will, it saw society as a complex and resistant entity which often eluded or distorted the intentions of government.

Thus, rather than just being a matter of making choices— who to dispense one's largesse upon, and who not—government became a matter of method and technique. And while the traditional art of government had seen the proper reach of the sovereign as unlimited, liberalism introduced the idea of limits: "it became apparent that if one governed too much, one did not govern at all" (Foucault). Economic liberalism, in other words, became both a doctrine of government, and a doctrine of the limits of government.

The method and technique of this new 'art of government' was what we now call 'economics'; the field of government intervention was what we now call 'the economy'. Economics in this schema served two purposes. It provided a frame of reference by which to view society as a governable entity: it was a tool of government. But it also served to define the most economical means of government: it was a measure of the limits to good government. That this is still the use to which intelligent 'economic rationalists' put economics considered as a tool of government, can easily be seen by, say, a perusal of the newspaper columns of Senator Peter Walsh, with their constant references to useless forms of government expenditure, shadow bureaucracies and the like.

The neo-liberalism of our day—of which 'economic rationalism' is a species—is at once the inheritor and the transformer of this tradition. The inheritor, because it has revived the notion of economics as the technique for determining the limits of government. But also the revolutioniser, because in the late twentieth century it is no longer plausible to view the relationship of government to society through the prism of 'competitive markets'.

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Neo-liberalism thus adopts many of the essential precepts of the classical liberal ‘art of government’, but also alters them profoundly. The role of ‘economic’ government is still seen as drawing the boundary-lines of effective government—but now to restrict the level of government that already exists, rather than to establish proper boundaries where none previously existed. At the same time, neo-liberalism abandons the belief that society will spontaneously generate its own form of economic rationality—the ‘competitive market’. Now the role of government is to actually create competitive markets, against the tide of what are seen as the inbuilt tendencies of society and politics.

As may by now be evident, this account is intended to have more than historical significance. After all, the revival of economic liberalism has been a response to the crisis of the dominant art of government of the twentieth century, collectivism, and the dominant set of policy techniques of government, the welfare state. In certain respects, indeed, the art of government associated with the Keynesian economic consensus and the welfare state resembled in its ambition the earlier arts of government to which classical liberalism was a response. In the words of Tony Crosland, one of its most influential thinkers, the core of the Keynesian/welfare state art of government was the belief that

“the government can exert any influence it likes on income distribution, and can also determine within broad limits the division of total output between consumption, investment, exports and social expenditure.”

In the 1990s, as Barry Hindess has pointed out (ALR 131), this kind of optimism about the effectiveness of government policy instruments rings a little hollow. And this is precisely the respect in which ‘economic rationalism’ has staked its claim as a superior art of government to the old Keynesian/welfare state version. ‘Economic rationalists’ depict contemporary society as a tug of war of competing social interests, all vying over limited social resources. And they depict government as hamstrung in its ability to effectively reconcile those interests without recourse to economic logic.

Again, in the Australian context the postwar decades were at once the triumph of the Keynesian/welfare state art of government, and of particular aspects of it—tariff policy, particular forms of regulation—which ‘economic rationalists’ can now depict as both dominated by vested interests and obstacles to economic modernisation and transformation. In particular, ‘rationalists’ can point to the old protectionist vicious circle whereby policy instruments intended to nourish and nurture industry became in reality crutches for its inefficiency (exactly what Foucault meant by ‘provoking results contrary to those one desired’). In this context economic liberalism claims once again to be the only available art of government capable of defining the effective limits of the capacity of government policy.

Of course, all of the aforesaid is no reason for capitulation and prostration at the altar of ‘rationalism’. It is meant neither to demoralise or demobilise. Rather, it is intended to point out the scale of the problems which ‘economic rationalism’ addresses. It is no use just fulminating against a ‘narrow economic dogma’, in other words. Nor is it particularly helpful to hark back to the days of the wise Keynesian planners of yore, as if the rebirth of a lost golden age were at hand. Least of all is it useful to behave as if, in rejecting ‘economic rationalism’ wholesale, one is also able to present a complete ‘alternative’, which will somehow abolish all of the problems and dilemmas of government intervention which ‘rationalism’ is so well-designed to point out.

What is required is not a complete fully-formed ‘alternative economic strategy’ ready to spring Athena-like from the critics’ collective foreheads. Rather, what is required is a set of concrete methods and techniques for government intervention which are able to withstand the various questions ‘economic rationalism’ asks of government: what effect will your intervention have in reforming, rather than just reinforcing, the structure of industry? What kind of tariff regime (if any) will act to nourish competitive export industries, rather than simply perpetuating uncompetitive ones? How can you avoid the problem of ‘picking winners’, whereby the government becomes mired in the business failures of the private sector?

As it happens, elements of just such an art of government with a decidedly, if pragmatically, interventionist stance already exist. They exist in the form of the various experiences of ‘flexible specialisation’ and ‘enterprise networking’ both from overseas and (more rarely) at home. These techniques of intervention are admittedly more modest in their intention than the grander schemes for ‘industry policy’ writ large—but they are none the worse for that. Rather than involving the government in starting up enterprises, or rescuing ones that already exist, they require the government to facilitate, to encourage, to provide information, to enable the sharing of the experiences of individual industrial enterprises.

For those among us seriously concerned about the crucial economic problems which the economic obsession of the last decade, for all its tediousness, has rightly highlighted, this seems to me a more promising direction for the creation of an art of government which avoids the obvious practical shortcomings of ‘rationalism’ than either grand ‘alternatives’ or grand critiques. It won’t, it is true, magically increase government funding for social services to the levels most progressively-minded people would prefer. It may not allow the immediate expansion of cultural provision, or child-care funding, or ‘better cities’. It may not even form much of an inspirational base for a new, reawakened ‘nation-building’ experiment. But all of these estimable goals require a firm basis of economic growth and industrial renewal, without which they will founder. The domination of economics over our national political debate isn’t about to fade away just yet.

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