



Classical Liberalism in Australian Economics

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Classical liberalism is not a dominant tradition in Australian economics. Nonetheless, Australia has an important and underappreciated strand of classical liberal thought that stretches from the nineteenth century until today. This paper emphasises the most prominent and important classical liberals, movements, and organisations, as well as their relationship to the economics profession at large, since colonisation. Of course no survey can include every popular expositor of classical liberalism nor every academic economist who shares a philosophical disposition towards free markets and small government. Furthermore, a survey of this tradition must include not only academic economists and theoretical innovators but public intellectuals and popularisers.

Australia was colonised at the tail end of the Enlightenment. The establishment of New South Wales in 1788 as a penal colony run by the military sparked a constitutional and philosophical debate about the legitimate basis of government in Australia, a debate that to a great extent proceeded on Lockean precepts (Gascoigne 2002). Australian libraries were full of works by Scottish Enlightenment authors. Every known Australian library in the 1830s held Adam Smith's *Wealth of Nations* (Dixon 1986).

During the first half century of the Australian colonies, economics education was given privately or through the system of Mechanics Institutes that sought to raise the education of the working class. There were no formal academies of learning in Australia until the establishment of the University of Sydney in 1850 and

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the University of Melbourne in 1853. The first Australian economics publication, James Aikenhead's *Principles of Political Economy* (1856), came out of a series of lectures to a Launceston Mechanics Institute. Aikenhead (1815–1887) was firmly in the Smithian tradition. His lectures were not highly original—J. A. La Nauze (1949, 16) dismissed them as “a feeble rehash of [John Ramsay] McCulloch”—but they were certainly liberal. Aikenhead argued that “security of property, freedom of industry, and moderation in the public expenditure are the...certain means by which the various powers and resources of human talent and ingenuity may be called into action, and society made continually to advance in the career of wealth and civilisation” (1856, 40).

Australian politics in the second half of the nineteenth century was dominated by the debate between free trade and protection. Six separate British colonies were established on the Australian continent—New South Wales, Victoria, Queensland, South Australia, Tasmania, and Western Australia. Under colonial rule, the colonies had their trade policy set by the British Colonial Office. It was only after the end of imperial preference in the 1840s and the granting of self-government to the larger colonies that the trade debate began in earnest. The question was how the colonies should trade among each other and with the wider world. Free Trade Associations were formed, and the debate was waged through pamphlets and the press. The writings were peppered with references to Adam Smith, John Stuart Mill, and the British anti-Corn Law activists Richard Cobden and John Bright. There are even two towns in Victoria named Cobden and Bright.

Not all free traders were liberals. Within the labour movement there were free traders who saw protection as a tax imposed by manufacturers on the working class (see, e.g., Pearce 1903). Other free traders were social reformers, like the New South Wales politician B. R. Wise, who preached free trade and industrial regulation. Nevertheless the dominance of the free trade debate ensured that the liberal tradition remained at centre stage in colonial politics.

Except for a brief period in the 1850s, the New South Wales newspaper *Empire* ran an aggressively pro-free trade line. Likewise the *Sydney Morning Herald* was a free trade newspaper. Protectionism was advocated by the *Victorian Age* and its proprietor David Syme. Like many Australian protectionists, Syme had been greatly influenced by John Stuart Mill's argument in his *Principles of Political Economy* (Mill 1848) that industries in young countries might require temporary protection from established international competitors, an argument that was known as the infant industry argument. Given Mill's outsized profile in the English speaking world, his infant industry argument became “a familiar trump card for the protectionists” in the Australian debate (La Nauze 1949, 15).

The divide between the *Sydney Morning Herald* and the *Age* reflected the victory of free trade in New South Wales and the victory of protection in Victoria.

But as Gregory Melleuish (2009) notes, while free traders had political success in Sydney, it was in Melbourne that the laissez-faire intellectual tradition thrived. In Melbourne “free trade liberals did not have to concern themselves with the realities of wielding political power that produced the more strident ideological expression of this form of liberalism” (Melleuish 2009, 580).

William Edward Hearn (1826–1888) was Australia’s first academic economist and author of the country’s first economics textbook. Hearn was a professor of Greek at the College of Galway when he was chosen by a London committee in 1854 to be the University of Melbourne’s first professor of modern history and literature, political economy and logic—one of just four professors when the university began classes in 1855. At that time population of Australia was only 400,000. Over the next half century it rose to nearly four million in 1901.

Hearn is best remembered for his proto-marginalist *Plutology: Or, the Theory of the Efforts to Satisfy Human Wants* (1864). *Plutology* is an a priori theoretical treatise on wealth and value that begins by analysing the nature of human wants and then travels through the nature of labour, capital, innovation, exchange, cooperation, politics, and poverty. Hearn was much taken by the Spencerian idea that society evolves from simplicity to complexity. The peculiar title was chosen because Hearn felt that the traditional phrase ‘political economy’ was more appropriate to describe the art of governance rather than the science of wealth creation. Alfred Marshall described *Plutology* as “simple and profound,” and he recommended it to students as an introductory text (Moore 2002). *Plutology* was a standard textbook for Australian economics for at least a generation. Hearn, like many other Australians working on economic subjects even into the early twentieth century, was much influenced by Frédéric Bastiat. Indeed, the French economist had a disproportionate influence on nineteenth century Australian debate (Groenewegen and McFarlane 1990, 238).

Hearn’s successor John Elkington (1841–1922) has a poor reputation today. He is blamed for “retard[ing] the progress” of Australian economics through his indolence and “emotional instability” (Moore 2007, 96). But Elkington managed to keep the University of Melbourne in the free trade rather than protectionist camp—no small achievement in the midst of Victoria’s protectionist political environment. The English Fabian Beatrice Webb, passing through the University of Melbourne as part of an Australian tour in 1898, wrote that “Economics are represented by a shady old man...he is an old fashioned individualist” (Webb and Webb 1965, 88). He retired from the university in 1913. Both Hearn and Elkington had a substantial influence on the Victorian law profession, most of whom they had taught. As a consequence Melbourne University was regarded as a “breeding ground for free traders” (Goodwin 1966, 15).

The University of Sydney was founded in 1850, three years earlier than the University of Melbourne, but unlike its southern counterpart did not have a dedicated professor of economics. Nevertheless, its professor of classics and logic, John Woolley (1816–1866), and its professor of mathematics, Morris Pell (1827–1879), were both liberals with an interest in economics. For Woolley, the role of political economy was the preservation of liberty and the promotion of social harmony. Pell vehemently opposed the practice of the New South Wales government of subsidising railway construction (Groenewegen and McFarlane 1990, 49–51). Both Sydney professors had a marked influence on William Stanley Jevons, who spent the years between 1854 and 1859 in New South Wales working as the chief gold assayer of the new Royal Sydney Mint. The “basic premises” (White 1982) of what was to become Jevons’s *Theory of Political Economy* (1871) were formulated in Sydney.

One student of W. E. Hearn was to become the dominant free trader among Australian intellectuals at the turn of the century: Bruce Smith (1851–1937). Smith’s family emigrated from England to Melbourne in 1853. Smith trained as a lawyer under Hearn and was admitted to the Victorian bar. He moved to New South Wales to take a seat briefly in the Legislative Assembly before returning to Victoria to set up the Victorian Employers’ Union. Smith believed that the growing power of trade unions needed a countervailing force. He later established the NSW Employers Union. As Melleuish (2005) writes, Smith was opposed to compulsion, not to collective action.

In 1887, Smith published the most significant Australian liberal political work, *Liberty and Liberalism*. This book was a defence of “original,” “true” liberalism—the liberalism of Adam Smith—against “new,” or “spurious” liberalism, pushed by social reformers and protectionists such as Syme. In Bruce Smith’s view, a state should not tax, limit the liberty of, or acquire the property of any of its citizens except for the purpose of “securing equal freedom to all citizens.” Smith added that property could only be acquired by government conditional on the owner being fully compensated (Smith 2005/1887, 299). Having been elected to a federal seat in south-east Sydney in the first federal election as a representative of the Free Trade Party, Smith distinguished himself as a voice against the White Australia Policy, a discriminatory immigration policy favoured by both free trade and Labor politicians at the turn of the century. His stance was unfortunately rare, even among purported free traders. The parliamentary leader of the Free Trade Party, the future Prime Minister George Reid, claimed to be the originator of the White Australia Policy (Kemp 2011).

Edward William Foxall (1857–1926) was a classical liberal thinker and politician active at the turn of the twentieth century. Like many classical liberals of the time, Foxall was an advocate of Henry George’s proposed single tax on land.

Georgists were found both within the labour movement—who were attracted to land nationalisation—and among classical liberals. For George, free trade was as important as land taxation, and his arguments were readily adaptable to Australian conditions. Foxall published two books: the first, *The Claims of 'Capital'* (1895), written at the height of the Depression of the 1890s, and *Colorphobia* (1903), an excoriating attack on the White Australia Policy. One of the first acts of the Australian parliament after federation in 1901 was the Immigration Restriction Act effectively prohibiting migration by those with non-white backgrounds. The policy was only formally repealed in the mid-1960s. Despite the attention given by Australian historians to the White Australia Policy, Foxall has been largely neglected (Kemp 2011). Unfortunate similar neglect has met Edward Pulsford (1844–1919), a New South Wales free-trade economist also opposed to the White Australia Policy (see Pulsford 1905; Hawkins 2007).

Another notable late nineteenth-century liberal was the German-born economist Max Hirsch (1853–1909). Hirsch came to Australia at the age of 37, having spent the two previous decades as a commercial traveller. Once he settled in Melbourne he dedicated his energy to political activism and economic reform. Also a Georgist, Hirsch's most significant book was *Democracy Versus Socialism* (1901), which was dedicated to Henry George. *Democracy Versus Socialism* was an extended defence of free trade, laissez faire economics, political liberalism, the single tax, and natural law, and a critique of socialism.

The Depression of the 1890s delivered a blow to Australian classical liberalism. This “great scar” (Blainey 1980, 331) sparked the growth of the labour movement and pushed the colonies towards federation. When federation finally occurred in 1901, the free trade question was largely resolved. Section 92 of the Australian Constitution prohibits barriers to interstate trade. However, the intellectual environment of the time favoured protection with the outside world. It was in this period that the basic elements of what Paul Kelly (1992) influentially described as the “Australian Settlement” were constructed: centralised wage fixing and arbitration, state paternalism, discriminatory immigration policy, a close reliance on the benevolence of British imperial policy, and ‘protection-all-round.’ In the following decades, Australia's classical liberal heritage was virtually wiped out.

Faced with the abandonment of its *raison d'être*, in 1906 the Free Trade Party was reconceived as the Anti-Socialist Party, a step which facilitated its eventual 1909 merger with the liberal Protectionist Party (the “spurious” liberals Bruce Smith had been so concerned about) to form a united front against the growing Labor Party. The resulting union was to become in 1945 the modern Liberal Party of Australia.

The wilderness years

Even into the 1920s and 1930s the Australian economics profession was a small community, a “fledgling, scattered university discipline,” as Alex Millmow (2010, 46) writes. It was only until after the First World War that formal economics training began in Australia in earnest. Between 1912 and 1930, the universities of Sydney, Melbourne, Tasmania, Queensland, Western Australia, and Adelaide formed chairs in economics. Economics was seen as a practical discipline focused on public policy and statistical collection. The most prominent economists tended to have been in and out of official government positions as statisticians and advisors. L. F. Giblin described the economists that dominated the debates of the Great Depression as

...a peculiar tribe. Rarely are they nourished by the pure milk of the word. Mostly they have been advisors to governments for many years... They are frequently more practical and realistic than the business man... The word of complaint or abuse is ‘academic’; but in truth they are the least academic of God’s creatures. (Giblin 1943, 216)

The situation was fertile ground for the adoption of Keynesianism (Markwell 2000). Australian economic historians are proud to note that some aspects of John Maynard Keynes’s thought were perhaps anticipated by Australian economists, such as the multiplier (Coleman et al. 2006, ch. 5).

One classical liberal holdout was Edward Shann (1884–1935), one of the truly dominant figures of Australian economics in the first half of the century, but whose legacy fits poorly within the Keynesian mainstream. Shann was born in Hobart and studied history under Elkington at the University of Melbourne. As Melleuish (2009, 580) writes, along with the historian W. K. Hancock and Bruce Smith, Shann “can be seen as constituting a free trade counterpoise to the more protectionist and statist conception of democracy that emerged out of late-nineteenth and early-twentieth century Victoria.” Shann is best known for his magisterial *Economic History of Australia* (1930a), still one of the best expositions of Australian economic institutions and policies in the nineteenth and early twentieth century. For Shann, the story of Australia’s economic history was the story of the debate over free trade and protection—an interpretation which has been dominant among Australian classical liberals since. Furthermore, the origin of the Australian colonies in communistic military-run despotism had set the tone for Australian

politics with its reliance on state action, subsidy, and paternalism, which continued through to federation.

During the early years of the Great Depression, Shann was one of the strongest voices in favour of wage flexibility and against countercyclical fiscal policy. His involvement in the development of the Premiers' Plan—the Australian government response to the Great Depression—gave it much of its classical liberal edge. As he wrote in his collection of essays *Bond or Free?*: “This is no time for additional public works. One of our main troubles is an interest bill...on public works that do not earn interest” (Shann 1930b, 54–55). Shann’s contribution to liberalism was tragically cut short in 1935 when he died falling from an office window, an event that is still shrouded in some mystery (Millmow 2005).

Shann’s *Economic History of Australia* was one of three books published at the outset of the Great Depression that have been held in high esteem by Australian classical liberals. Another was *Australia* (1931), an eccentric and lively profile of Australian culture, politics, and political economy by the historian W. K. Hancock (1898–1988).² The third was *State Socialism in Victoria* (1932) by Frederic Eggleston (1875–1954). Eggleston was a former minister in the Victorian state government, and his book was a study of the serious deficiencies of state-owned enterprises in that state. Nevertheless, Eggleston was more disenchanted socialist than classical liberal.

These few exceptions notwithstanding, the Australian economics profession coming out of the depression and Second World War was firmly in the Keynesian mould. As far as there was an ‘official’ position from the professional economics community on classical liberal economics, it was summarised by the major interwar report on tariff protection, written by the doyens of the Australian academy:

In Australia, where practically all shades of thought are committed to some form of Government activity in the economic sphere, whether it be wage regulation or assistance to immigration, criticism of the policy of *laissez faire* is unnecessary. It will be sufficient to say rather summarily that the policy of *laissez-faire* in any country allows the natural inequalities of capacity, and the acquired or inherent inequalities of property, to operate to the fullest extent to the diminution of welfare. (Brigden and Committee on Economic Effects of the Tariff 1929, 93)

2. See also Hancock (1968), in which the author of *Australia* wonders “at the differences between then and now.”

Modern classical liberalism in Australia

After the Second World War, classical liberals were thin on the ground and the intellectual environment was hostile. Economics itself became more professionalised, and the demand for economics education at both secondary and tertiary levels grew. Within the public service, the Great Depression and the experience of war enhanced the prestige of economics graduates. So while the number of economists within the bureaucracy did not grow significantly, they assumed more influence (Groenewegen and McFarlane 1990).

The slow postwar revitalisation of classical liberalism in Australia had an origin in a most unlikely organisation: the Australian Tariff Board. The Tariff Board was an independent Commonwealth government body tasked with reviewing the tariff rates on goods and providing advice to government. It was also a breeding ground for economic dissidents and a central battleground in the struggle against Australian protectionism. Just as the Board of Customs in Edinburgh had employed Adam Smith, the Australian Tariff Board employed a bevy of free traders.

One notable member of the Tariff Board was Stan Kelly, who was acquainted with all the major economists of the pre-war era, including Edward Shann (Colebatch 2012). The Kelly family's agricultural background is significant. Australian agriculture in particular suffered in consequence of the high tariffs that were intended to protect urban manufacturing interests. Traditionally, rural voters and their political wing, the Country Party, were in the free trade camp. During the 1960s, however, the Country Party under its federal leader John McEwen formed an intellectual alliance with protected manufacturers. Stan Kelly imparted his liberal outlook to his son Bert Kelly (1912–1997), a rural politician from South Australia, who sat in the Commonwealth parliament between 1958 and 1977. A vociferous opponent of Australian protectionism, Bert Kelly was a member of the Liberal Party, rather than the Country Party, and was opposed to the latter's new farming-manufacturing protectionist alliance (Reid 1969).

McEwen, as Minister for Trade and Industry in the Liberal–Country Coalition government, had ministerial responsibility for the Tariff Board. In 1962 McEwen had forced out Leslie Melville, a former advisor for the central bank and delegate to the Bretton Woods conference, from the chairmanship of the Tariff Board, as the two had clashed over Melville's preference to reduce tariffs if at all possible (Cornish 1993). In Melville's place, McEwen appointed Alf Rattigan. Rattigan had been seen as a relatively subdued career bureaucrat, but as once appointed became one of the leading advocates for tariff liberalisation, using his advisory position as a platform to advocate against protection-all-round. Such

advocacy put him firmly at loggerheads with the government. The debate over tariffs at this time involved no small amount of intrigue. Rattigan would feed Bert Kelly details of tariff absurdities, which the latter would write up in his longstanding “Modest Member” column in the *Australian Financial Review*.

Also associated with the Tariff Board were a number of young economists supportive of free trade. In the early 1960s at Melbourne University and the Australian National University Max Corden developed the concept of the effective rate of protection, which was to become a significant weapon in the public armoury of the Tariff Board (Corden 2005). As with the trade debates of the nineteenth century, not every free trader during this postwar period would today be classed as a classical liberal. Nevertheless, it was out of this new trade debate that a broader political agenda of liberalisation and deregulation grew.

One small hub of free traders was formed in Melbourne’s suburbs: Monash University was founded in 1958 as the result of a Federal Government plan to create a second university in Victoria, and Monash became a major postwar centre for non-Keynesian thinking in Australian economics. Monash’s status as a classical liberal centre was largely due to the influence of the economist Ross Parish (Millmow 2009). Born in rural New South Wales, Parish studied agricultural economics at the University of Sydney. There he became affiliated with the Free-thought society around the professor of philosophy John Anderson, along with the young philosophers David Stove and David Armstrong and the journalist-politician Peter Coleman (Hogbin 2001). Parish did his Ph.D. at the University of Chicago and in 1959 returned to Australia. After roles at the University of Sydney, the University of New England, and the United Nations Food and Agriculture Organisation, he landed at Monash University in 1973. Parish was a micro-economist in the Chicago sense. As one colleague remarked, Parish “made micro-economics a respectable area of economic analysis in Australia” (Hogbin 2001). Parish was to be a major contributor to classical liberal institutions over the next decades, including the Centre for Independent Studies and the H. R. Nicholls Society. Another significant Monash economist was Michael Porter, whose early research was in finance, taxation, and monetary policy. He was to become highly involved in the debates over financial deregulation in the late 1970s and early 1980s.

One watershed moment in the revival of Australian classical liberalism was Milton Friedman’s April 1975 visit to Australia, which was sponsored by the Sydney stockbroker Maurice Newman. Friedman arrived at an opportune time for the dissemination of his ideas on monetary policy. Support for monetarism had been growing within the conservative Coalition opposition and had taken firm root in the Reserve Bank (Guttmann 2005). Yet monetarism was counter to the bulk of Australian academic wisdom—most economists were in the Keynesian, anti-monetarist camp—and the Whitlam government was trying to tame inflation,

which it believed was created by a mixture of excessive wage growth, global military expenditure, and predatory pricing by multinationals operating in Australia (Courvisanos and Millmow 2006). Friedman's tour lasted eighteen days and he spoke to the bulk of the business and financial community. His monetarist message was aggressively supported by the small number of sympathetic journalists of the day, particularly P. P. McGuinness and Maxwell Newton. Friedman also visited the Reserve Bank of Australia, where the classical liberal line was being pushed by Austin Holmes, head of the RBA's research department. Holmes, whom John Hyde (1989, 2) describes as "the antithesis of Sir Humphrey Appleby," was a great advocate within the RBA for floating the Australian dollar.

The next year, 1976, the intellectual cause of classical liberalism was further boosted by a visit to Australia by Friedrich Hayek. He was brought out by the aviator and business leader Robert Norman, the geologist Viv Forbes, the mining entrepreneur Ronald Kitching, and the Institute of Public Affairs (IPA), a classical liberal think tank (Kitching 2007). Back in 1950 the IPA had published an article by Hayek in one of the first issues of the *IPA Review*, its long-running journal (Hayek 1950). Hayek said the IPA had "played a considerable role in the development of my writings" (1976, 83).

By the 1980s the Liberal Party of Australia found within itself two intellectual groupings, the 'Dries' and the 'Wets.' The appellation 'dry' was first associated with supporters of Margaret Thatcher, to describe those who supported classical liberal economics. Their opponents were 'wet'—a disparaging term suggesting mushiness, a feeble unwillingness to conduct necessary reform (Hyde 2002). The development of the Dries as a political movement came in large part thanks to the efforts of academic free-market economists. One of those economists was Wolfgang Kasper, a German-born economist who had worked for the German Council of Economic Advisors and the Malaysian Ministry of Finance, and who came to the Australian National University in 1973. Kasper moved in the late 1970s to the Chair of Economics at the University of New South Wales economics department at Defence Force Academy in Canberra, where he began writing a series of essays contrasting the "mercantilist" path on which Australia's economy was travelling and an alternative "libertarian" path of lower taxes and deregulation all around (Kasper 2011). The Shell Company, which was considering new investments in Australia, invited Kasper to produce a consultancy report on Australia's economic potential. Kasper brought in four other classical liberal academics to join him: Richard Blandy of Flinders University in South Australia, John Freebairn of La Trobe University, Douglas Hocking, formerly chief economist at Shell Australia but then at Monash University, and Robert O'Neill, the head of the Strategic and Defence Studies Centre at the Australian National University. The resulting publication—*Australia at the Crossroads: Our Choices to the Year 2000*

(1980)—was the first major, comprehensive statement of liberal economics in Australia since Bruce Smith’s *Liberty and Liberalism* a century earlier. *Crossroads* argued that adopting libertarian policies “would amount to a new phase in the growing up of the Australian nation, a move from adolescence protected by a ‘Mother State’ to full maturity and self reliance in society and industry” (Kasper et al. 1980, 212). *Crossroads* was notable for extending the liberal message beyond the narrow confines of the trade debate. For example, Kasper and his co-authors called for the application of market principles to social welfare provision, drawing on Friedmanite voucher proposals.

The publication of *Crossroads* sparked organisational development among the scattered Dries that were the heirs of Bert Kelly around the Liberal Party. The so-called Crossroads group was formed ostensibly to discuss the book but was in fact the origin of a liberal campaign strategy, bringing together representatives of party politics, industry, media, and the scattered think tanks and academics. A parliamentary club—the “Modest Members Society,” after the title of Bert Kelly’s *Australian Financial Review* column—was also formed, and from 1981 it provided a platform for education and policy discussion.

Organisations

In recent decades, academic classical liberal economics has clustered around two schools, those of the Australian National University in Canberra and RMIT University in Melbourne.

The most coherent school of liberal economics in Australia has been at the Australian National University, which had its peak in the late 1980s. ANU’s economics was at that time divided between the research-only Institute of Advanced Studies and the teaching faculty, the Economics Department. It was in the teaching faculty that liberal economics thrived, led in this period by Geoffrey Brennan, Ian Harper, Peter Forsyth, and Mark Harrison. Brennan had been a co-author with James M. Buchanan of *The Power to Tax* (1980) and *The Reason of Rules* (1985), and was later co-editor of Buchanan’s collected works. The ANU undergraduate program was firmly and explicitly Chicago-style neoclassical. It was a rigorous program, with an extremely high first-year failure rate, and the program focused on both a high standard of mathematics and public policy, which was unusual for the time (Kirchner 2014).

Another significant liberal economist at ANU was Helen Hughes (1928–2013). Born in Czechoslovakia, Hughes migrated with her family to Australia in 1939 and received her doctorate at the London School of Economics in 1954. After a long period as a senior economist and economics director at the World Bank, she was appointed the inaugural director of the National Centre for

Development Studies at ANU (Shapley 2013). Hughes's research and career focused on economic development in the Pacific Island region and in Australia's indigenous communities. She was instrumental in building the case for integrating Aboriginal people into the market economy, and rejecting the welfare-led development programs and separatist policies which had contributed to the low living standards of indigenous communities in Australia's north.

In the early 1990s, however, the neoclassical cohort at ANU largely dribbled away. Harper moved to the University of Melbourne and was later appointed by the Howard Government to the Wallis Inquiry into financial regulation and the Fair Pay Commission (Australia's national tribunal which set minimum wages and awards). Under the Abbott Government, Harper chaired a review of competition policy. Hughes formally retired from ANU in 1994, and became a senior research fellow with the Centre for Independent Studies. Brennan eventually joined the ANU philosophy program.

Currently the only critical mass of classical liberal academic economists in Australia is at RMIT University in Melbourne. A major difference between the RMIT school and the ANU school of the previous generation is that RMIT is less formally neoclassical in orientation and more explicitly Hayekian and institutional in orientation. Rather than aspiring to be a 'Chicago of the South,' the preferred model is George Mason University. The leaders of this school are Sinclair Davidson, professor of institutional economics, and Jason Potts, an evolutionary economist. Both have interests outside mainstream economics, although both are highly involved in contemporary policy debate.

Academic economics publishing in Australia has been dominated by *Economic Record*, founded in 1925. Reflecting broader trends within the economics community, the journal has had a strong Keynesian and interventionist tinge throughout its history, although it has published a range of voices. In 1994 was founded the journal *Agenda*, published by the Australian National University and currently edited by William Coleman. *Agenda* has a focus on policy analysis rather than theoretical development, and it has often featured articles by classical liberal economists.

The Australian think-tank sector is extremely small compared to that of the United States. Australia has two major free-market think tanks—the aforementioned Institute of Public Affairs, and the Centre for Independent Studies (CIS)—plus a small number of specialist bodies with various emphases on research and activism.

The Institute of Public Affairs was formed in 1943. At the time, the non-Labor political movement was in disarray following the collapse of the United Australia Party; the Liberal Party would not be formed until 1944. Originally the IPA was conceived as a publicity offshoot of the Victorian Chamber of Manu-

factures. A committee of Victorian business leaders was formed, including the metallurgist and paper manufacturer Herbert Gepp, the retailer G. J. Coles, and the banker Leslie McConnan, with the aim of forming a separate organisation to represent the case for free enterprise. A paper to the committee written by Gepp's economic assistant C. D. Kemp, who was appointed as the IPA's Executive Director, put the intellectual challenge as follows:

[T]he freedom of Australian business is today gravely threatened by forces whose unswerving and rigid purpose is the entire nationalisation of industry and the establishment of socialism as the permanent form of Australian society... These forces are centred politically in the Labor Party and industrially in the Trade Unions; they are supported by an extremely powerful and growing section of public opinion. (C. D. Kemp, quoted in Bertram 1989)

The Victorian Chamber encouraged the Chambers in New South Wales, Queensland, and South Australia to form their own Institutes of Public Affairs. These were loosely affiliated, and most found less success than the Victorian body. The Victorian IPA established itself in the role of policy formulation for the interstate bodies (D. A. Kemp 1963). The New South Wales IPA eventually became the Sydney Institute, a forum for political and policy discussion.

The IPA's first major publication, *Looking Forward* (1944), envisaged Australia under a reformed private enterprise system with an emphasis on employee share ownership. Following the intellectual zeitgeist shared by the Crossroads group, the IPA then took a sharp turn in the direction of more radical classical liberalism. Throughout the 1970s and 1980s the IPA was involved in debates over macroeconomic policy, particularly on how to tame inflation and promote deregulation, privatisation, tax reform, and federalism. With a critique of Australia's bicentennial celebrations (Baker 1985), the IPA sparked what are now seen as the 'culture wars.' Melleuish (2001) argues that such culture-war campaigns illustrate a continued alliance between the "New Right," who tended to have a libertarian ethos, and the "new conservatives," who were culturally conservative and came from the anti-Labor and anti-socialist direction of Australian politics. That alliance substantively remains in Australian classical liberal institutions today.

In recent years, the IPA has been focused on industrial relations reform, regulatory policy, energy issues, climate change policy and civil liberties such as freedom of speech. As of 2014 the IPA has a membership base of around four thousand. Led by executive director John Roskam, it is the largest free market think tank in Australia and a lightning rod for opponents of classical liberalism. Notable economists involved with the IPA include Mikayla Novak and the RMIT

economists Sinclair Davidson and Jason Potts. The IPA has published many Australian classical liberals, including Melleuish, the historian Geoffrey Blainey, and the law and economics scholar Suri Ratnapala.

The Centre for Independent Studies was founded in 1976 by Greg Lindsay, a New South Wales mathematics teacher, to be a forum for classical liberal economic thought. Lindsay was inspired by the libertarian revival in the United States. In its early years, CIS focused on seminars rather than publishing and building a network of classical liberal academics. One of the first papers delivered at the CIS was *Liberty, Justice and the Market* (eventually published in 1981) by the University of Wollongong philosopher Lauchlan Chipman. In an influential article by P. P. McGuinness (1978), the CIS was described as a place “where Friedman is a pinko;” the intellectual mentors of the CIS were, McGuinness wrote, the Austrians Ludwig von Mises and Friedrich Hayek. Nevertheless, the CIS had a very Friedmanite flavour. In its early years it produced critiques of rent control (Albon 1980), taxi licensing (Swan 1983), shopping-hours regulation (Hogbin 1983), government-business relationships (Hogan 1985), and agricultural regulation (Sieper 1982). In 1984 it hosted Israel Kirzner for its first annual John Bonython Lecture.

In its first decades many of the CIS’s publications were written by academic economists. One notable member of the CIS board was Heinz Arndt, a German immigrant who had started his career as a socialist but was converted to the causes of free trade and anti-Keynesianism by the economic experience of the 1970s (Arndt 1985; Coleman, Cornish, and Drake 2007). The CIS has also published extensively the Australian liberal philosopher Jeremy Shearmur, a former assistant of Karl Popper’s and who was based at the Australian National University.³

During the 1990s and 2000s the CIS was particularly influential at framing the debate over welfare policy. The work of Peter Saunders, head of the CIS’s Social Foundations Program, on social inequality and poverty emphasised the importance of mutual obligation in welfare—colloquially known in Australia as ‘work for the dole’—and the involvement of private charitable bodies in welfare provision. In 2013 the CIS launched a broad campaign, TARGET30, which aims to restrain Australian government spending to below 30 percent of GDP within the next decade.

Outside the two major think tanks there have been a small number of organisations which have espoused liberal economics in Australia. One of the most significant was the H. R. Nicholls Society, formed in 1986 by John Stone, the former head of the Commonwealth Treasury, Ray Evans, a free market activist employed by Western Mining Corporation, and Peter Costello, then a young lawyer

3. Another notable Australian link to Popper is through the economist Colin Simkin, who was a colleague of Popper’s at Canterbury University College and is acknowledged in *The Open Society and Its Enemies*.

who was to become Commonwealth Treasurer in the Howard government. The society was focused on deregulating Australia's heavily unionised and regulated industrial relations system. The society was named after the journalist Henry Richard Nicholls, who edited the *Hobart Mercury* at the turn of the twentieth century and used his publication to criticise Henry Bourne Higgins, the High Court judge and President of the Commonwealth Court of Conciliation and Arbitration. Higgins was the judge who instituted the Australian basic wage in 1907, in a case that became known as the Harvester Judgement. Nicholls became an icon when Higgins convinced the Labor Commonwealth government to prosecute him for contempt of court. In 1986 the H. R. Nicholls Society was described by the then-prime minister Bob Hawke as "political troglodytes and economic lunatics" (Grattan 1986). But its workplace reform proposals were prescient; workplace relations was then, and in many ways still is, the next frontier of microeconomic reform. The society's longstanding president, Ray Evans, was an active institution builder, being a founding member of a number of similar issue-specific societies, including the Samuel Griffiths Society, a conservative legal constitutionalist group, and the Bennelong Society, which focused on indigenous issues.

Liberal economics has had champions within the political system. The Liberal Party harbours many classical liberals, and the party name was chosen by its founder Robert Menzies to recall nineteenth century liberalism. It may be partially by virtue of Menzies's decision that in Australia 'liberal' still generally means classical liberal, as it does in most of the world apart from North America.

The dissident Dries within the Liberal Party since the days of Bert Kelly have been variably influential. During the 1970s and 1980s they formed a powerful ginger group, with figures such as John Hyde, Jim Carlton, and Peter Shack. In recent years there has been a resurgence of liberal economic thought within the Liberal Party. A group of members of parliament adopted the name "Society of Modest Members" in 2011. Nevertheless, the Liberal Party's performance in government has tended towards big government conservatism (Norton 2006; Moore 2008). This has left an opportunity for 'microparties' professing classical liberal economics. The Workers' Party was formed in 1975. Later renamed the Progress Party, it had little success and disbanded by the early 1980s. The ideological heir of the Workers' Party is the Liberal Democratic Party, founded in 2001. The LDP successfully gained a senator in the 2013 federal election, David Leyonhjelm, representing New South Wales.

Australia today has 23 million inhabitants. There are few professional academic economists working on contemporary public policy controversies, and those who do are spread thinly among a large number of issue areas. Furthermore, the small policymaking community does not tend to use academic work to inform its efforts. Consequently, one feature of Australian political culture and policy

formulation is the relative significance of popular newspaper opinion pieces. As a result, a particularly important domain for classical liberals is newspapers such as the national broadsheet *The Australian* and the business-oriented daily *The Australian Financial Review*. *The Australian* was founded in 1964 by Rupert Murdoch as the first national daily mainstream newspaper. The editor at large Paul Kelly told a parliamentary committee in 1991 that his paper “strongly supports economic libertarianism” (quoted in Manne 2005, 60). *The Australian* features two prominent academic economists, Judith Sloan and Henry Ergas, as well as the former CIS economist Adam Creighton. *The Australian Financial Review* was founded as a weekly in 1951. It published some of the most important representatives of the Liberal Dries, particularly Bert Kelly’s Modest Member columns. A few particular editors of the *Australian Financial Review* stand out as aggressive opponents of Australia’s high tariff regime: Maxwell Newton (who went on to be the first editor of the *Australian*), Max Walsh, and P. P. McGuinness.

Successes

Australian classical liberalism has had some substantial policy successes. The first walls of the Australian Settlement came down with the 1966 end of the White Australia Policy under the conservative Holt government. From the mid-1970s to the late 1990s the Australian economy was significantly reformed, and quite frequently in classical liberal directions. The process began with a 25 percent across the board cut to tariffs under the Whitlam government, a reform which was in large part driven by economists affiliated with the Tariff Board and Monash University.

The reform era began in earnest however with financial deregulation. In 1978 the Fraser government instituted an inquiry into Australia’s financial system, known as the Campbell committee. That process was supported by the Treasurer John Howard, as well as by a few economists in the Treasurer’s office and in the Department of the Prime Minister and Cabinet. One significant Howard advisor was John Hewson, an ambitious former Reserve Bank economist with a doctorate from Johns Hopkins University. The Campbell committee recommended wholesale deregulation of the financial sector, including the abolition of exchange, capital, and interest rate controls, and the removal of restrictions on foreign bank entry (Kasper and Stevens 1991).

It was not until the election of the Hawke government that many of the Campbell committee recommendations were implemented. In the space of just a few years, Australia floated the dollar, eliminated legacy interest controls that dated back to the Second World War, and opened up the Australian market to foreign banks. Financial deregulation precipitated a broader reform movement under the Labor government, and later under the Coalition. State-owned enterprises were

corporatised and then in many cases privatised, including the Commonwealth Bank, the telecommunications monopoly Telecom, and the airline Qantas. Tariffs were reduced, turning Australia from one of the most highly protected to one of the least-protected economies in the world. With the advent of the Howard Government, industrial relations was partially deregulated. In 2000 the Commonwealth introduced a value added tax to replace a number of inefficient state and federal taxes.

The success of this reform movement in bringing about changes should not be overstated. The reforms were coupled with substantial re-regulation of the economy, albeit regulation with a different emphasis and purpose (Berg 2008). The stalling of reform momentum at the Commonwealth level can be dated with a fair degree of precision—to the 1993 Federal Election. It was in 1991 that John Hewson, now in parliament and leader of the Coalition opposition, put forward arguably the most substantial reform agenda that Australia has ever seen. The *Fightback!* package was a detailed 650-page blueprint for reform along liberal lines, the centrepiece of which was a value added tax with a 15 percent rate. Hewson had the misfortune of presenting this package in the middle of a recession, and was defeated at the 1993 election by the incumbent Labor prime minister Paul Keating. No federal election campaign since has featured as much radical policy reform, and in excruciating and explicit detail as was *Fightback!*, even while some of the policies, such as a value added tax, have been since introduced in some form. On the other side of the ledger, some of the deregulatory reforms of recent decades have been rolled back. For instance, in 2009 the Rudd government reversed some of industrial relations deregulation that had occurred under the Howard government.

Nevertheless, while reform slowed at the federal level, at the state level there was, and still is, much low-hanging fruit to be picked. A particularly noteworthy success was the Victorian movement under Premier Jeff Kennett and his Treasurer Alan Stockdale—noteworthy as much for the influence of liberal economists as the substance of the reforms. The Victorian reform movement was much influenced by the agenda spelled out by Project Victoria, a joint research program by the Institute of Public Affairs and the Tasman Institute, a small free-market think tank established by Michael Porter in the early 1990s (Teicher and van Gramberg 1999; Cahill and Beder 2005). Project Victoria outlined an agenda of privatisation, public service reform, and industrial relations reform. Stockdale, who was a member of the Crossroads group and later became Chairman of the IPA, also later credited Ray Evans with intellectual support for the Victoria reform program (Stockdale 1999).

Contemporary status

Despite a generation of reform, classical liberalism continues to be a minority viewpoint in the policy and intellectual communities.

In 2011 the Economics Society of Australia surveyed its members on their opinions about policy (Economic Society of Australia 2011). Of the 575 respondents, two-thirds had a master's degree or Ph.D. The survey demonstrated that classical liberalism is a minority view among Australian economists. The monetarist revolution of the 1970s has failed to take hold with this generation of economists: less than 40 per cent of Australian economists agree that inflation is caused primarily by money supply growth. A majority—58 percent—agreed that the free flow of capital should be restricted in order to “assist the stability and soundness of the international financial system.” However, there was also a plurality who agreed with the statement that “there would be less unemployment if the minimum wage was lowered”—45 percent, compared to 38 percent who disagreed. Forty-four percent of economists agreed that “the government should adopt policies to make the size distribution of income in Australia more equal than it presently is,” where only 33 percent disagreed. When asked whether the government ought to “provide greater economic incentives to improve diet,” 42 percent agreed while only 27 percent disagreed.

Nevertheless, until the global financial crisis of 2008 there was a rough and ready policy consensus in public economic debate. It was believed that industry assistance in the form of tariff protection was to be reduced gradually, and corporate and personal taxation ought to be reasonably low. The then-Prime Minister Kevin Rudd wrote a series of essays which contrasted his view with what he saw as the “Hayekian view that a person's worth should primarily, and unsentimentally, be determined by the market” (Rudd 2009). In a previous essay Rudd (2006) claimed the “modern Liberals, influenced by Hayek, argue that human beings are almost exclusively self-regarding.” Hayek became the *bête noire* of the Labor government's response to the global financial crisis.

In 2004 the Commonwealth Treasury quietly held a series of internal workshops that revitalised Keynesian stimulus as a policy prescription (Taylor and Uren 2010; Uren 2014). The workshops created a plan for economic policy during a recession that emphasised, in the words of Treasury secretary Ken Henry, stimulus should “go hard, go early, go households.” The cause of Keynesian stimulus was given greater impetus by the fact that the Labor government under Rudd was relatively new and feared suffering the fate of the 1929–1931 Scullin government, which had a brief and unhappy single term at the start of the Great Depression.

When the crisis hit in late 2008, it sparked a major debate over Keynesian fiscal policy. For the most part, the debate concerned the relative size and timing

of stimulus packages. The Coalition opposition, first under Malcolm Turnbull and then Tony Abbott, supported a first AU\$10.4 billion tranche of stimulus in October 2008 but opposed a second, larger tranche of \$42 billion in February 2009. Both Turnbull and Abbott have stated that they support fiscal stimulus in principle (Taylor and Uren 2010).

The Labor government under Rudd and then later under Julia Gillard was dogged by claims that the Australian public debt was out of control as a result of those stimulus packages. The public debt was a focus in the 2013 election, which Labor lost to Tony Abbott's Coalition. Yet to the extent that the debate over fiscal stimulus was won by stimulus opponents, it was won on the grounds that the specific measures chosen by the Rudd Government in the second tranche were wasteful or poorly implemented rather than on any ground about the undesirability of Keynesian policy. The fact that Australia avoided a recession has created a strong presumption in favour of the stimulus program among policymakers. In 2010 a group of 51 Australian economists signed a letter arguing that the stimulus package prevented a "deep recession" and a "massive increase in unemployment" (Quiggin 2010). The 2011 Economics Society survey revealed that three quarters of Australian economists believe that "a substantial increase in public spending is an appropriate response to a severe recession," alongside a similar result for monetary easing.

There have only been a few professional and academic economists to cast doubt on the program of fiscal stimulus. Tony Makin of Griffith University argued the fiscal multiplier is either near zero or small and that countercyclical fiscal policies have been ineffective (Makin and Narayan 2011; Guest and Makin 2011; Makin 2009). Makin (2010) held that Australia's crisis performance was largely attributable to the monetary actions of the Reserve Bank of Australia. Further significant critiques of Keynesian stimulus from a liberal perspective were offered by Henry Ergas and Alex Robson (2009), Sinclair Davidson and Ashton de Silva (2009; 2013), and contributors to a volume edited by Stephen Kirchner (2009a). Australia has also produced a liberal textbook, *Free Market Economics: An Introduction for the General Reader* (2011) by Steven Kates at RMIT University, as a response to the activist fiscal policies brought about by the crisis. Wolfgang Kasper is lead author of a significant textbook on institutional economics (Kasper, Streit, and Boettke 2012).

State institutions, particularly the Commonwealth Treasury and the Reserve Bank of Australia, dominate the market for economics graduates and have an outsized authority on economics debate. Treasury's reputation has been eroded by a perception that it has become politicised (Davidson 2013b; Costa 2009). Treasury has made some high-profile errors in recent years (Davidson 2011), and its revenue forecasting was implicated in the Rudd and Gillard government's inability to return

the Commonwealth budget to surplus. By contrast, the RBA's reputation has been buttressed by reforms in 1996 that enhanced its policy independence, reducing a longstanding belief that the central bank is the pawn of the government of the day (Bell 2004). Over the last decade it has even become common to claim that central bank independence is violated when government figures publicly question the RBA's monetary stance (Kirchner 2009b). It is instructive to compare the deference given to Australian central bankers when they appear in front of Senate Estimates hearings with the relative scepticism that the Governor of the Federal Reserve receives in U.S. Congressional hearings. In Australia, the policy pronouncements and economic forecasts of Reserve Bank governors are granted high degrees of authority in public debate.

Discussion

The best volume on the history of Australian classical liberalism is Greg Melleuish's *A Short History of Australian Liberalism* (2001). Other sources are perhaps more comprehensive, but these are also often written from a statist perspective and often hostile. The *Australian Dictionary of Biography* treats free traders poorly and characterises classical liberals as "conservatives." A typical example is the entry on Bruce Smith, which describes his classic book *Liberty and Liberalism* as "anachronistic" and his support of free trade "doctrinaire, extreme" (Rutledge 1988). The dictionary offers no entry for E. W. Foxall, even though his *Colorphobia* is one of the most powerful expressions of anti-racist liberalism at the turn of the century. Foxall's reputation was only recently revived (Kemp 2011). W. E. Hearn is somewhat better appreciated, as the first Australian academic economist. Yet the first book dedicated to his work, by Douglas B. Copland (1935), focuses more on criticising Hearn's failure to adhere to the Keynesianism of Copland's day rather than recounting Hearn's economics on its own terms (Hayek 1936). Copland's treatment of Hearn is indicative of the Australian academic attitude to the country's classical liberalism.

As I have noted, academic classical liberal economists in Australia have enjoyed clusters in four episodes: the University of Melbourne at the end of the nineteenth century, Monash University in the 1970s, the Australian National University in the 1980s, and RMIT University in first decades of the twentieth century. While the jury is of course out on RMIT, these schools did not manage to replicate themselves for more than a generation. Hearn moved into the law faculty, and while his free trade views were disseminated to the next cohort of students by his successor Elkington, this tradition at Melbourne did not survive into the twentieth century. Neither Monash University nor ANU successfully established a long term classical liberal presence. John Lodewijks (2001) points out that few

Australian universities have reputations of developing ‘schools’ of speciality, let alone self-sustaining schools. To the extent that economics faculties have a reputation for specialising in any particular field, “often that reputation is based on one very influential researcher” (Lodewijks 2001, 5)

One possible explanation for the failure to maintain longstanding non-mainstream schools, classical liberal or otherwise, is the structure of economics postgraduate study. It has been often remarked that the Australian economics profession after the Second World War became ‘Americanised,’ in terms of increasing professionalism and emphasis on mathematics and also a trend for students to prefer study in the United States over the United Kingdom. Groenewegen and McFarlane argued that Australian economics had become “a minor sub-branch of the American Economic Association” (1990, 237). But Australian Ph.D.s in economics have for the most part adhered to the British model of study. Students conclude an initial specialised degree, and at postgraduate level submit a large monograph-length thesis. Unlike in the United States, where students do extensive coursework, in Australia coursework is limited. This is in part a consequence of the relatively small size of Australian economics departments and Ph.D. cohorts: it is uneconomical to dedicate the resources necessary for coursework for few students (Lodewijks 2001). It is plausible that the absence of coursework impedes the development of longer-term ‘schools,’ as the self-directed nature of the monograph-length thesis reduces the students’ interaction with research staff and their peers. However, such institutional arrangements are changing: coursework is a growing component of Ph.D. programs, particularly in the largest universities. Also today there is an increasing tendency to recruit from the American Economics Association meetings, another practice which dilutes distinct research schools. Nevertheless, the ‘Americanisation’ thesis should perhaps not be overstated; as William Coleman (2014) points out, some of the most distinctively ‘American’ branches of economic study, such as public choice and law and economics, have found little favour in Australia (see also Pincus 2014).

Further structural features of Australian economic research of possible relevance are the dominance of public universities and the towering influence of the Australian Research Council, which provides funding for research projects and ranks universities on their “research excellence.” These rankings are non-transparent and hard to reconcile with publicly available sources (Davidson 2013a).

Whatever the explanation, classical liberalism in Australia has an outsider status in the Australian economics profession. Classical liberal schools have tended to form at relatively young universities. Hearn was brought to Australia to be one of Melbourne’s first professors. Monash University had only been established fifteen years when Ross Parish took an economics chair in 1973. RMIT University was only made a public university in 1992, and Sinclair Davidson joined in 1995. The

exception was the ANU, which was formed after the Second World War. But there the outsider status of classical liberalism was manifest as well: it was in the ANU's teaching university, rather than the more prestigious research-only unit, that the classical liberal school was developed.

The short lives of the major schools means that academic classical liberalism has found its organisational foundation outside the academy, most notably in the two major Australian think tanks, the Institute of Public Affairs and the Centre for Independent Studies. Almost all the major classical liberal economists have developed some form of institutional connection with either or both of these organisations, whether as members of staff or academic advisors. Those affiliations furthermore give classical liberal economics a firmly policy-oriented flavour, and a high degree of engagement with public debate.

Conclusion

Blainey (1966) famously argued that Australian history has been shaped by distance. To that one could add size. The character of classical liberalism in Australian economics has been substantially determined by the country's small population. While the free trade tradition of the nineteenth century was strong, it was built on an extremely shallow base. It was not until the First World War and after that Australian universities began instituting chairs in economics. As a small and young country Australia was fertile ground for heterodox economic thought—the popular appeal of thinkers such as Henry George in the nineteenth century and monetary theories like Douglas Credit during the interwar years was substantial. In the 1930s the small corps of economic academics rapidly embraced Keynesianism. The dominance of Keynesianism and a bias towards interventionism lasted well into the 1970s.

Today classical liberalism remains outside the academic economics mainstream. It is influential insofar as it has champions in politics and the press. While Australia's size has meant that schools of economics have not become self-sustaining, that same size has given high prominence to some methods of public engagement—particularly the newspaper opinion piece—that has allowed some liberal economists to have substantial influence on policy and to help make Australia a relatively free and prosperous country.

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