

Speech

Dr Martin Parkinson, PSM

LAUNCH OF THE ANU CENTRE FOR ECONOMIC HISTORY

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Let me say what a pleasure it is to be here with you to launch the new ANU Centre for Economic History. To be able to do so during the Annual Asia-Pacific Economic and Business History Conference is doubly rewarding.

When he invited me to launch the Centre its inaugural Director, Professor Tim Hatton, suggested I reflect a little on my own journey as an economist and the role the study of economic history has played in that. Acknowledging that I am an applied macroeconomist by both inclination and training, and not an economic historian, with your indulgence I might personalise the next few minutes.

As some of you may know from previous addresses here at ANU¹, I fell into policy advising almost by accident – in fact, I fell into economics almost by accident.

As a callow youth, I was perplexed by the way our economy and society operated: Why were the poor actually poor? Why did our economy seem unstable? Why did it seem the working class always bore the burden of adjustment? Why was unemployment rising? Who actually got hurt by inflation? And so on.

But being perplexed by the issues was quite different from knowing how to think about them.

Moving from country Victoria, and a Technical School, to Adelaide, and a High School, and with no prior language or history studies, led me to taking an economics course by default.

What a revelation!

¹ Martin Parkinson, "Reflections of an Accidental Policy Adviser", ANU Weekend Forum on Postgraduate Economics, Canberra, 3 August 2002; and Martin Parkinson, "What makes a good policy adviser – and is Sir Humphrey the man for the job?", ANU Weekend Forum on Postgraduate Economics, Canberra, 2 August 2003.

Here was something that seemed to offer tools on how to think about the issues perplexing me – the whole what, how and for whom was palpably real.

I subsequently went to University of Adelaide where I met Geoff Harcourt who, along with Ian McLean and Kevin Davis, encouraged me to read widely.

In fact, I came to economic history essentially from trying to better understand developments in the history of economic thought.

Importantly, the breakthrough for me was realising that the episodic lurches forward in understanding were not arising in a vacuum but were a function of people trying to understand what they could observe.

I have to admit that this gives me a jaundiced view of textual exegeses of great books, whether they be the writings of Marx, Keynes, Marshall or others. These are not repositories of all wisdom, not the literal truth about a world that is somehow frozen in time.

Indeed, I suppose I am somewhat disappointed at the emphasis on the history of economic history, rather than the economics of economic history, that seems to have come to represent much of the discipline.

It was meeting Ben Bernanke that really reinforced to me that it was the economics of economic history that provided a rich store of natural experiments and in which applied economists need to spend more time toiling.

In Ben I met someone also intrigued by what we could draw from the past that could help us understand contemporary events. In our case it was a mutual puzzling over the drivers of business cycles and how that affected labour markets which led us to wonder what lessons we could draw from the US in the 1920s and 30s to understand contrasting labour market performance in the US and Europe (and Australia) during the 1970s and 80s.

Perhaps it's a sign of recurring cycles that our work recently got a mention in *The Economist* in reference to understanding current developments in the US and Europe.

Continuing this theme, an excellent recent speech² by Mark Carney, the Governor of the Bank of Canada, and new chairman of the Financial Stability Board, highlights that we have just witnessed our generation's "Minsky Moment", with all that says about what we have forgotten, or deliberately overlooked, about the workings of capitalism, and particularly financial markets.

Similarly, it was the Treasury's serious reflection in the early 2000s on the experience and, yes, the mistakes of the early 1990s recession, along with an understanding of the implications of the collapse of financial intermediation which had its roots in studies of the Great Depression, that resulted in the philosophy of "go early, go hard, go households" that proved so successful during the GFC.

And successful it was – we estimate it saved the jobs of around 200,000 fellow Australians, with all the long-lived social and economic costs that would have entailed.

While events are never identical, if we are not aware of the past we might find ourselves forced to learn its lessons, often painfully!

Indeed, I cannot count the number of times during my IMF and Treasury career when officials of foreign governments assured me that their country was 'different' to all others so that the fundamental forces of economics did not apply. As Reinhart and Rogoff recently reminded us, they have only been matched by the number of financial market participants (and property developers) asserting "this time it's different" in the face of economic cycles,

² Mark Carney, "Growth in the age of deleveraging", Remarks to the Empire Club of Canada/Canadian Club of Toronto, Ontario, 12 December 2011.

aided and abetted by a short-term focus in the media that lauds everyone riding an upswing in asset markets as a certifiable genius.

Well you weren't and it wasn't!

As George Santayana famously stated: "Those who cannot remember the past are condemned to repeat it."

Unfortunately, in that case, it's everyone else who bears the cost.

And perhaps, even more unfortunately, the demise of teaching of economic history in Australian universities suggests we are training a generation of economists, even less capable of "belling the cat" than our own.

If the graduates of our economics departments know nothing of what went before them, how can we expect them to make sensible contributions to policy and public understanding? And if our profession as a whole cannot do that, what good are we?

We need to produce graduates who can draw on the economic challenges of the past and relate them to the challenges of today.

For example, in today's context, understanding the effects of past terms of trade booms – recognising that when mineral commodity prices rise, and are expected to remain at historically high levels for a long period, welfare will be well served by allowing resources to be drawn into the increasingly-sophisticated mining-and-related sectors, and into non-tradable sectors. Indeed, consideration of the work produced here at the ANU in the 1970s and 1980s by Bob Gregory, Max Corden and Peter Neary is fundamental to gaining this understanding.

We need people who understand that if you replace quotas and tariffs with other interventions, no matter whether to create "national champions" or to support so-called strategic industries, you are placing producer interests ahead of those of consumers, and it is still akin to protection.

And if intervention isn't focused, defined and term limited any chance of "creating" comparative advantage will disappear, and it is the poor who typically pay the ultimate bill.

The study of economic history isn't required to learn these lessons but it can help!

So where does this leave the study of economic history, and this new Centre?

In today's instantaneous media, with its reliance on sound bytes, all the incentives are to focus on the short term, to 'dumb down' the events around us.

But while tempting, it's almost impossible to draw sensible conclusions from short term isolated events, and even more so if the economists trying to do so have received an education bereft of any appreciation of what's gone before.

It's important to be able to place current events in a context – to understand how the path we've followed has defined where we are today.

It is important to be able to draw sensible parallels and lessons from the past. But also to know enough to stop mindless attempts to reinterpret today as simply a repeat of the past. In other words not all of the past is relevant for today, but if we never look backwards we risk either reinventing the wheel or being blindsided by things the public has a right to expect we should recognise.

In short, we should not overemphasise the past but nor should it be ignored – the challenge is to balance the focus on past and present to better understand both the here and now and what's likely to unfold in the future.

This new Centre can only add to ANU's capacity to understand the deep drivers of economic developments and to influence domestic and regional policy debates.

I congratulate Tim and all his colleagues and wish the Centre great success for the future.

Thank you.