

WORKING PAPERS IN ECONOMICS

ECONOMISTS, THE STATE AND
THE CAPITALIST DYNAMIC

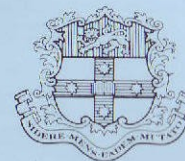
by

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No. 155

JANUARY 1991

DEPARTMENT OF ECONOMICS



The University of Sydney
Australia 2006

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Abstract

The State exists predominantly as an aberration for the economics profession. The 'private interest' theory of the state offers a relatively explicit and coherent model but it is doomed by its basis in methodological individualism. A burgeoning literature of the capitalist state is being produced by political sociologists and historians. It demands attention from 'policy-oriented' economists, whose own vision has been constrained by an anglo-american ethnocentricity. Two propositions are of major relevance. First, economic policy is the product of a (nation-based but globally-centred) cluster of institutions, or policy network. Second, the State is a (relatively) autonomous actor both directly in the construction of policy and indirectly in the shaping of political consciousness and actions within civil society. These debates are relevant to the current debates regarding Australian economic reconstruction.

National Library of Australia Card Number and ISBN 0 86758 165 7

CONTENTS

	Page
I. The Skirmish over the State	1
II. The State as Aberration I	2
III. The State as Aberration II	5
IV. Sources of the Anglo-American Prejudice	8
V. The State and Capitalist Development	10
VI. The Nation-State and the National Economy	14
VII. The Institutional Framework of (Economic) Policy I	18
VIII. The Institutional Framework of (Economic) Policy II	22
IX. The Australian Peculiarity	27
X. State Autonomy	31
XI. Industrial Dynamism and Accountability	39
XII. Conclusion	42
 Addendum	

I. The Skirmish over the State

The State has come in for nothing but bad press from economists in the last fifteen years. It has been labelled as overblown, innately inefficient and corruptible. It has been blamed as the central cause of the economic crisis, and subject to persistent calls for its diminution.

The contrasting ideal is rarely discussed. Occasionally, Adam Smith's list of appropriate duties is mentioned glibly (external and internal security, public works), but the cut-off point for each of these duties is so nebulous as to render Smith's nostrums relatively useless. In any case, implicit in the ethos of the recent attacks is the minimalist ideal - the Night-watchman State of Herbert Spencer, characterised not unfairly as 'anarchy plus the constable'.

This pervasive misunderstanding of the state's role has occasionally been countered by dissenting opinion emphasising the integral role of the state in capitalist development. The dissent is sometimes couched in terms of 'what happened in history', but more typically in terms of 'what happens overseas' (e.g. Jones & Stilwell, 1989).

This dissent has in turn been met with a barrage of counterpropaganda reproducing the conventional wisdom - that the 'market economy' operates under the same principles everywhere, that the laws of market competition are inexorable, and that the role of Government has been universally counter-productive. The regular economic journalists in the daily press are the dominant shock troops of conformity, but their ranks are swelled by the defenders of the faith in the elite sections of the bureaucracy (Treasury, Industry Commission). A softer version holds that government might play a major role in immature economies, but that

1. This paper is a modified version of a paper delivered to the 19th Conference of Economists, Economics Society of Australia, University of New South Wales, 24-27 September 1990.

role self-destructs as the economy is brought to maturity (e.g. Garnaut, 1989; Porter, 1990).

The controversy has recently consumed more paper with the expanding number of participants. The 'dry' side has been augmented by a plethora of right-wing libertarian think tanks. The 'wet' side has been augmented by a more ideas-conscious union movement, especially within the Metal Workers and the public sector unions, and by a reconstructed Australian Manufacturing Council.

The forces of conventional wisdom could be said to have held their own, less for the force of their argument and more for the superiority of their resources and their place in the battlements of real power. In sum, the status quo prevails on the ideological front, if somewhat on the defensive.

II. The State as Aberration I

With this ideological background, (English-speaking) economists are perennially ill at ease in the presence of the state as conceptual subject. The State is an *aberration* for economists, and their attempts at interpretation are perennially inept. Some examples are in order.

1. Linguistic conventions strangle intelligent thought. The pervasive use of the label 'intervention' to describe the activity of the State in capitalist societies reflects perfectly the distorted nature of economists' understanding of the capitalist state. The tacit presumption is that there is an independent sphere of activity called the 'economic'; and that government is 'outside' this sphere, and its role in this sphere is 'unnatural' and 'distorting' (Jones, 1984). Within this contrived dichotomy of 'economic' and 'political', respectable economic opinion consistently presumes a polarised agenda - the objectivity and rationality of the former contrasts with the corruptibility and inefficiency of the latter. Language also imparts an implicit causality - the concept of 'market failure' presumes the ontological primacy of the market as a social institution. 'Government'

exists as an afterthought on the margin to smooth the rough edges of this supreme impersonal mechanism for social coordination.

ii. Historians of economic thought have not provided an adequate textual exposure to the development of the capitalist state and its conceptualisation. For example, Terence Hutchison, the noted methodological historian, is no libertarian. Yet, in his recent *Before Adam Smith*, Hutchison has great difficulty with contemporary economists' conception of the state, using mid-twentieth century labels in interpretation (Hutchison, 1988). For example, the Scot James Steuart's support for the State's role in various activities is labelled as 'interventionist'. For this thoroughly natural contemporary position, Hutchison feels compelled to deny that Steuart was a "thoroughgoing totalitarian *dirigiste*" (p.347). Steuart's views were influenced by his long residence on the Continent; regardless, to consider any pre-twentieth century philosopher as having 'totalitarian' leanings involves a bizarre wrenching of idea out of historical context.

Similarly, a recent workshop on the history of economic thought had as its motif the origins of the idea of laissez-faire (Sydney University, 23 February 1990). The treatment of the contemporary state was in the 'gee whizz' mold, for lack of an adequate conceptualisation. The problems arise because of an apparent juxtaposition of an abstract 'other' state against an abstract universalised market economy. More fundamentally, problems arise because of acceptance at face value of the orthodox exegesis of liberalist philosophy which obscures a class- and gender-based concept of liberty in universalist language (liberalism dressed up as anarchy). The corollary is the perennial failure to observe, leave alone analyse, the active state in the construction and defense of 'bourgeois' liberty.

iii. Economic historians are also not immune from the simple abstractions of economic theorists. Noel Butlin has characterised the role of the Australian colonial states as an exercise in 'colonial socialism' (Butlin, 1959). Whatever the motives of Butlin (serious or tongue in cheek?), the label has entered the public consciousness as the

definitive conceptualisation of the period. In the conventional wisdom, such an active role for the State could not possibly be synonymous with capitalist ascendancy, so it has to be labelled as its antithesis.

iv. Western commentary on the recent catharses within the Eastern Bloc has been couched within the black/white polarities of market economy versus command economy, assumed paralleled by the black/white polarity of democracy versus totalitarianism. This is the language of the mainstream US social sciences, an ideological product of cold war hostilities. The inhibiting effect of these polarities on intelligent thought is reflected in the oft-stated conclusion that the decay of the eastern bloc is proof of the dysfunctional role of the public sector in market economies. Again, the presumption is that the strong state exists only on the other side of the divide.

v. In its myriad publications on member country policies, the OECD has great difficulty with the role of the capitalist state. The OECD has fostered a growth industry in comparative taxonomies of the instruments of government industry support, especially during the period of economic difficulties in the last fifteen years (c/f OECD, 1990). The presumption is that such support is innately conducive to hindering rather than assisting productive restructuring. The object of the empirical studies is to provide broad exposure to the nature and extent of such policies as a means to their eventual elimination. It is also presumed that pervasive government support for industry appeared only during the 1970s crisis, and that the golden years of the long boom were the product of market forces (OECD, 1987). Nowhere in the substantial OECD literature on industry policy is there an appreciation of the role of such structural policies in the construction and maintenance of the long boom.

vi. The strength of libertarianism in the current ideological milieu in English-speaking countries is well-represented in the scapegoating of the public sector as a key source of the current economic malaise. This is embodied in the push for privatisation, deregulation, and the resurrection of the age-old 'crowding out' thesis.

The tangible influence shows in the incorporation of the 'crowding out' thesis as a key plank in successive Hawke Governments' agendas.

In these examples, the State is seen as an aberration; its role in capitalist society cannot be apprehended. This incapacity is perhaps best reflected in the inability of economists to conceive of the institutions of the state in their totality. The label 'the state' is not in the economist's lexicon - there is no entry in the recent definitive New Palgrave dictionary; a subsidiary entry, the 'economic theory of the state' is written by a radical political sociologist (Jessop, 1987:75). The label 'government' substitutes where necessary, but it is an impoverished and inadequate replacement.

III. The State as Aberration II

The vast silence on the state has long been tolerated. The gap has been filled uneasily by some notion of an organism as the embodiment of the general will (or at least the will of the *intelligenstia*). The idea has typically been tacit rather than explicit, but it has certainly been assumed to be beyond the economist's responsibility. This vision of the state has played an important role in any arena with 'policy implications' - in particular, welfare economics, the trade practices field in industrial organisation, and Keynesian macroeconomics.

In these arenas, the state has been interpreted as a *deus ex machina*, expected to fulfil the economist's logically deduced expectations of it. That there might be a deviation between actual policy and the ideal might be loosely interpreted as a weakness of will, or the result of inadequate information; but a coherent interpretation of the deviation is a problem for other disciplines.

This arbitrary narrowing of the economist's subject matter proved to be too uncomfortable for some. Out of this discomfort came a conscious theorising on this neglected subject. The result was the 'private interest' theory of politics. This theory, in conjunction with a normative counterpart (the theory of constitutions), has been constructed into a theory of 'public choice' (Buchanan, 1987; Tullock,

1987), given the imprimatur by the profession with the granting of the 1986 'Nobel' Prize to James Buchanan.

This development constituted an improvement on what went before, as economists now theorise about the *process* of economic policy-making. Yet the approach is innately limited. The methodological underpinning of the theory is that of a self-conscious 'methodological individualism' - the rational, autonomous individual as the basic unit of society (c/f Buchanan, 1987:223). The theory views the state as an extension of the idealised market, an arena in which the log-rolling of interests substitutes for the trade in goods, to be theorised with the same intellectual toolkit. This is merely another manifestation of that disciplinary imperialism which generated the rational person's approach to marriage, crime and life after death. That there has been pervasive dissent regarding the utility of this toolkit on its home base has not dampened the enthusiasm of its admirers for its application further afield.

Within this tradition, the theorisation of individual behaviour remains ungrounded in any historical social process. There can be no detailed discussion of the nature of interests and beliefs, and no theorisation of their origins and evolution. Moreover, to ground the theory in empirical detail would involve an immediate threat to its conceptual purity. For example, the theory might be helpful in interpreting why the bureaucrat adheres to a contemporary conventional wisdom in the pursuit of his/her career, but quite unhelpful in explaining how that conventional wisdom is constituted in time and place. The absence of a social grounding is tangibly manifest in one much-applauded attempt to apply the 'private interest' theory to the historical process - Mancur Olson's *The Rise and Decline of Nations*. Olson's interpretation of country-specific economic performances after 1945 borders on the cretinous (Olson, 1982:Ch.4), and reflects an intellectual baggage hopelessly inappropriate for the chosen subject matter.²

2. A much superior work to Olson's is the indigenous *Government and Capitalism* (Butlin, Barnard & Pincus, 1982). This work also depends

Whereas there are occasional flashes of insight in the private interest theory of politics, these must remain closed to greater coherence and development by the predilection for abstract disembodied reasoning. Tullock's claim for a "...new theory of politics which is more rigorous, more realistic, and better tested than the older orthodoxy" (1987:1041) constitutes an appalling lack of perspective on an essentially apriorist intellectual tradition.

Regardless, this conceptual orientation has generated tangible outcomes in the well-funded thrust to 'apply' this purist theory in the contemporary restructuring of 'government' in Australia. For example:

"Scholars such as Hayek and Buchanan and many others, have set out, quite powerfully, arguments as to *why* the rule of law and the role of contract has primacy in arrangements facilitating efficient market outcomes, which, in turn, enhanced the well being of the community. This then constitutes the first and most basic rule - *law, not bureaucratic and political decision-making should predominate wherever possible*". (Freebairn, et.al., 1989:12)

Once again, this same contractarian vision remains disembodied. It is oblivious to the historical contingency and evolution of the specifics of 'rule of law' philosophy (c/f Fine, 1984). It is oblivious to the distinction between word and deed - between philosophical ideal types and historical politics. Thus Locke, that champion of liberty, could actively pursue both the dehumanisation of the underclasses and the destruction of the Irish woollen industry. Liberty is too precious to be wasted on the undeserving.

The vision is oblivious to the historical unfolding of the law at work. Thus, the joint-stock corporation could transform a powerful organised collectivity into an 'individual' at the flick of a legal

heavily on the 'private interest' theory of the state, strikingly manifest in the acknowledged conceptual heritage (p.345). However, the authors' prior grounding in the details of economic history adds flesh and complexity to what remains a restrictive conceptual orientation.

wrist, a fudge of no small magnitude. The law has further been a mid-wife, not to the employer/employee relation as voluntary contract (Parsons, 1986), but to the incarceration of wage labour within a master/servant hierarchy (Merritt, 1982). Law that is formally equal has been unequally applied, not least against wage labour (c/f Walker, 1976:Ch.2); law has been constructed unequally; and access to the law is unequal. Finally, the law has accommodated one half of civil society (the female of the species) only under the most extreme duress. The 'rule of law', in abstraction, is humbug.

Within this contractarian tradition, the contemporary state looks like a gigantic irrationality and a heinous corruption imposed on 'society' by the incessant demands of vested interest groups. The tradition has provided the rationale, on apriori grounds, for the contemporary economic agenda of 'crowding out', deregulation, privatisation, and so on. By these fictitious standards, the economics profession understands neither the growth of the state nor its contemporary dissembling.

IV. Sources of the Anglo-American Prejudice

What are the sources of this provincial cultural tradition? First, there is the hegemony of the English language in Anglo-American scholarship. Though this appears natural, it was not always so. Up until at least World War I, French then German were major international languages of scholarship. Though the impact of German on the English was circumscribed, its impact on the nascent intelligentsia in the U.S. was profound.³ The First World War and Nazism substantially impaired access to a Continental orientation via the German language. Ironically, the influence moved in the opposite direction - European emigres, especially centred on the 'Austrian' school, moved to embrace the Anglo-American *weltanschauung*. The attraction of the formalism of mathematics reinforced the indifference to linguistic (and cultural) pluralism. The

3. A striking manifestation of this impact was the construction of an indigenous 'Institutionalist' School, inspired in part by the orientations of the German Historical School.

strident methodological individualism of Anglo-American scholarship has remained ever since.

Second, the 'history of economic thought' and 'economic history' have not played an appropriately critical role. These are precisely the sub-disciplines who claim for themselves a breadth and detachment. On balance, they have succumbed to the preoccupations of the theoretical core, paying tribute to the great historical unfolding of individual initiative and the laissez-faire ideal in word and in deed.

Third, insofar as there has been an historical orientation to economist's concerns with the State, the emphasis has been on the experience of Great Britain and the USA. The role of the state in other country's development is more transparent, but this has been treated as unusual because of the 'lateness' of development within those countries (Gershenkron, 1962). The presumption has been of a minimal state and a laissez-faire tradition in these countries, representing both an ideal and a previous golden age against which all future governments should be judged. However, the active role of the State in both British and US development has been ignored by economists and even marginalised by economic historians (c/f Pollard, 1989:214).

In particular, the British attachment to 'free trade' is a product of time and place. Free trade benefited Britain and *freer* trade benefited the US at particular phases of their development - precisely at their zenith in the global political economy. The long-term attachment to free trade in Britain is a product of two complementary factors - the City of London's pivotal global role in commercial and financial arbitrage (Ingham, 1984); and the fact that the tariff question referred to *foodstuffs* and not to manufactured products, thus ensuring popular support (Newton & Porter, 1988). Free trade is not axiomatic, and its global extension depends upon a rare conjunction of circumstances. In the broader scheme of things, it reduces to merely

another weapon in the battle for economic supremacy (Jones & Stilwell, 1989).⁴

V. The State and Capitalist Development

The State has been an *integral* element in the construction, consolidation and reconstruction of capitalist societies. The 'small government' of the libertarian literature is an impossible ideal. Recent governments which have been formally libertarian in philosophy have not significantly reduced the role of 'government'; they have merely changed its character. The real conflicts are fought over the character of the State, rather than its size.

The long march of the European (nation) state begins with the rise of absolutism (Anderson, 1974). The motivation for the monarchy in the centralisation of authority over the nobility was primarily military, but the mercantile and commercial elite hitched their wagons to the ascendant force (Mann, 1982;1988). In England, this uneasy coalition spawned mutual benefits, but with continuous conflict over the balance of power. In the protestant constitutional monarchy which followed the civil war of the 1640s and the 1688 revolution, the 'Whig ascendancy' took root in Parliament. The 'fiscal-administrative' State which ensued produced an unprecedented efficiency in the raising of tax revenue, the basis for the pursuit of power and wealth abroad (Brewer, 1989). This provided the vehicle for the flowering of British mercantilism. The Dutch, the French and Spanish were reduced in the pecking order. While the tenant farmer, the artisan and the shopkeeper (would-be entrepreneurs all) were busily improving their wares, British capitalism took off under the convenient assistance of the Navigation Acts and the British flag.

4. So it is that the Reagan administration should find itself interested in a scrap with the Japanese in the form of various trade barriers on imports of Japanese products. The ready development of 'strategic trade theory' (pouring new wine out of old bottles over a very wet theory of comparative advantage) provides a convenient intellectual rationale for the reconstructed policy thrust.

At home, the State was called upon to oversee the construction of 'the market' and its attendant *commercial* liberties. Foremost for these liberties is the phenomenon of wage labour, requiring an elaborate institutional structure of both coercion and legitimacy. To quote Corrigan and Sayer:

"This contradiction illuminates how it was possible for exactly the same years to be marked by a state formation of a greater extent than at any period previously, and to be celebrated as *laissez-faire*. State intervention [sic] enabled, accomplished, stabilized, regulated into dominance that market on which *laissez-faire* theory depends. The government could be oriented to the rights of property, the laws of the market... whilst 'the State' was actively and very intensively engaged in stabilizing that form of and those relations of society without which capitalist production could not be realized." (Corrigan & Sayer, 1985:118)

At the turn of the nineteenth century, the philosophers were extolling Smith's invisible hand. Under the cover of war, the mailed fist of the British State was being brought to bear against the lower classes with increasing severity and bloody-mindedness (in which benign conditions the colony of New South Wales was born). The spirit of the age was embodied in the subjugation of Ireland by the 1800 Act of Union. Behind an expanding part of the nineteenth-century parliamentary agenda (including the conflict over free trade) was the bleeding sore which was Ireland, a doorstep reminder of the illiberal essence of British colonialism.

The War was followed by a rationalisation of the State's finances by a coalition of Treasury, the Bank of England and the City of London; this generated an enforced deflation and set the scene for a central tendency in economic policy that survives to this day. Whereas the machinations of this financial troika signified government at arm's length, they also generated class tensions which required State activity in other arenas. In detail, the British State was further called upon to mediate between economic sectors. It faced a long threat from the craft-based intelligentsia who, quite reasonably, wanted the vote and control over their working lives. It faced a long threat from the masses who wanted bread at reasonable prices. It faced rising pressure to

ameliorate a range of debilitating effects of the 'unregulated market' that weren't in the textbook.

The 1850s ushered in a golden age of sorts, with the abolition of the corn laws and the navigation acts, and the later modernisation of the civil service. Britain led other key countries onto the Gold Standard in the 1860s. However, the Tories had already been responsible for factory and mine acts and labour laws. At precisely the same time at which the liberalist agenda was being enacted domestically, it was also being moderated and transformed (c/f Pollard, 1989:220). Foreign policy reposed with the reactionary Whig Palmerston until 1865, during which time barbarism in India and China proceeded apace. The golden age, upon closer inspection, appears somewhat tarnished.⁵

By the 1870s, the more extensive cropping of the great plains of several continents, and the application of new techniques brought increasing global capacity in both agricultural and industrial products. A similar increase occurred in the infrastructure of transport, finance and administration in moving goods and people globally. General over-capacity was conducive to depression, deflation and disruption; this deterioration was nicely compounded by the army of hustlers and incompetents that accompany every material advance in economic activity, but never make it into the textbooks. Competition brought not merely selective affluence but inevitable disruption; and disruption inevitably brought an enhancement of state activity (albeit, in the British case, this did not involve direct support of industry). Competition and corporate malfeasance rendered dysfunctional the original facilitative intent of companies legislation, in turn generating an increasingly complex and extensive regulatory structure from the legislature and the judiciary (McQueen, 1990).

5. An increasing range of State activities might conceivably be defended as being within the agenda of liberalism (c/f Crouch, 1967). The problem is that the ideal type of the liberalist State is so vapid, being unhistorical, that the prevailing attempts to distinguish liberalist from non-liberalist State activities have so far proved unenlightening.

Commerce and industry brought the press of humanity into denser cohabitation, in turn requiring state action in urban infrastructure. Through all this, the press of the lower classes for representation and a share in the good life saw the representatives of the State harassed into action. Such action was first of a repressive nature, but increasingly of a legitimating character. The threat of organised labour in the industrial, political and cultural spheres galvanised intelligent conservatives into action. The daily experience of a thriving feudalism in the workplace coupled with more intermittent experience of depression and war entailed that the administration and costs of legitimation would continue to expand. Thus the expensive infrastructure of a socialising educational system was put in place. The paraphernalia of a contrived patriotism was erected. More expensively, the welfare state was born, and grew and grew.

Global depression enhanced global rivalry which culminated in two World Wars of staggering severity. World War showed starkly what the state could do in the so-called free market economy and, to winners and losers alike, a ratchet effect prevailed that contributed to the creeping ambit of state powers. When hot wars were not being fought, cold wars were stoked to keep the range of state activity on the boil.

A permanent feature of this long march is that the State is the nexus for the mediation of international rivalry in a system of States. Capitalism was forged symbiotically with the development of the nation-state in Europe. In principle, *no* 'economic' activity can be adequately understood unless contextualised within this historically-based system of States. On the other hand, the actions of 'governments' cannot be analysed from a purely economic stand-point. To quote Jessop:

"The state's economic role is always affected by its other tasks. These include its own organisational reproduction, maintaining domestic political order and territorial integrity, and defining and interpreting national unity. Thus economic policies are typically inserted in more general political strategies and influenced by political and ideological struggles." (Jessop, 1987: 76);

and again:

"States necessarily stand at the intersections between domestic sociopolitical orders and the transnational relations within which they must maneuver for survival and advantage in relation to other states. The modern state as we know it...has always been, since its birth in European history, part of a system of competing and mutually involved states." (Skocpol, 1985:8)

For example, it is generally recognised that Germany and Japan achieved more rapid industrialisation with the assistance of the State. What is not typically confronted by economists is that industrialisation was a *vehicle* for the maintenance of the integrity of the State and of the reproduction of a pre-industrial social structure, modified to incorporate but not usurped by 'bourgeois' interests. Here are economic means at the service of political ends. The industrial development of Taiwan also falls neatly into this category (Amsden, 1985). Indeed, in this process it is observable that a state structure still operating predominantly on absolutist lines turned out to be a very effective vehicle for industrialisation.⁶ The two processes of the 'market' and liberalist political structures are not indissolubly linked, as the long polemic of liberalist philosophers would have us believe.

VI. The Nation-State and the National Economy

There *is* a 'national economy' and it can be examined singly and comparatively. To confront the national economy involves, of necessity, confrontation with the state as an economic 'actor'. The nation-state and the national economy are intertwined. Capitalism took off under the umbrella of ascendant nation states and, in spite of its globalising tendencies, has remained nationally compartmentalised ever since. The breakdown of empire spawned the widespread copying of the Western European model (Nettl, 1965). The nation-state and the national economy, however incoherent, spread through the remnants of empire.

To label the State as an economic actor is not to add it to a homogeneous list of organised collectivities vying for influence in the

6. C/f Blackburn & Eley, 1984:Ch.IX, for an elegant statement on the German case.

market place. The State is constituted in a unique arena, and has to be understood *structurally*. A definition by Alfred Stepan appears appropriate:

"The State must be considered as more than the 'government'. It is the continuous administrative, legal, bureaucratic and coercive systems that attempt not only to structure relationships between civil society and public authority in a polity but also to structure many crucial relationships within civil society as well". (quoted in Skocpol, 1985:7)

The nation-state has become more instrumental in its authority with the long-term decline of the element of 'sovereignty'. Nevertheless, it retains the monopolisation of authority and power. In this context, one can refer reasonably to various levels of institutionalised authority and power. One can refer to the nation-state, and to states/provinces within a federalist structure. In addition, the evolutionary change within the European Economic Community does not negate the relevance of the state as an economic actor. There is a reformation of the EEC-wide State, within which the role of nation-states is transformed (albeit with diminished autonomy). In what follows, reference will be predominantly to the 'nation-state', bearing in mind that the generalisations are applicable with modification at other levels of political organisation.

Nation-states possess a distinct monetary unit and intervene necessarily in the level of the exchange rate with other currencies. They are the subjects of accounting systems, however imperfectly devised and interpreted, which inform and channel considerable activities of the nation-state as economic actor. Nation-states represent spatially-oriented political electorates in the field of global competition for resources.

Clearly, nation-states do not comprise homogeneous and economically equal citizens - they are not unitary economically or culturally (c/f Mann, 1986). States do possess a degree of coherence which justifies their use for analysis, but this exists in the political sphere. States represent *political* constituencies. There is an *economic*

arena delimited by this political constituency, but it does not necessarily possess coherence in economic relations; indeed, the likelihood is that 'economic' coherence is absent (Canada presents a striking example). One can reasonably talk of a 'national economy', but it has to be understood as politically constituted.

Much Macroeconomic modelling, especially that of a Keynesian persuasion, has been criticised for its implicit dependence on the concept of a national economy. However, the weakness (especially in syllabus incarnations) lay not in it being nation-based per se, but in the national economy being considered autonomously from its global context. 'Open economy macroeconomics' has introduced the global context explicitly, but reduced the significance of the nation-state as economic actor. In addition, the nation-based Keynesian model was always weak because the State itself remained elusive - a *deus ex machina* outside the system.

To grasp the concept of a 'national economy' necessarily requires a multi-disciplinary perspective. At the level of state activity, there is no pure economic motivation. The State's economic actions are *strategic* - most classically reflected in the construction of nation and national economy per se (Germany, Japan, etc), but also reflected in the contemporary global economy in foreign economic policy of major industrialised nations (c/f Katzenstein, 1978).⁷

If the 'State' has been obscured in economics, it almost disappeared in politics and sociology (Krasner, 1984; Skocpol, 1985). Mainstream (and, later, Marxist) scholars saw the political sphere as a mere reflection of the conflicts within civil society - political outcomes as the 'resolution of a vector of social forces'. In the 1970s, a massive output from Marxist scholars attempted to redress the lacuna,

7. The irony is that the subject of 'foreign economic policy' has been considered of sufficient importance that a separate discipline, the political economy of international economic policy, has been constructed for its analysis. Economists have generally not considered this discipline worthy of attention, even though its ideological centre of gravity is inoffensive.

but (save for Marxist-inspired historians in England and France), this work remained overly abstract and mechanical.

It has fallen to new groupings of political and historical sociologists, historians and political scientists, working at the interstices of disciplinary boundaries, to attack the subject of the capitalist state in a more comprehensive and historically-specific manner. They have drawn inspiration from a handful of toilers from previous generations (Barrington Moore, Walter LeFaber, Ernest Gellner, William McNeill, Victor Kiernan, Perry Anderson), but have responded belatedly to the continuing policy differences emanating from within Europe and from the USA. The seminal comparative work by Katzenstein (1978) on foreign economic policy-making, for example, used as intellectual catalyst the differential national responses to the 1973 oil price 'shock'. More fundamentally, the dominant 'ideal types' have so persistently generated anomalies that pressure mounted for basic analytical structures to be scrapped or modified.

There are several optimistic elements in this re-orientation. First, much of the ensuing work has been inhibited by its origins in disciplines immersed in the 'pluralist' conceptual paradigm, but the conscientious and directed pursuit of national-comparative and historical detail has been compelling.

Second, the scholarship transcends disciplinary divisions (though with the continued absence of economics). Third, there is a healthy interaction across ideological divisions within disciplines. Fourth, the research is massive in scope. Apart from a number of prolific individuals, the new interest in the State has been cemented in a range of academic groupings.⁸

8. Key groupings are Harvard University's Center for European Studies; the Committee on States and Social Structures, a body of the US Social Science Research Council; the Patterns of History Seminar at LSE; the European Consortium for Political Research project, linked to the British-based Journal of Public Policy, and represented in the Francis Castles literature; the Comparative Public Policy Project at Cornell University; and so on.

The orientation of this new research agenda is an examination of the process of policy-making on a cross-national comparative and historical comparative basis. In this way, one's understanding of why and how specific policies are produced in particular countries has been greatly enhanced. Though the conceptual underpinnings of this work vary, the work is consistently based in the material process of policy formation, with some openness to refinement of the conceptual models in the light of the empirical detail. The orientation of this work is pursued in the next section.

VII. The Institutional Framework of (Economic) Policy I

The idealist vision of the State as the embodiment of the general will (pre-dating the libertarian 'private interest' vision) was discussed above. This vision was taken on board in the era of Keynesianism, leading sympathetic economists to impart to the economic policy process a degree both of rationality and of universality that is undeserved. In particular, the post-1945 long boom has been widely attributed to the adoption and successful implementation of 'Keynesian' stabilisation policies across the full range of advanced capitalist countries (Jones, 1989c). When economists have pursued a more concrete examination of economic policy, the well-entrenched delimitations of disciplinary boundaries have restricted investigations to the seemingly key 'economic' institutions (budgetary institutions, central banks, etc). The important context in which those institutions ply their trade has been ignored.

A central theme of the recent multi-disciplinary research discussed above is that policy is a product of a *cluster* of institutions. Of significance is both the *range* and *nature of interaction* of these institutions.

These structures vary markedly across capitalist countries. These structures are not static; it would be naive to presume such a rigidity. Nevertheless, there exists a degree of continuity of these structures across time which makes it meaningful to distinguish nation-specific

structures. This is a difficult notion for most economists to grasp, used as we are to thinking in terms of 'western' countries as embodying the universalised market economy.

Interpreting the policy process in this structured way has several implications. First, this institutional structure both *channels* and *constrains* the range of options. An excellent example of this channelling is the differing responses to 1930s unemployment within Sweden and Great Britain. The Swedish Social Democrats responded more flexibly to the 1930s depression with a package of measures including public works. The British Labour Party oriented itself towards liberalising unemployment benefits until falling back on orthodox austerity measures. In Sweden, state-sponsored investigatory commissions had long worked closely with bureaucrats, parliamentarians and expert advisers to provide a powerful, flexible and strategic underpinning to new policy formulation. Public works had already been part of the bureaucracy's 'tool kit'. In Britain, Liberal Party initiatives and the atypically assertive Labour Department had devised various innovative techniques for rudimentary unemployment relief that would work within existing British ideology and politics. The Labour Party in office in the 1920s found it politically more viable to continue its own initiatives via such established channels. Behind these truncated policies lay the overwhelming and reinforced power of Treasury in constraining unorthodox ideas from getting a foothold in the interstices of power (Weir & Skocpol, 1985).

Second, the structure works as a whole. One can't look selectively at specific institutions as the source of socio-economic success (or of failure). For example, it is fallacious to draw upon Japanese enterprise unions as the source of Japanese industrial productivity. From a dissident's perspective, it is fallacious to see the Japanese success purely in the existence of the Ministry of International Trade and Industry. Defenders of orthodoxy are happy to point to particular

'failed' interventions by MITI.⁹ All this proves is that the debate has been derailed onto a 'straw man' siding. Similarly, the Bundesbank by itself is *not* the source of West Germany's industrial might, or even of its success in relative price stability (c/f Walsh, 1990). Alternatively, the industrial sloth of Australia is not to be sourced at 'McEwenism' and 'protection all round', of which more below. In the Australian case, one has to look more deeply for the malaise.

Third, economists are looking in the wrong places for the sources of economic dynamism and decay. The narrowness is integrally linked to the assertive construction and reinforcement of a disciplinary separateness. Disciplinary boundaries are inevitably arbitrary, but they have had ironic implications for economics (Jones, 1989a).

Social philosophers up to the early classical economists were concerned with the 'big' questions - what sort of *system* do we want, and so on. One big issue centred on the long debate over the aristocratic and bourgeois classes' use of their wealth (c/f Hutchison, 1988:119). Should they be abstemious or profligate? More than morals were at issue here; at issue were the questions of socio-economic stability and reproduction. Into the nineteenth century, the debate slipped its moorings and was converted into a disembodied 'savings/consumption' debate (Lowe, 1965:Ch.3). Say's Law, facile in the extreme, commanded inexplicable attention. Even Keynes, with his attachment to the self-satisfied mores of the Cambridge arm-chair tradition, failed to blow out the issue to a satisfactory social context (Lowe, 1965:Ch.9). Latterly, the Austrian school's attachment to Hayek's utopian concept of 'spontaneous order' has carried on the arm-chair tradition (Gray, 1986).

Disciplinary isolation became *de rigueur*. Methodological individualism acquired a stranglehold as the conceptual underpinning for appropriate theoretical work.¹⁰ 'Grand theory' went out the window, and

9. Examples of MITI's claimed *faux pas* are its attempt to merger Toyota and Nissan; and a policy of import substitution in aluminium smelting, resulting in later over-capacity.

10. Even the flight to 'rigour' lacked rigour. Mirowski (1989) argues that the slavish appropriation of the techniques of classical mechanics

with it the big questions - what are the essential features of *historical* 'capitalist' economies; how has capitalism changed; why global war and not peace (as the Manchester liberals Cobden and Bright had predicted would follow free trade); what structures ensure both the stability of *historical* capitalist societies and their reproduction over time; what are the ingredients of successful national capitalist reconstruction? And so on. These questions were left to Marxists and Weberians outside the discipline and to eccentric (and typically vilified) Institutionalists and economic historians on the margins of the economics discipline (c/f Fusfeld, 1977).

The global economic predicaments of the last fifteen years have forced economists to confront the issue of capitalist decay and reconstruction. However, the proposed correctives of economists have been inevitably intra-disciplinary, centred on presumed imperfections hampering effective market operation. At the other end of the ideological spectrum, Marxists had carried on a long-standing preoccupation with capitalist dynamics and the role of the capitalist state. With the exception of a break-away group of neo-Marxists, the Marxist camp has been until recently attached to fairly apriorist reasoning; and its task has been substantially inhibited by the lack of an accounting structure based on Marxist categories.

A new grouping of 'long wave' theorists has resuscitated a somnolent concern for long waves of boom and bust. The significant element of some of the new long wave theories in this context is that they conjecture explicitly on the importance of an appropriate political and ideological context for sustained profitability.¹¹ However, the

by the neoclassical program did not involve a consistent application of such techniques. In particular, the *conservation* principle was left dangling, and the neoclassical world was left without an adequate means to its 'closure'. Mirowski's claim is the methodological counterpart to the argument in the text - the mechanisms for the stability and reproduction of the socio-economic system are not to be found within the truncated sphere of an arbitrarily delineated 'economic' world nor in the truncated toolkit of economic analysis.

11. Note, in particular, the concept of 'the social structure of accumulation' of Gordon, Edwards & Reich (1982), and the French 'regulation' school(s), following Aglietta (1979).

insights of Marxists and long wave theorists on the conditions for socio-economic stability and reconstruction is being most satisfactorily qualified and expanded by the multi-disciplinary groupings mentioned above.

VIII. The Institutional Framework of (Economic) Policy II

What do these nation-specific institutional clusters look like? A recent work by the business school academic Michael Porter, *The Competitive Advantage of Nations* (Porter, 1990), makes use of such a concept - in his words, a *diamond* of national characteristics. Whereas the substantial publicity given to Porter's work will broaden the exposure to the idea, Porter's particular articulation remains shallow, leading to fairly conventional implications. Porter's work remains in the right libertarian (in US parlance, *social darwinist*) tradition (Thurow, 1990). Closer to home, the Bureau of Industry Economics recently engaged in a research project of an explicitly comparative character (Bureau of Industry Economics, 1987). These *Studies in Industrial development and innovation policy* compared the U.K., the U.S.A., Canada, France and Sweden. By Australian standards, this comparative project was exemplary, and it deserved wider exposure. Apart from brief general sections, the orientation was towards Government's activities and expenditures in the 'research and development' arena. Although this is an important arena, the BIE's discussion is poorly grounded regarding crucial nation-specific differences. The treatment is overly dependent on a superficial OECD tradition of statistical comparisons, and on an orthodox defense of industrial policy via the backdoor of 'market failure'.

A broader understanding of these institutional clusters is needed. One must be concerned with the character of and the relationship between key institutions in the producing sectors, finance, labour organisations, bureaucracy, science and in training. More sophisticated accounts would deal with the subtleties of culture, at both the level of specific institutions and at the national level.

Perhaps the best entree for economists into a broader perspective is via a member from within their own ranks, Andrew Shonfield. Shonfield's magisterial *Modern Capitalism* is one of the peaks of post-1945 scholarship on nation-specific culture and the economic policy process (Shonfield, 1965; esp.Ch.IV). Shonfield's examination of the peculiarities of the British socio-economic structure (and to a lesser extent those of the USA) were neatly contrasted with continental structures, especially those in France and Germany. It was a contrast that economists ought to have taken up and pursued. As it happens, the key role being vacated by economists was actively taken up by the other social disciplines. The decisions were taken not merely by default nor merely in academic corridors. The UK was convulsed by attempts to re-work its manifestly failing 'policy cluster', partly along lines attributed to the French. In Australia, the mild-mannered reference by the Vernon Committee to the debates in Europe brought ignominy on the Vernon Report from threatened Treasury circles. The peculiarities of the Australian case, then, were exposed as a living tradition. Their reinforcement was assured not merely because of the unchanging balance of power in policy circles but through the curtailment of an intellectual exchange that might have put the Australian peculiarities into broader perspective.

One can demonstrate further by example from some representative literature. Three examples are chosen - Grant's comparison of the USA, Britain and Canada (Grant, 1989); Hall's comparison of West Germany, Britain and France (Hall, 1984); and Castle's comparison of various European 'social-democratic' countries and Australia (Castles, 1988).

1. Grant is perhaps most accessible to economists in that his language is that of economic orthodoxy. His orientation is 'empirical institutionalist' within political science, and his politics are 'moderate Tory' (read Tory wet).¹² Grant's analytical structure, albeit

12. Though the label 'moderate Tory' sounds comic to economists' ears, it is representative of a significant tradition of thinkers (Institutionalists, Fabians, neo-liberals, etc) who have combined intellectual flexibility and political pragmatism to engineer political reform to confront the "social question". Though details vary, they

superficial, acknowledges a clear dividing line between 'interventionist' countries and 'non-interventionist' (typically English-speaking) countries. All three countries under consideration by Grant (the USA, Britain, Canada) are within the 'non-interventionist' camp. This literature also takes for granted a vital element still not confronted by economists - that formally 'non-interventionist' countries are actively engaged in structural policy *in practice*. Consequently, the dividing line in practice is not the existence of structural intervention but *the degree of systematisation and organisational coherence* in industry policies.¹³

Grant is also concerned with sectoral-specific industry policies, in the context of claims that industry policies vary more significantly across sectors than across nations. A priori, one would expect that sectoral-specific policies would be more transparent in the 'non-interventionist' countries, in the absence of a protective institutional and ideological cover. Grant highlights that some sectoral- and industry-specific policies are best understood within a larger national focus. Others are divergent, implying that some industries possess a peculiar character (e.g. the dairy industry), generating policies better understood from industry peculiarities than from nation-specifics. Grant also highlights differences across the 'non-interventionist' countries, pointing especially to the key place of the defence industries in U.S. industry policy. Grant sees Canada as a case of 'sophisticated pragmatism', involving a substantial and unembarrassed role for both public enterprise and provincial governments. Nevertheless, Grant's analysis remains shallow, failing to account for the institutional underpinnings of the nation-specific differences he observes.

ii. Hall's model emphasises the organisations of labour, capital (especially the relationship between financial and industrial capital) and the state (especially the internal organisation of State

have been united in the attempt to find a middle-ground between *laissez-faire* and socialist politics.

13. For a statement of this position in the Australian context, see Jones (1987).

instrumentalities). He then examines how policy is channelled and constrained in the spheres of macroeconomic policy, incomes policy and industry policy, seen as a totality. For example, West Germany's institutional mix includes the (much touted) entrenched power of the central bank (the Bundesbank) within State instrumentalities; the long-term equity-based involvement of the finance sector in German industry; an indirect approach to industry policy; and a deeply embedded corporatist culture in organisations of both capital and labour.

For the bulk of the post-1948 boom period, the Bundesbank and the Ministry of Economics combined to enforce a consistent regime of monetary and fiscal austerity. If one were to draw selectively on these elements and infer that they were responsible for the boom and should be universally applied, one would be horribly wrong.¹⁴

Other positive elements combined to produce the success story. In particular, the Deutsch-mark was undervalued as a matter of policy. "...the effect of the policy was to provide an immense subsidy to export sectors and a measure of protection to domestic capital financed by imposing higher costs on German workers and consumers in the form of higher-priced imports." (p.26) A draconian tax structure and *selective* industry policies also acted to subsidise industry. So much for a level playing field.

It is true that industry policy has remained indirect compared, for example, with French practice. This indirectness was a product both of pre-Hitler state-business relations and of the impositions of the US occupation. However, one should not overstate the case, especially during the long boom. The West German State engaged consistently in structural interventions - first with respect to the base industries for

14. The columnist Max Walsh has been wont to detach the Bundesbank from its surroundings (c/f Walsh, 1990). Worse, the procedures of the Bundesbank are little understood in Australia. In particular, "the Bundesbank does not rely on interest rates - the price mechanism - as its sole policy weapon to achieve monetary discipline. It meets its monetary targets through controlling the whole German financial system. The Bundesbank has constructed a grid of regulation which allows it to put an armlock on the German credit market" (Hutton, 1989).

industrial reconstruction; later with respect to 'problem' areas of small businesses, regions, housing, etc.; and later still with respect to declining industries.¹⁵

"Contrary to the ideology of neo-liberalism, the governments of the Federal Republic, both federal and state, are at times intimately involved with different industries. Government involvement is less intimate than in Japan and France, but it deviates substantially from the arm's length relation that on the whole continues to characterise relations between industry and government in Britain and the United States." (Katzenstein, 1987:101);

and more forcefully:

"...the Ministry of Economics was most actively intervening wherever opportunity for more production, aided by strategically placed subsidies or tax concession, presented themselves. Rarely can a ministry so vociferously devoted to the virtues of economic liberalism and market forces have taken so vigorous a part in setting the direction and selecting the targets of economic development." (Shonfield, 1965:275)

Hall goes on to discuss the markedly different institutional complexes of Britain and France in a similar vein, thus placing their policies in a more enlightened context.

iii. Francis Castles has also been engaged for some time in collaborative research to place differing public policies in their comparative institutional context (Castles, 1989). Castles goes beyond the typical North-Atlantic focus to include Australia (Castles, 1988). Castles (drawing on Katzenstein, 1985) contrasts similar elements in a variety of European small states - Sweden, Norway, Austria, etc. - with Australia. The common European structure is labelled the social-democratic politics of *domestic compensation*; the essential Australian structure is labelled the labourist politics of *domestic defense*.

The European small states have chosen policies which facilitate the integration with international market forces. Having small internal

15. The OECD's preoccupation with European States' involvement in declining industries ignores the context of pre-existing state-business interaction in Europe (OECD, 1990).

markets, they cannot erect protective barriers as they depend substantially on the global market for a handful of key exports. They have moved with the stream by developing corporatist political structures - the conscious negotiation and renegotiation, between organised interest groups, of policy itself and the division of the spoils (Jones, 1989b). The Australian essence lies in four key institutions:

"...the protection of manufacturing industry through tariffs and other trade restrictions, the conciliation and arbitration of industrial disputes, the control of immigration, and a residual system of income maintenance for those outside the labour market". (Castles, 1989:93)

According to Castles, out of the social-democratic compromise has developed substantial welfare states, regarded as the centre-piece of capitalist success - 'growth plus organised trickle down'. The attenuated welfare structure in Australia Castles attributes to the labourist compromise.

Castles' skeletal picture of Australia is mainstream and would probably find ready assent from economists. Castles' particular contribution is to see specific institutions as part of a relatively integrated whole, and to compare the detailed character, evolution and implications of that structure with differentiated 'alternatives'.

IX. The Australian Peculiarity

On the essential constitution of the Australian political economy, this author would beg to differ. The essence of the Australian political economy is captured in two sets of institutions (Jones, 1989c:part V). The first set was borne of its colonial origins and comprises those institutions which facilitated integration into Britain's imperial network. This colonial integration was clearly of the 'soft' variety; nevertheless, it has been cemented in Australia's economic structure (commonly labelled its 'comparative advantage'), its foreign policy and its culture. This is reflected historically, for example, in the integration of the financial and commercial sector into the City of London, the 1932 Ottawa Agreement on imperial tariff preferences, the

holding of reserve balances in sterling, and the long-term acceptance of the Privy Council as top of the judicial hierarchy.

In addition, there occurred a reproduction of British institutions and institutional relations in an alien colonial setting. This second feature is less transparent than the mechanisms of formal integration, but its impact has possibly been greater. This institutional inheritance is reflected in the *character* of and the *relations* between industry, wage labour, finance, the bureaucracy, science and training.

This is an arena for speculation, but Australia's colonial inheritance is surmised as comprising the following ingredients. In industry, myriad small firms exist on a family basis whose skills are technically based. A product of craft/trades training and a lifetime of on-the-job pragmatism, the process has not been devoid of initiative or product innovation, but it has been often short on financial and marketing skills in an increasingly alien environment.¹⁶ The sphere of wage labour is complex, but the British inheritance is transparent in the craft-based combination of skills elitism, industrial militancy and political conservatism, generating that 'labourist' tradition which Castles has decried.

The status structure of occupations and professions is of British lineage - the elevation of the white-collar professions (law, medicine, finance) and the denigration of the blue-collar trades, reproduced in a strictly hierarchical and polarised educational system. In science, there is a legacy of a detached tradition of pure research, pragmatically modified to serve the export-oriented rural sector, and only belatedly oriented towards research of industrial application. In engineering, there is a legacy of an overly academic training at the elite tertiary level. In the management of corporate business organisations, there is the legacy of the mentality of an enclosed 'clubby' social grouping for whom business has been a vehicle for the good life and an inside running on the division of the spoils.

16. These features are classically representative in the heavy engineering industry.

In finance, the trading banks have been trade-oriented in the British tradition (c/f Cox, 1986). The absence of an investment-banking tradition left the trading banks incompetent to deal with the aftermath of finance sector deregulation. In the bureaucracy, the inheritance is embodied par excellence in both the dominance and the values of the Department of Treasury (and later its Siamese twin, Finance) in the federal bureaucratic hierarchy. In general, the entire inheritance is embodied in the hegemony of liberalist values in political and institutional culture.

The second set of institutions has been more peculiarly *national* in character. Such institutions were nationalist in orientation, pragmatically developed to ensure a modicum of socio-economic stability in the face of the perennial threats to stability dictated by colonial integration. These institutions include those elements enumerated above by Castles, as well as the institutions of a nascent indigenous mining-manufacturing bourgeoisie, especially centred on BHP and the Collins House group of companies (Cochrane, 1980).¹⁷ Later, the indigenous mutual life insurance offices provided significant finance to domestic industry. Complementary to these institutions were the state governments, pragmatically committed to infrastructural and industrial development and a modicum of social stability within the region.

The peculiar character of the Australian political economy is to be found in the symbiotic fusion of the two sets of institutions. As a white settler colony, Australia has enjoyed a relative privileged status in coming from the right side of the track in the global scheme of things. However, the cementing of its 'kid brother' status has ensured a permanently marginal role in the global economy. This fusion is most

17. There is one institutional sphere of a peculiarly national character whose effect has been perversely to reinforce the reproduction in Australia of the colonial cringe. This is the Irish Catholic labour tradition, once dissenting, but since World War II (and the Communist bogey) a bastion against national autonomy in foreign policy and, in industrial politics, a vehicle for the supremely efficient pursuit of patronage-based, anti-visionary political power for its own sake.

profoundly embodied in the character of the Australian manufacturing sector. Significant sections of the commanding heights of the manufacturing sector are foreign-owned. More broadly, there has been pervasive dependence on technology licensing from overseas (predominantly from the UK and the USA, ironically sources no longer on the technological frontiers). Technology licenses are regularly accompanied by export franchise restrictions. These factors in conjunction with the not inconsiderable effects of space (small domestic market and geographical isolation) have generated the much-publicised domestic market focus.

Australia's 'kid brother' global status ensured development, but at a price. The development has always been compromised, but the compromise comes home to haunt the country with every blip in the global economy. The public face of this weakness is represented in the perennial pressure on the current account. Australia acquired a place in the sun, but the era of qualitative transformation in global competition has made this tenuous structure vulnerable anew. The difference between 'smart' countries and the 'also rans' is reflected in the *flexibility* with which their cluster of institutions respond to crisis¹⁸ (c/f McKay & Grant, 1983).

It has become conventional wisdom that the institutions of arbitration, tariff protection, etc., are the root cause of Australia's economic malaise. Yet such institutions cannot be seen in isolation. They are significant, but they exist within a broader range of institutions. Moreover, within the broad range of significant institutions, they are of *secondary* significance. Those of primary significance are more deeply structured, and are clearly less observable to respectable commentators. The problem is compounded because the respectable commentators are themselves part of the primary set of institutions reinforcing the colonial cringe. McEwenism is an economic version of the Dreyfus syndrome - blackballing a scapegoat is not merely

18. Empirically, this would be represented by a better-than-average performance in GDP growth during 'hard times', rather than a better-than-average performance in 'good' times.

diversionary; it leaves intact the deeper sources of the malaise. It follows that to abolish the conciliation and arbitration system and to eliminate all protection, for example, would not resolve the economic dilemma. The 'colonial' subordination would remain, if in a post-Garnaut new guise. More fundamentally, the set of institutions that were inherited from Britain would continue to generate pragmatic, reactive and fragmented policies that makes latching onto the fast movers (on whatever terms possible) the most desirable alternative.¹⁹ That these institutions have so consistently been proved dysfunctional to industrial dynamism on their native soil (Hall, 1986; Dunleavy, 1989; Newton & Porter, 1988) offers strong grounds for their greater dysfunctional role in the Antipodes. Here, at its most transparent, is the merit of studying comparative policy structures; the low marks awarded the British structure is pervasive in this literature.

In sum, the sources of the particularities of economic policy, and the sources of industrial dynamism, are to be found in an entrenched and clustered institutional network. Within this network, the institutions of the State itself merit closer attention from economists.

X. State Autonomy

Of that institutional cluster which differentiates national capitalist economies, the components which comprise 'the State' are of special significance. The possibility that State instrumentalities might contribute independently to such national differentiation, and ultimately to differential trajectories of industrial development, is of crucial significance for understanding the policy process. State 'autonomy' (in the language of political sociology) embodies the concept of the State as *actor*, engaged in the pursuit of goals differentiated from those of the classes and groups within civil society.

19. The weaknesses of this recurrent defensive pragmatism is reflected in the failings of the offsets program and, more recently, the Partnerships for Development Scheme within the Department of Industry, Technology and Commerce.

Certain qualifications are desirable. First, This process transcends the self-interested activities of individual state officials. Such activities have been the purview of the 'economic theory of politics'. Whereas such analysis is insightful in the small, it is vacuous in the large. States are not the summation of self-interested individuals. "They matter because their organizational configurations, along with their overall patterns of activity, affect political culture, encourage some kinds of group formation and collective political actions (but not others), and make possible the raising of certain political issues (but not others)" (Skocpol, 1985:21).

Second, one may readily comprehend the notion that state officials may influence the policy process by various ruses - the manipulation of information, agenda setting, the appropriation of resources, and so on. This 'yes minister' collection of instruments provides significant vehicles for bureaucratic power *per se*, but they have to be understood in a broader context.

Third, whereas it is an important conceptual advance to prise the State away from civil society, it will not do to see the State as merely another 'exogenous' actor, whose goals feed into the vector of forces to be resolved. This is the danger of continued application of a neo-pluralist conceptual framework.

The State has to be understood structurally and as operating within a unique arena, as noted above. On balance, this is best understood from the perspective of a continental *organicist* or *holist* intellectual tradition, rather than from the Anglo-American *individualist* tradition (c/f Nettl, 1965). At the same time, it is important to transcend the teleological elements within the continental tradition which impart to the State a status of an historically evolving organisation encompassing a 'rational social order'.²⁰ The contemporary

20. The work of both the German social theorists Otto Hintze and Max Weber incorporated a teleological dimension. This worrisome dimension, however, did not negate substantial contributions to the theory of the State (Kocka, 1987).

literature achieves this transcendence by attention to the historical detail. This detail discloses not merely far-sighted *strategic* action, but also dissonance, dysfunctional outcomes and contradictory evolution.

The utility of Hall's model is that it emphasises the qualitative impact of the organisational structures within which particular interests are articulated. Organisational structures channel the character and articulation of the particular interests themselves. To quote:

"Economic policy may not faithfully reflect a struggle among competing economic interests precisely because organisation refracts that struggle...[In particular], the state acts as a distorting mirror to reproduce a highly imperfect reflection of these conflicts and one which imprints its own image on their resolution." (Hall, 1984:24)

A holistic perspective allows one immediate access to the policy structures of the non-English-speaking industrialised world and of the recently industrial successes of the third world (c/f Amsden, 1985; Johnson, 1986; 1987; 1989; Trimberger, 1978). Some selective points of detail from specific countries are in order.

Germany provides an exemplar for a study in State 'autonomy'. The Prussian (later German) bureaucracy was created gradually after the disastrous Thirty Years War and reconstructed after the defeat at Jena. The object was the maintenance of the integrity of the Prussian elite and of its territory. An anti-democratic aristocratic element ensured its detachment; a meritocratic infusion from the middle classes facilitated its competence. A reasonable degree of rationality and efficiency of administration underpinned both the unification of the German states and the rapidity of the new Germany's economic development (Shefter, 1977; Blackbourn & Eley, 1984). The bureaucracy was able to exert long-term influence through retention of a high degree of autonomy lasting through Bismarck, the 1918 Revolution, Weimar, Hitler and the US occupation, coalescing with Erhard in a conservatively-stamped post-war reconstruction. In the post-1948 period, of course, a key institution displaying all the characteristics of State autonomy has been the

Bundesbank. The relative autonomy of the Bundesbank was heavily dictated by the US, concerned to inhibit parliamentary influence on monetary policy, but its character was compatible with the Prussian bureaucratic legacy.

The U.S.A. provides an exemplar for the other end of the spectrum. The fragmentation of its State instrumentalities provides genuine substance for its reigning pluralist ideology (Hudson, 1985; Bell, 1989a). Nevertheless, this fissured terrain has its vectors of fusion. In the last one hundred years (at least until Nixon), the power of the executive has been pragmatically enhanced, and with it the relatively autonomous power to make war. Economic policy has gained a foothold in this sphere (thanks to the State Department) insofar as it has proved a ready vehicle for US imperial interests. It has been argued persuasively that raw materials policy fits into this category (Krasner, 1978).²¹

In general, however, the tangible fragmentation in the large has prevented autonomy for domestic structural interventions of industry policy. Yet the defence establishment has consistently slipped neatly through a fine inhibitive net, because it lives by different rules. By default, insofar as any continuity and coherence exist in US industry policy, it is centred on the 'military-industrial complex'.²² This is a great irony. The fragmentation of State instrumentalities provides a rare tangible approximation of an internally contradictory 'liberal-democratic' vision. Yet *raison d'etat* and the imperatives of capitalist competition have ensured that assertive State activity is centred on structuring a civil society most functional for waging war. Outside of defence, industry policy presents a model of 'non-interventionist intervention', centred on Congressional log-rolling and dysfunctional competition between the states.

21. Krasner shows that "public policies on raw materials have been most likely to diverge from powerful corporate demands precisely when distinctively geopolitical issues of foreign military intervention and broad ideological conceptions of U.S. world hegemony have been involved" (Skocpol, 1985).

22. The defence establishment has even exerted a major influence on the regional location of US industry by its attraction (for non-economic reasons) to the American south-west.

Britain presents a peculiar case, reflected in what one author calls 'the paradox of ungrounded statism' (Dunleavy, 1989). On the one hand, the British ship of State does appear as if Smith's invisible hand is really at the helm. At the top, there is a formal unifying mechanism of *sovereignty* vested in the Crown in Parliament; but *de facto* the Queen is in her counting house expanding the British current account and her own estate. Down below, the weakness of authority of peak organisations of business and labour, and the non-integrative character of most State instrumentalities lends substance to Britain's liberalist culture (Hall, 1984). On the other hand, there is a striking long-term continuity of economic policy priorities.

The resolution of this paradox appears to lie in Her Majesty's Treasury. In the long-standing nexus between Treasury, the Bank of England and the City of London is embodied a genuine autonomy to direct economic policy within a formally democratic polity (Shefter, 1977; Ingham, 1984). Constructed and reconstructed since the late seventeenth century as the keeper of the public purse, the Treasury enhanced its power and autonomy with age - it transcended patronage appointments in the 1870s, and gained control of civil service appointments in the 1920s. In the twentieth century, the Treasury has gobbled up the tariff reformers and the Board of Trade, Mondism, Keynesianism, War-time controllers, the Department of Economic Affairs, and Tony Benn and his Technology Ministry; it has survived the loss of empire and the end of sterling as a reserve currency.

In spite of this, the 'enemy' forces have extracted their toll on those occasions when Treasury and its supporters have been forced on the back foot. This is reflected partly in the long-term rise of public expenditure to almost 50% of GDP by the 1970s, expenditures for which new sources of finance have had to be invented. Treasury power is not monolithic. Its continuing power is to be found in its power to channel dissent and to inhibit continuity of dissenting forces. Such power doesn't destroy dissent (not least because the material conditions generating such dissent constantly reappear); it merely generates

halting, incoherent and (ironically) often costly measures that satisfy neither the dissenting forces nor Treasury itself.

Another key sphere of relative autonomy exists insofar as the formal sovereignty of the Crown devolves to real power in the Prime Minister's office. In foreign policy that power is considerable; in economic policy, it appears constrained. Mrs Thatcher could use her position to good effect when her views coincided with the Treasury/Bank/City nexus; yet Harold Wilson with different views discovered otherwise.

In sum, with State autonomy in this particular guise, deflation has been institutionalised as the preferred policy weapon. It has (until recently) benefited Britain's key role as the world's commercial entrepot. On the other hand, the British 'national economy' has had to like it or lump it.

The issue of State autonomy in the Australian context is more speculative. Australia's subordinate position in the global economy would appear, a priori, to inhibit the potential autonomy of State instrumentalities. In addition, the federalist structure has refracted political power. Moreover, there has been variety in structural economic policy that appears to indicate an instability in central direction and influence - the 1960s rise and fall of the tariff 'lobby'; the pragmatic rise again in the 1970s and its demise in the 1980s; the rise and fall of a new industry policy regime in the 1980s; and so on.

These elements are important. However, the variety in structural policy is open to alternative interpretations. In principle, continuity in policy is to be found in the spheres in which reside State autonomy. At the federal level, that autonomy resides in Treasury (and in Finance, robin to Treasury's batman). The Treasury is a central ingredient of the 'primary' set of institutional forces, outlined above, defining the Australian distinctness. The Treasury (at least since 1950)²³ has set

23. The character and role of the Treasury before World War II have been little studied. Undoubtedly, the Constitution, in proscribing

the underlying parameters for the economic policy agenda in Canberra. That Jack McEwen was a powerful figure in the 1960s cannot be doubted (Bell, 1989b). However, McEwen and his bureaucracy were not operating with a 'clean slate', but with an inherited structure which made a more coherent strategy for manufacturing sectoral development impossible. The pragmatism, variability and incoherence of tariff and general industry policy are testament less to the pressure and strength of the (manufacturing) industry lobby than to its perennial marginalisation. The autonomy of Treasury/Finance is not to be found in their dictating the terms of every submission which passes through Cabinet, as clearly they do not. It is to be found in the shared values in Prime Minister and Cabinet, in Departmental Secretaries, in little Treasuries dispersed throughout the key Departments in Canberra, in all the bureaucratic think tanks, in the respectable media commentators, and in the educational system which reproduces the personnel and the value system itself. In sum, Treasury autonomy is firmly rooted in a hegemonic economic culture.²⁴

As with the British Treasury, its antipodean offshoot has survived many irritants - the Department of Post-War Reconstruction; from within that Department, the Division of Industrial Development; the Vernon, Jackson and Crawford Committees; Lennox Hewitt's alternative source of advice in Prime Minister Gorton's office; Tom Uren's Department of Urban and Regional Development; Rex Connor's Department of Minerals and Energy; and a potentially broader Economic Planning and Advisory Council. Most of all, Treasury/Finance has survived McEwen's Department of Trade. Treasury's finest hour was the spreading of the Department of Trade and its latter day mercantilists to the four winds during 1985-

Commonwealth power, inhibited Treasury's power. Nevertheless, World War, the 1942 permanent appropriation of income tax powers by the Commonwealth, and Keynesianism brought Treasury to its current position of authority. Ironically, the eyes were picked out of Keynesianism. Keynes' moral baggage was dropped while Keynesianism provided a new legitimacy for assertive State activity in expenditure control, used predominantly for conservative ends (Jones, 1988:83-90)

24. Whitwell (1986; 1990) has well documented Treasury's system of values and its evolution. Missing, however, is an account of the channels of Treasury influence.

1987. All that remains of Trade in the Department of Foreign Affairs and Trade is Treasury's reflection of itself, the Multilateral division, the quintessential embodiment of the cultural cringe.

In sum, State autonomy exists in Australia; it is used as a vehicle for values identical to those espoused by the British Treasury. Yet Australia does not possess a commercial and financial entrepot which made such values functional - we have the combination of an ideological heritage inherited from imperial parents in a colonial context devoid of the trappings of imperial economic power. A massive literature has argued persuasively that these rules have contributed to a disarticulated national economy in Britain; the rules continue to be applauded in Australia.

One cannot live on Treasury homilies alone. Tariffs and other support schemes have been stitched together at the Federal level to shore up domestic industry. However, the most important alternative activity was occurring at the level of the states. State governments have, by default, been the major public sector vehicle for industrial development (Head, 1986). The power-houses for such development appear to have been the statutory authorities - the energy authorities in particular. Here is a second sphere of State autonomy, defended by bureaucracies non-accountable and self-reproducing on a medium-term basis.

State autonomy in Australia appears, then, to reside in two distinct spheres. Their separate capacity for discretionary action has combined to produce the peculiarly halting and pragmatic character of industrial development (The Canadian environment is remarkably similar - c/f. Guenther, 1988). The balance of power between the two spheres has been mediated by the financial tug of war between the states and the 'commonwealth'. The late 1970s 'resources boom' was the zenith of the power of the state authorities, courtesy of a generous Prime Minister. Since that extravaganza, the states have undergone administrative restructuring. Autonomy at the state level has tended to move in the direction of Premier's' Departments (Painter, 1987), where the capacity

for discretionary decisions on industrial policy is probably more constrained. At the federal level, Treasury has re-asserted its authority. An \$8bn deficit has been converted into an \$8bn surplus, and the national economy enjoys the pleasures of an interest rate regime of unprecedented viciousness.

XI. Industrial Dynamism and Accountability

A digression is desirable on the subject of industrial dynamism and accountability. It has been argued that the existence of State autonomy provides discretionary ability to State instrumentalities and personnel to channel policy. It might be presumed that the existence of State autonomy is not conducive to public accountability. This is a reasonable presumption. This formal disdain for the realities of an autonomous State is integrally linked to a persistent anglo-american liberalist critique of proponents of corporatist structures of interest mediation (c/f West, 1984; Hudson, 1985). Autonomous State instrumentalities undoubtedly inhibit access, but 'to whom' is an historical question. It is pertinent that the historical construction of such bureaucracies was partly a means for transcending governing structures built on patronage and clientilism; and towards this end, a public culture was constructed within which State personnel would serve as *public* servants. In this guise, State autonomy was a vehicle for *greater* accountability (albeit within an anti-democratic polity). Apart from these ambiguities, claims regarding accountability need to be put into broader perspective.

One needs to be reminded that capitalism is innately inegalitarian and non-democratic, the formalities of the ballot-box and the extreme decadence of the eastern bloc notwithstanding. The long ascendancy of capitalist institutions has generally been engineered without broad consent, indeed against perennial opposition from those preferring a craft- and yeoman-based economic autonomy. As bad-mannered as it is to bring out the family skeletons, the contemporary manifestations of this phenomenon have been daily apparent. Japan, South Korea, Taiwan and Singapore owe their much-envied leap into the 'growth' stakes to authoritarian regimes.

The problem is that both liberalism as philosophy and capitalism as system have been wrongly assumed to be synonymous with the democratic impulse. This spurious association is of course integral to the obfuscatory defense of the capitalist imperative. It is instructive to see liberalism as at least two-faced - a 'purist' version and a 'realist' version (Eccleshall, 1979). The purist version is the stuff of the textbooks, a universalist utopian depiction of a classless society based on a rough equality underpinning free exchange and voluntary contract. The realist version is class-conscious (though elliptical in its contemporary libertarian form) and gets greater circulation amongst the cognoscenti.

It is via the realist version that the proponents of liberalism and economic rationalism have persistently divulged an anti-democratic temper, urging self-restraint on the lower orders (wage labour, welfare recipients, equal opportunity proponents) and restricted access to the public purse. This position merely reproduces a long-standing prejudice of political and economic elites and their spokespersons in which the universal franchise was conceded only with the greatest reluctance. The federal Treasury itself has been one of the more articulate expositors of this conventional wisdom (Whitwell, 1986;passim). Behind this concern lies the sense in which the ballot-box has been meaningfully democratic, in that its operation has undoubtedly pressured the public purse. This is the process which the new libertarian philosophers call the clamour of the 'vested interests'. The Trilateral Commission, that coterie of respected leaders of the democratic west, has even less generously labelled the process "an overdeveloped sense of entitlement". It is transparent that when libertarians talk of shedding the State of the demands of the vested interests, they mean a select range of interests - in particular, recently empowered subordinate groupings. The libertarian vision is not opposed to the State per se but a State subject to popular influence.²⁵

²⁵. Ironically, some left-of-centre institutions take the libertarian language at face value. They rush into purist opposition and declare themselves in favour of the State per se, paying inadequate attention to

Moreover, liberalist institutional structures do not guarantee a level playing field (a 'democracy' of the economy), contrary to the rhetoric. The 'level playing field' agenda merely establishes an alternative form of interest mediation and the catering to different interests. In the Australian context, for example, the absence of a formal basis for industry policies generates an alternative industry policy by default. The 'default' policy has benefited a handful of major companies (BHP, CSR, ICI, Alcoa, Shell, TNT, News Limited, etc) through an extensive informal network of public institutional links. Such links are probably less transparent than those that would be expected in formally tripartite structures.

In sum, the liberalist agenda in theory and practice does not stand opposed to the corporatist agenda in the guise of democracy versus non-democracy. The liberalist and the corporatist agendas involve different versions of non-democratic and hierarchical socio-economic structures. On balance, the historical record probably supports the argument that corporatist structures are more conducive to industrial dynamism. Accountability remains intrinsically a problem for both structures.

The potential dearth of accountability accompanying the discretionary power embodied in State autonomy therefore has good company. The reality is that no western commentators with any ambition to respectability and influence are concerned with unqualified democratic principles; the issue should not be clouded by glib nostrums on threats to democracy. The real agenda involves the engineering of consent of 'the lower orders'. For them, the sacrifice of integrity, at both the personal and community level, is clearly inevitable in the search for a modicum of economic security. To what extent consent can be ensured undoubtedly depends upon the size and quality of the cake that

whether the object of their support (e.g. public enterprise in general) is likely to be supportive of their progressive constituencies. This is characteristic of the work of The Evatt Foundation - manifest, for example in *State of Siege* (Evatt Research Centre, 1989).

can be achieved by discretionary action and the extent of the trickle down. The choice as always is constrained to the best of a bad lot, and the bag of tricks which constitutes economic rationalism and the level playing field increasingly looks a very jaded candidate for first choice.

XII. Conclusion

If there is any merit in the above argument, certain implications follow. First, the secrets of capitalist society are to be obtained through detailed comparative and historical study. The big questions of socio-economic stability and dynamism appear to be answered in the whole, located in nation-specific institutional clusters. The economics profession's delimited sphere of interest and its desire for analytical elegance have rendered it incapable or unwilling to tackle issues that ought to be an integral part of its professional orientation.

Second, the appropriate model is not the fictitious pervasive market economy. An intelligent conservatism begins with a peculiarly nation-specific material inheritance; the differences are legion, but a substantial role for the State has been a common feature, and for good historical reasons. A better understanding of the state in capitalist society ought to be high priority on the economist's agenda.

Third, there are important implications for institutional and policy flexibility. Structures do not readily respond to marginal alterations of specific institutions, least of all to seemingly attractive imports. If by good fortune (it will be have to be thus in Australia), a more appropriate policy cluster for economic dynamism is developed, certain lessons exist. The system of appropriate institutions has to be reconstructed from the bottom up. An appropriate transformation which has broader effect will inevitably be painstakingly slow; patience is required from decision-makers, opinion-makers and the electorate. The opinion-makers need to be sent back to school.

Fourth, in Australia, one has the real peculiarity of decisiveness and autonomy but employed for going in the wrong directions. The problem

with the State instrumentalities may not be an absence of decisiveness, but an autonomy and vision which is counter-productive. This is the real meaning of the concept, the 'British disease'. It has fortunately been restricted in its coverage. Unhappily, New Zealand has acquired a terminal dose of the disease. Australia is presently following New Zealand backwards into the future.

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