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## ‘The End of a Perfect Day’: ‘Horses for Courses’ and Policy Proposals

G C Harcourt<sup>1</sup>

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### **Abstract**

*I ‘retire’ in September 1998; so, in this paper I try to put a structure on my approach to economics, especially when formulating policy, and relate it to the various influences on my development over the years: religious, political and economic. I call the approach ‘horses for courses’: each issue is treated as situation-specific, that is to say, there are no preconceived ideas or general theory about underlying structural relationships and their interrelationships. I illustrate the approach by reference to various policy proposals and political activities with which I have been associated over the past 40 years and more.*

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### **1. Introduction**

When you approach the end of the official stretch of your professional life, you are able to impose far more structure and meaning on what you have done than when you actually did it! So I try to present in this paper a *précis* of the relationships I have developed over the years between my political and religious beliefs, how I have learnt and done economics, and the rationale these have provided in turn for the various policy proposals I have made over the past 40 years and more. By ‘horses for courses’, I mean an approach which is situation-specific. That is to say, it invokes no preconceived ideas or general theory about the underlying structural relationships and their interrelationships. It is

the approach of Kalecki rather than of Friedman.

### **2. Formative years**

I started economics as a schoolboy in the late 1940s in Melbourne, Australia. The principal textbooks were Hubert Henderson’s *Supply and Demand* (1922) and J R (as he then was) Hicks’s *Social Framework* (1942). (I reckon both gave a better grounding in the concepts and approaches of economics than what often passes for economics in the A-level syllabus these days.) My undergraduate years (1950-1953) were spent at the Commerce Faculty of the University of Melbourne (especially crucial were the wonderful years I spent at Queen’s College), where I did a four year honours degree. The course was noted for its enthusiastic Cambridge orientation - Marshall, Pigou, Keynes, D H Robertson, Kahn, the Robinsons, Sraffa, Kaldor - but it also took in, in my case anyway, a thorough grounding in the classical economists and Marx and, in the modern era, Maurice Dobb and Michal Kalecki. In addition, I read a lot of Hayek’s work on knowledge and on capital theory. For mathematical economics we read Hicks’s *Value and Capital* (1939), Samuelson’s *Foundations* (1948) and much duopoly theory à la R G D Allen (1938), for example. In I.O. we read Chamberlin (1933) and Triffin (1942) as well as Kaldor and the other UK contributors. The theory of the trade cycle was one of my passions; I read Schumpeter’s

two volumes (1939), Rostow's first book (1948) and we had lectures on Hicks's *Contribution...* (1950) and the criticisms of it in the review articles of Kaldor (1951) and Swan (1950). Boulding's *Economic Analysis* (1948) was our standby advanced text.

At the same time as I was imbibing all this economics fare, I was radically changing my religious and political beliefs. I moved from being a carbon copy of my parents' views - they were assimilationist, agnostic Jews and right-wing in politics - to becoming a democratic Christian socialist. I reached my political stance much more quickly than my religious one, see, for example, Harcourt (1998a) for an account and explanation.

The single most influential article I read as an undergraduate was Kurt Rothschild's classic, 'Price Theory and Oligopoly' (1947). In it he argued that oligopolists were as interested in secure profits as they were in maximum profits, so that Clausewitz's *Principles of War* (1943) was a more appropriate approach to the analysis of their behaviour and of oligopolistic market structures than those of either imperfect or monopolistic competition. In my fourth year undergraduate dissertation, I tried to put Rothschild's analysis into the framework of *The General Theory* to see if it made any difference to the systemic behaviour of capitalist economies. I singled out one issue - Keynes's argument in the chapters on the consumption function that the accountants' and businesspersons' practice of 'financial prudence' - 'writing off' the book values of durable assets well before they were due for replacement - created an additional source of contractionary bias in the economy. I conjectured whether this was indeed so when non-competitive market structures ruled the roost; I looked at the reserve policies of a sample of Australian companies during the years of the Great Depression to see whether

my tentative theoretical inferences were supported by their behaviour. (The verdict was the Scottish one, 'not proven'.) This started a long-standing interest in the relationship between firms' behaviour, market structures and systemic performance.

After a detour into applied research for a Master's degree (I designed a pilot survey of income and saving in Melbourne for the Reserve Bank of Australia, to see whether it was feasible to set up an annual Australia-wide survey - it was not), in August 1955 I went, newly married to Joan Bartrop, to King's College, Cambridge (of course), to do a Ph.D. I worked first with Nicky Kaldor and then with Ronald Henderson. Initially, my topic was the implications for the theory of the firm and the trade cycle of secure profits being as important as maximum profits in oligopolistic firms. The dissertation ultimately became the implications of using historical-cost accounting procedures for setting prices and measuring incomes for dividend and taxation purposes in periods of inflation. I put the historical-cost pricing models of Trevor Swan, Eric Russell and Russell Mathews and John Grant into the Marxian-Kaleckian framework of Joan Robinson's *Accumulation of Capital* (1956) to derive my inferences. (At least implicitly, a post Keynesian structure to my economics was emerging.) The inferences were tested against the NIESR data set of Profit and Loss Accounts, Balance Sheets and Funds Statements of UK quoted public companies just then emerging.

My first policy proposals were that the measurement of profits for taxation (and dividend) purposes should be on a replacement-cost rather than an historical-cost basis, as should the setting of prices by firms. Despite my socialist principles I was acting as a hired prize-fighter for the capitalists with my proposals, trying to save capitalism from

itself! For good measure I also started on a long-to-continue investigation of the impact of investment allowances and other investment-incentive schemes on investment decisions and outcomes.

### **3. First Adelaide years**

My first lecturing post was in Adelaide. I started in March 1958 where I had the great good fortune to have as colleagues, my close friend from Melbourne days, Bob Wallace, and Peter Karmel (the youthful Professor), Eric Russell, and John Grant and Russell Mathews. The last two were an inspiration and help to me as I finished (indeed, in one sense, virtually started anew) my Ph.D. dissertation. Karmel bequeathed to me his course on Outlay, the introduction to Keynesian economics for the first year, when he became the first Vice-Chancellor of the newly established Flinders University of South Australia at the beginning of the 1960s. His lectures, mine and subsequently Bob Wallace's were the basis of my first book, *Economic Activity* (1967), jointly authored with Peter and Bob. Appropriately, after an examination of the ingredients of the Keynesian system, the final chapter was on policy. It absorbed our own views on fiscal, monetary, exchange rate and incomes policies within the framework of Swan's influential and fundamental internal-external balance diagrams and analysis.

Karmel was also responsible for me writing a review article of Wilfred Salter's classic, *Productivity and Technical Change* (1960). Salter's contributions were a major influence on my thinking from then on. They were the basis of several of my papers in the 1960s and 1970s following the tragic death of Salter in 1963 at the ridiculously early age of 34. Austin Robinson said of Maynard Keynes that those whom the gods love die young but in

the case of Salter (and subsequently of Eric Russell, too), this was taking things far too far.

Harold Lydall (who succeeded Karmel at Adelaide) posed for me the puzzle which subsequently gave rise to my best known article (apart from the 1969 survey of capital theory), 'The Accountant in a Golden Age', Harcourt (1965a). He had found, using arithmetical examples, that the values of the accounting rate of profit differed significantly from the values of the economic rate of profit (represented by the internal rate of return). I posed the question: Suppose we place an accountant in a Golden Age where we know the value of the rate of profit because expectations are always fulfilled, will the accountant's tools of trade tell us what we already know? The answer, of course, is 'no'. Depending upon how the accountant calculates depreciation allowances, on the shape of the expected cash flows over the lifetimes of the assets, and on whether we are in stationary states or steadily growing ones, the accountant's answers differ, often by a wide margin, from the 'correct' answers. Franklin Fisher (1983, 1984) was subsequently to cause a great stir in the 1980s when the same results were used by him to defend IBM in an anti-trust case. So again, unwittingly, I was, at one remove, a lackey of the system.

Most of all though it was Eric Russell who became my mentor (and dear friend). He had already made his mark with a classic paper, co-authored with James Meade (Meade and Russell, 1957)<sup>2</sup>. Meade and Russell is still the starting point for understanding how the Australian economy works, in particular, how the distributive shares between the farmers, the industrialists and the wage-earners are determined, see Harcourt (1977a, 1982) for a full account of the genesis and contents of the

paper. Eric was to use this framework in his evidence on behalf of the wage-earners before the Arbitration Commission in the 1950s and in his seminal work on an incomes policy for Australia in the 1960s. He and Salter (they had cooperated in presenting evidence for the wage-earners) were way ahead of their time in advocating the setting of nominal income increases according to the rates of increase of effective productivity *plus* prices, so that equity and efficiency could both be achieved.

This crucial policy recommendation has as foundations both Eric's Kaleckian-type understanding of how the Australian economy works and the Salterian analysis of how such a rule may move the economy into a high productivity growth scenario. If the rule is combined with a full employment policy, we may attain a sustainable situation, in the sense that because wage-earners (and others) receive agreeable rises in real incomes, full employment without too much inflation may be achieved for indefinite periods. In my most recent writings on policy, Harcourt (1997a), I have returned to these themes in order to show how the dilemma associated with the political economy of *getting* to full employment, on the one hand, and *staying* there, on the other, first posed by Kalecki in 1943 in his remarkable paper, 'Political Aspects of Full Employment' (reprinted in Kalecki (1971)), has some chance of being resolved.

As I mentioned above, Kaldor was my first supervisor. Soon after I started lecturing at Adelaide, I decided to give a course of lectures to intending honours students on Kaldor's post-war contributions to the theory of distribution and growth. Like many others, I was puzzled by his assumption that, at least in the long period, full employment was the natural state of a growing capitalist economy. (Paul Samuelson was to tease him as Jean-Baptiste Kaldor ; I would like similarly to

tease those, far too many, modern economists who still accept the proposition.) With my interest in pricing policies and their link to systemic behaviour, it was natural for me to ask what pricing policies implicitly underlay Kaldor's 'Keynesian' macro theory of distribution, especially so, when, in his 1957 *Economic Journal* paper, he stated that the mechanism worked in the short period as well as in the long period (and he still maintained the assumption of full employment. In some papers he tried to show that full employment was an outcome rather than an assumption but he never could produce a coherent account of why, and after 15 years or so he quietly dropped his insistence on it.)

In Harcourt (1963), I showed that the most unusual pricing policies were implied and that they differed as between the consumption goods sector and the investment goods sector. While this was a negative conclusion, I thought the way forward was not to abandon his 'Keynesian' theory of distribution (it was, of course, in a more acceptable form, Kalecki's theory too) but his untenable assumption of full employment in the short period and the long period. It was hearing (they were never published as such) Solow's 1963 Marshall Lectures on two mythical creatures, one called 'Joan', the other, 'Nicky', that spurred me on to write a positive contribution. This incorporated the Kalecki-Kaldor distribution mechanism, my own work on pricing policies, Salter's work on the choice of technique, and the insights I had gained from *The Accumulation of Capital* and succeeding literature, and Sraffa's classic, *Production of Commodities by Means of Commodities* (1960). I wrote the first draft of the paper (Harcourt, 1965b) in the Autumn of 1963 when I was on leave from Adelaide in Cambridge. I was greatly helped by comments from John Cornwall in particular and it has remained the starting point for

much of my work ever since.

#### **4. A young don at Cambridge**

In October 1964 I started a University Lectureship in the Faculty of Economics and Politics at Cambridge and a Fellowship at Trinity Hall. Drawing on the foundations of the previous six years in Adelaide, I wrote a string of papers around these and other themes. Going on around me were the debates on capital theory between the two Cambridges - Joan Robinson asked me to sit in on her exchanges with Ken Arrow and Bob Solow in 1963-64 when they were spending a year's leave at Cambridge. It was an awe-inspiring experience, more noted, I fear, for heat than light. Vincent Massaro and I were also writing a review article of Sraffa's book, consulting with Piero himself while we did it. Joe Stiglitz was in Cambridge as a graduate student from MIT and Hahn and Matthews were writing Hahn and Matthews (1964). The capital-reversing and reswitching results also started to appear with Levhari's *QJE* article (1965) bringing things to a head (Samuelson's 1962 surrogate production function paper already had Pierangelo Garegnani and Luigi Pasinetti buzzing, also Joan Robinson.) I was an intensely puzzled onlooker for though I had taken a great interest in capital and growth theory when an undergraduate, in *The Accumulation of Capital* when a graduate student, and in Kaldor's distribution and growth theory when a young lecturer, I was certainly not anywhere near on top of the issues, nor able to keep up with the pace at which thrust and counter-thrust were occurring around me.

But as well as writing theoretical papers, I also wrote on policy, even going so far as to apply the results of 'The Accountant in a Golden Age' to an analysis and critique of the unintended effects of the bonus scheme for

managers in the Soviet Union on the choice of techniques in planned economies (Harcourt, 1966).

As far as capitalism was concerned, my ideas were focused by the request from Aubrey Silberston to write a paper on the choice of technique in the East and the West for a conference in Nice on plan and markets. 20 or so bourgeois economists lived it up in decadent splendour with a similar number from the USSR and Eastern European countries. This led me to use a characteristic post Keynesian approach to analysis. I compared the investment-output and investment-labour ratios which would be chosen in otherwise identical situations, according to whether businesspeople were assumed to use rules derived from the axiomatic approach to theory associated with the assumptions of profit-maximisation and cost-minimisation, or behaved as they said they did and used a 'rule of thumb' such as the pay-off period criterion (POPC), or the accounting rate of profit, or, in the case of socialist managers, some variant of the recoupment period criterion. I showed that with orders of magnitude likely to be met in the real world, POPC resulted in a more investment-intensive, less labour-intensive technique being chosen than resulted from the use of any other investment-decision rule.

I then combined this analysis with an examination of various investment-incentive schemes - accelerated depreciation, investment allowances, cash grants - to see what effect these had on the techniques chosen and whether the latter accorded with the stated intentions of the policy makers who introduced the schemes, see Harcourt (1968, 1982). I understand this work resulted in a file on me in the UK Treasury in the late 1960s, one which was soon to be matched by the file the spooks were to keep on me for my

anti-Vietnam-war activities in Australia.

### **5. Direct action and capital theory**

Now a sea change occurred in my politics and economics. We returned to Adelaide at the beginning of 1967. I was already scandalised by Australia's role in the Vietnam war and determined to do something about it. The outcome was 5½ years of direct action averaging 2½ days a week on anti-war activities in South Australia. While I had been from the early 1950s a member of the Australian Labor Party, in the late 1950s, early 1960s, President of the local sub-branch, and also active in penal reform through the Howard League, I had always gone through the 'usual' channels. Now I became committed to direct action with the usual provisos, especially that you followed the same rules of argument with opponents as you would in academic arguments and that you were willing to respect your opponents even though you disliked their arguments.

The most important intellectual influences on me articulating my new position on direct action and involvement were Noam Chomsky's essay 'The Responsibility of Intellectuals' (1967) and Hugh Stretton's *The Political Sciences* (1969); the practical influences were the day-to-day experiences of helping to organise a protest movement. My economic analysis changed as well; my personality intruded more into my writing, and, as I no longer accepted that ideology and analysis could be separated, I made the former explicit in my teaching and writings, especially by the end of the 1960s.

As to direct action, I thought it justified if the cause itself was fundamental and all other avenues had been tried seriously and found wanting. Of course, 'favoured nation treatment' could not be claimed for those taking direct action, especially University Professors with Tenure, though fairness of

treatment by police and courts alike when the law was broken could be. That is to say, the legal consequences of breaking the law had to be accepted but the person involved did not have to accept being bashed up by police, or false accusations – set-ups – such as happened then, especially in the early days of the anti-war protests when the protesters were a small and much reviled minority whose views were generally unacceptable to the population at large.

As for economics, in 1968 Mark Perlman asked me to write the survey article on capital theory for the newly formed *Journal of Economic Literature* (for the full story, see Harcourt, 1998b). This forced me to get inside the debates that I had witnessed raging around me in Cambridge and resulted not only in the 1969 survey article but also in my 1972 book and its sequels, especially Harcourt (1975, 1976). The latest of these is only six pages long, Harcourt (1994a, 1995). Though the arguments are pitched at a high level of abstraction (as befits doctrinal and conceptual arguments), I tried not to lose sight of the implications for policy, see, for example, Harcourt (1975).

### **6. Life at the sharp end**

As inflation started to emerge and then accelerate in the 1970s, I turned my attention to policy-making concerning its control. I was one of the earliest to argue for indexation in the Australian context (this practice had been followed for many years in Australia through our centralised wage-fixing institutions, but had been abandoned for several years prior to the outbreak of inflation). Together with Eric Russell, Barry Hughes and Phillip Bentley, I formulated in August 1974 a package deal of proposals which came to be called the Adelaide Plan. An integral part of the proposals was a variant of indexation, one which stressed

proportionality, at least up to quite high income levels, rather than flat-rate adjustments to most incomes. We proposed that the scheme be commenced in the early months of the first quarter of 1975 with the line held, more or less, on money-wages in the meantime. (This was to allow the recent very large increases in money-wages and those already in the pipeline to feed through into prices by the end of 1974.)

Whatever the equity merits of the flat-rate versions in the then situation of badly ruptured relativities, the effects of introducing such a scheme could be disastrous as an anti-inflation measure. Since the situation was extraordinarily serious - unchecked, rates of inflation of the order of 30 per cent per annum or more could have emerged by the end of 1974 - equity (and efficiency) considerations had to take back seats for the time being.

Allied with the indexation scheme were proposals that company profits and the prices of companies' products be controlled through the tax system. We suggested that (with obvious exceptions for new companies, or those that recently made losses) profits be such as to not exceed the average of the net profit to sales ratio of (say) the previous three years. Any excess would be taxed away completely, that is, we proposed a 100 per cent excess profits tax. Also any money-wage increases (measured per hour and including the value of fringe benefits and other factors that add directly to costs) in excess of those allowed by indexation and a mild (say three per cent per annum) adjustment for relativities were not to be allowable as a cost for tax purposes; their consequent inclusion in taxable profits would bear a 100 per cent tax rate also. In this way profit margins per unit would be controlled (larger profits could still be made by selling larger volumes) and there

would also be a considerable incentive for business people not to acquiesce in wage payments in excess of the norms established for the emergency period, that is, sweetheart agreements would be out. The accounting profession in their capacity as auditors would be a vital link in this scheme of things. For they would have to certify that the net profit to sales ratios and wage payments had not exceeded the allowable limits.

The three per cent per annum increase allowed for relativities was necessary both because of gross departures from established norms in recent leap-frog movements in money-wages and also to make sure that trade union officials have worthwhile jobs - indexation by itself is tantamount to voting them out of a job, something neither they nor their union members would wear. With really badly out-of-line relativities, the adjustments might have to take a number of years. The self-employed would be subject to a similar system of excess income control, by using the personal income tax system. Promotions, and so on, could be handled by a version of Keynes's deferred pay system whereby excess income over the average increase indicated by indexation plus (mild) adjustments for relativities would be deferred for (say) two years, a modest rate of interest being paid on these amounts in the meantime.

By itself, indexation would only serve to stabilise the rate of increase of prices, not to bring it down. To bring it down we must look for 'dampeners' in the cost of living index in the form of reduced food prices (at the farm gate), increases in productivity (here the threat of a recession was a real worry as productivity tends to fall with the onset of a recession) and State and Australian Government behaviour with regard to charges, direct and indirect taxes. Thus, it was vital that the Australian Government put the State

Governments in such financial positions that they would not have to raise charges or introduce State taxes; indirect and direct tax cuts would also be desirable, if the macroeconomic situation warranted it. Here the recession might be a blessing in disguise, as far as the cost-push elements of inflation are concerned, for tax cuts would be needed for demand management purposes. Given very favourable circumstances, we estimated that inflation rates *could* be down to single figures (high ones, alas) by the first quarter of 1976.

We took the view that the present inflation, whatever its initial causes, was now predominantly wage-price and wage-wage, that is to say, it had a life of its own in terms of these elements. We therefore were opposed to measures which implied a sharp rise in unemployment which was sustained for a considerable period of time, because they are inhumane and inappropriate. We felt that some package deal such as ours, the strands of which were not original but borrowed freely, could have secured wide community consensus and, conceivably, just might have worked. The alternatives were a move towards hyper-inflation (prices rising at 50 per cent per annum or more), with all its attendant and undesirable political and social consequences and anxieties, including, as an outside chance, the destruction of our democratic institutions themselves; or a wholesale and widespread freeze of wages and prices; or the deliberate creation of unemployment, in order to shock the system and break through the expectations barrier. We felt that the last would have been the worst of all possible worlds, enough to create a great deal of unnecessary misery and loss of employment and output, not enough to have a significant effect on money-wage increases, unless it were to be held for an intolerably long time, certainly over a year. We stressed

that we were faced with a serious inflationary situation, to which had to be added the possibility of a world-wide slump, in which the whole capitalist world was moving in unison, all parts of which were faced with inflation and tackling it by reducing demand. Prospects were bleak but we stressed that these were the alternatives before us and that our proposals, unpalatable as they may be in the short run, were relatively the least unpalatable of them all.

As well as tackling inflation we also wanted to support the efforts of Ralph Willis, who was subsequently to be an important Minister in the Hawke and Keating ALP governments of the 1980s and 1990s but who was then a lone voice crying in the ALP wilderness.

At the end of the 1970s after the ALP had been badly beaten in the 1975 and 1977 Federal elections, I was appointed the economist on the ALP's National Committee of Inquiry into why the Party had done so poorly and how they should rethink their policies and administrative institutions in order to make a comeback. I wrote the first draft of Discussion Paper no. 6, 'Economic Issues and the Future of Australia' (1979). I drew on the postKeynesian ideas I set out in 'On Theories and Policies' (1977b, 1982), 'The Mixed Economy' (with Prue Kerr, 1979) and the work I had done with Eric and the others on the Adelaide Plan. (Tragically, Eric died in February 1977 so that his wise counsel was missing just when it was needed more than ever.) The discussion paper was meant to be the broad background to the economic policies of the ALP government when it was returned to power in 1983 – only very indirectly, of course, but I like to think that the Accord between wage-earners (through the Australian Council of Trade Unions) and the government in its early years owed something to our debates and suggestion in the 1970s.

Before I left Adelaide and Australia in



September 1982 to take up a post in the Faculty at Cambridge and a Fellowship at Jesus, I outlined my policy views in the 1982 John Curtin Memorial Lecture 'Making Socialism in Your Own Country' (Harcourt 1986), just before the ALP was returned to power with Bob Hawke as Prime Minister. In essence my proposals involved redistribution through the public sector as the *quid pro quo* to wage-earning groups for accepting incomes policies directed at the rate of increase of money incomes, using the traditional Australian institutions of indexation and the Arbitration Commission. Fiscal and monetary measures were to be directed towards the level of activity, the rate of growth and the post-tax distribution of income. Nationalisation of certain key industries including financial intermediaries was put back on the agenda for discussion and I sat on the fence concerning the tariff, i.e. leave it as it is and concentrate on export promotion. (The act in my professional life I most regret in retrospect is that I publicly supported, as did most other Australian economists at the time, the cut in tariffs by the Whitlam ALP government in the early 1970s.) I opted for a fixed exchange rate, with the proviso that in an economy like Australia's, a change might have to be contemplated from time to time.

### **7. Renewed burst on policy**

The final thing to say is that from 1992 on I have had a burst of renewed and sustained interest in policy. The immediate stimulus was a request to give the 1992 Donald Horne Address, 'Markets, Madness and a Middle Way', in Melbourne in February 1992. It spawned further papers, one on macroeconomic policy for Australia in the 1990s, (1993a, 1995), another on 'The Harcourt Plan to "Save" the World' (1993b). This subsequently become 'A "Modest

Proposal" for Taming the Speculators and Putting the World on Course to Prosperity' (1994b, 1995). In 1997 I published the paper on economic policy, accumulation and productivity, Harcourt (1997a), to which I referred above and gave the Seventh Colin Clark Memorial Lecture on 'Economic Theory and Economic Policy: Two Views', Harcourt (1997d). The latter drew on a review, Harcourt (1997b), I wrote of Joe Stiglitz's 1990 Wicksell Lectures, *Whither Socialism?*, Stiglitz (1994, 1996) and a review article, Harcourt (1997c), of Kaldor's 1984 Mattioli Lectures, Kaldor (1996). In all these papers I tried to make explicit the fundamental differences made to policies advocated depending upon what particular view of the world is taken. That is to say, whether markets and entire systems are regarded as strongly equilibrating mechanisms, on the one hand, or as exhibiting cumulative causation processes (associated with Allyn Young, Myrdal and Kaldor), virtuous or vile, on the other. The former is the stance of most variants of mainstream economics, not least the Chicago economics of Friedman and Lucas. The historical backdrop is the rise of monetarism, 'the incomes policy of Karl Marx', as Balogh so rightly called it, the deregulation of financial markets and the creation of flexible labour markets. The last is a euphemism for recreating the reserve army of labour so as to have, as Samuelson (1997) now says and many of us had already said in the 1970s, a cowed labour force.

The idea of the Horne Addresses is to ask an Australian living abroad to come home to give a wide-ranging address on issues of vital importance for Australian citizens. The conjunction of events to which mine was addressed was the launching of the Republican movement in Australia and the

U-turn on economic policy of the Federal ALP government that was then occurring. The background was the emerging reaction against the 'let the market rip' policies of the 1980s which characterised part of economic policy in Australia, and the crowing over, and then second thoughts about, the implications of the collapse of Communism. I never held any brief for the awful regimes of the USSR and the Eastern European economies but I did point out that the achievements of those Western industrialised capitalist economies that had gone overboard on Hayekian/Friedmanite policies from the 1970s on were not that much to write home about either. There was therefore a case to be made for middle ways - the Kaleckian approach to democratic socialism, for example, for Eastern Europe, the Keynes/Kaleckian (with modern additions) post Keynesian blueprints for Australia and other similar countries.

I preceded my outlines of middle ways with an account of what modern (and not so modern) theory had to say about the conditions which need to be satisfied for markets to be safely left to do their thing, pointing out (as Kaldor and Stiglitz do, too) that these conditions are spectacularly *not* satisfied in the markets for labour, foreign exchange, financial assets and housing. I recognised that it was a *non sequitur* to jump to the proposition that some form of intervention and regulation would *necessarily* do better - the case for this had always to be made.

As I said above, the common theme connecting these papers was the argument that many markets and indeed economic systems themselves are characterised by cumulative causation processes. This viewpoint implies that very different policy proposals and institutions are needed than those associated with the more orthodox general equilibrium framework. Radically different attitudes

would be taken towards, for example, speculators and speculation because their systemic effects would not be the benign ones identified by, for example, Milton Friedman in his well-known article on the case for flexible exchange rates (1953)<sup>3</sup>.

The essays on macroeconomic policy relate principally to the problems of small open economies. It allowed me to ride some hobby horses, for example, that government expenditure should not principally be used for pump-priming but rather should fit in with the longer-term needs of economies, taking into account the social and political philosophy of the government in power. I also drew attention to the danger of forgetting those old-fashioned but profound lessons from the writings of Russell and Salter concerning the macroeconomic effects of incomes policies on rates of accumulation, and from Kalecki concerning the vital differences between getting to, and then sustaining, full employment. Because at the economy level capital and labour are complements, changing money incomes according to changes in the cost-of-living *and* effective productivity is not only equitable, it is also efficient. It encourages investment in profitable, productivity-enhancing industries and hastens the decline of industries whose time has not only come but gone.

In the paper on a 'modest proposal' I tried to set out the problems of the various broad regions of the world, show how they are interrelated and what particular combination of policies and institutions might serve to tackle their problems effectively and simultaneously. There is a Utopian tinge to such an exercise (though I did try to take into account the constraints imposed by present political and ideological climates). Nevertheless, unless such interrelationships and schemes are explicitly set out, it is difficult to get people of good will to think

about the causes and cures of the world's ills. Next step the universe, of course.

If it were to be asked had I ever considered being an official policy advisor, the answer is 'yes' - and I decided not to be. In 1974 I was approached by Jim Cairns, who taught me at Melbourne University and who was then Deputy Prime Minister of Australia and Federal Treasurer in the Whitlam government, to see whether I would consider being either Governor of the Reserve Bank of Australia or permanent head of one section of an intended revamp of the Commonwealth Treasury. To the first request, I said 'no' immediately, adding 'You know me, Jim, I'm a real man, not a money man'. I promised to think about the second request but on reflection and, especially, after talking to Eric Russell and Peter Karmel, I said 'no' to it, too. They pointed out (and I agreed) that I had neither the appropriate temperament nor the necessary guile to withstand the inevitable machinations of very bright civil servants who would undoubtedly be resentful at having a rank outsider brought in over their heads.

### **8 Au revoir**

So that is it - to date, I retire in September 1998. I intend to spend 8-9 months in Cambridge working on the project which brought me back to Cambridge in 1982 - the intellectual history of Joan Robinson and her circle. The other months I hope to spend in Australia working on policy. July will be sacred for playing cricket at Jesus. Sounds idyllic?!

### **Endnotes**

1. Jesus College, Cambridge. The title of the paper is meant to invoke Paul Robeson singing 'When you come to the end of a perfect day'. May I say how grateful I am

to Peter and Paul for allowing me the opportunity to provide a swan song to the Post Keynesian Study Group, even if I seem at the moment to be having more farewells than Madame Melba? I thank but in no way implicate Stephanie Blankenburg, the editors and the participants in the conference at Stoke-on-Trent for comments on the swan song and/or a draft of the article.

2. The ideas were really Eric's, as Meade acknowledged. He said that the greatest act of his then six months in Australia was when he persuaded Eric to co-author the paper with him.
3. In writing about the taming of speculators by use of carrot and stick methods, I realised the great temptation associated with authoritarian regimes. They do not have trouble with speculators because they shoot them or, at least, put them in jail.

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