

ON THE ROLE OF ECONOMISTS, AND LEAVING TASMANIA

OCCASIONAL ADDRESS

UNIVERSITY OF TASMANIA (FACULTY OF COMMERCE)

GRADUATION CEREMONY

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by

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Deputy Chancellor, Acting Vice-Chancellor, distinguished guests, members of the University, graduates, ladies and gentlemen:

Thank you for the honour and privilege of being invited to address a graduation ceremony at this University.

May I extend my congratulations to the graduates assembled here today on your achievement. This afternoon represents the culmination of what will have been for most of you several, for some of you many, years of work. For some of you, the time spent attaining your degree or diploma will have been among the most enjoyable of your lives to date. For others, it will have entailed a degree of struggle and or sacrifice. I hope you now believe that it's been worth it. Nearly all of you, I suspect, will have benefited from the support, or perhaps the tolerance, of parents and or siblings; of partners or spouses; or of employers and work colleagues. It is appropriate on an occasion such as this also to acknowledge the importance of that support.

Most of you will be seeking to apply the knowledge and skills you have acquired during your studies in the furtherance of careers in business, the public service, the financial markets, teaching or in professional practice. It is possible that your career will eventually take you into more than one of these areas, and perhaps into others besides. The paths ahead of you are arguably less well defined than those typically trodden by graduates of faculties such as Medicine, Engineering, Science and Law, but they have a potentially greater variety of destinations.

Depending on the choices which you make, but like graduates in other disciplines, you will probably find yourselves more financially comfortable than those for whom a tertiary education has for whatever reason not been possible. Australians with tertiary qualifications are less than half as likely to be unemployed as those without them; and in employment they typically earn at least 35% more than those without tertiary qualifications¹.

You may find it harder than graduates in disciplines such as Medicine, Engineering, Science and Law to define a broader social purpose for the endeavours in which you will seek to apply your knowledge and skills. You will not be healing the sick, or saving lives; you will not, in general, be designing or building structures or machines that serve as tangible evidence of your efforts; you will not be discovering new species or new stars, or previously unknown things about existing life forms; you will not be fighting for or administering justice.

By contrast with those noble pursuits, the string of corporate and financial scandals unveiled in the United States and, to a somewhat lesser extent in Australia, over the course of 2002 have tarnished the reputation of the professions in which many of you may be seeking careers.

And yet it remains difficult to imagine our modern society functioning without the contributions made by those with training in commerce or economics.

¹ Australian Bureau of Statistics (2002), *Education and Work* (catalogue. No. 6227.0), May 2001, Table 12; OECD (2002), *Education at a Glance 2002*, Table A.13, available at <http://www.oecd.org/EN/document/0,,EN-document-604-5-no-27-32058-604,00.html>.

Commercial skills are invariably involved in the countless business decisions which lead to the creation of income and wealth, the quantities of which are measured and reported by accountants. Among their other uses, those measurements and reports are indispensable to the assessment and collection of taxes, which in turn fund much of the healing of the sick, the advancement of knowledge and the dispensation of justice which are conducted in or by our public institutions.

Those who dismiss economics as ‘the dismal science’ almost invariably do so ignorant of the fact that the phrase was first used by Thomas Carlyle in 1849 in an essay denouncing economists such as John Stuart Mill for their belief that all peoples’ common humanity entitled them to the same liberties, including in this particular instance the freedom of black people from slavery². Instead, as James Tobin said when accepting the Nobel Prize for Economics in 1981, economics ‘offered the hope, as it still does, that improved understanding could better the lot of mankind’³. Maynard Keynes wrote, in his most famous work, that ‘the ideas of economists ... both when they are right and when they are wrong, are more powerful than is commonly understood’⁴.

The influence of economists’ ideas has almost certainly become much more ‘commonly understood’ over the intervening sixty-six years: but the fact that Keynes could go on to assert in 1936 that ‘the world is ruled by little else’ suggests that the frequent assertion that economics has exerted undue influence over public policy in Australia since the mid-1980s is a considerable exaggeration.

Rather, the key insight from both Tobin’s and Keynes’ words is that good economic policy can make peoples’ lives better, with the obvious corollary that bad economic policy can make peoples’ lives worse.

Australia’s post-war experience illustrates both sides of this truth. Between the mid-1950s and the mid-1980s, the conscious decisions of successive Australian governments to cocoon this country’s economy behind rising barriers to international trade in manufactured goods and services, while other Western economies were dismantling theirs, combined after the early 1970s with inflationary monetary and fiscal policies and an artificially over-valued exchange rate, saw Australians’ living standards fall from fifth among all OECD countries in 1950 to fifteenth by 1990.

This decline was obscured from the view of most Australians for about 25 years by high rates of immigration and the development of new resources, and by the legal and social barriers to women’s participation in the labour market which kept measured unemployment rates low. But after the mid-1970s the facts of Australia’s economic decline became increasingly difficult to conceal or ignore.

² Thomas Carlyle (1849), *An Occasional Discourse on the Negro Question*, pp. 672-673; quoted by David M. Levy and Sandra J. Heart, ‘The Secret History of the Dismal Science: Economics, Religion and Race in the 19th Century’, at <http://www.econlib.org/library/Columns/LevyPeartdismal.html>.

³ James Tobin (1981), ‘Autobiography’, at <http://www.nobel.se/economics/laureates/1981/tobin-autobio.html>.

⁴ John Maynard Keynes (1936), *The General Theory of Employment, Interest and Money*, Macmillan, p. 383.

Since the mid-1980s, what have for the most part been good economic policies, pursued by governments of differing political persuasions, have resulted in an improvement in Australians' relative standards of living, to seventh among Western nations in terms of per capita GDP; and fifth according to the United Nations' Human Development Index, a somewhat broader concept, by 2001.

In much the same way, bad economic policies in Tasmania between the mid-1970s and the mid-1990s – including the failure to adapt to significant and predictable changes in the broader economic environment, and incompetent management of the State's finances – contributed importantly to the decline in Tasmanians' standard of living relative to that of other Australians, and to the adverse social consequences which have accompanied that trend; and, conversely, that the pursuit of better economic policies since then is tangibly laying the groundwork for improved economic and social outcomes in Tasmania during this decade.

That is not to deny that 'good' economic policies have not benefited all Australians (or Tasmanians) equally, or that there are not other important challenges before us.

However I would argue that social, environmental and other challenges are more readily confronted by prosperous societies than by impoverished ones. And the insights of economics, sensibly applied, have much to contribute to the task of overcoming what are not ordinarily regarded as 'economic problems', such as salinity or global warming.

As Paul Krugman – who is probably a future Nobel Laureate in Economics – has observed, 'economists may make lots of bad predictions, but they do have a method – a systematic way of thinking about the world that is more true than not, that gives them genuine if imperfect expertise. That is also why lay commentators and other social scientists tend to hate them.'⁵

So as you apply your knowledge and skills throughout your careers, I encourage you to believe that you have the capacity to contribute as much to the broader good of your communities as those working in other fields. Whether you choose to use that capacity in that way is, of course, up to you.

Of necessity, many of you will find that your chosen career will take you away from this island. For those among you who have come from elsewhere to study at this University, this may be a matter of returning home. Given the increasing concentration of industries which typically employ large numbers of economics and commerce graduates, in particular the finance and business services sectors, in Sydney and Melbourne, it may well be that a higher proportion of you than of your peers from other faculties will eventually move to the mainland, or indeed overseas.

This is a source of more angst in Tasmania than it deserves to be. As this University's Peter Hay wrote recently, 'This is not a tragedy. Our young people *should* leave. The tragedy lies in them not coming back, in never feeling that they can bring their skills, their worldly-wisdom, their new insights and their energies back home'⁶.

⁵ Paul Krugman (2000), 'Why I Am an Economist (Sigh) – Notes During Textbook Revision', at <http://web.mit.edu/krugman/www/Serfdom.htm>.

⁶ Peter Hay (2002), 'A Tale of Two Islands', *Island* (89). Also at <http://www.tasmaniantimes.com>.

Tasmania's diaspora – which is now equivalent to more than 50% of the resident population of this State – needs to be seen as an asset rather than as a loss.

I sincerely hope that all of you who do pursue careers on the mainland or further afield will retain at least an emotional tie with Tasmania, and that at least some of you will at some point return, as I hope that I shall some day be able to do. I particularly hope that all of you will retain a personal affiliation with this University. To a greater extent than its mainland peers, with their closer proximity to those in the business world with the authority to write large cheques, this University's capacity to maintain the academic standards of which you are all beneficiaries – and hence in a sense the value of the qualifications which you have formally attained this afternoon – may depend on the depth of these personal affiliations.

Can I in conclusion again congratulate you all on your achievements, and wish you well in your subsequent endeavours.