A Note on the Debate over 'Economic Rationalism' in Australia: An Application of Albert Hirschman's *Rhetoric of Reaction*

Therese Burton, Brian Dollery and Joe Wallis*

Abstract: Applies Albert Hirschman's 'rhetoric of reaction' to the post-1980 controversy over 'economic rationalism', that is, the applicability of mainstream economic logic to the reform of the Australian economy. Argues that this sheds light not only on the nature of economic policy in Australia but also on the explanatory power of the Hirschman taxonomy.

1 Introduction

This note seeks to examine the debate surrounding 'economic rationalism' in Australia in the 1990s from the perspective of McCloskey's (1983) 'rhetorical persuasion' as a means of discourse in economics. More specifically, we apply Hirschman's (1991) 'rhetoric of reaction' taxonomy to the controversy over applicability of economic logic to the reform of the Australian economy which occurred from the early 1980s onwards. The note thus represents an exercise in the contemporary history of economics with special reference to a very recent Australian debate. The Hirschmanian pattern of rhetoric is adopted for two main reasons. Firstly, it provides a useful organisational tool for examining the debate over economic rationalism in Australia. And, secondly, the Hirschman typology furnishes an alternative analytical approach to the existing literature on economic rationalism as perhaps best exemplified by John Quiggin's (1996) *Great Expectations* and William Coleman's and Alf Hagger's (2001) *Exasperating Calculators*. In particular, *Exasperating Calculators* adopts amusing adversarial 'for' and 'against' metaphors to capture the flavour of the debate, including 'the destroyers', 'the public's prosecutors', 'hits', and so forth. Our method of constituting the debate places this gladiatorial arrangement in a formal theory of polemical discourse in the social sciences.

We apply the Hirschman typology to the 'reactionary' arguments presented by opponents of the economic reform policies supported by economic rationalism as well as to the counter 'progressive' arguments marshalled by the economic rationalist advocates of reformist policies. We argue that this methodology sheds light not only on the nature of the debate over economic rationalism in Australia, but also on the explanatory and organisational power of the Hirschman taxonomy in examining real-world debates over economic reform.

The term economic rationalism has been traced back in its English usage to at least as far back as Max Weber's (1904-05, 1930) *The Protestant Ethic and the Spirit of Capitalism* and R.H. Tawney's (1926, 1938) *Religion and the Rise of Capitalism*. However, Michael Schneider (1998, p. 48) argues that it first appeared in Australian policy debates in an editorial in the *National Times* on 27 August 1973 in the context of a government plan to expand the Australian Industries Development Corporation. But its widespread and pejorative Australian

employment seems to stem from Michael Pusey's influential *Economic Rationalism in Canberra* (Coleman and Hagger 2001, pp. 7-11). A difficulty in dealing with the debate over economic rationalism derives from determining the precise definition of the expression. For example, in their examination of both the popular and professional literature, Coleman and Hagger (2001, p. 37) conclude that 'the term "economic rationalism" has no generally accepted meaning' and the subsequent debate occurred within a 'definitional gap' (p. 148). Nevertheless, for our present purposes we shall take economic rationalism to imply a belief in the efficacy of market forces and the need for limited government in the face of market failure and government failure.

2 The Rhetoric of Reaction

Beginning with his seminal paper in 1983 *Journal of Economic Literature*, Donald McCloskey sought to persuade the economics profession that economic argumentation and theorising may be characterised as rhetorical persuasion. In his *Knowledge and Persuasion in Economics*, McCloskey (1994, p. xiii) distinguished between the Platonic and Aristotelian definitions of 'rhetoric', with the former 'mere flattery and cosmetics' and the latter 'all the available means of (uncoerced) persuasion'. Although it is sometimes difficult to determine the precise meaning he places on the term, McCloskey's own use of 'rhetoric' seems to approximate the Aristotlian version of the word. For instance, Maki (1995, p. 1303) has defined McCloskey's conception of 'rhetoric' as 'the use of arguments to persuade one's audience in an honest conversation (and the study thereof)'.

But if we consider the broader explicitly politicised debates which occur over the application of economic theories and doctrines to actual societies, then it seems clear that both the Platonic and Aristotlian dimensions of rhetoric are brought into play in the subsequent policy debates. In this real-world context, both kinds of rhetorical argument appear to be important in the political interchanges surrounding policy reforms.

In his pioneering *The Rhetoric of Reaction*, Albert Hirschman (1991) contends that each major step in the development of 'citizenship' in the West, ranging from the civil to the political and then socioeconomic citizenship, has been met by a powerful reaction by opponents of reform. Moreover, Hirschman suggests that adversaries of reform have 'unfailingly' contested reform proposals with three common kinds of rhetorical argument: namely, the 'perversity thesis', the 'futility thesis', and the 'jeopardy thesis'. Whereas Hirschman himself applies this conceptual framework to the debates surrounding critical reform measures in the development of full citizenship in western democracies, like the extension of universal adult suffrage and the poor laws, his rhetorical taxonomy can readily be extended to any reform process intended to bring about a radical change in the direction of public policy, including contemporary policy debates.

The perversity thesis holds that any attempt to fundamentally reform the existing institutions and policies of society will inevitably result in unintended and perverse consequences which will aggravate the very conditions the reformers seek to remedy. Thus 'the attempt to push society in a certain direction will result in its moving all right, but in the opposite direction' (Hirschman 1991, p. 11). The perversity thesis is an especially powerful argument in the realm of economic policy since, according to West (1976), neoclassical economics is largely centred on Adam Smith's doctrine of the 'invisible hand' which emphasises the self-

regulating nature of markets. Thus 'any public policy aiming to change market outcomes, such as prices or wages, automatically becomes noxious interference with beneficent equilibrating processes' (Hirschman 1991, p. 27).

Rhetorical attacks embodying the futility thesis maintain that the proposed reforms will have no effect at all and thus are completely ineffectual. Whilst the claim made by exponents of the futility thesis may initially seem less harsh than the perversity thesis, Hirschman (1991, p. 45) contends that it is much more 'demoralising' and 'humiliating' since it brings into question both 'the meaning and true motive' of the efforts of advocates of reform. In doctrinal debates in economics, Hirschman cites the attack on interventionist Keynesian policy prescriptions by the 'rational expectations school' in macroeconomics as an example of the futility thesis.

In contrast to both the perversity and futility theses, the jeopardy thesis may concede the desirability of the aims of the proposed reform and attack instead the costs and consequences of the reform. Thus, the jeopardy thesis 'asserts that the proposed change, though perhaps desirable in itself, involves unacceptable costs or consequences of one sort or another' (Hirschman 1991, p. 81). Hayek's (1944) famous *The Road to Serfdom* can be construed as an instance of a jeopardy argument against the welfare state since although the measures proposed by the Beveridge Report may have been benevolent in themselves, they nevertheless imperilled individual liberty.

Just as adversaries of some proposed reform inevitably oppose the reform with perversity, futility and jeopardy rhetorical arguments, so too advocates of these reforms inexorably meet these arguments with three 'progressive counterparts'. The jeopardy thesis is thus typically confronted with the 'imminent danger thesis' which seeks to emphasise the dangers of passivity and stresses the need to defend social institutions against impending disaster. For instance, Hirschman (1991, p. 152) observes that Hayekian jeopardy arguments against the welfare state were contested by 'progressives' who highlighted 'threats of social dissolution or of the radicalisation of the masses' as countervailing arguments. Similarly, the perversity thesis is attacked on the basis of the 'desperate predicament thesis', in which 'it is implicitly or explicitly argued that the old order must be smashed and a new one rebuilt regardless of any counterproductive consequences' (Hirschman 1991, p. 162). These kinds of argument typically escalate the level of rhetorical language in more extreme forms. Finally, the futility thesis is addressed by 'the futility of resistance' thesis, which underscores the historical inevitability of the proposed reforms and consequent futility of resisting them. Hirschman (1991, p. 157) accentuates the rhetorical synergies between these rhetorical positions by noting that both invoke the inexorable 'law-like' 'forces of history' at play.

Given its claims to universal nature of social discourse over far-reaching economic and social reforms, it is not at all surprising that the Hirschmanian pattern of rhetorical argumentation has attracted criticism. Christopher Hood's (1998) critique in his *The Art of the State* seems broadly representative of the adverse comment Hirschman's rhetorical taxonomy has induced. Comparing Hirschman's bipolar dichotomisation between 'reactionary' and 'progressive' unfavourably with his own fourfold typology of 'world views' in public administration, Hood (1998, p. 185) claims that it is simply 'not rich enough to capture' the complexities of the rhetorical arguments surrounding policy reforms. Hood (1998, p. 21) himself proposes a taxonomy which encompasses four methods of appraising

argumentation in public administration: hierarchist, individualist, egalitarian, and fatalist.

3 The Debate on Economic Rationalism

If we consider the debate on economic rationalism to include public and professional dispute over both the economic policies subsumed under economic rationalism and the economic arguments advanced in support of these policies, then we can employ the Hirschmanian pattern of rhetoric to examine the entire spectrum of opinion in the debate. This has the added advantage of ameliorating the definitional problems identified by Coleman and Hagger (2001). Accordingly, we now attempt to identify examples of the perversity, futility and jeopardy arguments marshalled by opponents of economic rationalism, and instances of the countervailing progressive defence mounted by advocates of economic rationalism, using the imminent danger, desperate predicament and futility of resistance theses.

Perversity Arguments

Perversity arguments revolve around the central proposition that proposed policy reforms will worsen an existing situation, even in terms of the values espoused by the reformers. At the generic level of the debate on economic rationalism, it is easy to find numerous examples of the perversity thesis. For instance, after a lengthy analysis of the impact of reformist policies on the Commonwealth bureaucracy, Pusey (1991, p. 240) concludes by arguing that 'on all of these benchmarks, after a decade of economic "rationalism", the state has, internally and externally, even less "relative autonomy" than before and a much reduced capacity to control Australian business or to compensate or protect its population from further predatory attacks'. In his satirical *First Abolish the Consumer: 202 Arguments Against Economic Rationalism*, Bob Ellis (1998, p. 200) unwittingly advances a perversity argument against the corporatisation of Sydney Water by observing that the water it produced 'had two diseases, giardia and cryptosporidium, which had not been asked to look for (*sic*) by the corporate utility that had been downsized'. Similarly, Ellis (1998, p. 7) attacked the consequences of reducing the size of the Australian Public Service in Canberra by claiming that redundant employees 'sought relief in drugs or alcohol…took up burglary…committed suicide…and beat their wives'. An even more passionate Mathews (1991) declared that 'free market policies are killing the Australian economy and causing hardship and financial ruin for millions of Australians'. In Donald Horne's edited volume, *The Trouble With Economic Rationalism,* Elaine Thompson (1992, p. 17) contends that 'as a direct result of current fundamentalist thinking Australia is losing its position as the nation in which income is spread more equitably among its population than in any other country'! In the same book, Santina Bertone (1992, p. 73) warns that 'as we move toward a more deregulated, enterprise-focussed system of wage regulation and labour market regulation generally, the benefits of a century of centralised, arbitration-based wages and conditions are likely to disappear, at least for part of the workforce'.

A more concrete example of this rhetorical position can be found in Stretton's and Orchard's (1994, pp. 200-4) analysis of the impact of the deregulation of the Australian financial system. Thus:

> This general liberation has done the opposite of everything its designers promised…Within the finance industry the deregulators predicted that competition would cut banks' interest rates and profit margins. In fact

> most of the established banks increased their profits, and nominal and real interest rates rose to be amongst the highest in the world…They did nothing good, except for rentier lenders (Stretton and Orchard, 1994, pp. 201-2).

Frank Stilwell (1993, p. 29) in *Beyond the Market: Alternatives to Economic Rationalism* takes a similar perversity position by arguing that 'financial deregulation in the 1980s created an economic milieu conducive to speculation rather than productive investment, ushering in the era of corporate cowboys and paper entrepreneurs'.

Advocates of financial deregulation seem to have employed the desperate predicament thesis to defend policy reforms, although not perhaps in as inflammatory terms as their counterparts during the French Revolution. For instance, Hunt and Terry (1997, p. 139) contend that prior to financial deregulation '…the system of controls was not very effective and that the controls impeded the efficiency of the operations of the financial system'. Similarly, Harper and Leslie (1993, p. 90) contend that 'the growing sophistication of financial markets, spurred by developments in information technology and the increasing internationalisation of financial activity, combined to reduce the effectiveness of many domestic financial regulations that either became redundant, or gave rise to obvious distortions as markets attempted to take evasive action'. Accordingly, financial deregulation became essential, regardless of the costs involved.

Futility Arguments

Although they have much in common with perversity arguments, in the sense that both are predicated on the notion of unanticipated consequences, futility arguments go further and maintain that attempts at social transformation will ultimately make no difference. Hirschman (1991, p. 75) claims that futility arguments are thus 'more devastating' because they demean the significance of reform initiatives and are therefore 'insulting' to proponents of reform who have invested heavily intellectually and emotionally in a reform program. Examples of the futility thesis are much more difficult to find in the literature on the debate over economic rationalism. Where they do exist, the claim generally seems to be centred on the proposition that any gains or losses from economic reform that may have been associated with the economic rationalism program were illusory in the sense that they would have occurred in any event. For instance, in the context of a discussion over the net economic benefits flowing from microeconomic reform in Australia, Quiggin (1996, p. 222) observes that 'the major economic factors reducing social welfare over the past twenty years have been the slowdown in productivity growth and the rise of large scale unemployment. These developments have been common to the majority of OECD countries, including those that have undertaken no systematic program of microeconomic reform'. In his critique of the market-orientated reform of Australian health care, Davis (1993, p. 130) dismisses the 'economistic' prescription and claims that 'all countries experienced increases in health care costs' and 'it is possible to control costs [without economic rationalist solutions] and many countries have done it without too much fanfare'.

Exponents of the economic reform program inspired by economic rationalism have more often resorted to the futility of resistance argument in defence of their position. Thus, in his vindication of the decision to float the Australian dollar, Valentine (1993, p. 34) contends that 'Australia had strong international linkages arising out of our dependence on foreign trade and earlier

deregulation. These linkages had reached the point where "a managed rate was no longer defensible"'. Similarly, King and Lloyd (1993, p. x) describe financial deregulation in Australia as 'unavoidable'. More generally, Kohler (1992, p. 102) argues that, at the aggregate level, official policies of whatever kind make little difference in any event: 'governments and their macroeconomic policies rarely make much difference, except to make us worse off through their bumbling'.

Jeopardy Arguments

Jeopardy arguments seek to persuade an audience that even though a proposed reform may be desirable in its own right, it nonetheless involves other consequences or trade-offs that are unacceptable. This rhetorical tactic is widespread in the debate surrounding economic rationalism in Australia. Thus Langmore and Quiggin (1994, p. 55) concede that although 'many elements of the micro-economic reform program are necessary and beneficial', 'potential gains are being sacrificed because of the failure to do anything about unemployment'. Similarly, Self (1993, p. 231) argues that economic rationalism offers a simplified alternative to the 'overload' problems which harried governments in the 1970s, but it is a 'destructive simplification'. In his case against economic rationalism, C.D. Kemp (1991, p. 26) accepts that 'deregulation is a good idea, in so far as it means smaller government, lower taxes and less bureaucratic meddling', but 'it is a very bad, indeed, fatal, idea when extended to the financial system leaving the determination of interest rates, the money supply and the external value of the currency to the tender mercies of the market'. John Carroll (1991, p. 12) acknowledges the argument that 'protection reduces efficiency has weight', but nevertheless contends that the abolition of tariff protection will have deleterious effects on unemployment. In *Beyond the Market: Alternatives to Economic Rationalism*, Philip Raskall (1993, p. 50) concedes that while economic rationalism may achieve efficiency objectives, these come at an unacceptably high equity cost, since 'by concentrating solely on economic efficiency goals and ignoring the distributional consequences of policy, self-styled economic rationalism (more correctly called unreal economics) fails to achieve even its own limited targets, and indeed sabotages them'. Bob Ellis (1998, p. 33) adopts a similar position on the part-privatisation of Telstra by arguing that even though the telecommunications company became more efficient, this was achieved at the cost of thousands of jobs.

As we have seen, Hirschman (1991) proposes that jeopardy arguments by reactionaries will be met with imminent danger rhetoric on the part of advocates of reform. This is certainly true in the case of the debate over economic rationalism in Australia. For example, advocating the urgent need for the removal of tariffs in *Quadrant*, N.R. Evans (1991, p. 18) counters Carroll's protectionist arguments by observing that 'real incomes, real living standards, have fallen steadily over the last decade and will continue to fall, at an increasing rate, unless major changes are made to long-established and powerful institutions'. In a similar vein, commenting in the context of policy reform, John Stone (1991, p. 31) defends the reform of the Australian economy in the 1980s by arguing that, without further urgent policy reforms, 'we shall gradually become net losers, and the seriousness of that loss will go far beyond the possibly small number of people directly involved'.

4 Concluding Remarks

The limited purpose of this short note has been to argue that rhetorical persuasion along the lines envisaged by McCloskey (1983) has indeed characterised the debate

over economic rationalism in Australia. Moreover, we have sought to show that Hirschman's (1991) taxonomy of reactionary rhetoric can illuminate the nature of the debate and thus provide an alternative method of conceptualising the structure of argumentation to Coleman's and Hagger's (2001) *Exasperating Calculators*.

Various tentative observations can be drawn from the preceding discussion. Although Hirschman's (1991) typology of rhetorical argument does appear to encapsulate much of the debate over economic rationalism in Australia, it nevertheless has certain shortcomings. For instance, although it was possible to find salient examples of the futility thesis and its countervailing futility of resistance rhetorical strategy, comparatively little effort seems to have been invested by the contending parties in this tactic. By far the most popular form of rhetorical attack on economic rationalism seemed to employ perversity arguments, followed by jeopardy rhetorical critiques.

Furthermore, we found that Hirschman's (1991) taxonomy cannot easily accommodate debate involving disputed empirical evidence. Thus, for example, Dollery's and Hamburger's (1996) attack on Pusey (1991) (see Coleman and Hagger 2001, pp. 175-8), which sought to demonstrate that changes in staff employment data in the Australian Public Service for the period 1982/3 to 1991/2 had moved in the opposite direction to that predicted by Pusey, does not fit at all easily into the Hirschman schema.

Similarly, the Hirschman (1991) rhetorical trilogy focusses largely on debate over the impact of proposed reforms on society. But not all rhetoric is so consequentialist. For instance, much of the negative rhetoric directed against economic rationalism in Australia concerns the nature of economic rationalism *per se*. Thus economic rationalism is variously characterised as 'ideological', 'doctrinaire', 'dogmatic', 'scientistic', 'an American import', and 'unempirical', amongst many other things. Accordingly, the Hirschman (1991) typology cannot accommodate these kinds of assertions. A roughly equivalent observation can be made with respect to what could be called 'just say no' rhetoric, where adversaries explicitly refuse to engage each other. An example of this rhetorical technique may be found in Pusey (1991).

Finally, whereas exercises of the type undertaken in this note may shed at least some light on the structure of the debate over economic rationalism in Australia, further work could investigate explanatory avenues outside rhetoric. One possibility which suggests itself would be to investigate the psychological dimensions of the Australian debate over economic rationalism. For instance, the *dirigiste* bent of many opponents of economic rationalism could be explored using Von Mises's notion of the Fourier complex, which embodies the psychological notion of a 'neurotic' abhorrence of market solutions to social problems (Peacock 1979, p. 99). It may well be that psychological predispositions play an important role in determining in determining perceptions about the advisability or otherwise of policies deriving from economic rationalism.

---

* Therese Burton is in the School of Languages, Cultures and Linguistics at the University of New England, Armidale NSW 2351, Australia (email: tburton@metz.une.edu.au); Brian Dollery is in the School of Economics at the University of New England, Armidale NSW 2351, Australia (email: bdollery@metz.une.edu.au); and Joe Wallis is in the Department of Economics, Otago University, Dunedin, New Zealand

(email: JWallis@business.otago.ac.nz). The authors would like to thank three anonymous referees for helpful comments on an earlier version of the paper.

References

Bertone, S. (1992) 'Do we need a multi-economics?', in D. Horne (ed.), *The Trouble with Economic Rationalism*, Scribe Publications, Newham, pp. 76-83.

Carroll, J. (1991) 'The case for protection', *Quadrant*, 35(1/2), pp. 12-16.

Coleman, W. and Hagger, A. (2001) *Exasperating Calculators*, Macleay Press, Sydney.

Dollery, B.E. and Hamburger, P. (1996) 'Winners and losers in the Australian public service in the 1980s: an empirical note on the Pusey thesis', *Australian Journal of Political Science*, 31(1), pp. 99-110.

Ellis, B. (1998) *First Abolish the Customer: 202 Arguments Against Economic Rationalism*, Penguin Books Australia, Kingston.

Evans, N.R. (1991) 'The charm of genteel decline', *Quadrant*, 35(1/2), pp. 18-21.

Hayek, F.A. (1944) *The Road to Serfdom*, University of Chicago Press, Chicago, 1975.

Hirschman, A. (1991) *The Rhetoric of Reaction*, Harvard University Press, Cambridge, Mass.

Hood, C. (1998) *The Art of the State*, Clarendon Press, Oxford.

Hunt, B. and Terry, C. (1997) *Financial Institutions and Markets*, Thomson, Melbourne.

Kemp, C.D. (1991) 'The Australian economy: what is to be done?', *Quadrant*, 35(5), pp. 26-9.

King, S. and Lloyd, P. (1993) 'Introduction', in S. King and P. Lloyd (eds), *Economic Rationalism: Dead End or Way Forward?*, Allen and Unwin, Sydney, pp. vii-xii.

Kohler, A. (1992) 'Economics…or dogma?', in D. Horne (ed.), *The Trouble with Economic Rationalism*, Scribe Publications, Newham, pp. 97-105.

Langmore, J. and Quiggin, J. (1994) *Work for All*, Melbourne University Press, Melbourne.

Mäki, U. (1995) 'Diagnosing McCloskey', *Journal of Economic Literature*, 33(3), pp. 1300-18.

Mathews, R. (1991) 'Free market policies have been disastrous', *Canberra Times*, 14 November.

McCloskey, D.N. (1983) 'The rhetoric of economics', *Journal of Economic Literature*, 21(2), pp. 481-517.

McCloskey, D.N. (1994) *Knowledge and Persuasion in Economics*, Cambridge University Press, Cambridge.

Peacock, A. (1979) *The Economic Analysis of Government*, Martin Robertson, London.

Pusey, M. (1991) *Economic Rationalism in Canberra*, Cambridge University Press, Cambridge.

Quiggin, J. (1996) *Great Expectations*, Allen and Unwin, Sydney.

Raskall, P. (1993) 'Widening income disparities in Australia', in S. Rees, G. Rodley and F. Stilwell (eds), *Beyond the Market: Alternatives to Economic Rationalism*, Pluto Press, Leichardt, pp. 38-52.

Stilwell, F. (1993) 'Economic rationalism: sound foundations for policy?', in S. Rees, G. Rodley and F. Stilwell (eds), *Beyond the Market: Alternatives to Economic Rationalism*, Pluto Press, Leichardt, pp. 27-37.

Self, P. (1993) *Government by the Market? The Politics of Public Choice*, Macmillan, London.

Stone, J. (1991) 'The Australian economy: what is to be done?', *Quadrant*, 35(5), pp. 29-33.

Stretton, H. and Orchard, L. (1996) *Public Goods, Public Enterprise, Public Choice*, Macmillan, London.

Tawney, R.H. (1926) *Religion and the Rise of Capitalism*, Penguin, West Drayton.

Thompson, E. (1992) 'Where is the economy?', in D. Horne (ed.), *The Trouble with Economic Rationalism*, Scribe Publications, Newham, pp. 14-17.

Valentine, T. (1993) 'An appraisal of financial deregulation', in C. James, C. Jones and A. Norton (eds), *A Defence of Economic Rationalism*, Allen and Unwin, Sydney, pp. 29-38.

Weber, M. (1930) *The Protestant Ethic and the Spirit of Capitalism*, Unwin University Books, London.

West, E.G. (1976) *Adam Smith: The Man and his Works*, Liberty Fund, Indianapolis.