The Poverty of Conventional Economic Wisdom and the Search for Alternative Economic and Social Policies

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ABSTRACT

The paper provides a critical perspective on the economic thinking that has constrained economic and social policy in Australia over the last decade and a half. In particular, attention is focused on two arguments: the belief in the efficacy of labour market 'reform' and specifically, increased real wage flexibility, as part of the means of improving employment; and, second, the rationale for fiscal tightening in terms of the need to reduce public debt and increase national saving both as proportions of GDP. It is argued that neither of these arguments is sufficiently intellectually coherent to warrant their continued uncritical use as foundations of economic policy, and most importantly as key parameters constraining social policy. This critique highlights the need for a more robust foundation for policy to tackle unemployment as well as a fiscal policy based on a much clearer debate over the pros and cons of public debt — a debate in which social policy-makers must play an integral role. Discussion of policy alternatives also allows for a consideration of so-called 'third way' policies. Novel or non-orthodox elements in the set of 'third way' policies need to be considered outside the constraints of orthodox economic thinking; specifically, in the light of criticism of conventional views on targeting inflation and assignment of interest rate policy, independence of the central bank, the assignment of fiscal policy to external balance, and the appropriate time-path of public debt.

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