Australian ECONOMIC GROWTH

Farewell to Fred

I was lost in the Coombs,* in a maze of empty rooms,
When I came across a fine and stately ruin
I took a look to see, and it was a shock to me
When I realised I'd stumbled on Fred Gruen.

Chorus:

*And it's farewell to Fred, he's quit while he's a Head
His market is sure to be contested
He's down on the farm, where he can't do any harm
But he's going to have to have his assets tested.*

He stands out by a mile, for grace and charm and style
Whether speaking or writing or reviewing
But if theory's wonky, or your arguments are shonky
You'll rue the day you ran across Fred Gruen.

Chorus:

*And it's farewell to Fred, he's quit while he's a Head
His market is sure to be contested
He's down on the farm, where he can't do any harm
But he's going to have to have his assets tested.*

Tune: *Across the Western Plains* (Trad.)
Words: John Quiggin

* H. C. Coombs Building, Australian National University

Australian ECONOMIC GROWTH

Essays in Honour of Fred H. Gruen

edited by Bruce Chapman

Centre for Economic Policy Research
Australian National University

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Preface

The papers in this book arose from a conference entitled Recent Australian Economic Growth, organised by the Centre for Economic Policy Research (CEPR) at the Australian National University, in November 1986. One of the purposes of the gathering was to pay homage to F. H. Gruen, Professor of Economics and CEPR Director, on his retirement. At the conference the affection and respect for Fred were obvious, and for this there are good reasons.

Fred has left his mark on Australian economics in a variety of important ways. Since he will probably never actually retire, he will continue to influence the profession both directly, through his research, administration and policy influence, and indirectly through his leadership qualities and the encouragement of others.

To help understand Fred's contribution, a brief chronology is in order. He arrived in Australia during World War II where, after a brief stay in an internment camp, he joined the army. After the war he graduated in agricultural economics from Melbourne University and worked with the NSW Department of Agriculture as a research economist. He did a Masters Degree at Chicago University which probably then had the best economics talent in the world, with Tjalling Koopmans, Kenneth Arrow, Friedrich von Hayek, Milton Friedman and Theodore Schultz on the staff.

At this time Fred worked as a research assistant to Schultz. He told the future Nobel Prize winner that 'this human capital stuff would never really amount to anything'. Fred might yet turn out to be right, and the Nobel committee wrong, but I suspect his judgment is rather like a terrific claret, and has improved considerably with age.

In 1964 he was appointed to the Chair of Agricultural Economics at Monash University, and was Acting Dean of the Faculty of Economics and Commerce at a time of considerable student unrest. While much of this hostility was attributable to the perceived immorality of the Vietnam War, protest took various forms, including attacks on the universities and the role of conservative economics as a support mechanism for the status quo.

Fred's reaction to student confrontation was both constructive and courageous. He stood up and was counted publicly on his position concerning the academic, and political, debate between radical and conservative economics. His paper 'The Radical Challenge to Bourgeois Economics' was published in *The Australian Quarterly* in 1971.

In this thoughtful and persuasive paper, he put his view of the radical position and took up its challenge in a reasoned and moderate way. The following excerpt from the paper illustrates his breadth:

There is one obvious sense in which economics is a conservative discipline—namely that it helps those currently responsible for running the economy to make more rational decisions and hence presumably to stay in power for longer. But this is as true of those Communist elites who choose to avail themselves of bourgeois economic know-how as it is of capitalist ones. I understand that Che Guevara introduced linear programming to Cuba. In this case an accepted part of the bourgeois economic tool-kit may have helped to keep a Marxist regime in power. (Gruen 1971, p. 63)

As well as writing on the issues, Fred established and institutionalised a process whereby students could make formal complaints about teaching problems. Some of those complaints clearly had a legitimate basis and under Fred's leadership were acted upon, in at least one instance to the chagrin of an offending staff member.

Probably with some relief, Fred took up the position of Professor of Economics at the ANU in 1972, a change that was associated with some major achievements. As a consultant to the Department of Prime Minister he was a signatory to the 25 per cent across-the-board tariff cut of 1973, a policy initiative which had significant implications for the long-term change in attitudes towards industry protection. Today all political players would probably admit that continuing decreases in protection are both desirable and inevitable, a position which would have been less easy to achieve had the path-clearing cut of 1973 not been instituted.

In the 1970s Fred was clearly in the business of promoting Australian economics. He saw his ANU Chair as a national one, and was a regular and enthusiastic participant of innumerable conferences. He seemed to know everybody in economics, which would have helped considerably in his organisation and editing of the three-volume *Surveys of Australian Economics*, published in 1978–83. This series still remains a starting point for broadly based research on particular topics in the Australian context.

In 1980 Fred founded the CEPR, recently described by a leading economics commentator, Ross Gittins, as 'by far the most productive of the many university centres of applied economics research'. The Centre has two major roles. The first is the organisation of major conferences of which two or three are held each year. The best known of these was held in conjunction with the prestigious Brookings Institution, which resulted in the publication of the very successful volume *The Australian Economy: A View From The North*.

The second substantial achievement of the Centre under Fred's

directorship was the establishment of the Discussion Paper series. Much of the quality of the output is due to his conscientious, even heavy, editing. Many first drafts were returned covered in the distinctive large blue scribbles of the Professor. They were always helpful, never obtuse and sometimes even a little bit rude. I remember one of my own papers coming back bearing the annoyed comment 'your English is bloody horrible!'. And this from someone who, on arriving in England at age fifteen, tried to converse in Latin with the first school teacher he met because of his own English deficiencies! (The teacher turned out not to be in classics, but physical education.)

Fred's directness is an inevitable consequence of his abhorrence of dishonesty and it is this characteristic, in combination with his big picture skills, that makes him such a valuable commentator on the work of others. It also has meant that he could not always be gentle. I recall him a few years ago roasting a labour market paper with such enthusiasm that when Sandra Eccles rose to discuss a paper of Charles Mulvey at the same conference, she said to Charles (perhaps a little too audibly, since we all heard): 'Don't worry, I won't do a Gruen on you!'.

'Doing a Gruen' means much more than being hard-hitting and critical. If Fred likes a piece of work he says so, publicly, privately and repeatedly. It is this security that is a hallmark of his leadership, and it takes several forms. One is his lack of concern at making mistakes, which he probably considers to be an inevitable consequence of taking the big picture and often speculative approach. 'Fearless Freddy', Glenn Withers has labelled him and sometimes laments that so few of us have the courage to publicly put our reputations at risk.

Obviously Fred has important leadership qualities. His election as President of the Academy of the Social Sciences in 1975 and as President of the Economic Society of Australia in 1984 reflects the widespread recognition of these qualities both within the economics profession and the social sciences generally. This is a view that has an important micro-dimension: those who have worked with Fred in the CEPR give their all because of the affection and loyalty he encourages—Catherine Baird being the prime example here. But his contribution has been greater than all this, and it is to his more specific role as an economist that we now turn.

Those of us who think of Australian contributors to economic theory do not include Fred in that genre. There is no 'Gruen thesis', nor is there a body of literature stamped with his influence such as in the case of Max Corden and Murray Kemp in trade theory, or Adrian Pagan in econometrics. But Fred has done theoretical work, and there is enough to demonstrate that the ability is there even if perhaps the interest in the pursuit is not.

Two papers matter here. One, written in 1969 with Max Corden, extended the usual two-product, two-factor and two-country model to analyse the effect of the imposition of a tariff on the real income of a country through a change in its terms of trade. The authors demonstrate that with three products and three factors, given factor-intensities similar to those in Australia, the imposition of the tariff is more likely to worsen than to improve the terms of trade, a prediction opposite to that of the standard model.

A second and earlier contribution, and one of which Fred is quietly proud, examines the effect of technical change on agriculture. Theory was advanced through the explicit incorporation of the supply reactions to technical change, a consideration previously ignored in the literature of agricultural economics. As is just about always the case in Fred's writing, the analysis is related to a peculiarly Australian question: the effect of the introduction of myxomatosis on the product mix of our farmers.

Fred has described himself as 'too superficial' to be a theorist, but I think the reality is that he is, and was, much more interested in finding workable solutions to contemporary policy problems. This concern has been demonstrated through his involvement in government inquiries on an assets test and on dumping, and through his work as Chairman of the housing industry Indicative Planning Council. Referring to his professional life in his autobiographical essay (Gruen 1988) he wrote: 'I suppose my main aim in all these activities was to shed more light on the changing economic environment and how policy could best respond to the changed conditions' (p. 179). These are the words of a practical economist, recognising that to be useful in the short term wise judgments are essential because of the inadequacy of theory and the paucity of data.

Fred's reaction to macro-modelling reflects his concern with the tension between logical consistency and policy relevance, at least for the sorts of time periods with which governments are concerned. There is no doubt that he prefers an approach to forecasting that has loose ends and leaves considerable scope for intuition compared to employing models with attractive long-term properties. He has written that 'Applied economists obviously cannot wait until theory provides us with a clearer picture; the problems need assessment as they arise' (Gruen 1986, p. 4).

For Fred, pursuing the desirable properties of model building would have meant sacrificing his usefulness to contemporary policy-makers. If he has a complaint about those who follow only the former approach, it is the danger that the process becomes wandering, with the players throwing increasingly dim light on parts of the stadium a long way away from the main game.

But as with all good applied economists, Fred has a substantial respect for, and makes considerable use of, economic theory. Like most of his generation, Keynes provided him with a compelling framework for analysing the big picture, at least until the mid-1970s. He has commented on the demise of that framework as follows:

Like many of my colleagues, my faith in simple Keynesian demand management has also been undermined by the events of the seventies. Unlike some of my colleagues, however, I have not gone so far as to believe that unemployment is always 'voluntary' or the result of wages which are too high, or of unemployment benefits which are too generous. (Gruen 1988, p. 182)

Fred did not throw up his hands in horror at the experiences of the seventies, nor did he seek refuge in the dank corridors of nihilism. Instead, he kept his feet on the ground and now sees the stagflation in a positive light: for him it promoted the importance of wages for macro-analysis, a development which has been leading to a more sophisticated and better informed synthesis.

Two final points on Fred's approach to economics are worth making. The first is that for him questions of distribution loom large, which probably helps explain his influence on policy development given that, in his view, political authorities typically give little weight to efficiency considerations. In earlier days one of his concerns was with poverty and income distribution. Today, the fundamental issue is unemployment: its causes, consequences, and not surprisingly, what governments should be doing in this area.

Secondly, all of his work highlights the importance of applied economists taking full and explicit account of the multidimensional nature of inquiry, and more specifically, the political environment and its interaction with economic relationships. His recent writings on the Accord and the relevance of corporatism to the solving of macroeconomic problems are clear examples of this recognition.

Fred sees several problems for Australian academic economists. In his opinion the universities have been too inflexible in their ability or willingness to deal with moribund staff who, under the protection of tenure, have stifled the development of a more dynamic and enthusiastic community. He also thinks too much emphasis is placed on the excellence criterion of publishing in top-ranking international journals. Many important contributions which focus on Australian problems and data have been given too little status domestically because, perhaps naturally, they may be of little interest to overseas economists operating in very different institutional environments.

In short, what we get with Fred as economist is what we get with Fred as a leader and administrator: well rounded, practical and wise.

He takes from theory and statistical analysis what is useful to everyday policy development, and mixes these contributions with common sense drawn from a wealth and diversity of personal and professional experience. Sadly, this approach can be taught only by example, and we are fortunate that he so freely shares his insight and lessons through his open encouragement of young academic economists.

In 1986 Fred Gruen was awarded the Order of Australia for contributions to education and the development of economic policy.

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