

**ECONOMIC SOCIETY OF AUSTRALIA'S  
DISTINGUISHED FELLOW FOR 2009  
ACCEPTANCE SPEECH**

**Ross Garnaut**

Vice-Chancellor's Fellow and Professorial Fellow in Economics,  
The University of Melbourne

**Speech presented on Professor Garnaut's behalf by**

**Jayne Garnaut at the**

**38<sup>th</sup> Australian Conference of Economists,**

**Adelaide, 29<sup>th</sup> September 2009**

## Colleagues

I am delighted by the recognition of the Economics Society this evening, unhappy that indelible and longstanding commitments in Beijing prevent me from being with you, and glad that Jayne is able to join you in Adelaide and to present this message on my behalf.

These are hard times for economies and mixed times for economists. People in the developed economies in which economics had its origins are going through harder economic times than any but the most senior of us can remember. Australia is doing better than other developed countries, but faces larger challenges than most Australians yet understand as we work through the many consequences of the Great Crash of 2008.

In hard times, our communities are deeply interested in economic affairs. Economists have an audience. But our communities are rightly critical that we did not tell them more about what was coming and how to avoid it.

In this crisis, economists are accused of using our models blindly to extrapolate into the future the patterns of the recent past. We can acknowledge that parts of our profession were guilty of believing a model of risk that was chosen for its elegance above its relevance to the behaviour of real economies. And yet it was an economist, John Maynard Keynes, who introduced the idea of uncertainty into the theory of probability that is still taught by philosophers—the role of what an ill-fated United States Defence Secretary once called unknown unknowns.

We economists are accused of propagating the idea that unregulated markets can deliver a maximum of economic welfare. To be sure, there were some influential economists who did exactly that. But let us remember as well the whole framework for analysis of market failure and public economics, from Pigou through the Musgraves and Stiglitz, that provides humanity with its most reliable insights into what markets cannot do alone.

We are accused of being hired agents of vested interests. Certainly the accusation should provide occasion for reflection upon the public role of our profession. But let us remember as well that it is economics that provided our species with its most reliable insights into regulatory capture and the role of vested interests in policy-making, with the work of Stigler and Buchanan and Brennan and many since.

The post-crisis critique of neo-liberalism accuses us of ignoring the moral and institutional basis of a market economy. And yet our profession began in moral philosophy with Adam Smith and John Stuart Mill, and has produced a strong framework for analysis of the role of institutions through the modern work of

North and Lin and others.

And on institutions, let us wear with pride the label of the “Dismal Science”. That is the name given to economics by historian Thomas Carlyle, for economists’ rejection of society’s comfortable acceptance of slavery.

The post-crisis focus on the role of greed in the economic affairs of our species has led to criticisms that we have ignored the distribution of incomes and wealth, and their relationships to social harmony and political stability. Some economic analysis may make us feel a little insecure on this ground, until we recall that systematic study of sociology grew from the economic classics, and that Hirsch and other economists have provided the most powerful insights into the fragility of an economic and political framework that ignores the complex interactions of income distribution with the workings of a modern society and economy.

And, whatever the concerns about our failure to foresee the problems in advance, when things fall in a heap the world turns to Keynes and such contemporary expositors and expanders of old wisdom as Krugman and Corden.

In my work over recent years on climate change, I have heard many criticisms of a perceived blindness of economics to environmental issues. And yet I found the analytic traditions of economics of immense value in working through the issues with non-economists. It has been reassuring to learn that in meteorology there is an area of human intellectual endeavour as troubled by uncertainty as our own! It is nice that neo-classical economics and scientific meteorology both emerged from the teeming brain of some-time mid-nineteenth century Australian, William Stanley Jevons.

The characteristic external critiques of economics and economists apply even less appositely to our Australian profession. Ours has always been a deeply empirical part of the international profession, understanding that economics is a social science, and judging success to a considerable extent by its relevance to good economic policy and performance. Our location in a region of developing countries, and the strong focus on the developing countries in the Australian profession, helps to keep our feet on solid ground.

So we should listen to the current external critique, and heed the valid points. We can benefit from some introspection about the role of economists and economics as hired guns of business interests, disconnected from our professional *raison d’être* in understanding economic relationships in the world around us.

But we can do this in confidence that the universe of ideas in economics is a good starting point in understanding all of the issues raised in the critique, so long as we are open to the whole of the ideas in economics. We have much to say to the audience that has grown with economic calamity. Ours is a great intellectual tradition. It is still a sound and relevant intellectual tradition, nowhere more than in Australia.

Being an economist in Australia over the past four decades has, amongst much else, been great fun. For this I thank my longstanding colleagues at the Australian National University, my new colleagues at the University of Melbourne, the groups of economists in every state and territory with whom I have discussed papers and ideas over all of this time, and the members of our profession in Government and business.

It is with thanks that I ask Jayne to accept on my behalf the Distinguished Fellowship of the Economics Society of Australia.

A handwritten signature in black ink, reading "Ross Garnaut". The signature is written in a cursive, flowing style.

Ross Garnaut

Beijing

29 September 2009