

## **MANNING CLARK LECTURE**

30 August 2022

### **The Economic Consequences of Mr Lowe**

Canberra and the ANU were young and small when I got to know Manning. I was a 17 year old lad from WA and could handle a footy. He was what one might call a Blues tragic. Like his contemporaries Bob Menzies and Bob Santamaria, with whom he shared a great Australian faith and solemn ritual occasions, he had formed his allegiance with Carlton from the University of Melbourne. The ANU football team, like Carlton, was the Blues, so he could pretend that watching the ball bounce off the hard clay near Sullivan's Creek was something like the action in the old paddock in Jolimont. Manning would delight us at footy club dinners, with speeches that shocked with invocations of the basest Australian spirits, and stories from their hopes and fears.

This would have been a painful week for Manning, before the football finals, with Carlton knocked out in the last minute after a battle for the ages with Collingwood. But an epic, heroic, old Australian failure, like the ANZACs, Ned Kelly, and Gough Whitlam. But he would find solace in the memory of coming from well behind in the third quarter to beat Collingwood on the last Saturday in September in 1970. As he said in a long front page article in The Age on the morning of the last September Saturday in 1981, the morning of another game against Collingwood:

“It is possible that scores will be level as the game enters the time on period in the last quarter. Then none of the wisdom of the ages will help. Saying to myself, Be still my soul. It will only be for a moment, does not help. Nothing helps, except the siren—and that seems like an eternity away”.

*Volume I* of the big history had come out not long before I first met Manning. A buzz of excitement would run through my friends with each new volume. If the sun was shining when Manning and I bumped into each other walking down University Avenue, I would raise some question about it and we would chat. Later on we both spoke over the open grave of a mutual friend, Alan Manning, as the historian plucked a eucalypt twig from an adjacent tree and placed it on the coffin in the ground.

Manning Clark is our Homer, our Genesis, and our Shakespeare. None was the final word on fact, but all told their tribes what it was to be their sort of human. When I want to be there when they come to know what it had all been for, I can't be sure whether I am remembering Dostoyevsky, or Manning Clark's rendition of the thought.

Manning loved the enlarger who stood by his vision and in the end could not quite overcome the hopelessness of the human condition. Old white Australia's story, he thought, was bound to failure by the harshness of nature on this ancient continent. On the 7.30 Report with Paul Lyneham and Bill Gammage for the 75<sup>th</sup> anniversary of the landing at Gallipoli, he tied that idea to our idealisation of the ANZAC story. Defeat would be the outcome. By being true to ourselves and our mates the tragedy could be borne.

In the short essay in *Making History* in 1985, he expressed "regret that in presenting a tragic vision of life that I unwittingly muted that voice hoping for better things for humanity. Writing in the tragic vein you have to be very careful not to be counselling resignation and acceptance".

I think Manning did counsel resignation more than our true chances warrant. If the straightener is motivated by the enlarger's vision, the straightener's calculations of the odds can avoid heroic failure and win success. Whitlam and Hawke came after *Volume VI*, so we can't be sure what he would have written about them as history. But Manning loved Whitlam's heroic vision, and his tragic end. In Manning's eye of pity, Hawke's success in enlarging ordinary life for ordinary Australians may, I suspect, have been evidence that he had compromised the vision.

Manning was certainly right when he said that every individual life fails, but humanity can succeed. That is the truth. No-one achieves all of the good for humanity for which they hope, or even what they might actually have achieved. But by doing the best they can, many people make things better for those who follow. For all of the tragedy of Ethiopia, Somalia, Ukraine, the decaying governance of our southwest Pacific neighbourhood, of Xinjiang, of Trump's Supreme Court and continuing insurrection, the majority of humans now live better lives than 80, 800 or 8,000 years ago. And that is because enlargers taught and died on the cross, planned against the odds to defeat the might of great states, and persuaded democratic electorates to take a risk with something good. And its also because straighteners calculated and played the odds.

What greater enlarger has there been in modern times than Abraham Lincoln. But he respected the odds, and played them with careful calculation. When advised that early proclamation of freedom from slavery would bring God on the side of the union, he calculated the odds and the consequences of losing the border slave states that had stayed with the nation.

*"I hope to have God", he said, "but I must have Kentucky".*

This evening I discuss Australian leaders seeking to make life better for the mass of their compatriots in hard times. In *Volume VI*, Manning told the story of the new Scullin Labor Government elected as the Great Depression descended upon our country. Of the government's destruction by inability to respond cohesively to overwhelming force. He loved Scullin, the man of generous faith, who abjured apostasy. Manning wrote of Theodore, Deputy Prime Minister and Treasurer, as a compromised figure, with his interests in personal wealth before (and, beyond *Volume VI*, after) public office. Theodore stood down at an early and critical time in response to unproven allegations of corruption that were later rejected at law. He returned to the diminishing Labor fold, and developed the response with fiduciary funding of public expenditure and currency depreciation that economists today recognise as the most likely path to success from the Great Depression.

To no avail.

The Great Depression scarred but taught important lessons to leaders who had been defeated by it, most importantly John Curtin and Ben Chifley. As wartime Prime Minister and Treasurer rallying and organising Australians for the defence of their country, they were determined that Australians would never return to the unemployment and misery that had been the fate of many in the 1930s. Their vision of better lives for all Australians was enforced by the analysis and rigour of the Department of Postwar Reconstruction and the 1945 White Paper on Full Employment.

What followed was a quarter century of Full Employment with rising living standards and, after a brief burst of high inflation at the beginning of Menzies' long reign, low inflation.

Success came from the vision of the enlargers, and the effective support of the straighteners. It grew from building policy on foundations of economic analysis and knowledge; making equitable distribution of benefits of growth a central objective; expanding public knowledge of the policy choices; and protecting the national interest in policy from vested and other private interests.

Menzies succeeded politically first of all because he retained the Curtin-Chifley focus on Full Employment. The leading straighteners from the old Department of Postwar Reconstruction retained major public sector roles into the 1960s.

The Full Employment with low inflation and rising incomes of the Menzies' years and their immediate aftermath was followed by a decade of entrenched high unemployment and inflation. This ended with the election of the Hawke Government. The reform era from 1983 to the end of the century gave Australia its best decade ever of productivity growth relative to other developed countries in the 1990s, and then the longest period of economic expansion unbroken by recession ever in any developed country, ending in the pandemic recession of 2020.

While the content of policy was different, the success of the late twentieth century reform period was built on the same elements as Postwar Reconstruction:

It was built on articulation of an inclusive vision of a prosperous and fair society, in which equitable distribution was a centrally important objective.

It was based on sound economic analysis, prepared to break the boundaries of orthodoxy if an alternative path was shown to be better. Based on public education as a means of building support for difficult change.

It was based on preparedness to hold firm to the public interest against vested and sectional interest. Based on effective use of a professional public service.

These were the two periods when Australian Governments faced up to large problems for the welfare of ordinary Australians, and set the country on a better path. In my 2021 book, "Reset: Restoring Australia After the Pandemic Recession", I contrasted these episodes of successful reform followed by a long period of broadly based prosperity, with the failures of the 1920s and the decade between post war reconstruction and the Hawke reform era.

Reset noted that the 28 years of economic growth that ended in 2020 were not all of a kind, or even closely similar. In the first decade, strong economic growth was based on increases in productivity. That was a sustainable source of rising incomes. In the second decade of that long expansion, from the beginning of the century to about 2013, average incomes of Australians continued to grow quite strongly but with relatively low productivity growth. This was the China resources boom, in which greatly increased prices for our exports and opportunities for investment in export industries supported rising incomes. There was a thorough restructuring of the economy to meet rapidly growing export demand, as the world's most populous country entered the strongest and longest period of economic growth the world has seen. And then after the China resources boom ended about 2013, we entered a period up until the pandemic recession that I call the 'Dog Days'. In anticipation of the problems ahead of us, I gave the name Dog Days: Australia After the Boom to my book published in 2013. Unfortunately, it was prophetic. In the Dog Days, 2013 to 2019, productivity, output and incomes grew much more slowly than in other OECD countries. These important measures of economic performance grew more slowly even than in

Japan, which Australians at the time thought of as a bit of an economic basket case. During this period, we started with much lower unemployment than the United States because we had had a good global financial crisis. We didn't have a recession in the global financial crisis. So we started the Dog Days with unemployment around five and a half percent. The US then, in those years after the global financial crisis, had unemployment nearly twice as high as Australia. But by the end of the Dog Days, we were stuck with high unemployment (over five percent), while United States unemployment had fallen well below ours to three and a half percent. During these years, not only did we have much higher unemployment than other developed countries with which we like to compare ourselves, we had rapidly rising underemployment.

My book 'Reset' in 2020 discussed a number of the causes of Australian economic underperformance in the Dog Days. One was monetary policy mistakes that prevented us making progress towards full employment. A second was change in our approach to immigration where we allowed relatively free immigration of temporary workers with on average low skills who were not on a path to being Australians. This was a radical change in immigration policy in the 21st century, from that of the second half of the twentieth century. The radical new approach had the effect of meeting rising demand for labour whenever it occurred by increasing immigration. As a result, increased demand for labour was not reflected in increased wages.

The Dog Days were characterised by the increased distorting influence on policy by vested interests. The overwhelming influence of corporate vested interests led to the removal of carbon pricing. It led to serious corruption of the taxation system that diminished our capacity to raise public revenue in ways that avoided distortions in the allocation of economic resources. And the Dog Days was a period of increasing difficulty in honest and accurate discussion of public policy. The new media, the information technology, and the role of News Corp all had an important effect on distortion of information in Australian public policy discussion.

When the pandemic hit in 2020, it sent the Australian economy, like all economies, quickly into deep recession. In the first half of 2020, we experienced the first decline in output in successive quarters for 28 years.

The Australian authorities responded with a radical easing of monetary policy and expansion of public expenditure. Some of the increase in expenditure was directed well towards people with low incomes. Whereas in the Dog Days our monetary policy had been tighter than other developed countries even when our economy had been weaker, we moved closer to the monetary policy stance of other developed countries. There was a forced change in immigration, as borders closed. Changes in monetary and fiscal policy and the closure of our borders to immigration led us for the first time in nearly half a century to move close to full employment. Unemployment went down to 3.4% in July 2022.

Some people wonder why wages are not rising when unemployment has fallen so much. There had been an expectation that lower unemployment would cause real wages to rise in Australia after a decade of stagnation. There is no conundrum. The reason is simply that while unemployment is much lower, we haven't reached full employment. Sadly, the Reserve Bank of Australia gave up on full employment before we got there. So we don't know how low unemployment could have gone without being the cause of accelerating inflation. And at this time in history, we may not learn how low unemployment might have been with full employment.

As a young man at ANU I had the privilege to discuss the postwar full employment policies with Coombs and Crawford and others who had been in the rooms where it happened. The leading straighteners from the old department of post war reconstruction retained major public sector roles into the 1960s. The full employment with low inflation and rising incomes was followed by a decade of entrenched higher unemployment and inflation. Coombs and Crawford and others working with them had themselves been young men. They didn't know how low unemployment would go when they set out to create a set of policies that would give Australia full employment. They were surprised that for 20 years, unemployment averaged a touch below 2 percent without inflation. There's no very good reason now why we couldn't hold out hopes, if not expectations, of moving much closer to that 2 percent.

The pandemic recession was an opportunity to reset other policies, and not only fiscal and monetary policies. That was an opportunity to start to get right many of the things that had gone wrong in the Dog Days and to set Australia up for a new period of sustained growth and prosperity. As I described in *Reset: Australia After the Boom*, a fundamental change was

required in many areas of policy. It required a continuing new approach to monetary policy - in particular, not keeping monetary policy tighter than the rest of the world when our economy wasn't stronger than the rest of the world.

Policy reform would have to overcome some big barriers in the path of economic growth in the new circumstances. Export growth and investment in the export industries had been very important in the 28 years of economic expansion. Now we faced big blockages to export growth. One barrier was the breakdown in the open multilateral trading system - to a significant extent, the result of initiatives of the Trump presidency. The breakdown of our trade relations with China was a big barrier. So was the reality that the world was not going to provide a growing market for the second and third largest export industries - coal and gas - because of concern for climate change. Production in these industries, which have been important sources of growth in the 21st century, had to decline eventually to zero. So there were some very big questions about whether even with resetting policy, we would have the access to international markets to support the export growth that would be necessary to enter a period of renewed sustained, increasing prosperity.

Those international barriers might have blocked the return to Australian full employment with rising incomes but for one other change. That change was recognition of Australia's opportunity to be the energy superpower of the zero emission's world economy.

It was clear by late 2021 that the Coalition government was not going to use the opportunity of the pandemic recession to reset Australian policy and grasp the new opportunities.

The election result in May represented a change in the Australian political landscape of immense dimension. The election made things possible that hadn't been possible before. The 2022 election outcome wasn't the usual oscillation between conservative and labour that had contained Australian politics ever since the fusion of free trade and protection parties under Deakin way back in the first decade of our national story. This was something bigger. The loss of support for the Conservative parties in the electorates in the richer parts of Melbourne, Sydney, Brisbane and Perth that had provided their strongest support represents a fundamental change. Together with the election of a Labor majority government, the



election outcome provides a political base for changes in economic policy and in integrity. It has the potential to make impossible things possible. That's the opportunity open to the new parliament and the new government.

The pandemic recession had provided an opportunity for a reset of Australian policy that had been partially grasped. That partial grasping had taken us a step closer to full employment than we had been for 50 years. But otherwise, opportunities were let go to waste.

History plays out on all sorts of sticky wickets. Whatever difficulties that Australians faced with its reset were greatly complicated by the Russian war.

The Russian invasion of Ukraine disrupted global energy markets. The way we set up our energy markets meant that increases in international prices came directly back into Australian prices. That put us in the paradoxical position, that we were the world's biggest exporter of liquefied natural gas and coal taken together, but most Australians became poorer when gas and coal prices increased. When Russia invaded Ukraine, what had been very large volumes of coal, gas and oil exports from Russia were no longer able to find their way to European markets. The terms of trade of European and other gas and coal importing countries fell sharply. This is a source of a big loss of national income in Western Europe, Japan and Korea. In contrast, Australian terms of trade and national income increased with higher gas and coal prices. But the standard of living of nearly all ordinary Australians fell. Many Australians find this difficult to understand. If they understand it, they find it difficult to accept.

Actually, its reasonable for them to find it unacceptable.

The Russian war suddenly triggered changes that left to themselves, would very substantially reduce the Australian standard of living. There is a haunting similarity between what is happening in the very first days of this Labor government, to what happened to Scullin back in 1929. The Scullin government was sworn in on October 22nd 1929. What had been the biggest

one day fall on the New York Stock Exchange ever, occurred just two days later on October 24<sup>th</sup>. This was a pointer to the onset of the Great Depression. The Scullin government never recovered from that.

It is of crucial importance to the prospects of Australia that the new government elected in May is able to understand the big international forces playing on the Australian economy. It is crucial for Australia that the new Government manages these pressures in a way that resets Australia at first for maintenance of the standard of living, and then for broadly based growth. That's the big challenge of the period ahead.

I don't have a copy of the book *Reset* on my desk to show you, so thank you Peter McCawley for holding one up to the zoom screen. The main ideas in 'Reset' remain relevant. But when I wrote 'Reset', I did not anticipate the Russian invasion of Ukraine, and what that would do to world energy markets. So the new government and parliament have to deal with all the challenges I discussed in 'Reset', plus one more. The one more is a big one - insulating the Australian standard of living from those very large increases in coal, gas and therefore electricity prices.

Monetary orthodoxy as it has developed in the 21st century, leads to a knee-jerk tendency towards increased interest rates when the rate of inflation measured by the CPI and other broad based indexes rises. Increased electricity and gas prices leads fairly automatically to higher interest rates. We've seen that happening in recent times.

I have been worried about the rigidity of the new monetary orthodoxy since the early days of the China resources boom. In a talk to the annual dinner of the Canberra economic society late in 2005, I expressed my concern that a rather rigid approach to inflation targeting had begun to emerge in the early 21st century. I called that presentation 'Is macroeconomics dead?'. It was published late in 2005 in the *Oxford Review of Economic Policy*. I expressed concern that an inflation standard was replacing the gold standard as a source of rigidity in monetary policy.

You can see why I was concerned in what is happening now. If we continue to tighten monetary policy—raise interest rates—because inflation is higher than the target range, then we will diminish demand for many goods and services in ways that

seriously disrupt the economy. High inflation is undesirable, and it is important to avoid entrenched high inflation. But not all inflation is entrenched at high levels. And inflation is not the only undesirable economic condition. There is a danger that we will replace continuing movement to full employment, with rising unemployment. Perhaps sustained unnecessarily high unemployment. That would be a dreadful mistake. A mistake to be avoided with thoughtful policy.

The blessing in the current situation is that truncating the unnecessary increase in energy prices at a time when the economy generally is slowing, may give the Reserve Bank the rationale to change its monetary policy stance. That suggests a need to drive a wedge between international and domestic coal and gas prices.

### **Monetary orthodoxy could lead us to rising unemployment without good purpose.**

I have an awful echo in my head of the worst ever error of British monetary policy: the Chancellor of the Exchequer following conventional advice on return to the Gold Standard at the prewar parity in 1925, when the massive monetary expansion to fund British participation in the First World War rendered acceptance of higher postwar prices inevitable and a necessary part of the adjustment. So I picked up Keynes "The Economic Consequences of Mr Churchill", initially three newspaper articles, commencing straight after the Chancellor's announcement that he was returning the country to sound money as advised by the Bank of England and the City of London. "The Economic Consequences of Mr Churchill" was later published as a single paper in Keynes' Essays in Persuasion. A few sentences from Keynes' concluding paragraphs:

"The monetary policy announced in the Budget (of 1925) being the real source of our industrial troubles, it is impossible to recommend any truly satisfactory course except its reversal. Nevertheless, amongst the alternatives still open to this Government, some courses are better than others.

"One course is to pursue the so-called "sound" policy vigorously, with the object of bringing about "the fundamental adjustments" in the orthodox way by further restricting credit and raising the bank-rate in the autumn if necessary, thus intensifying unemployment and using every other weapon in our hands to force down money wages....If this policy can be

carried through it will be, in a sense, successful, though it will leave much injustice behind it on account of the inequality of the changes it will effect.....

“The question is how far public opinion will allow such a policy to go. It would be politically impossible for the Government to admit that it was deliberately intensifying unemployment... Deflation, once started ever so little, is cumulative in its progress. If pessimism becomes generally prevalent in the business world, the slower circulation of money resulting from this can carry Deflation a long way further, without the Bank having either to raise the bank-rate or to reduce its deposits. And since the public always understands particular causes better than general causes, the depression will be attributed to the industrial disputes which will accompany it, to the Dawes Scheme, to China, to the inevitable consequences of the Great War, to tariffs, to high taxation, to anything in the world except the general monetary policy which has set the whole thing going.

“A furtive restriction of credit by the Bank of England can be coupled with vague cogitations on the part of Mr. Baldwin (who has succeeded to the position in our affections formerly occupied by Queen Victoria) as to whether social benevolence does not require him to neutralise the effects of this by a series of illogical subsidies....The Budgetary position will render it impossible for the subsidies to be big enough to make any real difference. And in the end, unless there is a social upheaval, "the fundamental adjustments" will duly take place.

“Some people may contemplate this forecast with equanimity. I do not. It involves a great loss of social income whilst it is going on, and will leave behind much social injustice when it is finished. The best, indeed the only, hope lies in the possibility that in this world, where so little can be foreseen, something may turn up—which leads me to my alternative suggestions. Could we not *help* something to turn up?”

The Summit the day after tomorrow is a chance to help something turn up.

XXXXXXXX

Manning wrote in The Age in 1981 on the morning of that last Saturday of September, Collingwood again in Carlton's path:

*"If the game is close, there may be more than I can endure in my season of the sere and the yellow leaf...as the Carlton players make me feel as though my love has come to me".*

For the record, on that last Saturday in September, 1981, Carlton was again way behind in the third quarter, and won by a similar margin to eleven years before, in the 1970 Grand Final. Manning's love had come to him.

**Luciana Todd** Thank you, Professor Garnaut. That was awesome. I loved the AFL speak. We do have a couple of questions. And again, I'll remind everybody that if you'd like to ask Professor Garnaut any questions, please pop it in the chat. The first question is from John Mitchell who is a committee member of the Clark House Committee. He asks, "Do you think the government should relent and stop the third stage of tax cuts?"

**Ross Garnaut** Well, I agreed with Labor in Opposition when it thought those tax cuts were a bad idea and opposed them. I don't see any reason to have changed my mind. The fact that the tax cuts were legislated and that the government said before the election that it wouldn't repeal them is another fact the government has to take into account. There would be a reaction to a broken explicit promise.

There is an answer to that, of course. John Maynard Keynes is quoted as saying, 'When the facts change, I change my mind. What do you do?' Well, one very big fact has changed. And that is the disruption of the global and Australian economies by the Russian invasion of Ukraine. The Treasury and the Department of Finance forecasts put out just ahead of the election campaign, after the calling of the election, looked

forward to a bleak couple of years for the Australian standard of living during the financial year that's just been completed and the financial year that we're in. Over these two years, the official forecasts contemplated consumer prices rising 3 percentage points more than the standard index of wages. They contemplated real wages falling by 3%. Such a fall is very unusual in Australia-- almost without parallel. The facts changed. At the end of July, the Treasurer put out a new statement that revised those forecasts. The 2021-22 financial year is now history. We know that real wages fell by 3.5% in the year. The Treasurer's forecasts at the end of July foreshadow another reduction in real wages of 3.5% in the current financial year. That would add up to 7% reduction in 2 years. There's never been anything like that in Australian history. The facts have changed. Maybe we should think about changing our minds.

**Luciana Todd** Excellent. Thank you. So Professor Bongiorno asks "What of the Reserve Bank of Australia? Does it need to be reformed? If so, how?"

**Ross Garnaut** There's quite a lot to be said for an independent reserve bank, so that wouldn't be the reform I'd be focusing on. But just because it's independent doesn't mean to say it shouldn't be criticised when it's wrong. In fact, if it is independent, it is even more important for people who think about these things to criticise them when they're wrong. The only accountability comes from open and independent criticism of the bank when it is wrong. Its the Bank's ideas about monetary policy need reform. That reform should come from criticism and accountability through drawing attention to mistakes, and the normal consequences following from that.

Thirty years ago, in the early 1990s, entrenched inflation was the big macro-economic problem. There was a case for independence of the Reserve Bank because the Reserve Bank had to do some very hard things raising interest rates in difficult circumstances to lower inflation. In 'Reset', I suggested that what we now need an independent authority looking at overall demand, and not just monetary policy. We need an independent body playing a role in both fiscal and monetary policy. It would not be involved on

policy of which taxes to raise and lower, which items of expenditures to introduce, to increase or to cut. But it would be able to raise or lower overall tax rates in response to the macroeconomic situation. For reasons I set out in 'Reset', there's more reason now to be concerned about independence in overall demand policy than about monetary policy. That's one reform that I have in mind. And then all of us have duties as citizens to criticise an independent authority when it's wrong.

**Luciana Todd** Excellent, thank you. So, this question is from Andrew Walter, "There are a number of ways of driving a wedge between international and domestic energy prices. What is the best way? And what is the most likely way?"

**Ross Garnaut** I discussed this in my Gruen lecture at the ANU a couple of months ago. There's two broad ways in which we can protect the Australian standard of living from the transmission of very high global coal and gas prices back into Australian gas and electricity prices in ways that reduce real wages and the standard of living in Australia. One is driving a wedge between international and domestic prices. The other is taxing windfall profits and using those profits to make payments to Australian households and where appropriate businesses to insulate them from the increased international prices. Very big increases in international prices have come from the Russian invasion of Ukraine. The advantage of driving the wedge between global and domestic prices is that prices are lower than they would have been. Since the Reserve Bank is determined to keep raising interest rates when prices rise, whether the increases come from Russian military policy or any other cause, we avoid some unnecessary tightening of monetary policy if we can stop the high international prices getting into Australian prices. That avoids some unnecessary increase in unemployment. That's the advantage of the wedge over taxation of windfall profits.

There are two relatively straightforward ways of driving that wedge. One is to restrict exports to an extent that keeps domestic prices at levels that would have existed without the Russian invasion of Ukraine. The

other would be an export levy on coal and gas, taking the difference between the price prior to Russian invasion and the current international price. Either of these methods could work. Domestic reservation requiring more gas from export industries to be supplied to the domestic market has been very successful in holding down prices in Western Australia. This approach would be more difficult for coal than for gas because there are a lot more coal exporters and producers. There's just three liquefied natural gas exporters in eastern Australia, so it would be relatively easy to reserve gas to the domestic market. If the major exporters were wise, I think they would be taking their own steps towards putting more on the domestic market and holding down price themselves. If they had done that, we wouldn't be holding this discussion. Either increasing domestic supplies or placing a levy on exports would do the job. Each has merits and administrative difficulties. The Gruen lecture examines both possibilities. I'd let the people who would have to administer the scheme in government work out which is best.

**Luciana Todd** Thank you, Professor Garnaut. We have another question from Stephen Ross. "Thank you for your talk and book. Returning to taxes, given Labour's promises in relation to services - aged care, health care, etc. Should we be aiming to increase the tax/GDP ratio?"

**Ross Garnaut** I don't think Australia can return to sustainable, broadly based prosperity without a substantial increase in the tax to GDP ratio. The ratio in Australia is 5.7 percentage points below the average for the OECD and I can't see a very good reason for that. Tax is what you pay to live in a civilised society. Some other developed democracies have put themselves in a better position than us to provide a civilised life for all of their people. Now, what happened to the political culture of Australia in the last nine or ten years can't be wished away. The government did make certain election promises on taxation. But as I said before the facts have changed, and we should at least consider changing our mind.

**Luciana Todd** Thank you, Professor Garnaut. I would now like to hand over to Professor Frank Bongiorno.



**Prof. Frank Bongiorno** What a splendid lecture. So thanks, Ross for all of those stimulating things you've said tonight. Manning Clark said he was weak on backdrop in his history. By backdrop, of course, Manning meant exactly the kinds of things that Ross has been talking about tonight. He meant the economy. He meant all of the kind of material factors that are so important in helping to produce that civilised society that Ross just referred to in relation to taxation. That said, Ross has made a comparable impact, certainly in scale, to Manning Clark's on this country. And in some ways, initially, I thought a different kind of impact and character, but even there the differences might be more superficial than the similarities. Both Ross and Manning, of course, have been significant influential and visionary public intellectuals. Both have been animated by their vision of the good life and of the civilised society. Neither is a technocrat. And I guess we're reminded tonight that another man who wasn't a technocrat was John Maynard Keynes. What a splendid quotation that was at the end of Ross's lecture. Again we were reminded of a vision of a good society and a civilised society. I think both Ross and Manning understood also in more specific terms that Australia would need to find its way in Asia. Manning was really in some ways the public intellectual who pioneered that idea in the 1950s. And of course, Ross's work in that line has been so deeply influential over the last several generations now. And they also realised that Australia could not shut out the modern world. Manning's term, which he borrowed from Angus Wilson, was that we couldn't afford to be darling dodos. We couldn't afford to be darling dodos. And I think that Ross's public career and the words he said tonight have also been a reminder that Australia has to make its way in the world. That it can't basically shut it out.

That's an important message too. Because the temptation to shut out the world has often been overwhelming during the years of the pandemic. But in fact, Australia got through that pandemic in a lot of ways, by not shutting it out. We very strategically kept those borders open. Notably, in terms of our exports, and the situation we're in now, as difficult as it is, would be a lot worse, if not for that. Manning would certainly recognise Ross as an enlarger not a straightener. And he would also have admired I think the sweeping vision of Australian history that we've had tonight. That picture from Deakin through

Theodore, Scullin, the postwar reconstruction, Whitlam, Hawke, right through to Albanese. And of course, Ross has also been very innovative in inviting us to rethink in some ways, the periodization of contemporary Australian history. And that notion of the Dog Days is one I've already relied on in my own writing. And I think it's a really powerful one. Not only in its presence for what happened next. But I think also in capturing that moment between the China boom and the pandemic. And I really do hope that others will take it up, because it's a really important idea. I appreciate the references to the Scullin government. I think Scullin's was a much under-appreciated government. In my view, it wasn't the dreadful disaster or failure that it's often been presented as over the years. As Ross said tonight, it was obviously overwhelmed by circumstance. But in many ways, of course, its instincts were broadly correct. Its official policy, after all, was the Theodore plan. The lack of cooperation from the Commonwealth Bank and the Senate that prevented it from pursuing that.

And finally, I'd have to appreciate or express appreciation for all those references to the 1981 Grand Final. I remember it so well. Carlton was indeed 21 points behind with a few minutes to go in the third quarter. I would have been about 12 at the time. And I decided that was the time for kick-to-kick out on the road with the football. I couldn't watch it anymore. It was too painful to contemplate what it would be like going back to school Monday morning to all those awful Collingwood supporters. But then, of course, something magical happened. And the magician was the great Mike Fitzpatrick, who took an extraordinary command of the game as Carlton's captain. I've never seen a piece of leadership on a sporting field like that. In fact, I sometimes think of it in other contexts too. It was an amazing command performance by Fitzpatrick from there to the end of the game. As Ross pointed out, Carlton won that game much to Manning's delight and I have to say, much to mine as well. Of course, Australia at that period was moving into a very deep recession. And Ross, of course, was so central really to the kind of reconstruction of the country coming out of that recession of the early 1980s. I'd like to invite you to send Ross in the manner that's become customary on Zoom. I always have to fumble for the part that we use to applaud. Please choose your way to applaud Ross for a marvellous Manning Clark Lecture. Thank you, Ross.

**Ross Garnaut** Well, thanks Frank for those remarks. Yeah, I'm reflecting on how in that tiny, tiny ANU and tiny Canberra we bumped into and interacted with great figures like Manning, whom we wouldn't have got to know in other circumstances.