Australian Fabian Essay

Keynesians in the recovery

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Two and a half years ago the fall of Lehman Brothers triggered the global financial crisis and stock market collapse that pushed the world economy to the brink of utter catastrophe. Australia's swift policy response saved tens of thousands of jobs, countless business failures, and a level of individual misery and hardship that can never be known. Today, despite the hammer blows of recent natural disasters, our economic outlook is strong and we are in a better position than almost any of our peers.

This second term Labor Government faces a very different set of challenges than we did for much of our first term. With private demand strengthening, unemployment falling and our economy pushing towards capacity, we need to restrain public spending, and stay the course back to budget surpluses. Just as it was the right thing to step in and support demand during the GFC, the right thing to do is to take a step back as private activity recovers. That's why, since we first put together the stimulus package, I have adopted this motto: *if we are going to be Keynesians in the downturn, we have to be Keynesians on the way up again.* That means a speedy return to surplus.

As I travel around the country, I'm often asked why our commitment to rapidly return the budget to surplus is so important. In this essay I want to explain how one of the 20th Century's great thinkers, John Maynard Keynes, helped us find the answer, in the process influencing the Government's response to both the global downturn and our strategy for the recovery. More broadly, I want to describe how economic policy informs the delivery of not just responsible management but a modern progressive agenda. Most importantly, I want to make the point that being a Keynesian means supporting a counter-cyclical fiscal policy with government making room for the private sector when economic growth is strong.

In the 80 years since the onset of the Great Depression, Keynes' belief that government has a role to play in avoiding recessions and ensuring prosperity and progress has become Labor's economic compass, helping us set a course through turbulent seas. His direct influence has waxed and waned, and in places been rightly superseded by the insights of other economic thinkers, but when recessions and depressions have hit, Keynes' broad prescriptions have come to the fore – and they have done so in a way that has maintained the essential social-democratic nature of Australian society. Like Keynes, Labor is guided by the understanding that recessions can and do have long-lasting costs through the destruction of jobs and small businesses and the erosion of capital.

When Labor returned to power in 2007, more than 11 years in opposition had filled our parliamentary party with big plans for economic reform. Our aim was to build on the achievements of the Hawke and Keating Governments, but with new emphases on human capital investment, environmental sustainability, infrastructure development and social inclusion. It was to be a modern incarnation of Labor's social-democratic vision, designed to maximise the advantage from the shift of world economic gravity to our region and ensure the benefits were enjoyed by more of our people. Australia, it seemed, was on the cusp of perhaps the most significant burst of prosperity in its history, and our vision was to make that prosperity economically, socially and environmentally sustainable.

This time of anticipation paralleled another moment in Labor's history. In October 1929, the Government of Jim Scullin was elected with plans to deliver greater prosperity to every Australian after five years of economic stagnation. But just two days after the swearing in of the new Labor ministry, those hopes were dashed when a Wall Street collapse plunged an unprepared world into economic chaos. Within 12 months, Australian GDP had dropped by 10 per cent and real private consumption expenditure by 20 per cent. Two years after that, our unemployment rate hit 19¾ per cent – one of the highest rates in the world at the time.[1]

As I have recounted before, the memory of the Scullin Government's failure weighed heavily upon us as we gathered around the Cabinet table to face an equally daunting situation in the final months of 2008. We were determined that history would not repeat itself. Guided by Keynes and other outstanding economists, our Government was able to draw upon the lessons of what went wrong in 1929 and in other recessions since. And as Members of Parliament and former advisers to the Hawke and Keating Governments, we also had the confidence that we could win this economic battle; at no stage were we over-awed by the circumstances we faced.

Keynes and Australia

The influence of Keynes on Australia has long interested Australian economic historians, including Professor Don Markwell, currently at Oxford University, and more recently Dr Alex Millmow of the University of Ballarat, whose accounts of the Keynesian revolution in Australia I have drawn on for my basic historical narrative here.[2] Australia has also of course produced some of the most influential Keynesian economists of the post-war years, including Professor Geoffrey Harcourt, who spent much of his working life in Cambridge and played a role in the development of Labor's economic platform in the 1970s and '80s.

It was the Great Depression that first brought Keynes to the widespread attention of policy makers in Australia. As Markwell points out, the Scullin Government's response to the crisis came down to a choice of three alternatives: the so-called Premiers' Plan that advocated a deflationary policy through cuts to wages and public spending, and increased state taxes; the Lang Plan that sought to suspend overseas debt obligations; or the moderate expansionary policies advocated by Scullin's Treasurer E.G. ('Red Ted') Theodore.

1 Statistics relating to the crashes of 1929 and 2008 in this paper are taken from the relevant Budget papers and from Dr David Gruen and Colin Clark, "What have we learnt? The Great Depression in Australia from the perspective of today", 19th Annual Colin Clark Memorial Lecture, Brisbane, 11 November 2009, found at http://www.treasury.gov.au/documents/1689/PDF/03_Colin_Clark_speech.pdf

2 Donald J Markwell, *Keynes and Australia,* Research Discussion Paper 2000-04, Research Department, Reserve Bank of Australia, June 2000; Alex Millmow, The power of economic ideas: the origins of Keynesian macroeconomic management in interwar Australia 1929-39 - an ANU e-book -http://epress.anu.edu.au/apps/bookworm/view/first/The+Power+of+Economic+Ideas%3A+The+origins+of+Keynesian+macroeconomic+management+in+interwar+Australia+1929-39/204/

Theodore explicitly justified his position by reference to Keynes' early theories of fiscal expansion. But while Keynes had made his debut on the Australian public policy stage, there was as yet an insufficiently broad understanding of the benefits of fiscal expansion in times of recession. As the history books record, the Premiers' Plan was the one eventually adopted after much debate. It contributed to a reduction of real aggregate government expenditure of 9 per cent at the height of the depression, and economic historians agree that by reducing demand when private sector spending was in retreat, the Premiers' Plan made the situation worse.[3] It also led to the split of the Parliamentary Labor Party and the destruction of the Scullin Government.

Australia – and in fact almost the entire world – was not yet ready to put aside the conservative, deflationary economic orthodoxies of the past. In their contributions to the debate at this time both John Curtin and Ben Chifley, who were to adopt Keynes as their economic guiding light when Labor returned to office in the 1940s, recognised that it would take a decade for the world's financial system to catch up with the realities of the global economy.[4] They were right.

The Scullin Government, hamstrung by a conservative majority in the Senate and crippled after the resignation of Theodore, lacked the capacity to implement practical, expansionary policies in the face of the Great Depression. Labor's plans to create a more social-democratic society ran aground. If the party was to ever implement its hopes for the nation, it had to become a successful economic manager of capitalism, and if it was to maintain the political unity necessary for holding on to government in the good times and bad, it had to find a practical economic policy consistent with its social-democratic platform. It needed to be intellectually prepared to handle economic crisis without dividing and collapsing. Keynes helped provide the solution.

During the 1930s a number of people who were subsequently to become Australia's leading economic thinkers travelled to Cambridge to participate in what was becoming a full-blown Keynesian revolution. These included the likes of L.F. Giblin and Colin Clark, who are credited with significant contributions to the evolution of Keynesian theory. These men were to have a profound effect on the economic evolution of our nation.

One of those responsible for the adoption of Keynesian thinking – who actually studied at the London School of Economics (then the home of anti-Keynesians like Friedrick von Hayek), but who was by inclination Keynesian – was a man whose name is well-known to historians, H.C. 'Nugget' Coombs.

Returning from England, Coombs' brilliance brought him to the attention of the leading politicians and bureaucrats of the day. He worked as an advisor in the Commonwealth Bank and the Treasury, before being given the posts of Director of Rationing, Director-General of Post-War Reconstruction, and Governor of the Reserve Bank. Through holding these powerful and important offices, through his closeness to successive prime ministers, and through the policies he pursued so vigorously, Coombs helped put Keynes' stamp on the make-up of modern Australia perhaps more than any other single person.

Those in doubt about the effect of Keynesianism on Coombs and others of his generation need look no further than the opening sentence of his memoir *Trial balance: issues of my working life*: "The publication in 1936 of Keynes' *General Theory of Employment, Interest and Money*, was for me and for many of my generation the most seminal intellectual event of our time." And soon, Coombs admitted, he "had become convinced that in the Keynesian analysis lay the key to the comprehension of the economic system."

Professional economists and public servants were not the only ones to be captured by the Keynesian revolution that was gathering pace in the world's economic centres. Keynesianism was beginning to influence deeply the thinking of Labor's leading political figures, including the man who more than any other would direct the economic dimension of Australia's wartime and post-war evolution, Ben Chifley.

As Chifley's first biographer L.F. Crisp (himself a convinced Keynesian) points out, Chifley's membership of the Banking Royal Commission coincided with the release of Keynes' *General Theory*, which had a major impact on the Royal Commission's findings. Those findings neatly sum-up the central economic policy prescription at the heart of Keynesianism: the expansion of public works and government expenditure in times of depression to revive private enterprise and employment; and contracting public expenditure and reducing debt once growth and prosperity have been restored.

In other words, Chifley along with the most influential pub-

3 Gruen and Clark, "What have we learnt?", p. 42.

4 L.F. Crisp, *Ben Chifley,* Melbourne: Longmans, 1963, p. 61.

lic servant of his day, Nugget Coombs, was present at the creation of the policy that was to guide the emergence of Australia as a 20th Century social-democratic state: demand management in pursuit of full employment and rising prosperity through balanced budgets over the economic cycle.

The Keynesian revolution in Australian economic policy had begun, and was to be put into effect through the Curtin and Chifley Governments' war-time economic management (which drew heavily on Keynes' influential work, *How to pay for the war*), their post-war reconstruction policies, and, internationally, through their participation in the Bretton Woods Agreement (where Australia's representatives were sometimes more Keynesian than Keynes himself). That was another lesson Labor picked up – that recovery from, and prevention of, recession demanded Australia act on the world stage.

This Keynesianism was to remain a feature not only of Labor economic policy, but of all Australian governments until the end of the Keynesian consensus during the 1970s. While obviously not everything was perfect, it helped produced three decades of largely full employment and mostly low inflation before eventually bogging down in a combination of rising unemployment and persistent inflation during the Whitlam era – problems which beset governments of all shades across the world in the aftermath of the first OPEC oil shock.[5] This generalised prosperity was a mighty achievement. It relied on national economic consensus, but it was begun by Labor, and remains a crucial and proud era in our nation's and our party's history.

Revolutions of course have a way of turning full circle, and the problems that confronted Keynesian economic managers from the early 1970s onwards led to the rise of new economic theories. Labor's economic thinkers wisely accepted the need for change. The Hawke Government began with a moderately pro-Keynesian program, then followed an economic reform route which placed greater emphasis on boosting competitiveness and productivity through economic liberalisation and controlling inflation through a mixture of sustained fiscal consolidation, tight monetary policy and incomes policy.

This alternation of economic liberalisation, tight fiscal policy, and Keynesian demand management in times of downturn illustrates an important feature of Labor's modern economic approach: our policies are based on an understanding of contemporary conditions and practical solutions, not on a dogmatic adherence to economic ideologies. Experience is our guide.

As I have argued here, the great crash of 1929 led to dramatic improvements in economic policy, financial regulation and, after World War II, the creation of a social safety net that provided the developed world with the base on which it built decades of economic stability. And the economic crises of the 1970s – like the British Winter of Discontent and the global oil shocks, stagflation and unemployment – led to reforms to unclog the arteries of a sclerotic capitalism, freeing up economies and contributing hugely to rising living standards in the following decades. We learned from both lessons, and Australia is far richer for it.

Labor's policies are also based on the absolute need for fiscal responsibility. In short – and in contrast to our opponents – we understand that economic policy must bend to the needs of the times, not the other way around. What this meant was that when the GFC hit, Labor was fully prepared to adopt a pragmatic view about what policy course to take. We understood the implications of the crisis, our Labor values dictated that we must act, and Keynes provided the framework for that action. We didn't act because it was politically expedient to do so, we acted the way we did because it was right – right by our values and right for the economy.

Keynesianism had given the ALP four valuable assets with which to confront economic crises: a practical, progressive economic policy; a psychology that recessions were no time for surrender and could be tackled by policy; an openness to ideas based on practical utility; and the makings of a short and long-term plan for recovery. Each of these four assets were to prove invaluable during the global recession.

Keynes and the Global Financial Crisis

It's easy for politically and ideologically motivated critics to downplay the threat presented by the GFC. From the comparative comfort of our strong economy, it's tempting to forget that Australia was not immune to the biggest worldwide recession since the Great Depression itself.

In 2008 the world grappled with a synchronised downturn unlike anything we had seen in 75 years. The banking system was under threat, asset prices dived, global trade plummeted, firms stopped producing, households

5 David Day, 'Hawke and the Labor Tradition', in Susan Ryan and Troy Bramston (eds) *The Hawke Government: A Critical Perspective,* Melbourne: Pluto, 2003, p. 404.

stopped spending, investment almost dried up, and business confidence took a blow from which it is still recovering. In the first few months alone, financial firms worldwide recorded more than US$1.1 trillion in losses and write-downs. Wealth was destroyed on an unimagined scale. Sixty million people lost their jobs. One after the other, the developed world economies tumbled into deep recession. All up, annualised global GDP collapsed by 6.25 per cent in the December 2008 quarter – the sharpest fall in global output on record. For a time, the GFC wreaked economic havoc on a grand scale, and its effects are still hurting the developed world. We continue to see high rates of entrenched unemployment in the United States and Europe, and lingering concerns in countries with imposing fiscal mountains to climb.

It is too easy to forget just how exposed Australia was to the crisis. Eight out of ten of our major trading partners went into recession. Our banks faced dislocated global capital markets and calls from bank customers flowed into my office. The decline in production, investment and exports affected jobs, with unemployment rising by 175,000 within months. Our economy contracted by almost 1 per cent in the final three months of 2008.

This is the context in which we decided to act.

The comparison between what we did and what the Scullin Government did is of course informed by improvements in the policy levers at our disposal. We were not hampered by the gold standard, by the lack of access to international capital that restrained public and private borrowing and investment, nor by a weak central banking system. The very things that were created as a response to the Great Depression and the subsequent era – like unemployment benefits, a comprehensive social security system, a floating exchange rate and an independent Reserve Bank – would act in the recovery as automatic stabilisers.

We were also fortunate in that, unlike 1929, governments around the world acted largely in unison to guarantee their banking systems and stimulate their economies through public spending. The emerging powerhouse China, and also India and other developing nations with high demand for our exports, understood the force of the Keynesian argument for supporting their economies in this time of crisis. As a consequence they continued to grow, and history has favourably judged the outcomes.

But the fact that our Government was in a better position than Scullin's did not constitute an argument for doing nothing. Unarguably, had the Australian Government listened to our conservative critics and done far less, the outcome for our economy and our nation would have been far worse. We would have gone into recession, hundreds of thousands more jobs would be gone, and many more businesses would have closed their doors.

Underpinning our policy response were the principles of fiscal and monetary action to boost aggregate demand set out by Keynes in his *General Theory* and his activist publications of the Great Depression era: immediate stimulus measures to boost consumer spending and confidence; useful public works to create employment; lower interest rates to boost investment and spending; and concerted international action to strengthen the world financial system.

Through this prescription, Keynes' first message to us would have been to have confidence to act and to act fast. Dithering – as policy makers did in 1929 – only allowed the economy to deteriorate further. Like Keynes, we in the Government believed we had a moral duty to act and act decisively – hence our quick and determined response, two factors we were at pains to emphasise.

Recognising that long lead times can create a lag between the announcement and employment effect of major public works, Keynes was in favour of immediate action to boost consumer confidence and spending. In a celebrated passage at the height of the slump (referring to the multiplier effect of consumer spending – a discovery that lay at the heart of his *General Theory*), Keynes urged women to go out and restock their linen cupboards aware that by doing so they were creating work and preventing families from going hungry. This general principle provided the basis for the Government's early action, which the then Treasury Secretary Ken Henry summed up as: "go early, go hard, go households".

It is for this reason that one of our first responses to the crisis was the Economic Security Strategy, which provided $10.4 billion in targeted stimulus payments to pensioners, carers and families in December 2008, as well as immediate training places for the unemployed and additional assistance to first home buyers to stimulate housing construction.

The other element of fiscal policy Keynes recommended was public works to turn idle savings into useful investment. This constituted the second part of the Government's stimulus measures. In February 2009 the Government began implementing a $42 billion Nation Building and Jobs Plan to support jobs and invest in future long-term economic growth. It included investments in major infrastructure such as roads, rail, ports, freight facilities, clean energy initiatives, the National Broadband Network, and school, university and hospital infrastructure. Some $16.2 billion of this investment was for the Building the Education Revolution program, which funded building and maintenance works across nearly 24,000 projects.

All up, public investment rose by 25 per cent in 2009-10, which was the largest annual increase on record. As a result, Treasury estimated that the stimulus and public works measures added 2¼ per cent to the economy in 2009-10 and reduced the peak in unemployment by 1½ percentage points. Without these measures our economy would have suffered a protracted recession and around 200,000 more Australians would have been put out of work.

The swiftness of our response – putting stimulus into the economy less than three months after the collapse of Lehman Brothers – was a telling factor in Australia avoiding recession, unlike virtually every other developed economy.

In the immediate Keynesian sense, the stimulus was a great success. But more than that, it ensured that instead of remaining idle, the capital invested has added to our nation's future economic capacity, making economic growth more economically and environmentally sustainable and creating more educational opportunities for Australian children. It protected the skills base of our economy and prevented tens of thousands of workers from becoming permanently lost from the workforce. Our stimulus programs helped advance our vision of a more progressive society.

The Government was heavily criticised for increasing national debt by taking this course of action. But there could be no other way. The choice was spelt out in my Budget Speech for 2009-10: *Since last year's Budget, taxation receipts have been revised down by around $210 billion over the forward estimates. This represents around two-thirds of the write-down in our budget position. It is the biggest downward revision in our history. Roughly equivalent to the entire Commonwealth spend on health and hospitals over the forward estimates. Faced with that reality, there are two starkly different ways to go. You can balance the budget by dramatically pushing up taxes and slashing and burning vital services in key areas like health, leading to a deeper and longer recession, and higher unemployment. Or you can offset a temporary collapse in revenue with a program of responsible borrowing that also provides for the stimulus the economy needs when private sector investment is in retreat. This is the course the Government has adopted. It is the only responsible course.*

One of the reasons for the severity and length of the Great Depression in Australia was the overly tight monetary policy kept in place for so long by the Commonwealth Bank, the central bank at the time, combined with a lack of access to loans from overseas. This is a problem Keynes recognised in relation to almost all countries. In contrast, during the GFC, our independent Reserve Bank acted swiftly to reduce interest rates, with the cash rate falling from 7 per cent at the time of the crash to 3 per cent by April 2009 – the lowest level in many years.

Australia's banking system is strong and resilient after years of tough supervision and sound management. But when governments around the world moved to guarantee their banks' access to global capital markets, we moved quickly to do the same to ensure the continued flow of credit to our economy. To avoid the dramatic loss of depositor confidence we saw in countries around the world, we also accelerated the introduction of our Financial Claims Scheme to protect bank deposit accounts. These actions helped to maintain confidence and stability in our financial system and improve access to money markets, ultimately enabling households to continue borrowing and business to survive, invest and grow.

Another of the major lessons of the Great Depression was that action to stave off slumps must be internationally coordinated. In a global slump, internationally coordinated fiscal action is more powerful because each country's fiscal spillovers aid in the economic recovery of its trading partners. 1929 proved that governments must work in concert to promote stimulus, and that protectionism and poor global financial regulation made matters much, much worse. Keynes devoted much of his remaining life to addressing this central problem by encouraging international action to promote economic stability and growth. His efforts helped produce the Bretton Woods Agreement that established the IMF and the forerunner of today's World Bank, which are playing a major role in the worldwide economic recovery today.

The disaster of 2008 proved that many of Keynes' lessons about international finance in particular had been forgotten or deliberately ignored. For this reason, the Australian Government was a leading voice for the coordination of international stimulus measures, the maintenance of free trade, and the redesign and reconstruction of the world's global financial architecture.

Most importantly, we have been a major advocate for the overhaul of international economic decision-making, in particular by championing the G20 group of nations as the pre-eminent forum for international economic cooperation. This is of course in Australia's interest as a middle power member of the G20, but it also recognises that in order to succeed, global economic reform must be owned by the overwhelming majority of the world's people.

Since the onset of the crisis the G20, with strenuous input from Australia, has played an important role in coordinating stimulus measures, broadening and strengthening financial and prudential regulation, and ensuring the needs of developing nations are considered in its policies. I personally have participated in the G20's major summits in Washington, London, Pittsburgh, Toronto and Seoul, as well as numerous other meetings of world finance ministers. Australia has punched above its weight, and I am determined that we will continue to do so.

Keynesianism in the Recovery

Too many ideologues dismiss the value of Keynes' work (through unthinking philosophical prejudice). To these people, usually associated with ultra-conservative economic think tanks, Keynesians are politically-motivated proponents of a bigger state, against liberalising economic reforms, stuck in the past, and generally unfit for office.

Such critics of Keynes like to see themselves as practical economic thinkers, not proponents of a political and economic ideology. The best that can be said for them is that they are seriously deluded. Keynes recognised the danger of such thinking, remarking famously in the final paragraph of the *General Theory*: "Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."

These people are the slaves of the defunct economists who instructed us to ignore the lessons of the Great Depression. They have been discredited enough. But they are also wrong about Keynes' message. Unlike the caricature drawn by his enemies, Keynes was not against the free market, free trade or responsible economic management.

There is nothing anti-market or anti-reform about Keynes' discovery that governments have a responsibility to employ counter-cyclical fiscal and monetary policy to avoid damaging recessions. Almost every responsible government in the world in a position to do so has followed Keynes' advice. And this is something I as Treasurer have been at pains to stress during our response to the GFC.

One important aspect of Keynes' work that has been deliberately under-emphasised by conservative critics is that phrase 'counter-cyclical' – because it implies the opposite of the critics' claim that Keynesian policies constitute a recipe for ever-increasing rates of public spending as a proportion of GDP.

Now this brings me again to the main point of my essay.

As stated clearly in the findings of the Banking Royal Commission (on which Ben Chifley sat), while governments have a responsibility to increase public spending going into a recession, once growth and prosperity have been restored, they have an equal responsibility to restrain public expenditure, budget for surpluses and reduce debt in climbing out.

That's why I have been at pains to stress the Government would take the hard decisions necessary to make the Budget sustainable, to chart the course back to surplus, and to reduce debt in the medium term. When we announced our stimulus plans we also articulated the path back to surplus by constraining spending growth and letting the automatic stabilisers work on the upside, just as we did on the downside. The success of our plans meant that by the time the IMF and G20 first began to talk about the need for well-articulated exit strategies, we were already implementing one. We were ahead of the curve in response to the downturn, and in the recovery.

This strategy hasn't and shouldn't change in light of recent events at home and abroad. The disasters in Japan, our second biggest trading partner and our third largest source of foreign investment, will significantly disrupt Australian exports in the months ahead. Similarly, the floods and Cyclone Yasi that devastated Queensland this summer will reduce growth and tax revenue in coming quarters, and the Government will need to make room for the substantial rebuilding and recovery costs. This will undoubtedly have an impact on the economy and on the budget bottom-line in the short term.

But none of this has knocked Australia off its longer-term course. The fundamentals are strong and our economy is running at close to capacity. We have low unemployment, strengthening incomes, terms of trade close to their highest sustained level in 140 years, and an unprecedented pipeline of investment. Most importantly, mining boom mark II as I have called it, will impose on us structural changes equal in magnitude to any we have seen before.

This economic environment underscores the importance of our fiscal commitments and strategy to return the Budget to surplus. That's why for example we're paying as we go for the recovery costs in Queensland with a combination of spending cuts and a temporary levy. Through our cap on real spending growth and the fastest fiscal consolidation in at least 40 years, we are creating space for the significant expansion in our nation's capital base that businesses have planned.

Just as we *supported* demand during the global recession, we're *making way* for private demand in the expansion. Our fiscal strategy has been consistent from day one, and consistent with our reforms to strengthen and broaden our economy by cutting business taxes, investing in infrastructure and boosting national savings. It is also consistent with our desire to ensure the benefits of the mining boom outlast the boom itself.

Many have suggested that we should be less concerned about deficit and debt, wrongly pointing to so-called 'Keynesian' reasons relating to their low levels in Australia compared to other developed nations. Those facts are true; Australia is in a better fiscal position. But those facts cannot be used as excuses to open the fiscal gate and allow ill-disciplined public spending. Adopting Keynesian strategies for avoiding recession does not mean jettisoning the reform lessons that made us more prosperous over the last three decades.

Compared to the events of 1929 and the fate of the Scullin Government, the Australian story in the aftermath of the GFC has been a more positive one, though it is also true that in our patchwork economy not everybody is feeling the gains. Even so, almost alone among the developed economies, we escaped a deep and damaging recession, with all the hardship that would bring.

One of the fundamental reasons for this is that we had the common sense to follow the broad prescriptions outlined by Keynes. We acted confidently, swiftly, on a broad front, and in sufficient scale to rebuild consumer and investor confidence and fill the hole left by collapsing world and domestic demand for Australia's products. We also moved to shore up the fundamentals of our financial system to keep it operating effectively.

This wasn't done because of any politically-motivated ideological preference. And it wasn't done because we had suddenly rejected the commitment to competition-enhancing economic reforms that the ALP has championed since the beginning of the Hawke and Keating eras. We did these things because we learned the lessons of the past. And we did them because Labor, guided by Keynes, is driven by a morality that regards unemployment, ruined businesses, foreclosed mortgages and myriad other signs of economic distress not as part of an inevitable and desirable cleansing process for the economy, but as the symptoms of a recession that should and can be avoided with the necessary will.

This is the broader legacy of Keynes to Australia: the joining of social-democratic morality to sound and sustainable economic policy. Through primarily Labor governments, assisted by great public servants like Nugget Coombs and others, Australia has made capitalism and social democracy work together to create a wealthier and fairer society. In this way, contemporary Australia and our economic strategy wears the stamp of one of the 20th Century's greatest thinkers.

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