Towards Industrially Sustainable Development?
Industry Policy Under the Hawke Government

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## Abstract

"Industrially sustainable development" means two things: firstly, arriving at and disseminating a satisfactory growth model for the economy and, secondly, defining and negotiating the political trade-offs needed to implement that model. The Hawke Labor government has worked hard at both these tasks but has found itself constrained by a burgeoning current account deficit itself the result of past failures to restructure the economy and by the two-edged nature of its accommodation with the Labor movement. The government fell between two stools - unable to deregulate convincingly on the one hand, but unable to implement an activist industry policy on the other. Nevertheless, its achievements, while patchy, have been significant and demonstrate the virtues of "guided incrementalism" as a strategy for change.
Introduction: Assessing Industry Policy

It is a truism that industry policy (or industrial policy as the Europeans prefer to call it) cannot be satisfactorily defined. Indeed definition is determined more by the perspectives and purposes of the analyst than it is by the inherent nature of the subject. But the ubiquity of the term suggests strongly that when industry policy is under discussion, for whatever reason, very fundamental questions are being raised about the actual and potential relationship between economic activity and public power, both in general and in particular nation states.

The proper role of public power in this context is often seen in the negative light of a sweep-aside of irrational obstacles to economic progress, but it is far more than that. The obstacles to economic transformation, although in their surface manifestation frequently a question of politicians responding to interest group pressures and immediate electoral considerations, almost invariably come down to struggles to preserve existing economic and social distributive outcomes in situations where these are endangered by change. Under such circumstances, policies designed to sweep away obstacles to economic progress may be intensely rational, but sectional objections to such policies may be scarcely less so, the only difference being one of juxtaposition of the long-term versus shorter-term ends (see Blinder, 1988). Thus, from a public management perspective, industry policy might be said to be about the quest of governments to implement a politically acceptable model of economic growth, with acceptability being less a question of politicians’ re-election chances and more a matter of the capacity to forge creative compromises by which those advantaged by existing policy distributions can be induced or persuaded of the potential collective advantage stemming from policies designed to enhance national economic prosperity.

This means that the criteria for assessing the success of industry policy cannot simply be the maximum economic transformation in the minimum period. To adapt a catch-phrase of our times, what governments must seek to attain is industrially sustainable development. Sustainable in this context means at least two things.

First, it involves a task of political education. Not only must policymakers arrive at a satisfactory understanding of the causes and potential for growth, but this understanding needs to be widely diffused, endorsed and acted upon throughout the society. Partly, this is a matter of inculcating what is required to promote economic change, partly it is a matter of demonstrating that the sectional advantage perceived in the status quo may be inferior to the greater advantage to be realised from the unleashing of a new economic potential. Secondly, it involves a capacity for public power to be used to make effective trade-offs between the costs and benefits of adjusting to change. Politicians are judged, and this reflects citizens’ intuitively correct perception of the Janus-faced rationality of the industry policy dilemma, simultaneously by the ability to foster economic growth and to do so with the minimum pain to their constituents. Securing public acceptance for removing obstacles to growth, which are seen by many as long-established rights to employment and support, requires a strategy of finding ways to obtain voluntary compliance with policies which provide a superior trade-off for the community as whole. A sustainable industry policy is, in sum, one which tackles the problems of economic growth by building, through education and inducements, a strong basis of support within the community for necessary economic change.

The assessment of industry policy is complicated still further by two other considerations. The first is the lack of an appropriate counter-factual. Where, as in the case of Australia for much of the 1980s, a government has been pursuing a strenuous policy of industrial restructuring under adverse economic circumstances, it is difficult to establish the criteria for success. We do not know whether another policy would have succeeded better and the failures we perceive may be as much a consequence of economic constraints as of policy inadequacies. At a minimum, our assessments have to include some surmises as to these questions, a further reason why the analyst’s values are so important in this area of policy. The second is that governments are not neutral in terms of preferred policy outcomes and policy trade-offs. Democratic governments in offering a platform of promises tell their supporters something of the broad character of the trade-offs that they will countenance in various policy areas. Thus, we
would not expect policy initiatives and outcomes simply to optimise a trade-off between sectional interests in general and the collective interest in economic growth, but would rather expect an intrinsic bias towards the outcomes preferred by that coalition of interests circumscribing the governing party’s support base. This at least suggests a clear criterion for courageous industry policy, if not necessarily for industry policy success, which is the extent to which a government is willing to attempt to pursue policies which depart from the traditional prescriptions of the interest coalition on which it rests.

The Context of Policy Transformation

Whatever else, the Hawke Labor government’s industry policy has not lacked courage. Quite novel demands for wage restraint and reformed work practices have been made of its trade union supporters and crystallised in a continually refurbished Accord, which has not merely been the backbone of industry policy but has underwritten Labor’s unique achievement of four consecutive election victories. At the same time, Labor has jettisoned many of the fundamental tenets of the established ‘historic compromise’ on which Australian industry policy had been based from the beginning of the century. That compromise rested on the notion of a trade-off between nascent manufacturing interests, which were to be given a place in the sun by protectionist strategies designed to shelter their further development, and the industrial working class, that was, in return, guaranteed the preservation and gradual enhancement of its wage levels through the state regulation of wages. This “politics of domestic defence” (see Castles, 1989), which persisted well into the post-war era and was reinforced by the adherence of a succession of new interests, such as farmers and parts of the service economy, cocooning themselves in the mantle of McEwenite “protection-all-round”, was an industry policy the objectives of which were as much social as economic. At its core, it represented an accommodation between contending economic interests premised on the prior growth which in the late nineteenth century had made Australia one of the most affluent nations in the world. Throughout much of the century an implicit goal of Australian industry policy was to distribute Australia’s abundant economic resources equitably, an objective itself regarded as crucial in facilitating national economic development.

One of the few real advantages for a Labor government contemplating change was that by the early 1980s it was a commonplace of policy commentary that the older protectionist model of industry policy had outlived any usefulness it might once have had. Australia was no longer affluent on a world scale and with that went the implication that a purely distributive strategy meant relatively declining living standards for all sectors of the community. While economists had long pointed to the costs of protectionism, in the 1960s and 1970s - as the economic base of Australia’s prosperity was changed dramatically by the development of resource-exporting industries - that challenge increased in intensity and permeated the official debate more broadly. At the same time, newly industrialising countries in Asia were exporting labour-intensive manufactures at prices with which countries like Australia could not compete. And the pace of technological change, relying as it did on massive investments in industrial research and development, was rapidly leaving behind an Australian manufacturing sector reliant on imported technologies and a small domestic market.

Graph 1 shows the extent of the overall change in the structure of production from the 1960s to the 1980s. Two factors are immediately apparent: the decline in the proportion of production accounted for by rural and manufacturing industries and the rise of the minerals and services sectors. Overall the picture is not (as is sometimes implied) one of a static economy, but rather one in which there were very marked differences in sectoral growth rates reflecting a changing pattern of comparative advantage. So marked were the effects of the “resources boom” of the 1960s and 1970s that many in government believed that Australia no longer needed a manufacturing sector - and certainly not a protected one - in order to balance its path of development. By the 1980s, and particularly after the commodity-price falls of the middle of the decade, economic and political conditions once again made manufacturing a salient issue, but the old strategy of protection, however valuably it had once contributed to social peace and to Australia’s reputation as the “land of the fair go”, was
manifestly unsuited to the new economic times. Manufacturing industry had to change, and that meant that, for the first time, it had fully to pay its own way. Through all the policy disputes between the New Right, the Liberals and the Hawke government, and between the protagonists of level playing-fields and strategic assistance, the only question has been how that might be achieved, not whether it should be.

The obviousness of the need for policy change does not, however, mean that there was no need for courage on the part of a government embracing that task. The great disadvantage for any government embarking on policy change was that it had to mount a frontal assault on rigidities in the economy accumulated over the more than half century that the traditional policy stance had held sway. Any attempt to respond to the problems and opportunities posed by sectoral changes in the economy involved challenging the institutional structures and habits built up in the decades since federation, tackling the vested interests of manufacturing concerns and their workers that existing practices be continued and - for a Labor government - finding a way past the political impasse that those interests had traditionally been closely associated with that party’s policy platform. While some forms of adaptation could be accomplished quickly and decisively, others could not. Among policy-making elites, there was general agreement that the regulatory edifice that had protected farmers from market fluctuations and manufacturers and many services from competitive pressures should be dismantled. Among those who had capital invested in these activities or who worked in them there was, unsurprisingly, much less enthusiasm for change.

The choices made by the Hawke government - to deregulate the financial sector while maintaining a considerable degree of regulation in product markets - represented that government’s version of a politically acceptable model of structural change. The one unequivocal economic success of that model until the recession of 1989/91 was the enhancement of employment and a gradual, if steady, decline in unemployment. Otherwise, it is arguable that, even taking account of Australia’s deteriorating international economic environment, the new policy stance has so far not succeeded in its other more important economic objectives: failing to make any serious impression on the
level of inflation or to contain a mounting burden of foreign debt and, more fundamentally, failing to find ways of substantially transforming an economy subject to unprecedented structural pressures.

But what is interesting in terms of the theme of this paper is that this lack of success judged in terms of purely economic criteria cannot readily be attributed to a failure of democratic nerve. Certainly, an analysis of the achievements and failures of industry policy in 1980s shows that accumulated institutional structures and interests to some degree constrained the new pattern of policy trade-offs, and that the traditional Labor platform helped shape policy priorities (in particular, the emphasis on high levels of employment). On the other hand, the government did seek actively to attack the "sclerosis" of established interests and entrenched institutional practices in a number of areas. It actively promoted the development of an interest coalition for economic growth (the Accord) and it made some attempt to extend the process of political education from policy-making elites to the policy-implementing middle-level managers and workers on whose efforts industrial regeneration actually depends. Just conceivably, these initiatives will contribute to more sustainable industrial development in the long-run or, at least, make the task of the proponents of the next industry policy model off the stocks that much easier.

A Review of Industry Policy in the 1980s

In Australia in the 1980s, the most immediate objective of industry policy was the encouragement of more flexible, competitive and internationally-oriented manufacturing and services sectors. As will be shown, some progress was made towards this goal, although the hoped-for positive impact on Australia's more deep-seated economic problems was not forthcoming in the period under review.

As early as 1975, the bleak prospects of the Australian manufacturing sector had been officially recorded in the the findings of the Jackson Committee. There was, it reported, a "deep-seated and long-standing malaise" in manufacturing which would remain even when the then current economic crisis had passed. Investment had stagnated, the quality of working life was poor and productivity growth had faltered. The Jackson Committee took the view that, only when Australians had reached a consensus about what they wanted from manufacturing would effective policy-making become possible. From the submissions made to it, the Committee concluded that the national goals to which manufacturing might contribute were: improved working of the economy; improved quality of worklife; improved social cohesion; increased involvement of Australians in systems of decision-making and improved capability to adapt to future change (Jackson 1975). This diagnosis of Australia's ills and the suggested remedy of a search for a new consensus for change informed a good deal of what has happened in industry policy in the 1980s.

The record of the Fraser (and, earlier, the Whitlam government) suggests that the industry policy stance of the Hawke government marked a real departure. What consensus there had been since the economic downturn of 1973/4 had focussed on the preservation of the status quo and damage control rather than on the management of economic change. Admittedly, the Whitlam government, taking advantage of what it thought were opportune conditions, had earlier cut tariffs by 25% across-the-board in July 1973 and institutionalised a form of economic rationalism in setting up the Industries Assistance Commission to replace the Tariff Board. But its remaining period in office was characterised by increasingly-desperate ad hoc deals to safeguard jobs as unemployment mounted and the general economic situation worsened. The Fraser government enjoyed unprecedented electoral support, at least until the end of the 1970s, but was hamstrung by political pressure from the manufacturing lobby, by a lingering commitment to protectionist philosophies and by an awareness, clearly underlined by the Whitlam experience, that anything but incremental change was likely to have stark electoral repercussions. Thus the 1977 White Paper, which was to have shown the way forward for manufacturing, ended up by satisfying no one. Certainly, it offered no blueprint for change, nor any radical solutions to the problems of the manufacturing sector.

While the structure of the manufacturing sector had changed considerably in the 1970s (see graph 2 below), that had not to any real degree altered the deep-seated character of those problems.
Protectionist development had created relatively large industries in labour-intensive forms of manufacturing in which Australia could not hope to become internationally competitive. In forms of manufacturing and associated services in which Australia's long-term potential was good (such as mining-related plant and equipment), firms were often too small and too under-capitalised to make use of the opportunities which were available. In the car industry, all-important economies of scale were dissipated in small-volume plants, the product of years of protection exacerbated by state government plans for industrial development.

As the decade progressed, it began to be understood that, not only firms themselves, but also the systems upon which they depended lacked competitiveness. Australian manufacturing lacked proper connections to the largely state-dominated system for the enhancement of science and technology in which basic, rather than applied research, received preference. High-risk projects involving new products could not be developed for want of venture financing. The training system was hopelessly inadequate. Wage-fixing mechanisms, while offering some control of the rate and direction of overall change, were based on a complex amalgam of state and federal awards with loosely-articulated but often potent interconnections.

While import pressures abated somewhat during the 1980s, governments were able to make only slow and patchy progress towards their goal of greater competitiveness. At the federal level, a variety of measures and expedients was tried, ranging from full-scale deregulation to cautious incrementalism. State governments, more vulnerable to political pressures and more inclined to experiment, followed a diverse range of paths, in some cases with disastrous economic and political results.

Deregulation occurred in its most thoroughgoing form in the financial sector. In 1983, foreign exchange controls were removed; the Australian dollar was floated and a number of foreign banks were licensed to operate in the Australian domestic market. In 1988 a program of general tariff reductions was announced to reduce most protection to levels of 10 and 15 per cent by 1992. While “islands” of
high protection remained, these measures continued a trend of falling effective rates of protection (see graph 3 below). As part of its program of "microeconomic reform", the federal government deregulated the airline business in 1990, and announced its intention to introduce competition into the provision of telecommunications services previously subject to government monopoly. Government business enterprises were placed on a more commercial footing with an intent in many cases eventually to privatise them. In 1989 even the wheat industry was partly deregulated through changes to its marketing legislation.

A range of programs was introduced during the 1980s to promote activities which were considered capable of enhancing business competitiveness. The federal government placed particular emphasis on its 150% tax concession for industrial R & D introduced in 1985 and supplemented by a program of grants to support pre-competitive industrial research (DITAC Annual report 1989-90). A modest program of assistance to firms to help them develop new export markets was also in operation as was, from 1983 to 1991, a venture capital scheme based on tax concessions for investors in licensed management and investment companies. Such general forms of assistance accounted for about half the total budgetary assistance to manufacturing industry for 1989-90 (including $160 million as the estimated gross revenue foregone under the tax concession scheme for R & D; Treasury, Budget paper no.1 and DITAC 1989-90).

Although the Hawke Labor government professed a preference for measures designed to improve the general environment in which business operated, it made considerable use of programs and plans designed to address problems in particular industries. While many of these programs were a continuation of arrangements made by previous governments, the Labor government attempted to make the form of assistance more dependent upon export success and positive adaptation than its predecessors had done. The industries concerned were both "mature" industries with adjustment problems (such as passenger motor vehicles, textiles, clothing and footwear, steel, shipbuilding and heavy engineering) as well as technology-intensive activities considered to hold promise for the future (information industries and
pharmaceuticals). In the case of mature industries, the form of assistance was determined both by the nature of the industry's problems and by the outcomes of negotiations between government, business and unions. In turn these negotiations were affected by the relative weight of influence which management and the unions could bring to bear on the process.

The heavy engineering adjustment and development program, for example, owed its existence primarily to the metal workers' union (Ewer, Higgins and Stevens 1987) and its form to the special needs of the industry. Under the program, firms were given assistance to upgrade their manufacturing processes to general industry standards and training allowances were made available to workers. There were also funds available for industry restructuring. On the other hand, the 1989 plan for the textiles, clothing and footwear industries had necessarily to grapple with stronger import competition and a complex and entrenched system of bounties and quotas which could be liberalised only gradually. Nevertheless the architects of the plan extended some assistance in conditional form. There were investment incentives and special programs available to firms committed to restructuring (TCF Development Authority Annual report 1990).

While the rate of progress towards deregulation may have disappointed many, in a general sense, the Labor government in office federally from March 1983 was able to engineer a quite massive shift towards the private sector in terms of access to and control over resources of labour and capital. This was accomplished primarily by cutting public sector outlays. During the 1980s the public sector's share of investment declined from 7.2% to 5.2% of GDP, with the net public sector borrowing requirement reaching zero in 1988-89. For its part, business fixed investment as a proportion of GDP in the late 1980s was well above the average for the 20 years from 1970 to 1990 (Treasury 1990-91 Budget paper no.1). Perhaps more telling, business was taking advantage of easier access to overseas sources of funds by investing internationally. Total Australian direct investment abroad went from $7.6 billion in 1984 to $33.4 billion in 1989 (ABS Foreign investment, Australia: cat. no. 5305.0).

Whether all this activity in the private sector made the Australian economy more 'competitive' is a moot point. Certainly, real unit labour costs declined. Certainly, too, the movement of jobs and output towards the mining, minerals processing and services sectors had continued apace. New investment in the traded goods sector continued to be strongly directed towards mining and processing industries. According to BIE estimates, the annual trend rate of growth of capital stock in manufacturing in the 1980s was less than one-fifth of the figure for mining, and well below the peak levels of the 1950s and 1960s (BIE 1990a).

Cuts in assistance to industry helped, by definition, to remove "uncompetitive" firms. But trends in restructuring did not greatly assist the current account problem, nor did they result in a marked increase in the activities of innovative and technology-intensive activities. While the overall export propensity of manufacturing increased during the 1980s, import substitution barely changed. The trade deficit in manufactures increased rapidly in the early 1980s, before being pegged back by the depreciation of 1985-86 (BIE 1989a). At the level of particular industries, government plans and programs made modest progress. The steel plan, which ran from 1984 to 1988, was generally acknowledged to have been a major success, with the industry markedly improving its productivity performance (DITAC Annual Report 1988-89, 32). The plan had provided a framework of assurance within which BHP was able to invest in improved and expanded steel-making plant. But the "troubled" industries (passenger motor vehicles and components, and textiles, clothing and footwear) continued to present political difficulties. While quota protection on motor vehicle assembly had been removed half-way through the Button car plan, the pace of change was much slower in the clothing and footwear industries. The footwear industry in fact became more reliant on the protection provided by quotas in the period 1988-90 (TCFDA 1990, 57-58).

Less tangible benefits were claimed for the heavy engineering plan. DITAC claimed that the program had had a major impact on attitudes and efficiency in the industry by promoting an awareness of international markets and by helping the industry turn from a
"production" to a "market-oriented" culture (DITAC Annual report 1988-89, 31). But the fundamental difficulties of the industry - its fragmented nature and dependence on a cyclical domestic investment market - remained.

So-called "high technology" industries, the object of much hopeful speculation in the early 1980s, had proved much more difficult to establish on any scale than had been anticipated. Biotechnology, one of the then-Minister for Science, Barry Jones', "sunrise" industries proved a particular disappointment. The lack of experienced managers, the heavy expenses of commercialisation and the problems of penetrating export markets exacted a heavy toll on new ventures. Most were unable to raise new capital after the stockmarket collapse of October 1987 (ASTEC 1989, chapter 2). At the end of the 1980s, the prospect of a manufacturing presence in knowledge-intensive industries seemed as remote as ever.

Overall, while there had been improvement in the export performance of the manufacturing sector and in services activities such as tourism, it was difficult to see where the quite massive increase in net exports required to finance rising living standards might come from. The prescription of the deregulators - for more rapid and more radical change - seemed both unconvincing and unattainable. Yet the compromise solutions devised by (largely Labor) state and federal governments had brought only modest success in addressing underlying problems of competitiveness and productivity.

From this summary review of developments in the 1980s a number of obvious questions arise. The first, why so much reforming energy bore such modest economic fruit, is a question which relates to fundamental economic constraints on policy-making. More interesting in the context of this paper are two more political questions: how policy-makers tackled the obstacles to the industrial reforms they did succeed in effecting and whether greater progress might have been achieved had governments been able to deal more creatively with the constraints confronting them. These questions are discussed in the following section, with the greater emphasis on the political dimensions of the industry policy dilemma.

Reforming Industry Policy: Opportunities and Constraints

In order to understand why governments responded as they did to Australia's structural problems, it is necessary to appreciate the nature of the choices which were available to them. Nothing is more futile in policy analysis, and nothing so well explains the non-cumulative character of economic policy debate, than the tendency to debate the virtues of an abstract model of behaviour while ignoring the context imposed by the real constraints on decision-making. To caricature the problem somewhat, the federal government could have proceeded in either of two ways: it could have built a wall around the Australian economy while it attempted to orchestrate the changes required to reorganise manufacturing production. Or it could have demolished the existing system of tariffs, quotas and other regulatory devices and let the chips fall where they may.

The first alternative would have been both politically and economically impossible for any government as it would have required a return to import licensing, which, even apart from the administrative costs involved, would in turn have imposed massive costs on exporters. Moreover, to induce manufacturers with an assured domestic market to restructure their operations would have been a foolish quest indeed. The second alternative made sense in terms of fashionable economic doctrines and as the Hawke years passed gradually emerged as the preferred strategy of the Liberal opposition, but the costs would have been unacceptable; not merely the political costs - which would have most immediately fallen on Labor supporters in terms of increased unemployment - but also, in the government's view, the policy costs of seeking to transform the manufacturing sector without the support of industrial workers. The Jackson Committee had recommended a consensus solution to Australia's industrial malaise and the Hawke government had reason on its side in believing that a wholly free market approach could not achieve that end. It was not surprising, therefore, that the federal government chose the middle way - deregulating where it could, shoring-up where it could not deregulate, and hoping that, by changing attitudes, Australian industry might rejuvenate itself.
A key element in the Labor strategy was, in the Treasurer's words, to "let the dollar do the work": to rely on the self-correcting properties of a flexible exchange rate. Unfortunately, this strategy, while politically acceptable, did not constitute the growth model which was necessary for industry policy principally because, in more complex forms of manufacturing, the declining Australian exchange rate did not produce the import replacement and exports surge expected of it. A BIE case study of the metal working machine tool industry in the post-depreciation period reveals some of the reasons. While profits from exports increased, volumes, generally did not, as there was little point in reducing foreign currency prices in a specialist market. On the imports side, depreciation did not produce the hoped-for level of import replacement for a number of reasons - importers absorbed cost increases themselves; there were "tied" arrangements with importers which prevented Australian firms from setting up production, and the Australian industry was too narrowly-based to move into new types of production. Further BIE research suggests that this pattern of response was fairly general (BIE 1988; 1990b).

Thus the medium-term 'J-curve' effect of depreciation was attenuated. While exports of price-sensitive commodities expanded, new investment necessarily involved importing expensive capital equipment. Expanding domestic demand also fed quickly into imports of consumer and intermediate goods, placing additional pressure on the current account of the balance of payments. In order to maintain capital inflow, the federal government raised interest rates which, by pushing up the $A, adversely affected the activity it wished to encourage. Australia's underlying problem - its declining terms of trade - was the ultimate constraint on governments. In a sense, it was not competitiveness which was the problem but rather the underlying structure of production. There was a vicious circle: industry policy could not be successful for the same reasons as it was needed. But if the freedom of governments and other interests to break this cycle was constrained, it was also the case that institutional problems of domestic origin reduced the scope for collective action still further. Indeed, the fact that sweeping change was possible in some sectors of the economy but not in others points to an asymmetric pattern of opportunities and constraints facing governments. These constraints and opportunities arose from three sources - the structures of government and of industry; the pattern of interest groups, and electoral considerations.

(1) The structures of government and of industry

We know that industry policy requires "access points" to be successful. Cooperation between government and business is made much easier when firms are large, specialised and have active industry associations (Okimoto 1989). In the Australian case, none of these prerequisites held. In a country with a small domestic market and a largely inward-looking manufacturing sector, production was highly fragmented. Moreover, the concentration ratio of Australian industry had scarcely changed in 20 years (BIE 1989b). The picture had changed very little since the mid-1960s when the Vernon report observed that for many industry sectors, while there were some large firms, there was a long "tail" of smaller firms. The information costs in reaching and negotiating with such a large number of firms for a given level of output were formidable. Industry associations were not tightly-organised corporatist ensembles, but rather collections of firms formed for defensive purposes, whether in dispute with government or unions (Matthews 1983). Associations formed nationally on the basis of product groups did not have the resources to undertake the training and technology-transfer activities so characteristic of their European equivalents. Nor, given the extent of competition between members and the difficulties involved in monitoring them, could such associations have been used as the basis for "recession cartels" or as a means of managing restructuring. While employer groups had more resources, their work was necessarily dominated by those services in which members had a common interest and for which they were prepared to pay. The records of associations such as the Metal Trades Industry Association and the Chamber of Manufactures show them to be preoccupied with industrial matters and with generally little inclination to undertake complex tasks of policy advocacy and implementation.
For the Hawke government, the range of feasible policy instruments was strongly influenced by industry structure. Where an industry was dominated by a single firm (as was the case with steel) the costs of managed change were far lower than was the case in industries comprising many small firms of similar type or (as was often the case) diversified firms with substantially different mixes of products. Ownership and control were also important. The high level of foreign ownership, particularly in high-technology manufacturing, created further difficulties for governments wishing to exercise influence as the source of real decision-making power was either distant from Australia, or if more localised, subject to changing organisational strategies. Moreover, once agreements had been reached, there were problems of monitoring and compliance. The crucial matter of the agenda for industry policy - the determination of which tasks should be given the highest priority - was also influenced in complex ways by the federal system of government. Because of the division of powers in the Australian constitution, governments naturally tended to concentrate on using those policy instruments which were theirs to employ rather than seeking intergovernmental agreements on regulatory matters (Stewart 1991). Thus the federal government was able to deregulate the financial system at least in part because it did not have to secure the agreement of the states to do so. On the other hand, "microeconomic reform" proved harder to accomplish because broad-ranging inter-governmental cooperation was required. Improving the efficiency of land transport, for example, required inter-governmental cooperation of a type and on a scale scarcely contemplated in the Australian political system of the 1980s.

From a state government perspective, the deregulatory stance of the federal government created additional pressures. In the days when tariff protection had been the principal instrument of policy, the states had competed against each other to obtain their share of the resulting investment. With cuts in protection, financial deregulation and limits on state borrowing and spending, the states assumed high levels of risk in order to attract and maintain regional investment. While the federal government in Canberra was reducing its direct economic influence, state governments in Western Australia, South Australia and Victoria were becoming more deeply involved with the private sector, with disastrous overall results.

(2) The pattern of interests

While the conventional wisdom is that interests restrict the ability of governments to act rationally, in Australia's case, it is arguable that the greatest industry policy achievement of the Hawke government has been its capacity to act as an agency in shaping an interest coalition promoting the conditions for industrial change. The Accord with the ACTU was the core of a policy strategy which centred around the notion of creating a series of trade-offs designed to secure trade union compliance with major industrial restructuring as a necessary price for economic growth. Whether such trade-offs qualify as "corporatist" in some sense is, in our view, not only highly debatable, but also rather beside the point. What does matter is the fact that we can clearly identify the political mechanisms by which the Hawke government sought to modify the traditionally zero-sum attitudes of labour and business. By inducing union acceptance for a long-term policy of wage restraint through deals relating to social policy (the introduction of Medicare) and the reduction of personal income tax rates (a continuing series of wage-tax trade-offs) and by running an expansionary macroeconomic strategy, the government provided ideal conditions for a surge in business investment.

Moreover, the Accord mechanism was also used to discount wage increases by the extent to which depreciation of the Australian dollar inflated prices, thus preserving, at least for a time, the competitive advantages of the depreciation. Perhaps most importantly the Accord gave the government a wages policy which enabled it to sustain a higher level of employment than would otherwise have been the case. Indeed, it is arguable that the Accord actually gave the government more freedom to attack inflation and to run the economy at lower levels of demand than it realised.

On the all-important question of productivity improvement the Accord could deliver only limited, although still important benefits. With a high level of business investment, the award restructuring
provisions of the Accord Mark V laid the groundwork for a more flexible use of new technology and for greater incentives for the acquisition of skill in the workforce. Perhaps most importantly, the social partnership aspects of the Accord ushered in a revolution in the attitudes of many unionists and union officials to industry restructuring. So much so that by the end of the 1980s they were in advance of many employers in the same industries. In the trade-exposed sectors of the economy union officials had realised that fewer, more highly-paid (because more productive) jobs were the only means by which a local workforce might be preserved. What had started out as a series of peak agreements between government and the trade union elite gradually became an instrument for political education and political learning on the shop-floor.

That said, it was, perhaps, ironic that although the Accord advantaged business, the absence of business from any explicit general undertakings limited the Accord’s applicability to industry development. While the original Accord nominated industry development as an important part of the deal with the Labor Party, radical plans for rejuvenating the metal trades sector were not followed up by government. The ACTU’s *Australia Reconstructed*, which proposed a Scandinavian-style model for Australia, similarly met with little support. However, that document, as much as any development in the decade, marked a real change in the attitudes underpinning the old policy strategy. In *Australia Reconstructed* the case for a manufacturing industry fully competitive by world standards was conceded by the official representative body of the industrial workers and the arguments it rehearsed were very substantially about the character of the trade-offs that would make such a course more appealing to the ACTU’s constituents.

Nevertheless, mechanisms had been set up for government officials, business and unions to share information about developments in particular industries and to work towards a consensus regarding their future. While the Australian Manufacturing Council (AMC) fell well short of the vision put forward in the Jackson Committee’s report, it had, at least, improved communication between unionists and businesspeople and had sponsored useful research such as the 1990 consultants’ report *The Global Challenge*—which stressed the need for additional assistance to exporting industries (AMC 1990). Nor was the AMC the only corporatist peak body set up to facilitate an exchange between government, business and the unions. The Economic Planning Advisory Council (EPAC) served initially as a forum for research on economic problems and the expression of diverse views on economic strategy, but has recently, as witnessed by its recent paper on *Improving Australia’s International Competitiveness*, become as much an agency for conveying information on competitive “best practice” to middle level managers and the shop floor.

(3) Electoral considerations

Industry policy is something of a paradox for government. While its success or failure is crucial to the success of economic management, for the most part its content is formed away from public debate. It is only when the electorate’s tolerance for change is exceeded that retribution is exacted. A careful elaboration of industrial policy initiatives favouring greater competitiveness to keep just within the bounds of that tolerance was the mark of the Labor stance throughout the period. Whereas many have commented on the essential similarity of the Labor and Coalition deregulatory rhetoric over the years of the Hawke government, the essential difference was that Labor seems to have conceived its task as being one of extending the boundaries of consent to a competition-oriented industry policy, whereas the Liberals saw it rather as one of breaking through the boundaries imposed by inefficient industrial practices to the theoretical and moral high-ground of a rational economic policy.

Undoubtedly, the electoral impact of regional unemployment was an important factor in the gradualist approach to reductions in protection in a number of industries, and in a number of assistance packages given to particular firms. The Labor Party in particular never forgot the electoral punishment meted out to it in Tasmania in 1974 and 1975 when tariff cuts and other problems brought about closures in the Tasmanian textiles industry.
On the other hand, changing electoral expectations regarding unemployment gave government more leeway. In 1979, the Crawford report on structural adjustment had warned against any general program of reducing protection while unemployment remained above 5% (Crawford 1979, 59). Yet the Hawke government was able to reduce levels of protection throughout the 1980s despite an unemployment rate which at no stage went below 5.7%. By revising expectations downwards, as it also did in the arena of welfare state expenditure, government was able to give itself more freedom to manoeuvre. Arguably, too, that room for manoeuvre was enhanced by another aspect of the policy package on offer, the marked growth in employment encouraged by the Hawke government throughout the 1980s. In particular, this enhanced female labour force participation and the supply of part-time jobs, and the resulting diversification of the sources of family income may well have served as a cushion for the disruptions caused by industry-policy induced dislocations.

Environmental concerns, on the other hand, probably worked the other way. Where once pulp mills and mines were the objects of devout supplication by governments, in the 1980s such projects could not automatically be given the go-ahead. Bean and Kelley, in an analysis of voting behaviour in the 1990 election found that the environmental vote had probably been worth about 1% to Labor (Bean and Kelley, 1990). For any government (or would-be government) urban conservationist votes had to be balanced against the income and regional employment effects of new development.

Conclusion: An Assessment and a Prospect

Viewed from the perspective of the 20 years from 1970, industry policy might be regarded as a gradual learning process on the part of government, business and unions, with that learning process speeding up and penetrating further beyond the elite in the latter part of the period. Onto the simple deregulatory strategy of the IAC had been grafted a complex pattern of negotiated arrangements and of programs designed to improve competitiveness.

While many critics argued that faster change was necessary, the record of the Labor government probably supports incrementalism as a desirable strategy. Indeed it was where governments took risks and opted for more rapid change, as was the case with financial deregulation, that things came most notably unstuck. Policy was at its most successful where, as was the case with the Steel Plan, structural conditions were conducive to broadly-based trade-offs between interests. The success of the Accord in underpinning employment growth and in formally tying wages growth (at least to some degree) to improvements in productivity again demonstrated both the political and economic benefits of negotiated change through interest group trade-offs.

The question remains whether this performance (and the likely performance of a Coalition government in power) was good enough. Assuming that the general direction of policy was correct, faster progress towards the goal of a more flexible, internationally competitive economy would seem, on the face of it, to be more desirable than a slower rate of progress. Yet "competitiveness" itself is not a straightforward concept in a world in which governments routinely affect prices for political (and other) reasons. If competitiveness means operating substantially without assistance, Australian governance had shown itself, by international standards, to be quite adept at removing props from beneath industries. While more rapid deregulation was possible, the New Zealand experience has shown that the costs, particularly in terms of regional unemployment, would be considerable.

It has also demonstrated a further lesson of which Labor strategists in Australia were always aware: that rapid change risks undermining the support base in the community for continuing change. The motto of the Hawke government has been the motto of gradualism: that more can be achieved at the "pace of a tortoise" than by "crash-through-or-crash". Which strategy we prefer, of course, partly depends on the urgency of the industry problems we confront. But it also depends on our understanding of the mechanisms of successful industry policy. Whether our favoured exemplar is Japan or Sweden, a central lesson for success is shared expectations deeply diffused through both sides of
industry. Creating such understandings requires a very long-term process of consensus-building, likely to be easily disrupted by rapid changes in the political climate of decision-making. Almost a decade of promoting consensus by exploiting opportunities for change whilst being wary of political constraints is only a beginning. But it is a real achievement, and one requiring the democratic courage of constant persuasion and occasional setbacks rather than the easy courage of ignoring political reality.

Where there are fundamental differences between governments of diverse political hue, the future cannot but be seen “through a glass darkly”. There are such differences in respect of industry policy. Indeed, one might go as far as to say that, whereas Labor sees a vital role for the government in reshaping the institutions, attitudes and practices that facilitate economic competitiveness, the Coalition does not actually believe in industry policy in the sense that term is used here. Forging creative compromises, by which those advantaged by existing policy distributions can be induced or persuaded of the potential collective advantage stemming from policies designed to enhance national economic prosperity, is not the name of the Coalition’s game since they believe that the correct economic policies to achieve growth will coerce selfish interests to give way. Whereas the prospect under a scenario of continued Labor government is of more of the same or even an elevation of the importance of the industry policy as heralded in Hawke’s March 1991 policy initiatives, a Coalition victory would be likely to to see a downgrading of industry policy. In particular, it is likely that the Accord would go and with it a unique experiment in consensus-building as a means of overcoming Australia’s economic malaise.

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