"AUTHORITY, PERSUASION AND EXCHANGE" (REVISITED): THE PUBLIC POLICY OF INTERNATIONALISING THE AUSTRALIAN ECONOMY

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Abstract

This paper examines the 1980s restructuring of the Australian economy from the perspective of two contending paradigms.

After World War II Australia sheltered its economy from international competition. McEwenite "protection-all-round" - constituted this "politics of domestic defence". In consequence, by the 1980s Australian governments faced the problem of ridding the Australian economy of the endemic inefficiencies of this post-war form of the "Australian Settlement" model and developing a new model to make Australia internationally competitive.

This paper traces the attempts by the Labor governments of Australia in the 1980s and early 1990s to reshape the Australian economy. Reforms of the political and administrative structures and practices of Australian politics, as well as deregulation and other economic reforms were involved. To effect this historic change in Australia's policy paradigm required varying combinations of "authority, persuasion and exchange" (Kemp 1983). Implementing this paradigm shift, however, was dogged by the combination of exogenous shocks to the economy and "political" disagreements about the appropriate policy mix for the new model.

Introduction:

> The moral type on the other hand is not based on stated terms but the gift or other service is given as to a friend, although the giver expects to receive an equivalent or greater return, as though it had not been a free gift but a loan .... The reason of this is that all men, or most men, wish what is noble but choose what is profitable; and while it is noble to render a service not with an eye to receiving one in. return, it is profitable to receive one.
> (Aristotle, *The Nichomachean Ethics*)

Aristotle posits one form of inducement - exchanges (cf Blau 1964: chapter 4) - with which governments achieve their desired outcomes. Two possible others are simply persuading other parties of the merits of your proposals, or having the institutional authority to force them to comply with your wishes ("persuasion" and "authority" respectively).

This paper looks at this three-part set of instruments, as originally proposed by Kemp (1983), as a means of evaluating the Labor government's economic policy. In 1983 Kemp, predicted impending disaster for the newly-elected Labor government:

> The limitations on what government can achieve are the limitations of the instruments available to government to implement its policies. The problem of 'government failure', increasingly perceived as a parallel problem to 'market failure', results from the incapacity of governments to achieve certain of the objectives they desire through the tools at hand. In fact, the continuing use of these tools simply increases the problem of 'government failure'.
> (Kemp 1983: 219).

My conclusions, albeit with the advantage of hindsight, are somewhat less pessimistic.

The politics of the Labor economic policy of the 1980s was mostly characterised by a combination of the politics of the instruments of social

"exchange" and "persuasion" (which subsumes the political scientists' notion of political agenda management). Because the formal authority of the Commonwealth government - though not the Australian state - is (for historical reasons - cf. Colebatch 1992: 2-6) weakened by a variety of institutional, constitutional, politico-cultural, electoral and other variables, the ability of Commonwealth governments to act with decisive "authority" is limited. Authority is mostly confined to regulatory changes; providing positive and negative inducements through the tax system; and to some direct fiscal appropriations, the latter two being rather weak political tools. Applying a modified version of Kemp's (1983) framework(1), this paper traces how the post-1983 Labor governments sought to recast Australia's national development paradigm despite being mostly confined to those formally weak instruments. *Kemp prophesised failure because of Labor's consensual system. In effect I am arguing the opposite of Kemp; that the policy framework operated by Labor produced middlingly successful results.*

The Australian Political Economy in Perspective

> "The perception that the Australian economy has performed less well than many others over recent times probably derives ultimately from the international comparisons that became popular during the growthmanship decades that followed the second world war. The realisation that it had among the highest living standards in the world late in the nineteenth century inspired concern that this was no longer the case."
> (Maddock & McLean, 1987: 345).

World War 11 left Australians acutely aware of their nation's strategic vulnerability. This lent further impetus to the reevaluation of the "colonial" model of development - commodity staples production for the British market - that had prior to 1914 characterised the Australian economy (cf. Sinclair 1976). In the inter-war years, a national fiduciary issue, protective tariffs and compensatory "home pricing" for agricultural products had signalled the shift to a protectionist "closed" Australian economy that was the full flowering of the "Deakinite Settlement" (Butlin; Barnard & Pincus, 1982: 74-107) of the early years of the century. After World War 11 this tendency developed into a coherent development model.

The Keynesian 1945 White Paper on Full Employment, together with the decision to sponsor large-scale immigration (both by the Chifley Labor government) subsequently formed the basis of Australia's bipartisan post-war development model. This aspired to transform the Australian economy into a "mature" capitalist economy (Carter, 1987). Maturity, for most policy-makers, implied the possession of a significant secondary industry sector. New immigrants were to be employed in manufacturing industries induced by a regime of protective tariffs and quotas (Butlin; Barnard & Pincus, 1982: 139-47). In effect Australia was to import the labor component of the labor-intensive manufactures hitherto imported.

The principal public policy mistake made in the 1945-1980 period was in the administration of what passed for "industry policy" in the 1950s and 1960s. In that period Australia chose the wrong combination of instruments - encouraging an open capital market, with high levels of foreign investment, together with closed product markets created by high protective tariffs and quotas. This contrasts with the later, successful industrial strategy of Singapore, similarly dependent on large capital inflows, but which did not protect the industry so created and hence forced it to be internationally competitive. Even when a Foreign Investment Review Board was established in 1976 it concentrated upon maximising local equity (especially in raw materials projects) rather than

pursuing strategies designed to create value-added, technology-intensive, or export-oriented operations (Anderson, 1983; Edgington, 1991: 71).

The consequence for Australia of predicating policy on a "genetic fallacy" (Ergas, 1988: 94) - that small economies were big economies waiting to grow up - was an extensive range of small-scale manufacturers. In the absence of specific export inducements these remained oriented towards import-replacement alone (cf Caves 1984). "Made-to-measure" tariffs insulated these industries from the consequences of this conservatism. Australian manufacturing became characterised by low productivity, the absence of leading sectors (like consumer electronics, automobiles and machine tools in Japan), and low levels of intra-industry linkages (Dixon, 1989: 83-84). Expansion of the largest indigenous firms, such as Pacific Dunlop and BTR Nylex, focused (until the 1980s) on forming conglomerates to dominate particular sectors of the domestic market rather than developing export markets. The multinational ownership - uncorrected by appropriate contractual and regulatory requirements (eg see Edgington 1991: 75-79) - of a greater proportion of the largest manufacturers further inhibited the transfer of technology and the shift to export-oriented manufacturing, such as was carried out successfully by Taiwan and South Korea from the 1970s.

Australia's federal institutional structure also acted to inhibit the development of industries with efficient economies of scale. For example, in the two decades after the 1939-45 war Australia's State governments competed vigorously against each other to provide incentives to attract industry. Consequently most States had an oil refinery or refineries, a steel mill, at least one car assembly plant, and sundry other manufacturing industries. This disparate spread of industry servicing miniscule markets (as much as its foreign ownership) prevented the evolution of "development blocks" (Dahmen, 1989) from which the innovation clusters and strong intersectoral linkages characteristic of efficient industrial economies could emerge (cf Ergas, 1988: 98; Porter, 1990; Nijkamp & Poot, 1991; Harrington, 1991).

Even in the efficient, export-oriented sectors of the economy - agriculture and mining - little downstream processing developed and capital equipment suppliers were of negligible importance (AMC, 1990: 31). The declining terms of trade for commodities, plus the rapid expansion of international trade in manufactures over the last three decades made this failure to achieve value-adding doubly costly to Australia's external account.

Another perverse feature of Australian manufacturing was the persistence of the uncompetitive "low-wage" textile, clothing and footware industries. These actually increased their effective rate of protection and absolute size until the late 1980s Also Australian participation in global scale industries - such as automobiles, information equipment and telecommunications equipment - was marginal (AMC, 1990: 4). The only world-scale "strategic" exporter was the steel manufacturer, BHP (AMC, 1990:7).

Thus, in 1980 Australian exports of manufactured goods stood at a level about one-third, as a proportion of GDP, of that for most advanced industrial nations (cf AMC 1990: 3; Castles 1989). And 70 per cent of these exports were semi-processed raw materials such as alumina, primary metals like gold and aluminium, or agricultural products with minimal value-added such as wool, meat, milk powder and sugar (AMC,

1990: 6,10). Such exports of elaborately transformed manufactures as there were went mainly to Papua New Guinea and New Zealand rather than to the major world markets of the northern hemisphere. To penetrate these larger markets, some Australian firms had since the late 1970s been forced to relocate there.

So the 1970s increasingly saw a questioning of the post-War development model, especially of the deleterious consequences of tariffs (Kelly, 1982: part 2; Anderson 1987; see also Norton 1982). As Maddock and McLean noted above, attention focused on Australia's relatively low *per capita* GDP growth - ignoring the fact that this partly reflected deliberately rapid population growth - rather than on the slightly more respectable absolute GDP growth rates (Dowrick & Nguyen, 1989; Maddock & McLean, 1987: 344-48). This questioning was also encouraged by Australia's inability to seize any particular advantage - increased coal exports aside - from the succcessive oil crises of the 1970s (Smith, 1989: 217-18). Inefficient manufacturing ossified, while the services and mineral commodity sectors grew, though producing relatively low total growth rates even for a developed nation. Between 1950 and the early 1980s Australia alone of the industrialised nations had not increased its exports share of GDP (Krause, 1984: 275-76; Banks et al, 1991: 3). By the advent of the Labor government in 1983 it was apparent that a new model of national economic development was needed. The political agenda of economic policy was ripe for capture.

Labor Comes to Power

In March 1983 Labor was swept into power in electorally (though not economically) propitious circumstances. The Fraser Liberal/National Coalition was defeated because Australia was suffering a "stagflationary" recession, featuring unemployment and inflation rates at over 10 per cent and negative GDP growth. The recession was the result both of an international downturn and drought in the eastern states. But the spiralling unemployment and inflation was partly the consequence of a wages boom in 1981, a sequel to decentralising the wage-fixing system, and governmental hype over a resource projects boom which did not eventuate (Keating & Dixon, 1989:10; Perkins, 1987: 84-86). This followed a decade in which Australia's real GDP rose by only 2.4 per cent per annum, respectable but insufficient as compared with the OECD-wide average of 3.3 per cent (Keating & Dixon, 1989: 9). To solve these problems the Labor Party persuasively promised new policy directions.

In 1983 Labor offered two sharp contrasts to the previous conservative governments: its economic policy and its decision-making process.

Labor came to office with equal commitments to both interventionist industry "planning" and Haydenite economic "responsibility" (which later was labelled "economic rationalism" - cf Gerritsen & Singleton, 1991). The planning was expressed in sectoral industrial programs for steel, the automotive industry, chemicals, heavy engineering, and the textile, clothing and footware plan (Bell, 1993: 137-143). These sectoral "exchange" relationships were soon complemented by general incentives, focusing mainly on tax expenditures on research and development (Bell, 1993: 143-146). These programs were intended to restructure Australian industry and were different to the mechanisms of "domestic defence" or "closure" (tariffs, quotas, and investment and exchange rate controls) previously the traditional reaction to exogenous pressures (Castles, 1988; Viviani, 1990: 392).

The "economic responsibility" agenda was expressed initially in neo-Keynesian terms; Labor promised to pursue "expansionist" (Indecs, 1984: 7) policies, but in such a way as not to fuel inflation. The centerpiece of the Labor strategy was a Prices and Incomes Accord with the trade union movement (Gruen & Gratton 1993: chapter 7). This was a combination of the politics of exchange and persuasion. Under the Accord the unions accepted that, until economic recovery was assured, real wages would be held at the 1983 level to remove the "wage-push" element of inflation and to reduce unemployment. The social contract (exchange) nature of the Accord was expressed in it instead allowing for an improvement in real living standards through the "social wage", a stimulatory fiscal expansion that would concentrate upon social expenditures such as a universal health scheme, increased (though selective and targeted) welfare benefit levels and housing and education outlays. These latter activities would particularly assist those elements of the population outside the paid workforce. In this the Accord involved an implicit redistribution of income from wage-earners to profits, but also to the unemployed and social welfare recipients (Gerritsen, 1986: 49).

The new policy-making mechanisms Labor brought to office were similarly unique in Australian history. Essentially Labor was convinced that a bargained consensual (exchange) partnership with the trade unions in public policy making would achieve better social and macroeconomic outcomes than would adversarial free market systems. Their model was the relative success of the "corporatist" economies of Europe in controlling inflation-unemployment trade-offs in the 1970s (cf Schott, 1984) and later (Dow, 1992: 262-69). Labor, initially at least, was able to persuade the public that this consensual instrument promised fortuitous outcomes.

The new "persuasion-exchange" decision-making process was dramatised by an Economic Summit held soon after the election. In this the government obtained general agreement from major interest groups for its Accord-based economic program. It was this Summit that led the Labor government to be tagged as "corporatist" (Kemp, 1983; Stewart, 1985). Yet the Labor decision-making process, insofar as it was corporatist, was "corporatism-without-business" (Mathews, 1991) and in a situation where even the critics admitted that the centralised mechanisms required for the politics of "authority" did not exist (eg Kemp, 1983: 214). In that sense the Australian system was the obverse of Japan's "corporatism-without-labour". The core of the new bargained bilateral consensus processes was in the institutionalisation of the exchange relationship between the Australian Council of Trade Unions (ACTU) and the Labor government (cf. Kelly, 1992: 282-83). This was formally expressed in the Accord and organised through a range of industrial councils and numerous advisory and consultative bodies (cf. Gerritsen, 1986: 45). Persuasion techniques were used (successfully, until the current recession) to garner general electoral support for this policy-making system.

Informally (as over the introduction of superannuation - cf. Kelly, 1992: 282) the ACTU exercised very significant influence over economic policy-making. It was principally responsible for the government retreating from a commitment to introduce a consumption tax in 1985. Unlike the experience of the Whitlam government (cf. Singleton, 1990: 11-26), major policy innovations such as tariff reductions were negotiatied with the ACTU before implementation. Also, as discussed below, the requirements of the Accord with the trade unions even led to the over-

emphasis on monetary policy in the late 1980s (cf EPAC, 1992), in retrospect Labor's greatest economic policy mistake over the last decade (Gruen & Gratton, 1993: 108).

After its election Labor immediately began reforming Australian politico-economic systems. In this it was aided by the propitious breaking of the drought and an international economic recovery spurred by American budget deficits. The economy rapidly moved into expansion and unemployment declined as jobs were created at twice the average rate for the OECD. It appeared that through persuasion and exchange Labor's social democratic aspirations were being realised. Dramatic inititiatives like floating the dollar (Kelly, 1992: chapter 4) also created the impression of a government authoritatively directing the economy.

Industry policy also shifted from the traditional "domestic defence", which had concentrated on restricting imports (Castles, 1988), initially to a policy that was intended to restructure Australian industry to improve its import-replacement capacity (Bell, 1993: chapter 6). Then two interlinked exogenous shocks - the 1985 collapse of agricultural commodity prices and the severe currency depreciation of 1986 , the "banana republic" crisis (Kelly, 1992: chapter 11)- forced the wholesale rethink (I suspect led by an OECD-oriented bureaucracy) from which the new economic development paradigm emerged.

Policy consequently widened to focus on internationalising the economy through a greater reliance on free market economics (Bell, 1993: 146-156). This emerging paradigm had its origins in the earlier deregulation of the financial sector but featured new elements. In the domestic sphere these were relative reductions in budgetary outlays (thereby making a virtue out of the tactical "necessity" of the 1984 election's "Trilogy" commitment); extensive reforms of the public service (including substantial cost-recovery measures) and the operations of government business enterprises; plus the reduction of manufacturing tariffs. In the international sphere Australia assumed the diplomatic initiative in forming the "Cairns Group" of free trade nations active in the current Uruguay round of the GATT and later in sponsoring regional initiatives like the Asia-Pacific Economic Council as a means to retarding the development of large-scale, protectionist trading blocs.

During the 1980s Labor modified its policy stance from its initial modified-Keynesian position to create the first new development policy paradigm since the modified "Deakinite Settlement" of the late1940s.

Labor became internationalist but prepared to accept more bilateral initiatives; it also became free trade and deregulatory but at the same time remained domestically interventionist. Its wages policy, initially Labor's greatest success, eventually became subsumed by the government's electoral exigencies. As discussed below, the internal tensions of this new paradigm have not been resolved, though - *contra* Kemp - these tensions are not the reason for Labor's current policy problems; the cause of those are in the current recession.

The Economic Policy of Restraint

Spurred by the currency depreciation shock of 1986 the Australian economic policy paradigm began to change decisively. The focus of policy shifted from domestic stabilisation to the external account. This was initially manifested in a drive to reduce the public sector borrowing requirement (which under the "Trilogy" had been assumed to remain

stable in a *growing* economy). The government moved to cut budget outlays, reining these in over the next two years by an amount equivalent to almost four per cent of GDP and eventually achieving the first budget surpluses for 30 years (cf Argy, 1990). Income tax cuts were also implemented as a result of the 1987 election campaign. The weakness of the policy was that it effectively removed fiscal policy as an instrument of stabilisation, leaving an unbalanced reliance after 1988 on monetary and wages policy.

Much of the government's reforming initiatives of the mid-1980s were lost as a (lagged) result of the perverse effects of the exogenous shock of the 1987 stockmarket crash. The consequent easing of monetary policy following the crash led to an investment (sic) boom - which Keating, under the influence of hubris, even tried to laud as productive (Kelly, 1992: 498) - and, encouraged by a short-lived commodity boom, to a deteriorating current account as private consumption burgeoned. The government tightened monetary policy to reduce import demand. Higher interest rates reduced demand but not the current account deficit because it kept the Australian dollar too high (as could be expected - see Feldstein 1989). Eventually tight monetary policy, plus a further exogenous shock - the post-1990 world recession - reduced demand but at a high cost in rapidly rising unemployment, especially long-term unemployment. The only benefit of the policy stance was a reduction in inflation - which had persistently been higher than it was for Australia's major trading partners during the prior decade.

The outcome of the economic downturn of the 1990-92 recession was a decline in the popular legitimacy of the new policy paradigm (eg see Pusey, 1991). With the instruments of exchange weakened by the recession, the government's persuasive capacities dramatically declined, as manifested in falling public opinion support. Without formal authority to fall back on to clear the impasse, the government vacillated over policy and lapsed into leadership struggles as the Opposition rallied, presenting in the *Fightback!* program the real (sic) "economic rationalist" paradigm foreshadowed by Kemp in 1983.

The confusion over appropriate global models for development was expressed in monetary policy debates (cf. Kelly, 1992: 378-85; Gruen & Gratton, 1993: chapter 9). With the partial exception of 1988-89, Australia maintained comparatively high real interest rates throughout the eighties (RBA, 1991). Despite the recent claims that this was to reduce inflation, it was predominantly an effect of the focus on Australia's current account deficits. Yet the use of monetary policy to target the current account was increasingly questioned over the decade, especially after the PSBR was dramatically reduced following the fiscal tightening of 1986-88. Led by academic economists (Harper & Lim, 1989; Makin, 1988,1989; Pitchford,1989,1990; Forsyth, 1990: 13-15) the critics argued that, with foreign debt largely a creature of private sector borrowing, the balance of payments reflected "market" transaction decisions and so should not be a serious concern for government. To retrieve the agenda initiative for the government the Treasury responded that much of this indebtedness was a consequence of purchases during the international asset over-valuation boom and was thus in non-performing investments. Also the debt, even if private sector-derived, left Australia at large exposed to radical reassessment of its currency by the money market. This potential exchange rate volatility (facilitated by the earlier financial deregulation) portended severe policy constraints at best, if not further recurrent crises at worst.

Essentially this dispute reflected inappropriate understandings of economic policy because of a failure to analyse the Australian experience in terms that were relevant to the situation of a small open economy. Balance of payments problems could reflect domestic economic disequilibrium - imbalances between expenditure and output receipts - as well as an imbalance between savings and investment. Because the Australian economy suffered significant resource misallocations through relatively high inflation rates partly consequent on the effects of non-competitive market structures - for example, the high degree of concentration in the manufacturing sector - the neoclassical case that the current account deficit merely represented the successful attraction of investment was incomplete.

Reforming Australia

The 1980s reforms of Australia's institutional and economic practices were widespread and relatively comprehensive. The centerpiece of these was the changes in the labor market designed to improve its efficiency. Fuelled by both incentives and penalties, participation rates in education at all levels increased dramatically. The historic tendency for Australian workers to forego income gains for increased leisure (cf. Carter & Maddock, 1984), with its obvious negative effect on national productivity, was reversed. Wages policy led to reduced real award wages (Chapman et al, 1991b) but also to lower unemployment rates (Chapman & Gruen, 1990; Chapman et al, 1991a), indicating that "outsiders" mainly benefited from the Accord (Flateau et al, 1991). Under competitive, as well as political, pressures labour market practices, which had historically been relatively inefficient (Freebairn, 1989: 183) were improved as Australia's unique centralised, juridical wages bargaining system (Withers, 1987) was substantially transformed. Strike rates decreased as a result of the Accord, and through incremental decentralisation the labor market gradually became more flexible and productive.

Australia's hitherto-closed economy was substantially opened up through the floating of the Australian dollar in 1983 and the deregulation of the financial sector after 1984 (Keating & Dixon, 1989: chapter 6). Incrementally the tax system was rendered significantly more efficient (Sandford, 1992), so that the inefficient investment and consumption of the 1980s is less likely to be repeated (Argy, 1991: 1-2,12-13). In addition, after 1987, an attempt was made to remove the endemic microeconomic inefficiencies in the economy. This reform process became inevitable after the financial system's deregulation (cf Kelly, 1992: 388). But it was implemented erratically, principally because of political (persuasion) factors such as the difficulty of maintaining Labor's partisan electoral coalition, the reactions of sectional interests, and the decline in the government's electoral popularity (cf. Gerritsen, 1992a).

Ultimately the pace and success of reform was vitiated by the post-1990 recession. Until 1990 the fiscally-frugal stabilisation policy facilitated high growth rates. The principal mistake made was in the easing of monetary policy in 1988/89. In retrospect Australia (as a small open economy) could have been a "free rider" on the international expansion generated by the major industrial economies. The decline in the persuasiveness of the elite policy community's view of the requirements of reforming and restructuring Australia was seen in the popularity of ill-informed critiques of the process (eg Pusey, 1991) and in electoral resistance to tariff cuts, as expressed in the Wills by-election in 1992.

Together with the new decision-making process, this internationalisation of the economy was the most significant element of the paradigm shift of the 1980s. But because it was one whose implications were not comprehensively thought through, the subsequent policies were inadequately and discontinuously applied, with deleterious results for the credibility of the whole strategy. Also the record in each sector of the economy was mixed.

For example, the regulatory reforms of primary industry organisational arrangements were relatively comprehensive, concentrating particularly on the self-management or "corporatising" of agricultural produce marketing and research (Gerritsen & Murray, 1987; Gerritsen & Abbott, 1988, 1991; Martin 1990). This was not unambiguously successful, as shown by the 1990 wool "crisis", which resulted from the industry's mismanagement of its reserve price scheme (Gerritsen, 1992b: 103-105). Essentially rural policy featured an "exchange" trade-off between government and the farm sector. This trade-off featured an immediate reduction of rural industry assistance to be compensated for by reduced input costs to be achieved by microeconomic efficiency gains in the general economy (Gerritsen, 1992b: 109-110). The latter were necessarily slow and incremental - a consequence both of the exchange relationship with the unions and the lack of Commonwealth jurisdiction (authority) over the major infrastructure targets of microeconomic reform. Consequently, the compact between the government and the rural sector broke down during 1990 (Gerritsen, 1992b: 107). The difficulties of policy management in this area was exacerbated by the persistence of agricultural protection in the EC and Japan and the United

States' export subsidisation, problems the Uruguay round of GATT seemed powerless to remedy.

Manufacturing industry efficiency gains were equally ambiguous. The deterioration of the manufacturing sector since the 1960s was seen as limiting Australia's ability to respond flexibly and quickly to changing circumstances (Keating and Dixon, 1989: 23). The instruments pursued here - tariff reductions and various interventionist measures (cf Johns, 1990: 367; Easson, 1991: 129-30) - despite their contradictory nature, as in the case of agriculture sought to attain enhanced international competitiveness.

Significant tariff reductions were implemented, so that by the end of the 1990s Australia will effectively have ended its tariff impediments to imports. This reform has to be seen in the context of Australia's pursuit of a freer trade world order for which the Garnaut (1989) and Hughes (1989) Reports served as dual domestic and international "signalling" instruments (Higgott, 1991: 12). The problem was that Australia was acting unilaterally - with little likely immediate gain (Mathews & Ravenhill, 1990) - while not putting in place the comprehensive interventionist regime in the European style that would limit the dislocation resulting from the abandonment of tariffs. This was more a policy omission within the new paradigm than a reflection of a lack of governmental authority - as the government had the means, though not the wit, to institute such an interventionist industry policy. But the result was weakened governmental policy persuasiveness.

However, industry policy did move hesitantly toward a more "European" style of positive interventions (Gerritsen & Singleton, 1991). These

interventions featured "partnerships" with foreign-owned multinationals, together with a variety of interventions seeking to shape product markets (Robbins, 1992: 208). Offsets policies, particularly in the defence and automotive industries, were used to increase both industrial efficiency and exports (Liesch, 1991: 139-46). These industries were especially targeted because of the externalities generated by their production and the importance of their inter-sectoral linkages. Occasionally, as in the case of the government's subsidisation of Kodak, allocative efficiency was sacrificed for export revenues.

Some progress was also made in other strategic interventions. Public purchasing was nationalised by the replacement of State government with a national preference schemes (though this was not applied comprehensively to purchasing by government business enterprises, except partly for the telecommunications statutory enterprise). The provision of market intelligence to industry was upgraded; the Australian government's trade service was "corporatised" and after an administrative reorganisation in 1990 promised enhanced efficiency in the nineties.

Other EC-style interventions, like subsidised credit for industry, were less successful. Here government schemes generally have had too little capital and that which there was was applied too broadly. The Management Investment Scheme proved unsuccessful (Ryan, 1991) and was abandoned in 1991. The Australian Industry Development Corporation, established in the 1960s, was intended to supply venture capital for manufacturing industry. But it languished, was privatised and is still making losses. The provision of venture capital remains a problem; only the export insurance scheme (AFIC) appears to be successful. In the *One Nation* statement in early 1992, the government introduced accelarated depreciation incentives for business investment.

The complications of federalism have here also intruded. During the 1980s, despite the acceptance of so-called "economic rationalism" at the national level, the States continued to pursue highly-interventionist and individualistic industrial strategies. The Labor States, in particular, engaged in a variety of direct investment in or subsidisation of State-based private enterprises, for the most part with disastrous results (Ryan, 1991; Hartnett, 1991). Some States also pursued regulatory interventions. For example, in 1987 Western Australia initiated countertrade arrangements for foreign firms securing large public sector contracts. Whatever the merits of these schemes they demonstrated the narrow range of the Commonwealth's authority, vitiated the consolidation of a national "development model" and confused national industry policies (which also included significant countertrade elements - cf Liesch, 1991: Appendix 1).

Problematic successes were also achieved in infrastructure, skills and technology policies. Australian industry has traditionally lagged behind international best practice in workplace culture and organisation (AMC, 1990: chapter 4). After 1987 serious beginnings were made in reducing trade union proliferation, restructuring workforce practices, simplifying occupational structures and multiskilling workers (Keating & Dixon, 1989: chapter 4; Argy, 1991: 10-11). The trade unions also accepted that future real wage increases would depend on the revival of the competitiveness of Australia's export industries (Keating & Dixon, 1989: 25), though there is currently an unequal application of this constraint in the process of enterprise bargaining.

Australia has had a tradition of applied agricultural research through both the Commonwealth Scientific and Industrial Research Organisation and State government Agriculture Departments. To this the comparative efficiency of Australian agriculture can in large part be attributed.

Yet similar mechanisms have not been a feature of Australian manufacturing. Partly this reflects the "branch office" structure of Australia's multinationals-owned secondary industry. It also reflects the education's sector's concentration upon basic rather than applied research. Australia's universities are in the first rank of basic scientific research. Yet very little of that research has been developed into products by Australian industry. To remedy this the Labor government centralised university research funding and placed fiscal pressure on the universities to seek outside funding. As the nineties began burgeoning research partnerships between Australian universities and private firms promised a long-term improvement in the product development record of Australian industry, though some critics still focus on the relatively low levels of training and product development investment engaged in by the Australian private sector. Nonetheless exports of services grew strongly throughout the 1980s, as did exports of manufactures (by 80% - cf Treasury, 1992: 56-59) especially to Asia (Garnaut, 1991b: 21, Table 2). Also some evidence indicated an increase in the export-orientation of manufacturing investment (Wood; Lewis & Petridis, 1991; see also Treasury, 1992: 50).

But generally during the 1980s Australia still had more diplomatic than economic successes in reorienting its national outlook towards the dynamic Asia-Pacific region.

The Failure to Find an Appropriate Model

> Government not only needs a capacity for clear strategic analysis but also the ability to mobilise consent for what needs to be done ... the question of how to make reason authoritative has yet to be recognised as a primary concern.
> (Marsh 1991)

Over the last decade the Australian government failed to comprehensively implement its new, evolving, internationalist developmental model. This failure stemmed from a variety of factors: tensions between the political and economic exigencies (the limitations of authority); the lack of agreement about the ultimate direction of economic restructuring (creating failures of exchange instruments); and an inability to achieve a true national consensus (cf Robbins ,1992: 210-11) about the decision-making structure required to implement the new paradigm (the decline of persuasiveness).

The first problem, the tensions between the political and economic exigencies, was primarily a feature of the the Labor government's partisan electoral coalition.

The Labor government's "economic rationalism"- in particular its expenditure cuts - outraged some supporters. Based in the "new class" of superannuated state employees these critics saw their interests threatened and their preferred "expressive" modes of politics (eg nuclear disarmament and ending uranium mining) displaced. They reacted by accusing the Labor government of being captured by "economic rationalists" (the term became a popular pejorative) and not being really "Labor" (cf Maddox & Battin, 1991; Battin, 1993). In particular they accused it of abandoning the traditional quest for social

equity (cf Stretton, 1987: 8-10; Pusey, 1991) - or not even recognising it (Dow, 1992; 273) - and in so doing threatened to delegitimate the historic compromises with the working class that, through the Accord, were intrinsic to the still-rudimentary new economic model. This critique was reflected in the gradual erosion, until the 1993 election, of Labor's traditional working class electoral base, a non-institutional but nonetheless vital aspect of the government's authority.

Essentially this "left" critique was based on the notion of the failure to achieve the equity central to the electoral appeal of Labor in Australia. In this context equity has two major aspects - social welfare policy and unemployment - and one minor, the structure of the tax system.

As mentioned above, the taxation system was substantially reformed in the mid-1980s. These reforms combined equity as well as efficiency objectives and mirrored similar reforms throughout the OECD (cf. Sandford, 1992). Despite the improved equity thereby achieved, the government's critics focused on either the remaining income tax rates being still relatively high (critics of the political right), or that the top marginal rates had been reduced too much, thereby negating equity (the critics of the left). The latter critiques in particular confused and dismayed the government's electoral supporters. Both sets of criticisms were substantially misdirected. Australia's tax reforms performed well on international comparison on both efficiency and equity grounds (cf Sandford, 1992: 29).

The major aspects of this debate - social welfare and unemployment - had equally debilitating, if equally undeserved, political effects on the government's informal electoral authority.

The Australian social security system has historically been very different from that of Europe. The Australian welfare state has been a "wage earners' welfare state" (Castles, 1985), partly providing for family needs through the wages system rather than entirely by social security programs. It has generally eschewed universal benefits for targeted and income-tested support mechanisms (Aaron, 1984), though this feature of the Australian welfare system was affected by a creeping universalism in the 1960s and early seventies (Butlin, Barnard & Pincus, 1982: 192-234; Jones, 1983: 57). The Australian welfare state is also smaller, in terms of outlays as a proportion of GDP, than are most OECD countries' systems, though this is ameliorated somewhat by the fact that considerable welfare benefits are embedded in Australia's wages system. For example, the costs of sickness compensation is generally not provided via the mechanism of social insurance but by employers directly through provisions in the wages award structure (Castles, 1991). The current attempts to institutionalise superannuation and job training also makes the private sector pay for welfare/economic measures that in Europe are usually met by publicly-funded national insurance-type schemes. Consequently such provisions do not show up as public expenditures.

As could then be expected, generally the Australian social welfare system is efficient at delivering benefits to the poor (Mitchell, 1991: 134-135), though only averagely effective at poverty reduction (Mitchell, 1991: 143; see also Castles, 1989: 17-18). But a substantial case could be made that the government had achieved some success in poverty reduction during the 1980s (cf. Harding & Landt, 1992).

Yet mainstream analysis, dominated as it is by "Swedophiles", has traditionally been critical of the Australian welfare state and became even more vociferously so during the eighties (eg Saunders & Whiteford, 1991) During the 1980s the restoration of the traditional profit share of GDP - essential to restore investment - leant credence to the prevalent notion that the Accord involved a redistribution of income to business and a neglect of welfare (cf. Stewart, 1985). This negative preconception was readily inflamed by the good relations (until the late eighties at least) between the Labor government and prominent businessmen (cf. McEachern, 1991). Even the historically important move towards universal superannuation (which unambiguously benefited the wage-earning segment of the working class) was derided by leftist critics, who chose instead to focus on the real wage reductions that were the offset for this policy (and ignoring the macroeconomic rationale for this measure).

Unemployment, which had been at 10.7 per cent when the government came to office was gradually reduced to 5.9 per cent in 1989. This achievement was greater than thus indicated because the economic growth of the period had increased the workforce participation rate from 56 to over 62 per cent. With the onset of the 1990 recession unemployment rates again rose - to over 11 per cent by early 1992, though this figure partly reflected the continuing high level of workforce participation. Yet this was a serious predicament for Labor because lowering unemployment was an explicit element of the Accord's restraints on real wage growth. The "labourist" policy system's credibility was undermined and the government's persuasiveness seriously wounded.

The dilemma for Labor was that even the Accord was criticised. The critics of the the federal parliamentary Opposition (cf Kemp 1983) and purist free marketeers (cf Freebairn; Porter & Walsh, 1987: 163) could have been anticipated. More galling was the assault from the "left" of the labour movement against the Accord. This represented the Accord as merely engendering regressive redistributions to big business (cf Stewart, 1985; Stilwell,1986; Ewer *et al* , 1991) and ignored the tax (eg the introduction of capital gains and fringe benefits taxes) and welfare changes that had been part of the evolving Accord system.

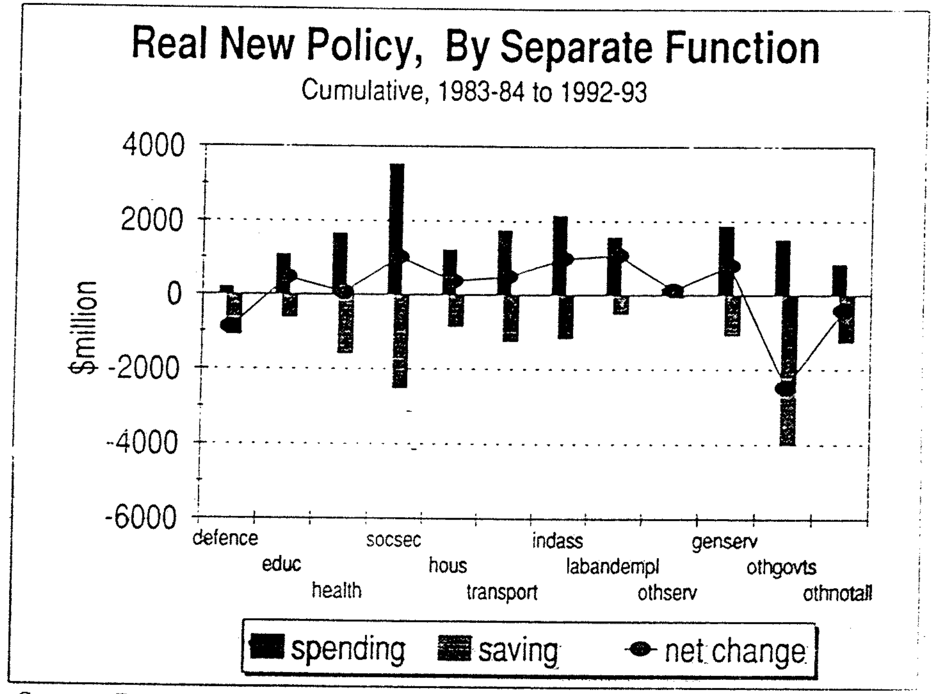
Chart 1 below reveals the Labor government's commitment to social democratic principles. It shows that, notwithstanding the fiscal constraints facing the government and its significant program cuts, Labor chose to initiate real new policy initiatives and spending in traditionally "labourist' areas.

Thus Chart 1 demonstrates that social security; labour and employment (training); industry assistance; education and general services spending increased in real terms over the first ten years of Labor government. Insofar that Labor chose fiscal contraction, it visited this discipline disproportionately on the State governments. It should be noted that this chart reflects discretionary outlays; non-discretionary influences - for example, of unemployment on social security outlays would need to be added to the chart to obtain total outlays movements.

So a great deal of policy "churning" occurred during the 1980s. Even in the period 1985-1989, when Labor was at its most fiscally astringent and achieving large expenditure reductions, substantial new policy intitiatives were implemented.

Chart 1 also demonstrates an active industry assistance policy that perhaps belies the popular charge of Labor's "economic rationalism" . Of all the expenditure catagories here indicated industry assistance increased by proportionately the greatest amount

Chart 1



Source: Dixon 1993:3.

During the late 1980s the Australian government was caught in an implicit contradiction within its economic policy. The tight monetary policy after 1989 was needed in part as a control over inflation through lower import prices (as well as supposedly reducing the current account deficit by restricting domestic demand). Low inflation was essential under the Accord process in order to contain wages growth and to allow the shift to superannuation. Yet the tight monetary policy restrained the growth in Australia's international economic competitveness, which required a depreciated dollar (Alesina; Gruen & Jones, 1991; see also Argy, 1991: 6-8).

The second major problem was that the strategy to restructure Australian industry and internationalise the economy had significant ideological ("persuasion"), institutional ("authority") and political ("exchange") constraints.

The conservative Opposition wholeheartedly adopted a purist free market position. It rested its critique on the historical failure of cooperative mechanisms to produce positive economic outcomes (Kemp, 1983: 213; see also Olson, 1982). Authority and persuasion were failures, market relations (intra-private sector "exchange" in Kemp's terms) was their way forward and provided a powerful tool for shaping the political agenda...

Facing this policy agenda challenge, the Australian government seemingly accepted (a modified version of) "economic rationalism" in the 1980s. Consequently, when strategic trade arguments were advanced (eg Hamilton, 1989), the instinctive reaction of the major economic policy agencies - Treasury and the Industries Commission - was to advance the orthodox microeconomic critiques in rebuttal (cf Treasury, 1990). Yet elements of these were inapplicable. For example, the inevitability of "log rolling" was reduced in Australia, where, because of its party system, the legislature -unlike that of the USA - featured a programmatic policy set chosen by the executive government, notwithstanding its minority

position in the Senate. Legislature-based exchange relationship coalitions on the American congressional model are less likely in Australia.

Again, in 1986, when the Australian dollar depreciated by about thirty per cent, the neoclassicists argued that this would solve the industry competitiveness and current account problems. A "J-curve" effect could be expected as Australian manufacturers (and other exporters) took advantage of the cheap currency to expand their exports. Yet the key assumptions of the J-curve nostrum - perfect competition, a wide industrial base and a significant capital goods sector - were inapplicable in Australia. Counter-theoretically, the Australian current account deficit subsequently increased!

In the 1980s Australia's annual deficit on trade in manufactures grew from about $10 billion towards $20 billion. Intuitively this would seem to call for correction, it having made a substantial contribution to the growth of the foreign debt: GDP ratio from 13 per cent in 1983 to about 30 per cent currently. But the relevance of restructuring and revitalising manufacturing was also contested by the principal bureaucratic agencies of the government. The Australian Treasury argued, for instance, that removing uncompetitive manufacturing industry would redirect resources to industries in which Australia had a comparative advantage - agriculture and minerals exploitation - from those for which Australia had no such advantage. The ACTU's arguments in favour of manufacturing growth (ACTU, 1987) did not enjoy much support in the policy community, being opposed not just by the government's economic agencies - who ignored the implications of the negative terms of trade of commodities - but by most business interest groups (especially the Business Council).

Even the basic facts about manufacturing exports were contested. For example, in the early 1990s the Treasury argued that industries that did not receive export assistance grew faster than assisted industries. Their case was based on a huge growth in aluminium exports. Yet, though this industry receives no direct export incentives from the Federal government, it was vitally assisted by cheap electrical tariffs from the State government-owned Electricity Commissions (cf Roberts, 1991)

This disputation reflected a lack of a national consensus about the necessity of manufacturing. In the last three decades the consumer goods and complex manufactures proportion of world merchandise trade has increased while that of primary products has declined. In addition, the rapid relative increase of the services sector as a proportion of total world trade flows comes in part from growth in service inputs into elaborately transformed manufactures. *Prima facie* these factors would indicate that manufacturing industry is essential. Yet this was not the conclusion of all the relevant Australian policy community's participants. The anti-manufacturing strategy school argued instead for services exports, drawing attention to the growth in tourism and educational services exports. However this is an unlikely complete alternative to manufacturing, as the Australian services sector is narrowly-based and suffers the same problems of remoteness and lack of locally-based corporate headquarters as does manufacturing (AMC, 1990: 19-22).

The erosion of the national policy model consensus fed upon the deleterious effects of Australia's relative powerlessness in international trade politics. Impatience with Australia's vulnerability and the double standards of the major world traders, the USA, Japan and the EC, meant

that the persuasiveness of the Labor-modified economic rationalist policy approach decreased as the recession deepened.

This became evident as the impetus for the Uruguay Round of GATT talks faltered over the question of agricultural protectionism. The Australian farm sector, initially, had been a rather surprisingly enthusiastic supporter of Labor's deregulatory policies but - partly stimulated by impatience with the pace of microeconomic reform in the transportation sector - this exchange relationship was dissipating by late 1990. Initially the dairy industry - one of Australia's few uncompetitive agricultural sectors - led the farm groups' rethink. It presented the strategic trade argument that Australia should retain a subsidised dairy industry, even if it meant a misdirection of economic resources into an uncompetitive industry, so that Australia could benefit when the United States and the European Community eventually removed their subsidy arrangements. Currently the sugar industry advances similar arguments.

Finally, the Labor government ultimately failed to create a consensus for the new "national" decision-making model to guide economic management. This was a failure of persuasion which led increasingly to weakened governmental authority.

Firstly, the government did not develop a consistent strategy, relying on a "curious mixture of strategies and instruments" (Ergas, 1988: 96). There were ambiguities of authority associated with unclear objectives and the problems of inter-agency and intergovernmental coordination. Also, because of Australia's institutional structure, economic development policy has to be negotiated and consensual where possible. As a result principles are applied unevenly, depending on the "politics" of each sector of the economy (eg Gerritsen, 1992a).

Thus by the late 1980s, building upon Australia's efficient agricultural base, several clusters of companies had developed in the food processing industry. These companies competed domestically and had made significant inroads into export markets; so in that sense they fitted the Porter (1990) model of developing national competitive efficiency. But the northeast Asian model (cf Haggard, 1989; Westphal, 1990) of governments nurturing these companies so that they could expand into major exporting groups was not really likely because the national policy consensus thus required did not exist. Instead such interventions were diverted into supporting the car industry.

In addition, the government seemed unable to create a positive balance between conservation and development (Kelly, 1992: chapter 28). This initially reflected the electoral power of middle class conservationists (Gerritsen, 1990: 52-55). Until the 1990s, consistently anti-mining development decisions - from the ban on uranium exports to development bans on the Wesley Vale paper pulp mill (McEachern, 1991: 116 ff.) and the Coronation Hill mine - belied the picture of a country with severe balance of payments constraints.

To further complicate the picture, there was no clear consensus on the relevant comparitors against which to judge Australia's performance. For example, over the 1980s, as well as recasting its development model, Australia performed reasonably well as compared with New Zealand in terms of creating employment, increasing GDP, and lowering inflation (Seiper & Wells, 1991). Only on the last point did Australia do worse

than the OECD average (Seiper & Wells, 1991: 241). Yet the public debate in Australia perversely focused on the most negative comparisons: its welfare system against north European models; discussion of inflation compared Australia with the Germanies of the OECD, and debate about economic restructuring and growth and tax rates focused on the "Asian tigers". Yet, the fact that the ASEAN and north Asian countries conducted significantly protectionist industrialisation strategies (Findlay and Garnaut, 1986) did not enter Australian public debate until the 1990s (Robbins, 1992).

Finally, in 1990, after eight years of internal divisions and political impotence, the Opposition rallied and took a clear "Thatcherite-Reaganite" (sic) position. They adopted a purist free trade policy stance, vowing in the event of their election that they would end even such half-hearted industry assistance measures as Labor had introduced in its March 1991 Industry Statement. In particular the Opposition attacked the "corporatist" relationship between the Labor government and the trade unions, vowing to reduce unions' legal rights and (forgetting the experience of 1981-82) to decentralise the wage fixing system.

The conservatives' assault, the initial success of which correlated positively with the renewed surge of unemployment - and despite their surprise defeat in the 1993 election - seemed to end the dimming prospect of a national consensus both on the means and ends of Australian economic policy. The government now faces a situation where its authority is reduced by public opprobrium and its capacity to deliver on negotiated exchange relationships is weakened by the recession, its minority position in the Senate, some foolish decisions in the 1993 Budget, and the current tension with the ACTU over enterprise-based bargaining. Together these vitiate Labor's political agenda management (the politics of "persuasion").

Conclusion: Australia's Uncertain Future?

During the 1980s Australia's current account deficit blew out from the 2.5 -3.0 per cent of GDP usual in the post-War period to fluctuate at between four and six per cent. Associated debt servicing costs rose to 17.5 per cent of exports of goods and services (Banks et al,1991: 1).

Currently Australia is slowly recovering from the most severe recession since the 1930s Depression. In 1990 real prices for equities, commercial property and housing fell. Then consumer consumption collapsed, the reduced cash flows sending the economy reeling into recession as most businesses were over-geared and so faced difficulties with high real interest rates. Recessions in the United States, Europe and Japan have removed hopes of a quick economic recovery and Australians in the 1990s are pessimistic. This pessimism has been exacerbated as the (albeit incomplete) Labor consensus of the 1980s dies.

Yet, paradoxically, the basic efficiency of the Australian public policy and economic systems is now far superior than at the beginning of the 1980s.

During the last decade the Australian government has achieved a more efficient economic environment through tax reforms and an incomes policy that changed the wages system to remove the "cost-push" inevitability of comparatively high inflation (cf Argy, 1991). Union amalgamations and improved work practices and workforce training (and possibly enterprise-based bargaining) also promise a more competitive labor market. The restructured, fiscally lean public sector is reaping

significant administrative and capital efficiencies, though renewed infrastructure investment is required. Despite the errant activities of the paper entrepreneurs in the 1980s, the opening of the economy - through the dollar float, the deregulation of the financial sector and the replacement of tariff and quota protection- will eventually lead to a more internationally-responsive economy (Garnaut, 1991a: 23, Table 1). The end result of this reforming phase has been an increase in Australia's international competitiveness of about 18 per cent (GDP deflator basis). Benefiting from this structural shift has been a new generation of Australian exporters of elaborately transformed manufactures (AMC, 1993: chapter 1) (2).

The harbingers of Australian integration into the Asia-Pacific region are also evident in the continued redirection of Australian merchandise trade towards Asia, particularly northeast Asia (cf Garnaut, 1989: 71-79). By 1990-91 seven of the top ten destinations for Australian merchandise exports were Asian economies, and five of these nations featured among the top ten exporters to Australia. The decade has seen a broad diversification of Australia's export base (Garnaut, 1991a:23-24; 1991b: 19, Table 1), especially in manufacturing development, though some care has to be taken with assumptions that this phenomenon is decisive and permanent.

However, there is no longer an accepted "national model" for economic development and policy-making as Australia faces the remaining years before the turn of the century. Exemplifying this is the current tension between the ACTU and the Government over the latter's apparent willingness to accept non union-negotiated enterprise wage bargaining. This means that policy credibility, vital for the authority to engineer successful economic management (Alesina and Tabellini, 1988; Persson, 1988), will be perpetually contested and challenged. So though the structural basis of the Australian economy has been significantly transformed and competitiveness substantially improved (Argy, 1991), until this problem is resolved Australians will remain justifiably pessimistic about their nation's future.

Kemp (1983) was right, ultimately, about the weakness of the politics of "authority, persuasion and exchange", though he dramatically underestimated what could be achieved with these instruments and may still be be achieved if the current policy reappraisal develops a coherent policy framework.

Endnotes:

(1) In this paper "exchange" is used in the conventional social science fashion as incorporating a wide variety of social, political and economic relationships. Kemp (1983) from whom the idea for this paper originated - somewhat surprisingly for a political scientist - advances an unorthodox interpretation of exchange as a purely monetised (microeconomic) relation. Hence he claims that the Labor government never really allowed "exchange" mechanisms to operate - ie they were not real "free marketeers". As can be seen from the above, I would agree with his conclusion but not his means of expressing its derivation. Also, since Kemp wrote, the economic case for persuasion has been developed in rebuttal of the new-classical claim for the greater efficiency of free markets (eg see Yokoyama 1991).

(2) Manufacturing exports, from a low base, have grown at an annual average rate of 18.6% between 1986-87 and the March quarter of 1993 to now reach over 22% of total exports (up from 12% in 1980). By contast agricultural exports, though increasing their volumes by 18% between 1988-89 and 1991-92, saw the value of these exports grow by only 1.6%. A caveat should be added to this story in that these figures in part reflect the changing terms of trade.

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